

**BRISTOL CITY COUNCIL
CABINET**

REPORT TITLE: Bristol and West of England Social Investment Fund

Ward(s) affected by this report: All

Strategic Director: Max Wide, Strategic Director – Business Change

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Purpose of the report:

This report explains the background and purpose of a new joint venture of several local public, private and third sector organisations to establish a social investment fund for Bristol and the West of England. It seeks the Mayor's authorisation for the Council to be represented on the Community Interest Company that will own and operate this fund.

RECOMMENDATION for the Mayor's approval:

1. that the Mayor notes the progress made towards the formation of the Great Western Regional Capital Community Interest Company (the CIC), a new company that will establish a local institutional investment fund for social enterprise and public benefit infrastructure and the support given by the Council to date to facilitate this.
2. that the Mayor authorises:
 - the Council to become Foundation and board Member of the CIC;
 - that the Service Directors for Finance and Economy be authorised to consider suitable investment opportunities that will deliver economic, social, cultural or environmental benefits for Bristol, and bring forward proposals for such investment opportunities to Cabinet where required

The proposal:

1. A review funded by the Council and NESTA was carried out over the period 2012 to 2014. The result of this review was to suggest the establishment of a new jointly owned investment vehicle. This vehicle would take the form of a Community Interest Company (CIC) with the aim of investing in social enterprise and public benefit infrastructure projects in the Bristol and West of England area. The prospective local partners are the Society of Merchant Venturers, the John Pontin Trust, the University of the West of England, the University of Bristol, Bath Spa University, Business West, the LEP and VOSCUR.

2. The purpose of the CIC is to combine and co-ordinate a range of public, private and charitable funds. These funds may come from local and national sources would be invested in local public benefit enterprise and infrastructure projects. These would include housing, energy and green capital legacy, culture and learning, digital and transport infrastructure, improving public services and the alleviation of poverty.
3. The CIC will create and manage two social investment funds, a 'Bristol Bond' and a West of England Local Impact Fund with interlocking governance structures with advice from externally regulated financial experts. Each fund will aim to generate a sufficient financial return for sustainability but with differing investment criteria and risk profiles.
4. Each of the founder members of the CIC will provide £25,000 of start-up funding for a core staff team, creation of appropriate governance structures and a list of initial pilot projects. This work will be finished by the end of 2015. At the time of writing, there are four founder members, the Society of Merchant Venturers, the University of the West of England, Bath Spa University and Business West. It is proposed that the Council will also be a Founder Member and then other partners, as listed in paragraph 1, as will become Ordinary Members within the start-up period.
5. Legal Services have noted that it is within the Council's powers to be a founder member and a director of the CIC and to provide a grant of £25k to the CIC. The Council would be a founder member and director of the CIC. The legal issues governing the Council and its representative on the CIC are set out below.
6. During the feasibility stage, a number of policy areas and potential projects where the Council would have a particular interest to invest have been identified and explored in outline. These include affordable and social housing development and renewable energy infrastructure. Detailed proposals for investment would be brought forward to Cabinet in due course if considered appropriate.
7. The outline business plan for Great Western Regional Capital CIC, including information on the proposed governance structures, is provided at Appendix 1.

Consultation and scrutiny input:

a. Internal consultation:

The Place Scrutiny Commission, which has been preparing its annual programme, has been made aware of this potential proposal via the Scrutiny Officer but has decided not to request a review or input prior to its submission to Cabinet.

Over the last 12 months, the following services and management bodies have been circulated the feasibility studies and draft business plans and consulted via meetings held in conjunction with the John Pontin Trust and project steering group:

- Policy, Strategy and Communications
- Corporate Finance
- Economy – Economic Development, Housing Development, Property Services
- Neighbourhoods – Strategic Housing
- Senior Leadership Team sub-group

b. External consultation:

The John Pontin Trust in conjunction with the Society of Merchant Venturers and the wider project steering group has conducted extensive consultation with business, voluntary and community organisations across Bristol and the West of England area, and with finance, legal and professional advisers locally and nationally since 2012.

Other options considered:

a) Not to be represented on the CIC

This would entail missing the opportunity to align and co-ordinate the Council’s investments in locally and socially beneficial infrastructure projects, enterprises and services with those of other local and regional organisations with a common interest in Bristol’s future well-being, and so derive greater leverage and impact from collaborating around public policies and investment. It might also be in conflict with the Council’s legal and moral duty to cooperate with other local institutions.

b) To be represented as a Member (only) of the CIC and not also as a Director

This option was considered as a means of avoiding potential conflicts of interest arising from the role of Directorship, under which the Council’s representative is legally bound to uphold the interests of the CIC first and foremost, rather than adhering always to the interests of the Council. These could occur when the Council’s representative also involved in making or influencing decisions of the Council whether to invest in the CIC or specific projects. However, governance procedures can be established by the CIC to manage such situations and prevent conflicts of interest arising. Also, this option would result in the Council having less participation and a largely reactive role in the policy and decision making of the CIC, instead of playing a leadership role.

Risk management / assessment:

FIGURE 1							
The risks associated with the implementation of the representation on GWRC CIC decision :							
No.	RISK Threat to achievement of the key objectives of the report	INHERENT RISK (Before controls)		RISK CONTROL MEASURES Mitigation (ie controls) and Evaluation (ie effectiveness of mitigation).	CURRENT RISK (After controls)		RISK OWNERS
		Impact	Probability		Impact	Probability	
1	The Council and its representative may incur financial liability and reputational harm if the CIC fails to back viable projects to achieve its investment objectives and then becomes insolvent and ceases trading	High	Medium	the CIC will aim to minimise losses by providing non-executive support to recipients of funds and ensuring a robust due diligence process, However, losses for small projects (<£250k) have been projected to be up to 30% for the Local Impact Fund. For larger projects, risk will be allocated between partners, with a provision for losses varying on a deal by deal basis. As a rule of thumb losses will be sensitised at between 5-10%. The Council as a director of the CIC will not be liable for the debts of the CIC, except in certain limited circumstances (eg. wrongful trading, breaches of	Low	Low	P Gillett A Reid

