

# Decision Pathway – Report Template



**PURPOSE:** Key decision

**MEETING:** Cabinet

**DATE:** 02 July 2019

<b>TITLE</b>	Investment in Bristol City Funds		
<b>Ward(s)</b>	All		
<b>Author:</b> Denise Murray	<b>Job title:</b> Director of Finance		
<b>Cabinet lead:</b> Councillor Craig Cheney	<b>Executive Director lead:</b> Mike Jackson		
<b>Proposal origin:</b> City Partner			
<b>Decision maker:</b> Mayor			
<b>Decision forum:</b> Cabinet			
<b>Purpose of Report:</b>			
The report sets out the case for Bristol City Council to approve the investment of £5m into Bristol City Funds. This will be a new place-based funding mechanism which seeks to develop innovative solutions to tackle the City's challenges and lessen the void between prosperity and poverty.			
<b>Evidence Base:</b>			
<b>Context</b>			
Since 2017 partners from across the city's business, charitable, academic and public sectors have worked together to develop a Plan which aims to create a fair, healthy and sustainable city with reduced inequality. The One City Plan was launched in January 2019 and it describes the overarching vision for the City by 2050 and provides an iterative road map of how this vision could be achieved. It outlines a One City approach which requires organisations to work with a collective intelligence and provides a platform where partners can coordinate a programme of public / private investments and development activity to help shape and deliver this future.			
The development of the Bristol City Funds concept has emerged from the wider development of the One City approach and seeks to address the following challenges facing the city of Bristol:			
<ul style="list-style-type: none"> <li>• Systematic disadvantage and inequality.</li> <li>• Reduced provision in local areas.</li> <li>• A restricted grant environment means innovative projects struggle to find the right types of finance.</li> <li>• City wide resources are unaligned, competing and duplicating efforts.</li> </ul>			
A range of national research led by a number of key stakeholders has identified that although there is social investment available, there remains a need in the charity and social enterprise sectors for alternative funding models and appropriate finance for social impact. There is a lack of effective intermediaries enabling the supply and demand to come together at the local place based level.			
<b>The City Funds</b>			
In developing the Plan City Partners identified the need for enabling funds and it was agreed that Quartet Community Foundation and Bristol & Bath Regional Capital (BBRC) would work in collaboration with Bristol City Council (BCC) to develop and take forward a pilot that would seek to deploy the funds to the greatest and most sustainable effect. A Governing Board (City Fund Board) has been established, with founding members coming from communities, business, education, the voluntary sector and the Mayor's Office to consider the evidence and develop this new place-based funding mechanism which has and continues to evolve.			
The City Funds will act as a local intermediary and has a target to generate significant funding to invest into areas of need. It will provide support for the local market and community organisations to grow and develop new models of delivering social			

value, supported by professional investors who understand and care for the City and its people. Proactive & innovative partners will be sought to help the fund achieve this aim, via a combination of repayable finance, grant and donations.

The investment fund will be advised by BBRC, (having regard to the investment policy approved by the Council) which will utilise repayable debt initially and equity in the longer term, and the grant and donation fund will be Quartet managed.

Four priority themes have been chosen that will provide benefits to Bristol:

1. No Child Goes Hungry: Supporting school breakfast clubs and holiday hunger programmes to addressing the root causes of poverty.
2. Economic Inclusion: Creating opportunities and reducing barriers to enable all communities in Bristol to access employment, education and skills development.
3. Community Initiatives: Working alongside communities to help them play a vibrant role in Bristol.
4. Environmental Stability: Supporting the transition to a carbon neutral, zero waste city and to restore the health of the natural environment on which the city depends.

The City Fund is seeking investment from public and private investors who share the One City ethos to contribute to the establishment of an investment or grant fund. It is considered that an initial commitment from BCC to invest will reinforce the confidence of partners and make a significant statement of support for the social, environmental and economic mission of the City Fund.

### **What's the Ask of BCC?**

The Bristol City Fund business case attached at Appendix A seeks to demonstrate how the City Funds approach will work and how it aligns with and can help deliver the aims and aspirations of BCC, both in terms of high level outcomes and an underpinning reduction in demand on public services through building local economic and community resilience.

