



CLLR PHIL DAVIES

CABINET

Monday, 27 June 2016

**LIVERPOOL & WIRRAL SOCIAL STOCK
EXCHANGE PILOT**

Councillor Phil Davies, Leader of the Council - Strategic Economic Development, Finance and Devolution, said:

Growing Wirral's economy, supporting local businesses, attracting new investment and creating jobs are all key priorities within the Wirral Plan. We are committed to working with organisations and people to make sure that economic growth improves the quality of life for all our residents and communities.

I believe that the development of the Liverpool & Wirral Social Stock Exchange is an exciting new opportunity and can help us achieve our ambitions; moving us closer towards making our borough and region the number one choice for investment in the Northern Powerhouse, whilst also delivering much greater levels of positive social and environmental outcomes.

REPORT SUMMARY

A Social Stock Exchange (SSE) is made up of organisations and businesses that can demonstrate positive social or environmental impact through their core activities.

Companies which want to join have to pass its strict criteria and submit an annual report prepared by an independent social impact specialist.

An Impact Business will commit to deliver social and environmental impact at its core; this can include charitable donations, volunteer staff, or commitments to reduce waste, with the proviso that these activities are at the company's core.

Wirral Council has been conducting a "Pathfinder" feasibility study in conjunction with Liverpool City Council and the Social Stock Exchange, to assess the benefits and potential of establishing a local Social Stock Exchange for Liverpool and Wirral. The

purpose of this report is to advise Cabinet on the findings of the Pathfinder and to seek approval to support the launch of a pilot local Social Stock Exchange for the next 12 months.

Creation of a local Social Stock Exchange will help us to achieve our ambitious Vision for economic growth, as well as a number of our key Pledges set out within the Wirral Plan. It will help us to deliver sustainable, accelerated economic growth based on a more connected, skilled, talented Borough where all of our residents are able to contribute to (and benefit from) sustained prosperity, and a good quality of life in a high quality environment. Achieving this requires more than a focus on economic growth – it means that we will need work together with our communities and partners to support them to grow and meet their potential.

RECOMMENDATION/S

1. The Council supports the establishment of a pilot Liverpool and Wirral Social Stock Exchange, for up to 12 months, to be launched on 29th June 2016;
2. The support takes the form of the provision of office accommodation in Liverpool Council's Cunard Building, seconded staff resources and assistance with publicity and marketing of the Social Stock Exchange in Liverpool and Wirral, with all costs shared by the two sponsoring Councils within State Aid parameters, with the details of the support package and terms to be finalised by the Strategic Director - Transformation and Resources;
3. Authority be delegated to the Chief Executive and Strategic Director - Transformation and Resources to review the potential for a longer term "invest to earn" opportunity to support the activities of the Social Stock Exchange in Wirral and the wider region, with "in-kind" pilot support treated as an advance on any equity investment or loan.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 1.1 Piloting a local Social Stock Exchange will promote investment into the Borough and wider City Region, enabling business growth and creating more jobs and skills. Its' focus on positive impact will support investment into environmental projects, social housing and target businesses that support the delivery of services across welfare, skills, justice and health markets.
- 1.2 The launch of the Pilot Social Stock Exchange is planned to be part of the International Festival for Business on 29th June 2016, and therefore it is requested that the call-in process is waived for this Report.

2.0 OTHER OPTIONS CONSIDERED

- 2.1 The Council could choose not to support the launch of a pilot local Social Stock Exchange. Without investment, businesses would have to continue to seek support from often limited current sources. Our research shows that currently this is mainly through high street banks and family members, these routes do not maximise impact investment in targeted activities. Investors would continue to operate out of London and the investment opportunities of the Liverpool City Region would be less visible.
- 2.2 The Council could make an equity investment in, or provide debt funding to support the Social Stock Exchange. Assessment of the pilot activity will be required in order to confirm the "invest to earn" business case for these options. The Social Stock Exchange has already established the core admissions process for assessing impact, the market operational arrangements for the listed market and complies with the necessary regulatory requirements. An alternative to supporting the local pilot of the Social Stock Exchange, could be to establish these operational functions itself but this would require a significantly longer lead team to launch and significantly higher costs to implement.