				health and safety legislation, breaches of environmental legislation etc). The CIC will in any case commit to taking out directors' insurance and indemnity and consulting the Council's insurance officer about any stipulations. Also In the first two to three years, advice will be taken from professional and financial services partners with experience and track record in the investment industry. Some of this expertise may be brought in house			
2	<p>Confusions or conflicts of interest may arise between the representative's role as a director of the CIC with fiduciary duties to promote its success and exercise independent judgement, and his role as a Member and senior decision-maker of the Council, where the Council is considering whether to invest capital in the CIC or specific projects and the terms and conditions thereof, or otherwise scrutinising its performance.</p> <p>Common risks that may need to be considered include:</p> <ul style="list-style-type: none"> - risk of delay - risk of overspend / uncertainty of costing - procurement process risks 	Medium	Medium	The representative will undertake to consult the Council's Legal Services for advice whenever such questions or a situation of conflict of interest may be likely to arise, especially around financial support of projects based in or impacting significantly on the City of Bristol. As appropriate and in accordance with the Members Code of Conduct, declarations of interest will be made and/or withdrawal from the Council's decision-making on resourcing of the CIC and projects and scrutiny of the same.	Low	Low	A Reid
3.	The CIC start up phase, and realising the potential benefits of the CIC for Bristol, are delayed or adversely affected by a lack of suitable pilot projects and investees, resulting in a poor outcome for the input of Council officers and members time and £25,000 'seed corn' funding for the feasibility and start up stage.	High	Medium	Much work has already been done by the GWRC steering group locally to understand the potential pipeline and its financing requirements, Some example projects with a Bristol focus are included at the Outline Business Plan (Appendix 1 –annex 6) The targeted levels of investment are derived from this work. There is also independent third party research from Social Investment Business and Resonance to suggest an immediate local demand for business incubation and development finance of circa £5m. Also a much wider project referral and intelligence.network has been created in recent months by the new local business, University and third sector partners seeking to co-found or join GWRC as Members, as well as the keen interest shown nationally by the government and organisations like the RSA.	Medium	Low	Business Change and Place Directors

FIGURE 2

The risks associated with **not** implementing the representation on GWRC CIC decision:

No.	RISK Threat to achievement of the key objectives of the report	INHERENT RISK (Before controls)		RISK CONTROL MEASURES Mitigation (ie controls) and Evaluation (ie effectiveness of mitigation)	CURRENT RISK (After controls)		RISK OWNER
		Impact	Probability		Impact	Probability	
1	A decision not to become a Founder Member of the CIC would mean that the Council misses the opportunity to become a key stakeholder in, and influence the development and policy of a new social investment fund, which has originated in Bristol and aims to attract and coordinate local investors in the city and region's public infrastructure and social enterprises.	High	High	Council officers will still seek to engage with the new CIC and assist it to identify and progress pilot investment projects in Bristol where these are consistent with Council policies and strategies. The options of investing in specific projects or funding new initiatives or studies of the CIC without taking a membership role, or of joining the CIC at a later stage when the concept has been proven will be investigated. The reasons for the decision will be clearly communicated to the steering board.	Medium	Medium	Business Change and Place Directors
2	A decision to become a Founder Member but not a Director of the CIC would result in less likelihood of conflicts of interest and other risks arising for the Council's representative, but also much reduced influence over the early development and investment policies of the CIC and ensuring it will deliver maximum benefit for Bristol as a whole.	High	High	The Council's representative will be supported by Officers to be an active Founder Member attending all key meetings and advisory sub-groups as appropriate, and contributing the Council's viewpoint, experience and resources in a pro-active manner. The option of serving as a Director may be considered at a future point, by the Council where there is a clear rationale to do so.	Medium	Medium	Business Change and Place Directors

Public sector equality duties:

Before making a decision, section 149 of the Equality Act 2010 requires that each decision-maker considers the need to promote equality for persons with the following "protected characteristics": age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. Each decision-maker must, therefore, have due regard to the need to:

i) eliminate discrimination, harassment, victimisation and any other conduct prohibited under the Equality Act 2010.

ii) advance equality of opportunity between persons who share a relevant protected characteristic and those do not share it. This involves having due regard, in particular, to the need to:

- remove or minimise disadvantage suffered by persons who share a relevant protected characteristic.

- take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of people who do not share it (in relation to disabled people, this includes, in particular, steps to take account of disabled persons' disabilities);

- encourage persons who share a protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

iii) foster good relations between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to tackle prejudice and promote understanding.

Guidance:

**** Insert a note on how the public sector equality duties are relevant to the proposals and how***

these duties have been taken into account in developing the proposals. Where an equality impact assessment has been undertaken, summarise its findings here, and provide a link to the full document, or include the equality impact assessment as an appendix. Where no equality impact assessment has been undertaken, give the reasons why this has not been carried out.

By taking up membership and directorship of a CIC whose objectives are explicitly centred on locally, socially and/or environmentally beneficial investment, it is anticipated that the Council will gain an effective new vehicle for collaborating with other local partners, including voluntary, social and environmental sector organisations, such as VOSCUR, the Merchant Venturers and the Bristol Green Capital Partnership, to identify and fund projects that help to deliver its equality duties by targeting the economic and social development needs of specific equality communities and at the same time harnessing their talents through social enterprise. The Outline Business Plan envisages a Local Impact Fund to be set up and managed to achieve such social outcomes alongside commercial returns.

As the first investment proposals of GWRC are still being elaborated, no detailed equality impact assessments of the pilot projects under development for affordable housing, renewable energy and new youth and community services are yet available. However, an overview of the approach to delivering local social impacts has been provided in the Outline Business Plan (see Appendix 1, pages 4-7).

Eco impact assessment

There will be no direct environmental impacts arising from the establishment and operation of a CIC to manage one or more social investment funds. However, since there is a strategic intention to invest in low carbon infrastructure projects, including renewable energy generation, it is anticipated that positive environmental impacts and benefits should be generated for the city from future investments made. The scale of these impacts and benefits will depend on the investment portfolio, and it is therefore recommended that the investment policies and processes of the CIC are brought before Cabinet for approval in a future report.

Advice given by: Giles Liddell, Environmental Project Manager, Sustainable City
Date 22nd June 2015

Resource and legal implications:

Finance

a. Financial (revenue) implications:

The formation and initial funding for the CIC will cost the Council £25,000. This has been identified as coming from the Economic Development budget.

Any future activity undertaken by the CIC will be considered on a case by case basis and proposed costs will be reported to the Council at that time.

Advice given by Mike Allen Finance Business Partner
Date 17th June 2015

b. Financial (capital) implications:

The initial formation of the CI has no capital funding implications. The impact of future projects will be reported on a case by case basis.

Advice given by **Mike Allen / Finance Business Partner**
Date **17th June 2015**

Comments from the Corporate Capital Programme Board

Not applicable – no capital implications at this time.

c. Legal implications:

Under section 1(1) of the Localism Act 2011, the Council has the powers needed to be a Foundation Member of the CIC, and to be a director of the CIC.

The Council as a director will have a number of duties (which its representative must ensure are complied with) which will include the following:

- act within powers of the CIC (these are set out in the memorandum and articles of association)
- Promote the success of the CIC
- exercise independent judgement
- exercise reasonable skill, care and diligence
- Avoid conflicts of interest
- Not accept benefits from third parties
- Declare interest in a proposed transaction or arrangement with the CIC.

As the representative is also a member of the Council, they must also comply with the members' Code of Conduct. Before appointing the representative, it should be checked whether that person will be involved in any on-going decision making in respect of the CIC in relation to the Council. If they will have such involvement, consideration should be given to appointing another person as otherwise on-going decision making in respect of the CIC on behalf of the Council may be compromised, possibly generating grounds to challenge such decision making.