The 'Ask' of BCC is to invest into the Investment fund and become the "first brick" investor across all the 4 priority themes, which are aligned to BCC's and One City shared priorities. The long-term aim is to create a legacy pot for the city and the fund will seek to leverage investment from a range of public and private sources, multiplying the overall investment fund available and creating a permanent revolving endowment fund for Bristol as part of a wider resilience strategy.

As a result of BCC's early indicative commitment, the managed investment fund has received a cash commitment from Big Society Capital Limited (BSC) with broadly mirrored conditions, in terms of the amount and key principles. This commitment from BSC is dependent upon the approval of matching funds from BCC. The project aims to see the Investment Fund established with funding of circa. £10 million and it is proposed that subject to respective approvals 50% (£5m) of the initial fund value would be contributed from both BCC and BSC. This would be for a period of 10 years as loans, aside from a thin layer of equity. In return for the investment it is estimated that each of the investors will receive a return of 4% over the period of the investment. It is estimated that this initial investment will leverage further funds from a variety of social and institutional investors into the City. The business case indicates a multiplier of six times (e.g. £61m could be achieved as a direct result of this investment and local policy action; however it must be noted that this figure has not been verified by BCC.

A limited partnership structure will be utilised for the investment with a limited partnership agreement to which BCC and BSC are parties. From year 5 of the investment BCC will have the ability to service notice for the funds invested to be released or alternatively extend the period of investment for a further period of up to 2 years enabling the revolving loan facility to continue (maximum 12 years). If the BCC decides that the funds are to be released a minimum notice period of 5 years will be required. This is predominantly due to the potential for the assets which the fund has invested in not being liquid or need to seek alternative investor.

Further details relating to the proposals for governing the funds and the governance structure to oversee the Funds and make decisions and to establish membership and guide Funding Priority Groups to shape interventions is outlined in Appendix A. An Investment Advisory Committee made up of parties involved in the development of the fund, including BCC will be involved in the 'pre vetting' stage and the Independent FCA regulated Fund Manager (to be appointed), will need to assess and evaluate each investment proposal, have a completely unfettered discretion on approvals and request capital draw-downs from the BCC. Further information in this regard is outlined in Appendix G (i, ii & iii).

BCC will have limited involvement in investment decisions with decision making access being through Council representation on the Investment Advisory Committee. BCC will need to place reliance on the investment policy and ensuring that in setting up the fund, any concerns are addressed in the policy and key performance indicators.

With the proposed investment into Bristol City Funds, it is hoped that the following benefits will be delivered:

1. Locally sourced and aligned funding driven by evidenced business case assessment by City based experts.
2. Increase in new investment funding coming into Bristol focussing on City needs and systemic change.
3. Building the capacity and confidence of the community sector to institute effective solutions to address social and economic issues.
4. City wide initiatives that have been successfully developed and tested at a community level.
5. Less reliance on public sector resources due to interventions by and for a community.
6. Opportunity to shape delivery against key priorities with matched funding, both grant and repayable investment.
7. Opportunity to influence and shape the social investment market in Bristol.

#### **Options available:**

1. **Invest £5m** in the city fund which would be match-funded for the same amount.  
This presents an opportunity to take loan funds to the market by a loan fund manager with strong expertise. As a minimum BCC would see double its investment coming back into the local economy. By investing in this fund Bristol has another financial instrument to offer local organisations, for economic and social development and can also build up an evidence base in testing the demand from local businesses for these types of finances.
2. **Do not invest** in the scheme.  
BCC does not have the complete technical ability nor systems in place to offer this type of scheme currently. The costs in putting the infrastructure in place would be prohibitively high at this point in time for such a small amount of funding. Not investing in this fund will mean BCC losing out on the opportunity to double its investment pot for Bristol businesses to access. BCC could invest the funds in alternative or lower risk propositions with varying financial returns but arguable lower social, environmental and inclusive economic impact.

#### **Recommended Proposal**

Invest £5m in the City Fund, which would enable projects to progress in the City that would not otherwise be able to and secondary the investment would generate a return on investment. This investment would result in up to £10m being available for organisation through the match funding. Finances will only be drawn down from the council as individual investments are identified in Bristol, due diligence undertaken, propositions appraised and recommended by the Investment Advisory Committee and approved by a FCA regulated Fund Manager. As such BCC contribution will build up over time.

