

<b>Committee:</b>	<b>Date:</b>
Finance (for decision) Policy & Resources (for decision) Investment Committee (for information) Social Investment Board (for information) <i>(Draft version already submitted to City Bridge Trust Committee on 8 Jan)</i>	21 <sup>st</sup> January 2014 23 <sup>rd</sup> January 2014 29 <sup>th</sup> January 2014 26 <sup>th</sup> February 2014
<b>Subject:</b> Resourcing for the City of London Corporation's Social Investment Activity	<b>Public</b>
<b>Joint report of:</b> Director of Economic Development Chief Grants Officer	<b>For Information</b>

### Summary

The purpose of this report is to update the above Committees on the City Corporation's Social Investment activity, (including when acting as trustee of Bridge House Estates (BHE)) and to make recommendations on the future management and resourcing of the programme.

Details of the City Corporation's Social Investment strategy, together with its three main objectives, are contained in paragraph 4 of the main report. Achievements in implementing the strategy are also set out at paragraphs 6 – 9.

Over the past three years, considerable progress has been made in implementing the strategy and the City Corporation is now recognised as a significant partner in the UK social investment sector.

The challenge is how best to maintain the momentum and impact in these areas and ensure that the activities are adequately resourced from the financial year 2014/15 onwards.

Resources needed for future years have been identified as set out in the recommendations – at a level not dissimilar to the current year. These total £162,000 in 2014/15 and £176,000 in 2015/16 (of which £20,000 will be met from existing budgets). A further requirement in 2013/14 of £20,000 has also been identified for specialist investment analyst support for the Social Investment Fund. Details of the costs and new resources required are set out in the table in the main report. The recommendations below set out the amounts requested from each Committee.

All of this work will continue to be overseen by senior staff within the Economic Development (EDO), City Bridge Trust (CBT) and the Chamberlain's Department and these costs will also be absorbed within existing budgets.

### **Recommendation**

Approval is requested as follows:

- a) to continue to engage a **Social Investment Advisor (SIA)**, currently Katie

Hill, to pursue the implementation of the social investment strategy (including primary responsibility for the policy influencing work) for up to a further two years from April 2014 on a 3 day a week basis (reduced from 4 days), and that the Policy and Resources Committee agree to a budget uplift to meet the costs of £50,000 (rounded) in each of 2014/15 and 2015/16.

- b) to engage a **dedicated investment analyst to assist the City Corporation (as trustee of BHE) with its management of the Social Investment Fund (on a short term consultancy contract) for the remainder of 2013/14** primarily to appraise the growing pipeline of investment opportunities and monitor active investments and that the Finance Committee approve an allocation of £20,000 from its Bridge House Estates contingency; and

to secure the necessary resources for the **City Corporation's management of the Social Investment Fund as trustee of BHE for 2014/15 onwards**

- the employment of a **dedicated Investment Analyst** for the Social Investment Fund on a permanent basis (for 3 days per week in 2014/15, expected to rise to 4-5 days in 2015/16 ) – primarily to appraise the growing pipeline of investment opportunities and monitor active investments
- **dedicated administrative support for the Fund** of 2 days per week
- **operational/specialist advice for the Fund** by means of specialist independent advisers, to analyse applications for investment from the charity, legal fees and IT costs.

for which the Policy and Resources Committee is requested to agree a budget adjustment for 2014/15 (£92,800) and 2015/16 (£106,800); the intention being that investment returns would cover the fund management costs over the medium term.

- c) It be noted that the **Social Investment Adviser (SIA) events/operational budget** of £20,000 will be met from savings in either the SIA budget or EDO budget in 2014/15 and 2015/16.
- d) the Finance Committee are requested to approve a waiver of the City's Procurement Regulations to allow an extension of up to an additional 2 years to the Social Investment Advisor contract (to 31 March 2016).
- e) That the Investment Committee and Social Investment Board note the report.
- f) It be noted that a separate paper has been submitted to the City Bridge Trust Committee to confirm the resourcing implications set out in this report.

## Background

1. One reason for London's long-term success as a financial centre has been its ability to spot opportunities, develop new products and create imaginative solutions to problems. The growing market for social investment is one such new opportunity which the City Corporation has grasped.