From a financial perspective, the Council as a director of the CIC will not be liable for the debts of the CIC, except in certain limited circumstances (for example wrongful trading, breaches of health and safety legislation, breaches of environmental legislation).

Finally, it will need to be ensured that the CIC puts in place directors' insurance and an indemnity in respect of the directors in order to reduce the Council's liabilities as director.

Advice given by **Sinead Willis / Solicitor**
Date **23 June 2015**

d. Land / property implications: **TBC**

At this stage, there is no formal commitment in policy or financial terms made by the Council to invest land or property in the CIC. However, discussions are being held with the interim board of the CIC and other local partners around the business case and social benefits for the Council to consider use of surplus land into a jointly owned vehicle under the CIC for affordable housing development which will generate over time a commercial income stream for reinvestment in further housing schemes.

Advice given by **Joe Jeffrey, Principal Portfolio Management Officer**
Date **29 June 2015**

e. Human resources implications:

Advice given by **Mark Williams, HR Business Partner - Place**
Date **19 June 2015**

There are no HR implications arising for the Council from prospective membership of the GWRC CIC at the present time.

Appendices:

Appendix 1: Outline Business Plan for Great Western Regional Capital CIC – June 2015

Access to information (background papers):

Great Western Regional Capital CIC Interim Supervisory Board – Report by Interim Lead Executive

Great Western Regional Capital CIC

(GWRC)

**Providing civic led, commercially focused and innovative investment solutions that
catalyse regional change**

Outline Business Plan

June 2015

If you would like further information, please contact Ed Rowberry on edwardrowberry@johnpontintrust.org

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The Society of Merchant Venturers, University of the West of England, University of Bristol, Bristol City Council, Business West, West of England Local Enterprise Partnership and Voscur are pleased to announce the launch of a jointly supported community interest company called Great Western Regional Capital CIC (GWRC). GWRC's vision is to provide civic led, commercially focused and innovative investment solutions that catalyse regional change.

In a joint statement, the members listed above agree that *"We are very excited about working together to catalyse significant regional change via innovation and positive investment. We now encourage all other local authorities, universities, third sector, corporate sector and interested individuals in the West of England to join us in supporting this exciting initiative to provide a game changer for the region and its people"*.

The positive investment market is growing rapidly and our initial feedback is that individuals, businesses, universities and other members of civic society are seeking to 'put back', by supporting and mentoring the causes in which GWRC will invest. The main barrier to market growth is the lack of suitable positive investment opportunities at scale; this is where GWRC can make a real difference as a coordinated and informed regional player, with local knowledge.

GWRC will measure success in terms of the volume of investment attracted and placed and will seek to define and measure the positive impact of this investment (such as new homes built, tonnes of carbon avoided, ex-offenders supported into employment and additional volunteer hours catalysed). It will seek to provide more than just finance and via its membership will provide support to emerging social enterprises and businesses by providing pro-bono non-executive directors and academic research by undergraduates. It will also work closely with existing providers in the sectors that it operates, with initial partnership with existing regional Housing Associations considered essential to success.

At its simplest level, GWRC can negotiate on behalf of the region to get the best investment terms and then direct the funds for maximum positive effect, while creating a long term regional endowment funds in the process. No other organisation is so well placed to deliver significant outcomes for the region. As an initial example of this, advanced discussions with the Social Investment Business in London have confirmed that the West of England can be one of two recipients for immediately available Local Impact Fund support for social enterprises, with the other recipient being Inner London. Funding for the West of England would total £2.0m, made up of £0.4m from the Social Investment Business, £0.6m from Big Society Capital and £1.0m of European Regional Development Funding.

A key condition for success will be combining civic leadership with commercial credibility. GWRC will operate a commercial business model seeking modest and commercially competitive fees on the investments that it raises, places and manages. GWRC will be run by a small and experienced executive team supported by senior and experienced non-executives sourced from its membership. It is estimated that this model will take up to three years to reach breakeven before which GWRC will be supported by its membership, patient working capital loans and possibly large scale corporate sponsorship. The remainder of this document provides further detail on all of the matters described above.

The vision of Great Western Regional Capital CIC (GWRC) is to **provide civic led, commercially focused and innovative investment solutions that catalyse regional change.**

GWRC will not only create jobs and economic capacity, but will help retain economic value within the region to ensure that this growth is sustainable over the longer term, creating a region that is more resilient to changes in economic and political contexts.

To achieve this, GWRC has been set up as an innovative public benefit investment company that recycles its profits for further investment. GWRC's goal is to help local people work together to improve their lives and to encourage civic engagement. It will do this by mobilising local and external resources to invest in commercially viable projects and enterprises, which enhance the social, environmental and economic fabric of the West of England. GWRC will therefore act as a national exemplar and ambassador for the application and delivery of commercially led solutions to regional challenges.

GWRC's initial strategic objectives are to carry out the following activities which meet this vision:

1. INNOVATE: Generating innovative delivery models

Identifying, analysing and articulating the challenges that face the region and identifying where these challenges can be met by locally led social and place based investment solutions.

2. CATALYSE: Catalysing the change

Establishing and managing social and place based investment funds to attract local, national and wider participation in those funds by individuals, companies and other institutions, complementing public and commercial initiatives.

3. SCALE: Scaling the solution

Collaborating and co-investing with local and national investors, trusts, foundations, civic and public bodies along with other sources of finance sharing similar objectives.

4. PROVE: Proving that the model works

Demonstrating that positive change is delivered through the highest standards of corporate governance and accountability.

GWRC's Market

GWRC's customers are its investors; it must therefore define the investor market it is seeking to attract and the products and services that it will offer. GWRC is seeking to attract 'Positive Investment' and the two related sub-categories of 'Social' and 'Place Based' Investment.

Positive Investment is directed saving and investing by individuals, companies, governments, local authorities, trusts, foundations and other organisations which choose to save and invest not only for a financial return but also to make their money do good. It involves investing with the explicit intention of addressing a social, economic or environmental need while receiving a financial return or catalysing further investment.

Business Incubation and Development (a sub-category of positive investment) is investment in social enterprises and businesses where transformative social impact is their core mission. The emergence of social investment tax relief is an indication of central government support for this type of investment (<http://www.bigsocietycapital.com/social-investment-tax-relief>).

Place Based Investment (a sub-category of positive investment) is investment made in local infrastructure and community assets to meet specific local challenges. Such investments can be made in any type of viable business proposition in the region; ranging from local infrastructure projects, small independent businesses to large corporates. The intention of place-based investment is to stimulate a more connected and resilient local economy, draw in business, create jobs and develop opportunities for development. Place based investment includes the delivery of new and improved homes in better integrated communities and enabling a greener and more inclusive economy which uses our physical, monetary and human resources more effectively.

The mainstream investment market in the UK is estimated by the Investment Association at £5 trillion of which only £2.1 billion (0.04%) is being diverted into positive investment. This positive investment market is growing rapidly with 33% annual growth in 2014.