3.0 BACKGROUND INFORMATION

- 3.1 The Social Stock Exchange was launched by the Prime Minister in 2013 at the G8 Summit and was established to:
- Transform capital markets, providing access to the world's first publicly traded market dedicated to businesses with a positive social and / or environmental impact and those investors who want their money to do good as well as earn a return;
 - Provide an alternative source of capital to SME "impact" business, given that:
 - Bank lending rejection rates have increased & total lending to SMEs has decreased
 - Growing acceptance that economic issues cannot be solved by governments and social sector alone
 - Increasing financial pressure on government and local authorities
- 3.2 Wirral, along with City Region partners continue to consider the ways to provide support capital to small and medium sized enterprises (SMEs) and entrepreneurs in the region to stimulate economic activity, generate jobs and improve quality of life in the area.

3.3 The option under consideration in this Report is to establish a pilot Liverpool and Wirral Social Stock Exchange, which would initially be a two-Council but City Region focused branch of the Social Stock Exchange. This would complement other initiatives within the City Region looking to stimulate and fund economic activity such as the Merseyside Special Investment Fund and would support a single point of contact for all business investment requirements working closely with the LEP.

3.4 Using this model with a local focus, a Liverpool and Wirral Social Stock Exchange would stimulate equity and debt funding of local impact enterprises, generating positive social and environmental outcomes whilst building local economic activity. Establishing the Liverpool and Wirral Social Stock Exchange would have the following benefits:

- As a publicly traded market the general public can participate in investing in the securities issued by the impact businesses addressing the current democratic deficit in capital markets which have become increasingly exclusive to High Net Worth Individuals, market professionals and private equity institutions;
- Most social impact occurs locally, and by having a local publicly traded exchange, local residents can invest in, see and be beneficiaries of that local impact;
- Listed securities on the exchange will be freely tradable which is important to enable ordinary people to invest as they are not tied in to unnecessarily long investment timeframes and can exit investments, converting to cash, when their personal circumstances require them to do so;
- The Social Stock Exchange has established Impact Reporting standards, which means that all members report annually on their social and environmental impact performance and investors can be confident that the positive impact outcome expectations from their investing are being met. The positive social outcome focus of the market will encourage non-conventional participants to participate in the market such as faith based organisations, trade unions and charities bringing new sources of capital;
- The existence of the exchange as a locally focused mechanism to raise capital will crystallise funding activity around it, stimulating further economic activity, creating a clear and transparent pathway for organisations requiring capital to scale and providing options for raising capital at each key business growth milestone. This will create a growth culture with local entrepreneurs and businesses seeing a pathway and access to further funding will be encouraged to start new social impact enterprises and / or accelerate growth plans.

3.5 **Pathfinder Headline Findings**

The primary objective of the pathfinder was to provide a three-month research and scoping study to determine the demand for investment from the business community and the appetite from investors to do business in the area.

3.6 **Pathfinder research methodology**

The pathfinder 'Project Advance' operated over a three-month period concluding on 10th May. Base data was sourced from three areas:

a) Liverpool City Council and Wirral; non-domestics rate payers, LCC procurement list

- b) Desk research
- c) Experian (external data source)

- 3.7 This established that the addressable market across all Liverpool and Wirral organisations (all businesses) totalled approximately 10,000. However, to build a statistically robust data sample, which would be 'representative' of the Liverpool and Wirral region as a whole, it was narrowed the addressable market to circa 3,300 and targeted an 8-10% response (265 - 330 completed surveys). To accurately assess the needs of all groups of 'interested parties' it segmented the audience into 4 clear subsets; Issuers (classified as local businesses), Investors (classified as wealth managers, Independent Financial Advisors), Charities and Social Housing, local VIPs (classified as 'Liverpool Ambassadors'). Given that the data sample of 3,300 is around one third of all Liverpool businesses (10,565 as reported in the Liverpool Echo) <http://www.liverpoolecho.co.uk/news/business/liverpool-trails-major-uk-cities-8025316> it was concluded that these figures indicate scalability when assessing demand and appetite for the initiative.
- 3.8 **Across all data sets there was overwhelming support for the initiative with an average of 92% of all respondents saying YES when asked whether a Liverpool & Wirral Social Stock Exchange would be good for the local economy.**
- 3.9 Significantly 38% of all issuers stated that they considered their businesses had or may have a 'social, ethical or environmental purpose that might be suitable for inclusion in a Liverpool & Wirral Social Stock Exchange'. In addition 50% of all businesses stated that a Liverpool & Wirral Social Stock Exchange might be of interest to their 'future plans'. 12% of all respondents stated that a Liverpool and Wirral Social Stock Exchange would be suitable for them now, had a funding requirement that would enable growth, and that growth focused on recruiting more people locally.
- 3.10 Investors was a significantly smaller sample size, and the clear message from Investors was that there was perceived lack of availability of investible businesses and that they needed a platform to discover and engage with.
- 3.11 Data from 25 charities with an annual income over £200,000 was collected. **Results found that larger charities were interested in generating additional income via charity bonds, but also have an interest in investing in local purpose-driven businesses, with their own funds, making them both potential issuers and investors.**
- 3.12 **Pathfinder Conclusions**
Overall, the data indicates that there is a demand on both the buy and sell side, however if the recommendation is approved it should be supported with an ongoing programme of awareness, education, information and engagement to ensure early adoption, and continued growth.