2. In July 2011, the City Bridge Trust (CBT) and Economic Development Office (EDO) launched a piece of co-funded research “Investor Perspectives on Social Enterprise Financing” which proved the City Corporation’s most popular piece of research to date. As opposed to charitable grants, social investment; where a financial and social return is sought, provides the opportunity to recycle capital for ongoing social benefit.
3. Over the last 3 years, the EDO and CBT have been working together, with the Chamberlain’s and Comptroller and City Solicitor’s departments on the social investment agenda, specifically the financing of social organisations.
4. This work has taken place in pursuit of the City Corporation’s Social Investment Strategy which has had three core areas:
  - 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 through its trusteeship of the Bridge House Estates (BHE) charity whose capital is being invested as part of the charity’s balanced portfolio of investments);
  - b. Working to improve the regulatory and fiscal framework needed to support the social investment marketplace;
  - c. Developing the capacity of social organisations to access investment and secure contracts and markets (including through the CBT grants programme which is funded by the BHE charity).

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

5. As a result of this work, the City Corporation is now recognised as a significant and influential player in the UK social investment sector.

## **Current Position**

### Achievements

6. In its first year the Social Investment Fund has committed, as trustee of Bridge House Estates (BHE), £2.1 million across five social investments. £1.6 million of this commitment has been placed, with the remaining £500,000 pledged subject to completion of satisfactory legal agreements (currently underway).
7. The City Corporation is part of a small market stewardship group with Big Society Capital, Cabinet Office, Big Lottery Fund and Social Enterprise UK to ensure there is a strategic vision and coordinated action across the sector. The City Corporation is also a co-founder member of a new Social Investment Research Council comprising the market stewardship members and Citibank. This work provides understanding of the needs of social enterprises as well as the needs of the social investment market.
8. The City Corporation has established a significant reputation in the area of social investment policy (thanks in large part to the work of its Social Investment Adviser, Katie Hill), and built strong relations with the EU, Cabinet Office,

Treasury and the institutional investment community on this topic. The City Corporation's policy and advocacy work has engaged all political parties and supported a range of market-enabling outcomes including:

- the introduction of a Social Investment Tax relief with effect from 2014, as detailed in the December 2013 Autumn Statement, underpinned by detailed research commissioned by City Corporation and Big Society Capital on the rationale and likely impact of introducing such a relief;
  - the engagement of the Financial Conduct Authority with the social investment market;
  - recognition in the Financial Services Bill of the motivations of a social investor and a review of the Community Interest Company structure to see how it could encourage investors more effectively;
  - debate in the European Union as to how Structural Funds could be used to support the strengthening of the social sector organisations across Europe; and
  - representation, by the Chairman of Policy & Resources on the UK National Advisory Board to the G8 Taskforce on social impact investment.
9. The City Corporation has also hosted a large range of events (including an international conference attracting over 300 potential investors from 35 countries), meetings and delegations with a view to promoting the opportunities of social investment to new investors, and to understand and unlock the barriers faced for their involvement. The total value of new social investment funds (some of which are still raising capital) will provide in excess of £100m additional finance to the stock of capital available. Meanwhile, demand for social investment from the UK social enterprise sector has risen from £165m in 2010- 2011 to £202m in 2011-2012.
10. At a point when significant momentum and profile has been developed, Officers believe it is time to review the resources available for the City Corporation's social investment work.

### Resourcing

11. With growing momentum behind its own social investment activity and the wider market, in 2012 the City Corporation recruited Katie Hill as Social Investment Advisor (SIA) on a one year consultancy contract (4 days per week). The role (and associated operational costs) was approved by the City Bridge Trust Committee and the Policy and Resources Committee and funded 50% from City Bridge Trust grant (ie from Bridge House Estates income), and 50% by the Policy Initiatives Fund (£50k each). The £100,000 comprised £65,600 for the SIA role and an operational budget of £34,400. The consultancy was extended for a second year and this is due to expire in March 2014. The SIA has worked alongside EDO's Corporate Responsibility Manager on policy influencing activity.
12. When the City Corporation's Social Investment Fund was established in October 2012, through an allocation of Bridge House Estates capital for investment as part of the charity's portfolio of investments, it was agreed that resources until the end of March 2013 would be met from City Bridge Trust's

local risk budget, with a budget uplift sought from the Policy and Resources Committee for subsequent years. Work on the fund has been managed by Principal Grants Officer, Tim Wilson, with support from the SIA together with approximately 2 days per week of administrative support from within the City Bridge Trust and support from the Chamberlain's and Comptroller and City Solicitor's Departments.