The fastest growth was to be found in the smaller direct investment sector, which consists of community share issues, bonds issued by charities and bonds and equity in a small number of public companies set up with the intention of delivering social and environmental benefits. This sector grew from £140 million to £249 million between 2013 and 2014, a 78% increase with large numbers of new people entering the market.

Emerging Global and National Trends

Increasing volumes of financial capital focused on positive investment: The positive investment market is entering the mainstream with a number of major fund managers becoming active in the market. Cheyne Capital (www.cheynecapital.com) has launched a national £300m property impact fund with Big Society Capital (www.bigsocietycapital.com). Threadneedle Investments (www.threadneedle.co.uk) has launched a £40m social bond fund in partnership with Big Issue Invest (www.bigissueinvest.com) and Salamanca Group (www.salamanca-group.com) has announced a £50m investment into affordable housing with funds sourced internationally.

Innovation in a time of austerity: *“Austerity policies have put communities and organisations across the UK under intense pressure. While the negative social consequences are well documented, less attention has been paid to the range of creative responses to austerity measures from local authorities, housing associations, grant-makers and funders, charitable and voluntary sector, campaigners and activists.”* (New Economics Foundation: Responses to austerity - How groups across the UK are adapting, challenging and imagining alternatives, February 2015) (www.neweconomics.org)

Closer connection to money to drive change: *“The traditional approach to ethical investing, by screening companies on the stock market, has its place, but at a time when the public are more sceptical than ever that even the best of class fossil fuel companies are going to take on responsibilities around climate change or banks their responsibilities to society, it can also represent a form of ‘ethics lite’. Instead, we have the rise of a closer connection to money. Investors are moving away from remote, negative screening to positive social impact and local community – they want to see real change.”* (Ed Mayo, Secretary General of Co-operatives United Kingdom, December 2014) (www.uk.coop)

The Regional Market

During 2014, Social Investment Business (www.sibgroup.org.uk) and Resonance (www.resonance.ltd.uk) each produced independent research to suggest that there is demand for £5m of business incubation and development in Bristol alone. However, this analysis excludes place based investment in housing, green and other infrastructure. For example, if homes were to build for the 14,000 people on the local waiting list for homes in Bristol at an average cost of £150,000 per home, investment of £2.1bn would be needed. To help deliver a greener economy, the emerging Bristol Energy Company has identified that £140m of Green Infrastructure investment will be needed within the next ten years.

Recent on-the-ground research by GWRC has identified that a major barrier to change is the disconnect between market need and investment capital. In other words, the innovative models have either not been thought through or they are inadequately developed to take on investment or there is an organisational or institutional blockage. GWRC can bridge this gap via its civic led model for positive investment. Much of this model rests on a new form of collaborative leadership proactively driving through positive change.

As outlined at the beginning of this plan, GWRC's vision is: "To provide civic led, commercially focused and innovative investment solutions that catalyse positive regional change".

The four key principles of the operating model have therefore been designed with the vision in mind:

1. Civic Led: To serve the West of England effectively, there should be effective leadership and collaboration between the key public, private, third sector organisations and interested individuals via a formalised membership and governance structure.
2. Commercially Focused: The operation needs to be self sustaining, offering competitive investments to those delivering social, environmental or economic good whilst on the other hand securing the investment at a cost that creates a workable margin for GWRC.
3. Innovative Investment Solutions: GWRC aims to provide an innovative and integrated approach to sourcing financial, human and other capital in a way that is sympathetic and appropriate to the recipients at the lowest possible cost making use of available tax reliefs where possible.
4. Catalyse positive regional change: The objective is to create an endowment that will enable investment for generations to come.

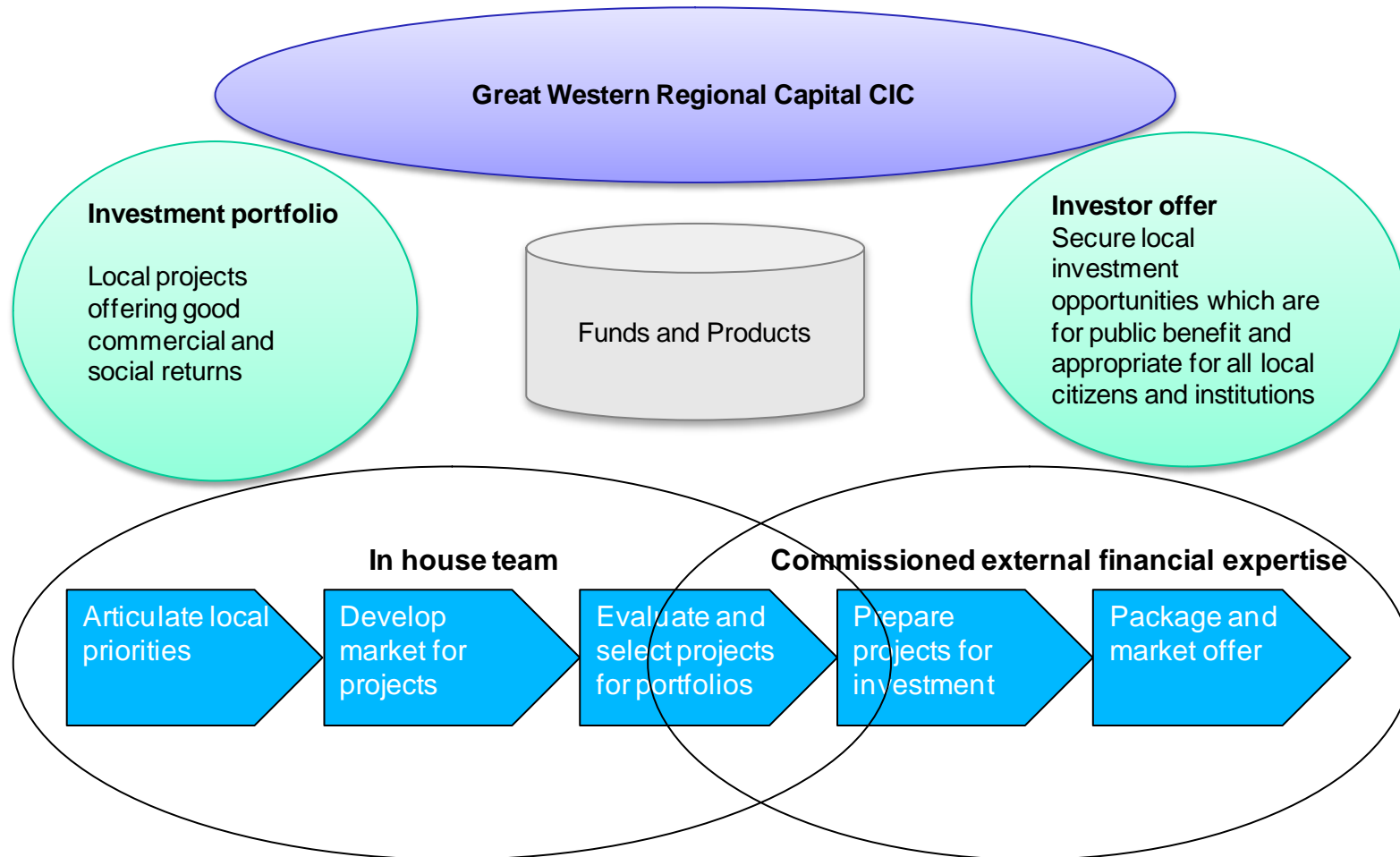
By enacting this vision, GWRC will provide a valuable service to the region, unlocking up to £50m of investment in its first five years. The model will be, delivered via a small executive team and carefully selected partners with the appropriate skills and experience. In return for providing this service GWRC will seek modest and nationally competitive fees. It is expected that these fees will cover GWRC operating costs in full by year three. By way of illustration, based on £50m of investment raised and placed and fees ranging from 1-2%, this results in total five year income of £0.5m-£1.0m. The fees will be charged by the funds to both investors and projects; GWRC will then charge the funds for its services.