Annual (as a minimum) Impact assessment will need to be undertaken for the fund and reported to BCC, to ensure that the capital is making a demonstrable difference. A common convention needs to be developed for reporting actual performance, headline delivery numbers, understanding the material effects we are having, what we've learned and changes if any being proposed to deliver impact more effectively.

**In summary** - The City Funds allow BCC to work with local and national stakeholders and partners, working openly across a wide range of local and national stakeholders, sharing thinking and ideas, to build the Funds into a sustainable legacy. The Funds also share the core principles with BCC to seek to address long-term outcomes and not short-term fixes. It has committed to seeking to make systemic change to key shared issues in the city and avoid funding attractive but short-term projects. In addition it has also committed to ensuring the funding it raises and deploys is additional and not a replacement of or in competition with other funding in the City.

BCC's principles around building city resilience are also aligned with the City Funds. This is both in terms of building local social and economic resilience to improve the ability of communities to withstand stresses and shocks, and also from the perspective of supporting key system work focussed on environmental sustainability. These underpin all the initiatives funded through the Funds, and also in its own right. The overarching principle of developing "people and places to improve outcomes, empower communities" speaks directly to the approach of the City Funds.

#### **Cabinet Member / Officer Recommendations:**

1. Authorise entry into City Funds LP, a Limited Partnership established to support the One City Project operating within the structure detailed in the report and appendices.
2. Approve the investment of £5.0m into the City Funds for a initial term of 10 years with an option to extend for a further (+1), (+1) years (maximum 12 years) years with an anticipated return on investment of 4% p.a. net of fees.
3. Authorise the Director of Finance and Director of Legal & Democratic Services to finalise the terms of the required

- legal agreements (including the limited partnership agreement) for the investment in the City Funds LP.
4. Authorise the Director of Finance in consultation with and Director of Policy and Strategy to agree a common framework and timing for the annual impact report for the City Fund.
  5. Acknowledge the limited involvement of the Council in City Fund investment decisions and that these will be made by the regulated Fund Manager, albeit in line with the approved investment policy.
  6. Authorise the Director of Finance and Director of Legal & Democratic Services in consultation with the Deputy Mayor, Cabinet Member for Finance, Governance & Performance, to finalise the terms of the Investment Policy for the City Fund.
  7. Delegate authority to the Deputy Mayor, Cabinet Member for Finance & Governance to be appointed as the Council's representative on the Investment Advisory Committee and to appoint a suitably qualified officer to the Investment advisory Committee.
  8. Authorise the Director of Finance in consultation with the Deputy Mayor, Cabinet Member for Finance, Governance & Performance, to agree the phased release of the investment to the City Funds.
  9. Delegate authority to the Director of Finance in consultation with the Deputy Mayor, Cabinet Member for Finance, Governance & Performance to give the required notice at year 5 for release and repayment of the funds at year 10 or consider annually the extension of the period of investment for a period of up to a further 2 years (12 years in total).

#### **Corporate Strategy alignment:**

The purpose and approach of the Bristol City Funds aligns directly with the aspirations and values demonstrated through Bristol City Council's Corporate Strategy 2018-2023. The "driving of a city of hope and aspiration" and the challenges underpinning that aspiration are shared with the purpose of Bristol City Funds.

The investment into individual projects via the City Fund will contribute to the council's Corporate Strategy 2018-2023 vision in areas which include the following:

- "Empowering and Caring" working within the city, there will be a prioritisation of community development and enable people to support their community.
- "Fair and Inclusive" will help develop balanced communities which are inclusive and avoid negative impacts from gentrification.

#### **City Benefits:**

The City Funds is a place-based fund, supporting the goals of the One City Plan seeking to deliver change in line with the One City Approach and increased influence on policy and practice across Bristol to enable places to take action. In particular the proposed investment aims to develop a diverse economy that offers opportunity to all and helping to develop balanced communities which are inclusive.

Empowering of individuals and communities to develop their own resilience, capacity and capability to live their best lives is at the heart of this proposition and in the work developing through the Community Initiatives themes, there is an intention that community resilience will lead to greater independence and less reliance on public services.

