

Committee:	Date:
The City Bridge Trust Committee	12 March 2015
Subject: Strategic Initiative – Social Finance Impact Incubator	Public
Report of: Chief Grants Officer	For Decision
Summary	
<p>This report requests funding to maintain your support for Social Finance’s Impact Incubator, an initiative creating sustainable funding models for work with some of society’s most vulnerable people. The funding would support the Impact Incubator’s mental health programme in Lambeth.</p>	
Recommendation	
<p>To approve a grant of £50,000 over one year to Social Finance for a Lambeth-based mental health pilot. The award to be charged against City Bridge Trust’s Strategic Initiatives allocation for 2014/15.</p>	

Main Report

Background

1. Established in 2007, Social Finance is a not-for-profit organisation working to tackle entrenched 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 to deliver a package of support that is funded by 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.

2. In February 2014 you awarded Social Finance £24,000 towards the set-up costs of a new initiative called the Impact Incubator. This project seeks to find sustainable funding models for social welfare programmes tackling some of the issues faced by vulnerable people. The Incubator has been designed to harness the knowledge that grant-makers, including City Bridge Trust, have both of complex social problems and of charities delivering effective solutions, and to combine this with Social Finance’s expertise in investment structuring.

3. The overall focus of the Impact Incubator is to develop successful responses to entrenched social issues. This is not necessarily focused on an individual charity's work, but rather draws together a number of organisations which can, collaboratively, deliver the desired impact.
4. 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, Trusts and Foundations 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.

Work to date

5. When presented to your February 2014 meeting, the Impact Incubator was introduced as a five year project beginning with a six month research phase followed by formal launch in September 2014. The research phase evaluated which social issues would be most suitable for the Incubator, and covered 12 topics ranging from work with perpetrators of domestic abuse, family homelessness, aging carers, and young adults on the autistic spectrum. Issues were prioritised based on the following criteria:
 - breadth and depth of potential impact (how many people are affected by the issue and how acutely are they affected?);
 - potential to engage a broad-range of grant-makers in the work;
 - good depth of knowledge of the most effective interventions to address the social issue;
 - potential to generate revenue for the work through public sector commissioning; and,
 - potential to develop investible models that would finance the delivery of work.
6. At the end of the research phase Social Finance identified work with perpetrators of domestic abuse, work with care leavers, and work to address BME mental health inequalities as the most suitable for further exploration. The grant-funders involved in this programme (City Bridge Trust, Barrow Cadbury Trust, Esmée Fairbairn Foundation, Tudor Trust and LankellyChase Foundation) have been fully involved with the Incubator through quarterly steering committee meetings and have approved the focus on the chosen topics.

Future focus

7. One of the topics chosen by the Impact Incubator, BME mental health inequalities, is of particular interest to City Bridge Trust. Since 1995, the Trust has funded mental health support work and had dedicated grant programmes

under both *Working with Londoners* and *Investing in Londoners*. The Trust's current *Improving Londoners' Mental Health* programme seeks to ensure that more people from BME communities access appropriate mental health services.

8. Care Quality Commission data shows that BME people are over-represented in acute mental health services, with detention rates under the Mental Health Act 44% higher amongst black patients. The underlying reasons for this are not straightforward, but a number of factors have been identified including the extent to which NHS services are responsive to BME people with mental health needs, a loss of trust in diagnostic services, social stigma around mental health in certain communities, a lack of focus on data for BME mental health outcomes, and the impact of related factors such as deprivation and social exclusion.
9. Following discussions with local commissioners and charities, the Incubator is developing a Lambeth-based pilot to test preventative approaches that boost local community capacity and targeted healthcare interventions that improve outcomes for BME people with mental illness. The pilot will test which approaches are most effective in achieving the desired outcomes, and will engage commissioners throughout to identify opportunities for cost-savings associated with unnecessary admissions to inpatient wards.
10. The projected cost of the Lambeth pilot is £95,000 of which you are asked to provide £50,000. Funding has been secured from other grant-makers for the balance and to deliver work in the other topic areas (not all of which have an exclusively London-focus). Social Finance will continue to report progress through a series of quarterly meetings and reports.

Financial observations

11. The majority of Social Finance's income is generated through fees earned throughout the year. As of 24th February Social Finance had confirmed £2.7m (58.6%) of its forecast income for 2014-15.
12. Social Finance UK is a not-for-profit company limited by shares rather than a registered charity, and consequently prepares its accounts in line with the small companies regime under the Companies Act rather than according to the guidance set out in the Charity Commission's Statement of Recommended Practice (SORP). As such, the organisation operates without a reserve target, and does not calculate its cost of generating funds.

Year end at 30 September	2013/14 Audited Accounts	2014/15 Current Year Forecast
Income and Expenditure	£	£
Income	4,511,890	4,627,000
Expenditure	4,691,506	4,984,000
Surplus / (Deficit)	(179,616)	(357,000)
Surplus / (Deficit) as a % of turnover	(4.0%)	(7.7%)
Cost of Generating funds (% of income)	-	-
Free reserves		
Free reserves held at Year End	1,662,438	1,305,438
How many months' worth of expenditure	4.3	3.1
Reserves Policy target	-	-
How many months' worth of expenditure	-	-
Free reserves over/(under) target	-	-

Conclusion

13. Social Finance has made considerable progress since starting work on the Incubator. It has selected issues based on literature research as well as interviews and round-tables with public and voluntary sector organisations. The focus on BME mental health inequalities is a strong fit with City Bridge Trust's grant-making priorities, and the Lambeth pilot ensures that work over the coming months has a London benefit.

Tim Wilson

Principal Grants & Social Investment Officer

T: 020 7332 3716

E: tim.wilson@cityoflondon.gov.uk