The first two years operating costs will not be covered by fee income but will be covered via GWRC Member contributions, investment readiness grants and potentially patient working capital loans and large scale corporate sponsorship.

Two other conceptual assumptions underpin the business model:

1. Any party joining or working with GWRC does so on the basis that they believe in the vision and will demonstrate proactive involvement including (where possible) leadership, where possible acting as an advocate for GWRC's market building activities.
2. Where blockages to progress are identified in any part of the local or national economy, members work to influence change in unhelpful practices for the good of the region.

A summary of the GWRC operating model is shown in the following diagram with more detail on some of the initial funds and products included at Appendix 2.



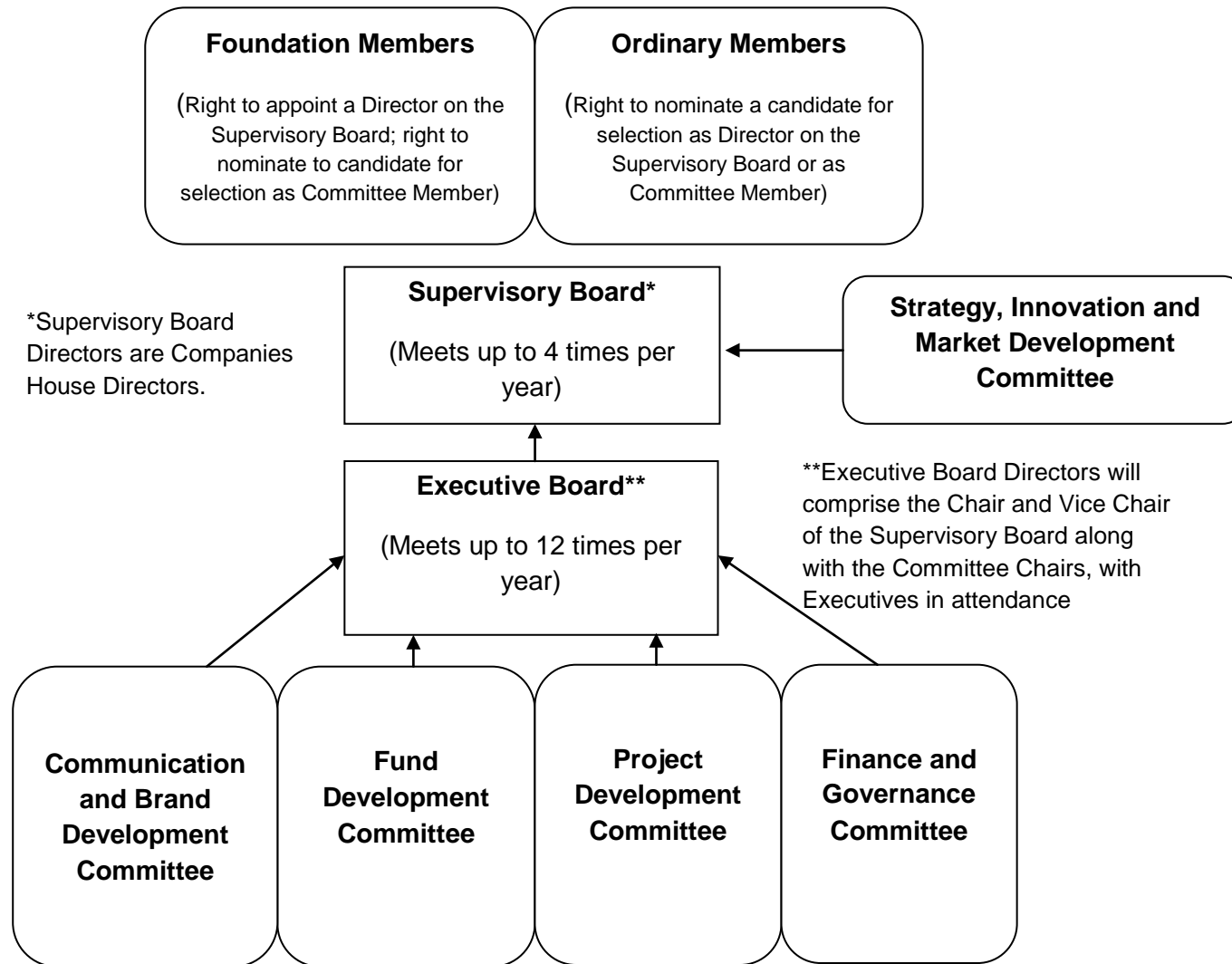
GWRC's membership and governance structure combines wide collaboration with commercial rigour in order to enable effective delivery of the vision. Membership is comprised of Foundation Members, Ordinary Members.

Foundation Members are large and well established institutions and incorporated membership bodies representing the private, public and third sector in the West of England, initially the Foundation Members are likely to include:

1. Bristol City Council (Membership formally approved)
2. Bath and North East Somerset Council (Membership pending)
3. South Gloucestershire Council (Membership pending)
4. North Somerset Council (Membership pending)
5. University of West of England (Membership formally approved)
6. University of Bristol (Membership verbally approved)
7. University of Bath (Membership pending)
8. Bath Spa University (Membership pending)
9. Business West (Membership verbally approved)
10. Society of Merchant Venturers (Membership formally approved)

Ordinary Members can include any interested private, third sector or other organisation or individual operating in the region (e.g. West of England Local Enterprise Partnership, Voscur, CVS South Gloucestershire, Voluntary Action North Somerset, Law Firms, Accounting Firms, Financial Services Companies).

Governance and accountability rests with the Supervisory Board which comprises a majority of Directors appointed by the Foundation Members and a minority of Directors sourced via an application process from the Ordinary Members. The Supervisory Board will delegate operational activity to an Executive Board supported by committee structures. The overall governance structure is described in the following diagram.