13. In addition to staffing costs, expenditure has been required for the Fund on independent specialist advisers (one of the conditions on which the Fund was set up), and legal costs associated with the placing of investments and IT.
14. In 2013-14 total expenditure on social investment (policy and fund work) will amount to £179,230<sup>1</sup> excluding the costs of the Corporate Responsibility Manager, Principal Grants Officer and Chamberlain).

## **Proposals**

15. The City Corporation's social investment work has gained a good deal of recognition and momentum . The challenge is how best to maintain the momentum and impact in these areas and ensure that the activities are adequately resourced from the financial year 2014/15 onwards to enable continuing implementation of the policy as set out in paragraph 4.
16. Therefore, Officers have concerns about reducing our contribution to this area from April 2014 on the expiry of the Social Investment Advisor's current contract. We have considered how we might embed this work within existing resources within EDO, but have concluded that we neither have the spare capacity nor the specific skills in house.
17. In the light of our experience of investing the first £2m from the Social Investment Fund, we are now in a better position to identify the resources required to manage the Fund. Officers have considered the additional resources that are necessary and these are summarised in the table below:-

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<sup>1</sup> This includes a sum of £20k which has yet to be approved for an Investment Analyst in the current year

	<b>2013/14 £000</b>	<b>2014/15 £000</b>	<b>2015/16 £000</b>
<b>Policy role</b>			
Social Investment Advisor role (fixed term role for up to 2 years)	65.6 4 days pw (Source: P&R and CBT Committees)	49.2 3 days pw	49.2 3 days pw
<b>Support for the Fund</b>			
-Investment analyst	20.0*	36.0 3 days pw	50.0 4 days pw
-Admin support for the Fund	14.6 2 days pw (Source: CBT Local Risk)	14.6 2 days pw	14.6
-Operational/ Specialist advice for the Fund: <ul style="list-style-type: none"> <li>• Legal</li> <li>• IT</li> <li>• Social investment</li> </ul>	44.6  (Source: CBT Local Risk)	42.2	42.2
<b>Other costs</b> Social Investment Advisor - policy associated costs /events	34.4  (Source: P&R and CBT Committees)	20	20
<b>Total costs</b>	<b>179.2</b>	<b>162</b>	<b>176</b>
Amount available from existing budgets	159.2	20	20
<b>Balance of resources required.</b> (See the Recommendations section above and paras 26-30 below for details of the split across Committees)	<b>20</b>	<b>142</b>	<b>156</b>

\* not currently budgeted for

18. It is envisaged that by September 2015 or the latest by April 2016, the Social Investment Advisor's policy influencing work will largely be completed and the activity can then be absorbed within the work of EDO. As a result, Officers recommend continuing to engage a Social Investment Advisor for up to a further two years from April 2014 on a 3 day a week consultancy basis (a reduction from the current 4 days per week). This would involve 2 days based in EDO on general policy influencing and (one day a week) also to be spent assisting Members and Officers on the Fund's strategy (based in City Bridge Trust). Because of the specialist nature of the role, it does not lend itself to a direct employment contract with City Corporation. Once the fund is established

and the City Corporation becomes more experienced in making investments (i.e. beyond 2016), this advisory service, if needed, can be bought in on an ad hoc basis.

19. In addition, there is a need for a dedicated Investment Analyst role on a permanent basis (for 3 days per week in year one, expected to rise to 4-5 days in year 2 as the number of investments increases). The analyst will appraise the growing pipeline of investment opportunities, providing in-depth review before passing the most promising prospects across to the Fund's third party advisors for due diligence. The analyst will also monitor active investments and provide some advisory support to organisations with formative proposals which may be suitable for the Fund in due course.
20. This role would be based in both the Chamberlain's Department and City Bridge Trust, bridging the financial and social impact areas of expertise within the City Corporation and supporting the cross learning so vital to this area of work. It is suggested that this analyst be engaged, on a short term consultancy contract for the first 6 – 9 months, by an individual with experience of the "City" investment community and the charitable sector, with a view to informing permanent recruitment. The role of a permanent Investment Analyst is under review by the Finance Investment Board as part of the restructuring of the Corporate Treasury function within the Chamberlain's department, with a view to the possibility of a wider Investment Analyst function being performed in-house.
21. Overall coordination of Fund management (as required by the Court in October 2012) will continue to be the responsibility of the Chief Grants Officer of City Bridge Trust. This will continue to be delivered through the work of the Principal Grants Officer.
22. In addition to this management time, the Social Investment Fund work will need to be supported by dedicated administrative support in City Bridge Trust continuing at present level of 2 days per week.
23. The resource requirement in future years, of £42,200 for operational/specialist advice for the charity (ie specialist independent advisers to analyse applications for investment to the charity, as required by the Court, together with legal fees and IT costs) is expected to be very slightly less than in the current year.
24. An associated costs/events budget of £20,000 should also be allocated for the Social Investment Advisor, a reduction on the previous budget. This has proved very useful for research, such as the examination of the role of tax relief in encouraging market development and events such as two seminars with Independent Financial Advisers hosted at Guildhall.