#### **Consultation Details:**

- Breakfast meetings with a cross-section of public and private sector key city influencers and decision makers
- Monthly one to one and bi-monthly meetings with core funders group
- Bristol City Funds Board representative presentations at City Gatherings
- Monthly meetings with City Office to ensure alignment
- Meetings with emerging Funding Priority Groups and potential investees to assess investment readiness
- Partnership working within the Mayors Assets Group
- Discussions with BCC and BSC's Finance, Legal and Commercial leads to develop high level terms
- Deputy Mayor, Cabinet member for Finance, Governance & Performance

#### **Background Documents:**

- City Funds Collaboration Agreement
- One City Plan

<b>Revenue Cost</b>	£5.0m	<b>Source of Revenue Funding</b>	Earmarked reserves, established during the
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			2019/20 budget process specifically for this purpose
<b>Capital Cost</b>		<b>Source of Capital Funding</b>	
<b>One off cost</b> <input checked="" type="checkbox"/>	<b>Ongoing cost</b> <input type="checkbox"/>	<b>Saving Proposal</b> <input type="checkbox"/>	<b>Income generation proposal</b> <input checked="" type="checkbox"/>

**Required information to be completed by Financial/Legal/ICT/ HR partners:**

**1. Finance Advice:**  
The financial overview for this proposition is outlined in Appendix G (i, ii & iii) and summarised below as follows:

It is proposed that BCC invest £5m into the City Funds for a period of 10 years with a (+1), (+1) functionality. This investment is fully matched by Big Society Capital £5m, providing a total investment of £10m to commence the fund. The proposed £10m investment is expected to generate an initial social return on investment of a rate of 4% net of fees deferred and payable from year 6. The investments made by the City Fund to applicants will be in the form of loans initially and mix of loans and equity in the longer term. These loans will be provided on commercial terms with interest rates likely to be in the range of 4% - 10%. The predicted returns will provide the investors preferred return, provide some resilience to the fund and contribute towards creation of a sustainable revolving credit facility for the future.

Loan recommendations will be made to the regulated Fund Manager who will perform all functions required by law to be performed for an investment fund. The Fund Manager will have completely unfettered discretion on approvals and thereafter seek arrangements for the capital to be transferred from BCC. The Fund Manager can only approve investment propositions that have adhered to the robust process of full review by the local fund advisor and the Investment Advisory Committee. To ensure BCC's objectives are delivered, the strategic objectives and Investment Policy to which the funds and priority groups operate will need to be aligned and unambiguous. BCC will only make the investment as and when it has been approved by the Fund Manager. The investment will be funded from earmarked reserves, held specifically for this purpose and the draw down request approved will be reported retrospectively to Cabinet via the movement in reserves statements within the Councils in-year budget monitoring reports.

Provision for the one-off investment was approved by Council on the 26th February as part of the 2019/20 budget.

An annual impact report will need to be provided and once received this report can be made available for wider Scrutiny.

In common with most investments there will be financial risks associated and these are outlined within Appendix A and Appendix D to this report.

City Funds are taking advice on State Aid issues and will need to ensure that interest rate are applied on a commercial basis or that an appropriate exemption can be applied and remain State Aid compliant.

The return yield is considered low given the associated risk and as such it is not recommended that this investment is made under our Treasury Management Strategy. BCC will use its general power of competence under section 1 of the Localism Act 2011(the Act) to make this investment. The investment proposal, if successful, will provide a financial return to BCC but more importantly provide a significant social return on investment and help address challenges facing Bristol, such as disadvantage, inequality and bridge the gap and lessen the void between prosperity and poverty. These powers can be utilised to invest in the Bristol City Funds as the objectives of the scheme are consistent with the Council's priorities and objectives.

