

<b>Committee:</b>	<b>Date:</b>
The City Bridge Trust	12 <sup>th</sup> February 2014
<b>Subject:</b> Strategic Initiative: Impact Incubator	<b>Public</b>
<b>Report of:</b> Chief Grants Officer	<b>For Decision</b>

### **Summary**

This paper proposes that you support Social Finance's Impact Incubator project, an initiative seeking to combine grant-makers' expertise in social issues and effective charitable action, with Social Finance's expertise in developing sustainable funding models. At a time when the charitable sector faces considerable funding pressure, the Impact Incubator is an initiative designed to grow and sustain successful solutions to some of society's most complex and entrenched problems. In addition to the grant finance sought, City Bridge Trust is also requested to participate in the project steering group, and this should be a valuable opportunity to learn from other grant-makers as well as from Social Finance. If successful, the Impact Incubator is likely to benefit many charitable organisations and help City Bridge Trust identify where it can achieve greatest impact.

### **Recommendation**

That you support the first year of Social Finance's Impact Incubator project with a grant of £24,000, to be charged against the City Bridge Trust Strategic Initiatives allocation for 2013/14.

## **Main Report**

### **1.0 Background**

- 1.1 Established in 2007, Social Finance is a not-for-profit organisation working to tackle entrenched social problems such as financial exclusion, drug dependency, re-offending and social isolation, through the development of new funding mechanisms and delivery models. Social Finance is perhaps most widely known for the work it is delivering to reduce recidivism rates amongst short-sentence offenders at Peterborough Prison. This brings together several charities who work collaboratively to deliver a package of support that is funded by several grant-making trusts. If the programme achieves pre-agreed outcome targets then the Ministry of Justice has agreed to pay the grant-making trusts (who have provided the risk capital) their original investment plus a small 'profit' which is based on the assumed savings to the State

arising from rehabilitation. This funding mechanism is known as a Social Impact Bond and represents an innovative way to resource charities that deliver preventative services (which often otherwise struggle to raise finance for their work). It also offers grant-makers the opportunity to recoup and reuse their finance if the desired social impact is achieved.

- 1.2 Grant-makers, including City Bridge Trust, have a good understanding both of complex social problems and of charities delivering effective solutions. However, grant-makers are also aware that many charities struggle to find funding that allows them to either sustain their services or grow them to scale. Grant funding is usually time-limited, and grant-makers normally require organisations which have received funding to seek support from other sources at the end of their grant.
- 1.3 Social Finance proposes to work with several leading grant makers to establish an "Impact Incubator". This project will combine grant-makers' understanding of successful social change with Social Finance's expertise in investment structuring. The incubator project will work to develop sustainable funding models that address social issues faced by vulnerable communities, aiming to produce work that is as ground-breaking as the Peterborough Social Impact Bond.
- 1.4 The focus of the project will be developing successful responses to entrenched social issues. This will not necessarily be focused on an individual charity's work, but may rather draw together a number of organisations which can, collaboratively, deliver the desired impact.
- 1.5 The Impact Incubator seeks to address five issues. First, charities often struggle to develop sustainable business models. Second, despite the significant knowledge held by grant-makers of the causes and effective solutions to social issues, grant-makers generally lack the capacity to help charities to expand their work beyond the life of any one grant. Third, despite its value to the charity sector there is relatively little funding for work to develop sustainable business models. Fourth, given funding pressures on the charity sector, there is widespread interest in developing new models that attract new finance beyond grants. Fifth, there is growing interest in social investment, and a growing pool of investors who are seeking investible propositions.

## **2.0 Delivery Model**

- 2.1 The Impact Incubator has been designed as a five year project. Social Finance will start the project with a six month research phase, evaluating which social issues should be prioritised as well as establishing reporting and project governance structures. The incubator is expected to launch formally in September 2014. For each issue selected by the Incubator, there will be a period of model development follow by implementation. Model development, which will focus on developing sustainable social programmes, will depend on grant-funding whilst implementation will

involve taking the new model to a wider investment market. Social Finance will concentrate on two social issues each year, ten in total if the Impact Incubator runs to full term.

- 2.2 Social issues will be selected on the basis of scale (how many people are affected, and how acutely they are affected), potential to engage several grant-makers in the topic, strength of the charity sector's response, possibility to draw in finance from public sector commissioners, and feasibility of developing a sustainable funding model.
- 2.3 Work will be delivered by a core team at Social Finance, with oversight provided by a Steering Committee of grant-makers and charity sector practitioners. The committee will provide input on the social issues selected, the models developed, and the future plans for the Impact Incubator.

### **3.0 Cost**

- 3.1 The five year Impact Incubator project is divided into pre-launch, model development and capital raising phases. Total project costs are £508,000 over the five years. Social Finance has already secured a contribution from the Tudor Trust, and is close to confirming financing with two other leading grant-makers. You are asked to contribute £24,000 which would provide cornerstone funding to allow the first year's work of the Impact Incubator to get underway. The recommended level reflects the geographical focus of the Incubator which, although intended to benefit London communities, will also examine social issues across the UK.

### **4.0 Conclusion**

- 4.1 The potential for the Impact Incubator to identify ways in which several organisations can collaborate is attractive. Social problems rarely occur in isolation, and holistic models that combine the strengths of different agencies are more likely to deliver lasting impact than interventions by a single agency. City Bridge Trust would have a seat on the project steering panel and remain involved throughout, contributing its knowledge of the charitable sector and of social issues. There is likely to be valuable learning for the Trust through participation in this project, not only through building a greater understanding of sustainable funding models, but also through ongoing engagement with other grant-makers.

### **5.0 Recommendation**

That the Trust supports the first year of Social Finance's Impact Incubator project with a grant of £24,000, to be charged against the City Bridge Trust Strategic Initiatives allocation for 2013/14.

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