Day to day delivery will be via a commercial and experienced Executive team reporting to the Executive Board. Activities are split by committee and are as follows:

Strategy, Innovation and Market Development

This is a strategic activity to shape the market, the Committee will report to and interact directly with the Supervisory Board. The objective of the activity is to find commercially viable solutions to social, environmental and economic problems. Activities include:

- Identifying, defining and measuring the need/market failure in the West of England and therefore priorities.
- Identifying and defining potential innovative commercial delivery models.
- Identifying current and future investor requirements and matching these to the proposed delivery models.
- Influencing investor behaviour.

Project Development

Project development activity will focus on finding and filtering projects before providing recommendations for investment to the Fund Development Committee. This activity is defined within certain investment parameters approved by the Supervisory Board. Activities include:

- To identify and source projects with the potential for future investment.
- To evaluate projects against criteria established by the Supervisory Board.
- To support projects to bring them to a state of investment readiness.
- To recommend projects to the Fund Development Committee for investment.

Fund Development

Fund development is a technical activity focusing on the following:

- To design appropriate funding vehicles.
- To define investment criteria for each fund and key performance indicators.
- To determine the sources of capital best suited to each fund and determine an appropriate funding strategy.
- To source and raise investment. (Note: Once established each fund will have its own 'trustee directors' to look after its investors).
- To structure each fund and product (applying legal, tax and financial services regulatory advice) (commissioned where appropriate).

Communication and Brand Development

Communications and branding activity will present GWRC to the wider market including the following objectives:

- To create and develop the brand.
- To provide support to attract Investment Projects.
- To provide support in the raising of Investment Funds.
- To provide support in raising initial overhead funding.

Finance and Governance

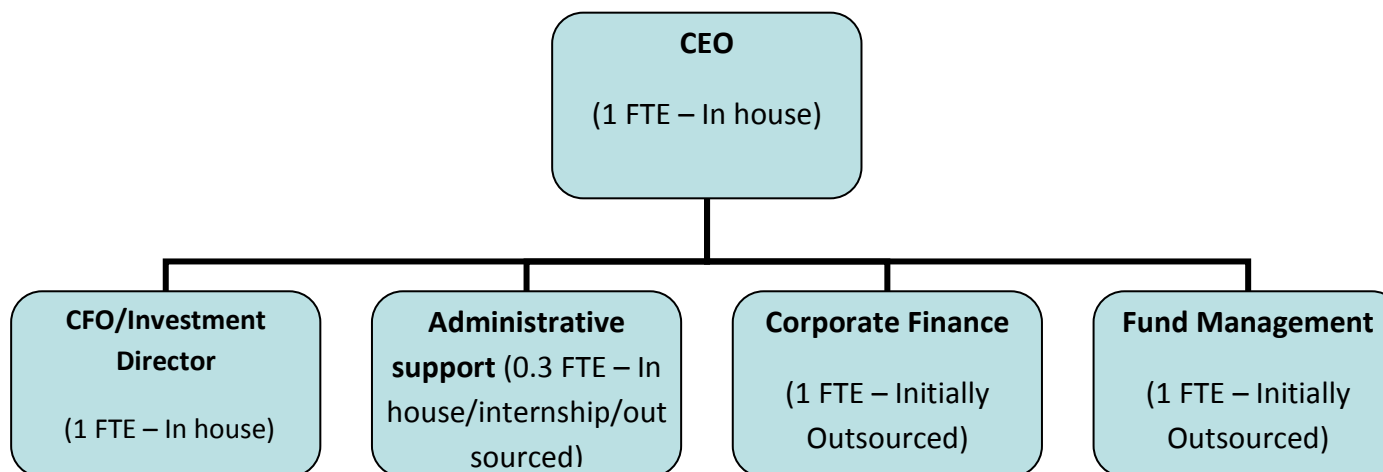
Finance and Governance activity will ensure that GWRC is operating safely and effectively as a business focussing on the following:

- To ensure that GWRC is operating a commercially viable business model.
- To consider and review the resources required to fund the business plan.
- To ensure that risk at all levels is effectively managed and monitored.
- To ensure that GWRC is compliant with all audit and regulatory requirements and considers whether it or a related entity should be a regulated entity.
- To review the operation and effectiveness of the Boards and Committees.

GWRC will operate via a small in-house team calling upon local, reputable and reliable expertise to ensure the funds are managed in line with the vision and strategic objectives. The following table summarises the expected staffing resources required to deliver this offer:

Activities	In-house	Outsourced	Total
Project Development	0.8	1.0	1.8
Fund Development	0.3	1.0	1.3
Strategy, Innovation and Market Development	0.3	-	0.3
Branding and Communication	0.3	-	0.3
Governance and Finance	0.6	-	0.6
Grand Total	2.3	2.0	4.3

The cost of outsourced resources will be capitalised into the individual funds. With the right partners, GWRC may be able to source a degree of national governmental or quasi-governmental funding for these outsourced activities. In time, GWRC may choose to bring some of these outsourced services in-house, once it has the required regulatory permissions to undertake these activities in its own right. Total operating costs in year one are expected to be £132,000 and £180,000 in year two. More detailed information on operating costs is included at Appendix 3. The suggested organogram (including outsourced partners) is therefore as follows:



For the first three years the cost of running GWRC operations may exceed the cash generated from its commercial income streams as it builds the local positive investment market to scale. More detail is provided in the financial summary included at Appendix 3 which outlines a fully funded business plan. During this three year period, the following other sources of funds have been incorporated into the financial model to fund operations. *Note: all membership fees are exempt from VAT with the supply being a share in an investment, members may wish to take their own VAT advice.*

Foundation Membership Fees

This represents the 'equity' contribution of the Foundation Members facilitating the initial start up period. Foundation Members may wish to discuss the optimum structure for this contribution. This may include an investment, a grant or a fee for service. A total of £25,000 per Foundation Member is prescribed in the GWRC Rules, it is expected that the majority of Foundation Members will pay this upon joining, although there is flexibility to allow for a payment plan on the basis of affordability.

Ordinary Membership Fees

Ordinary Members will include Corporate Members, Voluntary, Community and Social Enterprise Sector (VCSE) organisations as well as Individuals. At least £6,000 (for up to 6 years) per Corporate Member is prescribed in the GWRC Rules, it is expected that the majority of Corporate Members will pay in full upon joining, although there is flexibility to allow for a payment plan on the basis of affordability. An annual membership fee of £100 per VSCE organisation or Individual is prescribed in the GWRC Rules, although there is flexibility to allow for a waiver of fees on the basis of affordability or hardship.

Patient Working Capital Loans or Corporate Sponsorship

GWRC may choose to seek a large-scale corporate sponsor or a patient working capital loan. Working capital loans may be sought from Foundation Members or from elsewhere; both working capital loans and large-scale corporate sponsorship will require approval by the Supervisory Board.