## **Implications**

### Costs

25. The proposed level of resources, for continuing these Social Investment activities in 2014/15, is not dissimilar to the level in the current year. In addition to the on-going staff time from City Bridge Trust (Chief Grants Officer and Principal Grants Officer) and the Economic Development Office (Assistant Director and Corporate Responsibility Manager) the total amount of resource

required to manage the social investment policy work and the Social Investment Fund is £162,000 in 2014/5 and £176,000 in 2015/16 as set out below.

### Funds required

26. It is proposed that a request be made to the Policy and Resources Committee for a budget uplift of £50,000 per annum for the **Social Investment Advisor** role, for up to 2 years from 2014/15 . There may be a saving in the second year if the need for the role ceases within a shorter time.
27. To cover the costs of a **dedicated Investment Analyst** on a short term contract with the Corporation for the remainder of this financial year, (which is not currently budgeted for) a sum of £20,000 is requested in 2013/14 from Finance Committee's Bridge House Estates contingency.
28. To accommodate the **management costs of the social investment fund** (comprising the investment analyst, administrative support and operational costs including specialist legal, IT and social investment advice), it is proposed that the Policy and Resources Committee approve a budget adjustment to be made from Bridge House Estates (£92,800 for 2014/15 and £106,800 for 2015/16).
29. The **associated/events budget for the Social Investment Advisor's policy related work** of £20,000 per annum in 2014/15 and 2015/16 will be met from existing budgets through any savings in the SIA budget in the previous years and/or the EDO local risk budget.
30. The City Bridge Trust will continue to contribute the time of the Chief Grants Officer and Principal Grants Officer over the next 2 years and the Economic Development Office's Assistant Director and Corporate Responsibility Officer will continue to oversee the Social Investment Adviser's policy-related activity.

### Procurement waiver

31. The current Social Investment Advisor provides excellent value for money for the City Corporation and has technical expertise which is not widely available (including in the EU and beyond). If the consultancy were extended for the full maximum of two years, the aggregated value (taking into account service to date) would exceed the EU procurement thresholds in accordance with Regulation 12 of the City's Procurement Regulations July 2012. As the funding for the contract is outside the City's local and Police authority it is considered prudent not to apply the provisions of the EU Directive on this occasion and to seek a waiver from the Finance Committee.

### **Corporate & Strategic Implications**

32. The City Corporation's social investment activity contributes to following The City Together Strategy themes:
  - a. ...is competitive and promotes opportunities
  - b. ...supports our communities



and contributes the achievement of these objectives in the City's own Corporate Plan:-

"The City Corporation aims to maximise the opportunities and benefits afforded by our role as a good neighbour"

"To encourage and support services and initiatives which benefit communities within the City and City fringes, contributing to local prosperity"

33. The work of the City Corporation in this area is also supported through its trusteeship of the Bridge House Estates charity both through the Social Investment Fund, a designated capital fund; and through the charity's Grants Programme funded from BHE income. The City Bridge Trust Grants Policy 2013-18 includes a priority to support charitable involvement in social investment, specifically focussed on developing a programme of work to support grantees to access social investment opportunities.
34. The Social Investment Fund's work complements the City Corporation's social investment policy and advocacy work. The Fund is managed in accordance with the investment policies for the BHE charity, which are consistent with the other funds under the City Corporation's control. The capital Fund is managed as part of the charity's balanced investment portfolio. In accordance with the decision of the Court of Common Council on the 24 May 2012 the £20 million capital was designated for investments in activities that produce both financial returns at a rate not less than the average interest rate earned on the City's cash holdings and which also achieve a demonstrable social benefit.
35. An equalities impact assessment has been undertaken, concluding that the proposed work would not have an adverse impact on equalities.

## **Conclusion**

36. The City Corporation has made good progress in implementing its Social Investment Strategy including through influencing the national policy framework and in establishing its own Social Investment Fund through its trusteeship of the Bridge House Estates charity. Having established a significant reputation in the social investment arena, and in order to build on this position, your Officers believe that it is now necessary to put in place appropriate resourcing for future years.

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