The Liverpool Social Stock Exchange would be a catalyst to the local economy and to give Liverpool and Wirral a unique proposition with investment in local

purpose-driven businesses, by purpose-driven investors, and can be encouraged from within and also from outside of the region.

- 3.13 A 6-12 month pilot period of operation is proposed, to enable Liverpool and Wirral Councils to assess the potential for the promising demand forecasts to translate into a viable “invest to earn” proposition for funding a permanent regional office or offshoot of the Social Stock Exchange.

Pilot support could take the form of a public launch as part of the International Festival of Business (IFB) 2016 on 29th June 2016, together with associated publicity and marketing support and secondment of staff resources towards the initial establishment of a temporary regional office in the Cunard Building, jointly supported by Liverpool and Wirral Councils.

4.0 FINANCIAL IMPLICATIONS

- 4.1 Support package to be agreed by the Strategic Director Transformation and Resources, within existing funding resources, up to equivalent of 200,000 Euros (inclusive of any in-Kind contribution) shared equally with Liverpool City Council, with provision for this to be converted to an equity investment or loan should the ‘invest to earn’ business case be agreed.

A full business case model has been developed to review 3 scenarios; the Base Case expected scenario, and a High and Low case scenario based on 50% uplift and 50% lower business uptake versus the Base Case respectively as determined from the Market Research.

On the expected case, the local Social Stock Exchange has the potential to generate support for 108 social impact enterprises in the Liverpool City Region to raise ~£75m in capital.

5.0 LEGAL

- 5.1 Any agreed funding or support package would need to be independently assessed for state aid compliance unless under the de minimis of 200,000 Euros over 3 years. The provision of operating aid to an economic entity can only be done within the de-minimis, taking account of all aid received, i.e. from Wirral, Liverpool and any other public bodies. The terms of the support will need to be finalised by the Strategic Director Transformation and Resources in conjunction with the Director of Finance and Resources at Liverpool City Council, having regard to this threshold.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 No additional resources required.

7.0 RELEVANT RISKS

- 7.1 The risks associated with piloting a Liverpool & Wirral Social Stock Exchange are limited and focus mainly around reputation. As the support would be into the Social Stock Exchange Ltd, not a special purpose vehicle limited to the Liverpool & Wirral local operation, if the local Social Stock Exchange failed, the support could still deliver a benefit on the basis that the core business remains strong and is performing according to its business plan.

To mitigate the risk of failure, the Liverpool & Wirral Social Stock Exchange will be located within the Liverpool Council’s Cunard Building. Monthly Steering

Group meeting will be established with representation from both Councils. Operational performance will be reviewed and recommendations made should performance be below projections. A marketing budget is included within the projected costs to ensure the profile is maintained. Liverpool and Wirral Councils will be granted observer roles on the main board of the Social Stock Exchange.

8.0 ENGAGEMENT / CONSULTATION

8.1 As part of the Pathfinder research, consultation with Wirral Chamber of Commerce and local businesses has taken place.

9.0 EQUALITY IMPLICATIONS

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

No because of another reason which is:

This is a Pilot proposal at this stage and a full EIA will be completed during the Pilot and a decision will take place following evaluation of the Pilot.

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APPENDICES

N/A

REFERENCE MATERIAL

Pathfinder research findings can be accessed here (add link)

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
N/A	