**Finance Business Partner:** Chris Holme, Interim Head of Corporate Finance. 21 June 2019.

**2. Legal Advice:**  
There are two primary powers in relation to local authority investment – section 12 Local Government Act 2003 and Section 1 and Localism Act 2011 (the general power of competence). Under the 2003 Act -\_S12 - A local authority may invest; (a) for any purpose relevant to its functions under any enactment; (b) for the purposes of the prudent management of its financial affairs. There is no express limit or restriction on the nature of the investment. However, under (a) it must be relevant to its functions. Delivering the Councils City One plan would be a function. Investment under (b) is aimed at general prudential management of finances, which would mean any investment would need to comply with the authority's investment strategy etc. (Localism Act 2011 Section 1 - General Power of Competence (GPC) - this allows an authority to invest for a return, but if this activity is likely to be characterised as an activity for a commercial purpose it could not be delivered through the LP. Recent case law has however determined that making a profit does not necessarily equate with acting commercially, and if the Councils overriding/paramount objective is non-commercial (e.g. housing, employment, redevelopment etc.) and profit is incidental/ancillary, then it will not be acting commercially, and can use the LP.

Once the funds have been contributed it should be noted that there is no guarantee of a return and no control over which projects receive investment or the terms of any investment. Decisions as to how the investments are made rest with the Fund Manager (currently independent company) albeit based on pre-determined investment criteria, to be set out in an investment policy included in the limited partnership agreement.

This emphasises the importance of the Council being satisfied both as to the investment strategy and that this cannot be altered without Council agreement. Drafts of the policy and the heads of terms (which will inform the arrangements generally including the limited partnership agreement) are being reviewed, and authority is sought for the Directors of Finance and Legal to negotiate and settle these.

The Council will have limited involvement in the Investment Committee, (it will be one of 1 of 8/9). Its representative can raise concerns at the Committee if a proposal is not considered appropriate. If the Council seeks to go beyond this limited role, it jeopardises the “limited liability” structure

During the setting up of structure the Council has input into the general strategy/direction; input into the investment policy/criteria; input into the fund manager/GP KPIs. It is important that it ensures that its objectives, aspirations etc. are properly addressed at this stage. (Projects are recommended (by BBRC) to the Investment Committee with the investment committee then making recommendations to the Fund Manager. They must all have regard to the investment policy/criteria).

**State Aid**

Investing in the City Fund should not in itself raise any state aid issues, however consideration may need to be given to the nature and level of support to individual projects, and the investment strategy should address this. It is currently proposed (in the draft strategy) that any loans will be at rates compliant with state aid rules. We may need to consider expanding the strategy on this issue.

Given the complex nature of the relationships involved in the establishment and operation of the City Funds, a suitable conflict policy should be implemented at an early stage to ensure probity and transparency.

**Legal Team Leader:** Eric Andrews, Team Leader, Legal Services. 21 June 2019

**3. Implications on IT:** As a funding proposal, there are no IT implications in this report. It is possible that initiatives will arise from the City Fund that may have IT implications, but these will need to be considered at the appropriate time.

**IT Team Leader:** Ian Gale, Head of IT. 20 June 2019

**4. HR Advice:** No HR implications evident as BBRC will be the employer of the additional staff required to deliver the City Fund

**HR Partner:** James Brereton, People & Culture Manager. 21 June 2019

<b>Cabinet Member sign-off</b>	Cllr Cheney	20 June 2019
<b>For Key Decisions - Mayor's Office sign-off</b>	Mayor's Office	24 June 2019

<b>Appendix A – Further essential background / detail on the proposal</b> Appendix A - Bristol City Fund – Business Case for Bristol City Council support	<b>YES</b>
<b>Appendix B – Details of consultation carried out - internal and external</b>	<b>NO</b>
<b>Appendix C – Summary of any engagement with scrutiny</b>	<b>NO</b>
<b>Appendix D – Risk assessment -</b> Appendix D City Fund - Risk Assessment	<b>YES</b>
<b>Appendix E – Equalities screening / impact assessment of proposal</b> Appendix E – Relevance Check - City Fund	<b>YES</b>
<b>Appendix F – Eco-impact screening/ impact assessment of proposal</b>	<b>NO</b>
<b>Appendix G – Financial Advice</b>	<b>YES</b>

Appendix G(i): Financial and Governance Overview Appendix G(ii) Financial Investor Profile - Illustration Only Appendix G(iii)- Profile of Investments – Illustration Only	
<b>Appendix H – Legal Advice</b>	<b>NO</b>
<b>Appendix I – Exempt Information</b>	<b>NO</b>
<b>Appendix J – HR advice</b>	<b>NO</b>
<b>Appendix K – ICT</b>	<b>NO</b>