GWRC will establish a robust system of risk management and internal control supported by a risk register which will be monitored by the Finance and Governance Committee on a quarterly basis. The top five risks and their likely mitigations are described below:

Risk	Mitigation
Lack of projects/investees	<p>Much work has already been done by the team locally to understand the potential pipeline and its financing requirements, some example projects are included at Appendix 6. It is from this local research that the targeted levels of investment in the same Appendix have been derived.</p> <p>There is also independent third party research from the Social Investment Business and Resonance to suggest an immediate local demand for business incubation and development finance of around £5m.</p>
Lack of investment funds/investors	<p>As described in the market analysis section, there is currently no shortage of investment funds available, albeit the terms are sometimes more onerous than investees can accept. The market is evolving with an understanding that a mixed model incorporating grant and investment is needed to stimulate the market. GWRC intends to help stimulate the market in this way via a Local Impact Fund.</p>
Unexpected losses	<p>Although the aim will be to minimise losses by providing non-executive support to recipients of funds as well as ensuring a robust due diligence process, losses for small projects (<£250k) have been projected to be up to 30% for the Local Impact Fund.</p> <p>For larger projects, risk will be allocated between partners, with a provision for losses varying on a deal by deal basis. As a rule of thumb losses will be sensitised at between 5-10%.</p>
Lack of core funds and therefore resources to deliver	<p>With Foundation Members on board and strong non-executive and executive team in place, the funding section of this plan outlines the approach being taken to resource the business.</p>
Legal and Regulatory breaches	<p>In the first two to three years, advice will be taken from professional services and financial services partners with experience and track record in the investment industry. Some of this expertise may be brought in house after that.</p>

	Quarter to June 2015	Quarter to September 2015	Quarter to December 2015	Quarter to March 2016
Strategy, Innovation and Market Development	<ul style="list-style-type: none"> • Confirm initial thematic priorities (e.g. Housing, Green, Incubation etc). 	<ul style="list-style-type: none"> • Determine three potential new thematic priorities 	<ul style="list-style-type: none"> • Identify commercial solutions for each thematic priority 	<ul style="list-style-type: none"> • Feedback into business plan
Governance & Finance	<ul style="list-style-type: none"> • Sign off high level business plan with supporting financial model • Nominations and appointments of Board Directors and Committee Members • Sign off statement of ethics 	<ul style="list-style-type: none"> • Ensure that there is a fully funded business plan in place • Sign off detailed risk register 	<ul style="list-style-type: none"> • Sign off fund launch(s) 	<ul style="list-style-type: none"> • Update business plan with supporting financial model • Update risk register • Feedback into business plan
Project Development	<ul style="list-style-type: none"> • Define detailed project criteria • Understand projects already identified 	<ul style="list-style-type: none"> • Initial call for projects based on defined fund structures 	<ul style="list-style-type: none"> • Select and sift projects • Recommend projects for investment 	<ul style="list-style-type: none"> • Feedback into business plan
Fund Development	<ul style="list-style-type: none"> • Sign off strategic investment policy • Construct social impact measurement framework • Construct credit risk and pricing model • Define initial fund structures • Determine tax, legal and regulatory requirements 	<ul style="list-style-type: none"> • Procurement of strategic partners (corporate finance, fund management) • Test investment market 	<ul style="list-style-type: none"> • Sign off fund launch(s) 	<ul style="list-style-type: none"> • Formally launch fund(s) and seek investment • Feedback into business plan
Communication and Brand Development	<ul style="list-style-type: none"> • GWRC soft launch • Finalise brand and create logo • Create initial website • Call for ordinary members 	<ul style="list-style-type: none"> • Initiate project and fund promotion documentation 	<ul style="list-style-type: none"> • Sign off launch documentation • Six monthly report to Members 	<ul style="list-style-type: none"> • Feedback into business plan

Product Description	Regional Benefit	GWRC Service	GWRC Income
<p>Regional Revolving Infrastructure Funds for Development of New Assets.</p> <p>(this is place based investment and could be operated at a Local Authority or Regional Level or both)</p>	<p>Place based impact fund seeking to deliver new Homes, Green and Other Infrastructure Assets.</p> <p>Particular focus on areas where short-term finance represents an obstacle to development of these new assets.</p> <p>Fund may be de-risked via pre-sale or assets into other funds or to other parties who seek to own similar assets (see below).</p>	<p>To set up, manage and administer the fund (likely with outsourced FCA fund management and corporate finance), attracting a series of third party investors to the region.</p> <p>Likely sources of investment include public funds, regional/national impact funds and retail funds. The return to the investor being commensurate to the level of investment made and associated risk taken.</p>	<p>Initial and ongoing fees. % share of the fund. All chargeable to the fund.</p> <p><i>Note: This fund is likely to require a scale of at least £10m.</i></p>
<p>Regional Investment Funds for Ownership of Existing Assets.</p> <p>(this is place based investment and could be operated at a Local Authority or Regional Level or both)</p>	<p>Place based impact fund seeking to provide a source of longer term stable finance and support for Homes, Green and Other Infrastructure Assets.</p> <p>This fund may seek to buy completed assets on pre-agreed terms from a regional development fund (see above). It could seek a strategic partnership and therefore pre-emption rights to buy completed assets from other funds.</p>	<p>To set up, manage and administer the fund (possibly with outsourced FCA fund management and corporate finance), attracting a series of third party investors to the region.</p> <p>Likely sources of investment include public funds, regional/national impact funds and retail funds. With the return to the investor being commensurate to the investment made.</p>	<p>Initial and ongoing fees. % share of the fund. All chargeable to the fund.</p> <p><i>Note: This fund is likely to require a scale of at least £10m. GWRC would seek a % share of ownership of this fund to build its own balance sheet. Once its balance sheet is or a sufficient scale GWRC can then provide and lever in investment in its own right to enable further investment more rapidly.</i></p>

Product Description	Regional Benefit	GWRC Service	GWRC Income
<p>Brokerage of Direct Investment into established social business</p> <p>(this is where place based investment overlaps with business incubation and development)</p>	<p>Additional source of locally sourced sympathetic finance provided to the market which enables local people to invest via a Local Impact Bond.</p> <p>Will help projects with social impact raise their profile locally and enable their customers to be investors.</p>	<p>Investment readiness support and investment raising (partially outsourced to FCA authorised corporate financier).</p>	<p>Initial fees funded by investment readiness grants with the potential for a margin on lending chargeable to the project.</p>
<p>Setting up and managing Local Impact Funds</p> <p>(this is business incubation and support)</p>	<p>Provision of an innovatively structured new source of capital which via its ability to take on more risk and can lever in additional sources of funding and support to the Social Enterprise/Social Business sector. GWRC can connect its Members to the projects it supports e.g. non-execs, student interns.</p>	<p>Work with the Social Investment Business (SIB) and the West of England LEP to structure an initial £2m fund. With £1m of ERDF funding, £0.4m of Community Builders Funding (via SIB) and £0.6m of other funds (e.g. Big Society Capital). GWRC to act as fund manager.</p>	<p>Initial and ongoing fees chargeable to the fund.</p>
<p>Making Direct Investment into new or early stage social businesses operating in the VSCE sector. (this is business incubation and support)</p>	<p>Direct 'equity' investment from GWRC into new or early stage VSCE organisations where there is a clear commercial delivery model. Investments on a case by case basis.</p>	<p>To identify and define the need, to support the set up of a new organisation including appointment of board members, executives, providing start up capital. Funds would be sourced from a variety of sources including public funds, national impact funds and retail funds.</p>	<p>Initial fees funded by investment readiness grants. % ownership in the new organisation. Fees on additional finance brokered for the organisation.</p> <p>Note: This model has been proven in the technology sector by 'Alacrity' and may be transferable to the VSCE sector.</p>

GWRC will measure how it succeeds; this Appendix outlines five year success measures, with particular emphasis on year-one delivery.

Overall success will be measured by additional investment raised and placed within the region. GWRC's stretch target is to place a total of £50m of additional investment over five years (see Appendix 5 for details). GWRC's total five year operating costs of £1.2m suggest a 42 fold multiplier from its activity. GWRC will also carefully monitor investment performance and seek to minimise losses wherever possible.

In addition to this overall financial measure, there will be a series of social, environmental and economic value measures linked to the new investment and the vision, these measures will articulate the degree to which GWRC has improved the region and include:

- New jobs created and existing jobs protected – a significant contribution to local employment
- New homes created and number of additional people housed – a significant contribution to local housing supply
- Carbon avoided (tonnes) and new clean energy (MWh) generated – a notable contribution to creation of the new economy
- Challenged individuals supported into employment – help to re-shape society for the benefit of all
- Additional volunteer hours enabled – mobilising the available goodwill at scale

A robust social value measurement framework will be established in the first year with regular reports provided to members and investors. In each case, the measures will consider the additional saving to the state where appropriate. For example an ex-offender supported into long term employment will save the state significantly more over ten years than the value of the preventative investment required.

GWRC will judge the success of first year delivery against its strategic objectives:

<p>Generating Innovative Delivery Models</p>	<p>Articulating an innovative housing delivery model that contributes at least an additional 1,000 new homes over a ten year period within the West of England, via GWRC or others.</p> <p>Defining a Local Impact Fund model for the region that provides strategic wrap around support and sympathetic scale-up finance to the social enterprise sector.</p> <p>Defining a local mini-bond to enable local people to invest in local asset and revenue backed initiatives with social impact e.g. local community centres, homelessness shelters.</p>
<p>Catalysing the Change</p>	<p>Prototyping the new housing model and financing a c.£1.5m innovative housing development producing at least an additional 10 homes.</p> <p>Setting up and securing management rights for a £2m Local Impact Fund for business incubation and development.</p> <p>Prototyping a £0.5m pilot mini-bond for a single project with social impact in partnership with an existing market leading provider of mini bonds.</p>
<p>Scaling the Solution</p>	<p>To agree heads of terms with similar investment funders with access to £10m of third party finance.</p>
<p>Proving that the model works</p>	<p>To set up and establish a fit-for-purpose governance structure.</p> <p>To raise adequate core funding for GWRC for a three year period.</p> <p>To secure the required strategic partners for effective delivery.</p> <p>Aiming to maximise returns and minimise investment losses wherever appropriate.</p>

The following table identifies an illustrative five year investment profile. This profile is heavily assumptions based, but provides an indication of the potential scale of the opportunity. It is important to note that the financial impact is only part of the story, with per person benefits being a key and complementary measure.

£m	Homes	Business Incubation	Green Infrastructure	Other*	Total
Year 1 (to March 2016)	1.3	0.8	-	-	2.1
Year 2 (to March 2017)	2.6	0.8	0.5	-	3.8
Year 3 (to March 2018)	4.0	1.8	1.5	2.0	9.3
Year 4 (to March 2019)	5.5	2.1	3.0	4.0	14.5
Year 5 (to March 2020)	7.0	2.5	5.0	6.0	20.6
5 Year Total	20.3	8.0	10.0	12.0	50.3

**New thematic priorities will be defined each year.*

Examples of the specific types of projects and organisations that GWRC might support via investment are as follows; all have a business plan and an income stream:

Southville Community Development Association – Development of second Community Centre.

North Somerset Wood Recycling Project – A social enterprise recycling wood for sale and providing employment.

YMCA – Development of a Bristol city centre hostel accommodation to address youth homelessness.

The Park – A leading community facility run as an income generating social enterprise in the Centre of Knowle West

The Maker Lab – Development of a ‘Maker Lab’, a public access making space and innovation centre led by Knowle West Media Centre.

The following table outlines the five year operating cashflows for GWRC. It is important to note that these numbers do not include certain cashflows covered by individual funds. These fund specific cashflows include a further £100k cost allowance each year for corporate finance, fundraising and fund management costs.

	Year ended	Year ended	Year ended	Year ended	Year ended	Five Year
	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Total
Income						
GWRC Management Charge to Revolving Infrastructure Fund - Development	50,000	103,000	106,090	109,273	112,551	480,914
GWRC Management Charge to Property Impact Fund - Ownership	-	100,000	103,000	106,090	109,273	418,363
GWRC Management Charge to Local Impact Funds	50,000	51,500	53,045	54,636	56,275	265,457
GWRC Brokerage Income from direct investment activity	2,750	3,750	5,835	5,305	6,190	23,830
GWRC - Income from new as yet unidentified funds	-	-	-	100,000	103,000	203,000
Start Up Support and Membership Fees - Non returnable	125,000	100,000	100,000	-	-	325,000
Total Operating Income	227,750	358,250	367,970	375,304	387,289	1,716,563
Costs						
Personnel - FTE 1 - CEO	(60,000)	(61,800)	(63,654)	(75,000)	(77,250)	(337,704)
Personnel - FTE 2 - CFO/Investment Director	(20,000)	(50,000)	(51,500)	(65,000)	(66,950)	(253,450)
Personnel - FTE 3 - Corporate Finance Manager (in-house)	-	-	-	(50,000)	(51,500)	(101,500)
Personnel - FTE 4 - Fund Manager (in-house)	-	-	-	(50,000)	(51,500)	(101,500)
Oncosts	(16,000)	(22,360)	(23,031)	(48,000)	(49,440)	(158,831)
Premises and Office Costs	(5,000)	(20,000)	(20,600)	(21,218)	(21,855)	(88,673)
PR & Fundraising	(10,000)	(10,300)	(10,609)	(10,927)	(11,255)	(53,091)
Research	(10,000)	(10,300)	(10,609)	(10,927)	(11,255)	(53,091)
Legal and Accounting	(10,000)	(10,300)	(10,609)	(10,927)	(11,255)	(53,091)
Governance Costs	(2,000)	(2,060)	(2,122)	(2,185)	(2,251)	(10,618)
Total Operating Costs	(133,000)	(187,120)	(192,734)	(344,185)	(354,511)	(1,211,550)
						0
Net Operating Cashflow	94,750	171,130	175,236	31,118	32,778	505,013
Positive Investment Raised	2,050,000	3,825,000	9,311,870	14,544,085	20,553,460	50,284,415
Multiplier on investment (investment/operating cost)	15	20	48	42	58	42