Report to:	Development Committee
Subject:	Asset Transfer and Ethical Property Development
Date:	19 November 2013
Reporting Officer:	John McGrillen, Director of Development, ext 3470
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1	**Relevant Background Information**
1.1	In June 2012 members agreed to jointly commission and co-fund a robust consultancy study to frame opportunities and related risks of Asset Transfer and Ethical Property Development in Northern Ireland with our partners DSD and the Community Foundation NI (CFNI). The purpose of this report is to present to committee the recommendations of the report.
1.2	CFNI has been exploring the opportunities and models for co-operation and collaboration between voluntary and community sector organisations including the sharing of premises and overhead costs and sharing of staff, particularly back office staff. In doing so, they wished to explore the scope, potential and feasibility of Asset Transfer and Ethical Property Development in Northern Ireland.
1.3	The terms of reference were jointly agreed, and included: a) A review of best practice in ethical investment property in the UK and elsewhere to draw out lessons and implications of that best practice for potential ethical investments in property in Northern Ireland b) To develop a financial model of a Northern Ireland ethical property investment fund and to apply the model to a range of at least 6 actual potential ethical property investments in Belfast and elsewhere in Northern Ireland to draw out in each case: - The financial return on investment - The social return on investment - The regeneration return on investment c) To develop an indicative priority list of potential projects for an ethical property investment fund for Northern Ireland taking account of financial, social and regeneration returns. d) To assess the main barriers and constraints to the establishment of an

	ethical property investment fund in Northern Ireland and how they might be addressed e) To consider a range of organisational forms and structures for an ethical property investment fund in Northern Ireland and to recommend a preferred structure, taking into account inter alia regulatory compliance and taxation issues f) To identify potential Third Sector, Public Sector and private investors in an ethical property investment fund for Northern Ireland, in each case detailing their requirements for returns and other criteria for investment g) To make recommendations to CFNI, DSD and the Council on their respective roles in carrying forward an initiative to establish a sustainable ethical property investment fund for Northern Ireland
1.4	CFNI suggested the joint approach with DSD and the Council, in whose area most of the identified opportunities for investment are located, should offer a opportunity to test the model which it has identified against best practice in ethical investment in property and to test the model in relation to a range of potential real investment properties in Belfast and elsewhere in Northern Ireland.
1.5	The steering group for the study consisted of representatives from Council, CFNI and DSD
1.6	Morrow Gilchrist Associates, in association with Creation Ltd and Social Value Lab (see Appendix 2), were appointed to undertake the study. The final report was presented in October 2013. The Executive Summary and Key Findings is attached to this report as Appendix 1.

2	**Key Issues**
2.1	At a time when traditional, public and grant based finance is under ever increasing pressure and scarcity, there is an ever greater need for more sustainable approaches to financing community investment in Northern Ireland. Where possible, such approaches need to reduce reliance on non-repayable, grant based funds while at the same time maximising social and economic return on investment and helping government bodies deliver upon key policy commitments in areas such as urban regeneration, community development, neighbourhood renewal and rural development.
2.2	In broad terms the ambition of the study was to explore the potential and related risk associated with the creation of an ethical property co-investment fund that would enable charitable and public sector funders to come together to share in the risks and returns (financial and social) from investment in a growing asset portfolio.
2.3	The study has been informed by consultations with key stakeholders including statutory and third sector bodies in Northern Ireland and external best practice elsewhere in the UK with key stakeholders in respect of ethical investments in property and regeneration driven by a social investment approach. As such the intention is to apply best practice innovation and learning (both positive and negative) from many years of experience in the UK in this field - to take forward an initiative to establish a sustainable ethical property/ asset investment fund for NI. The working title for this fund that has evolved through the study is

	Community Assets (NI).
2.4	The Terms of Reference necessitate consideration of a number of steps on the 'journey' towards establishing the fund: - from identifying and prioritising indicative ethical property investment opportunities, - to consideration of a consortium of initial potential partners, from the third; public and private sectors, all bound by a common goal of seeking a return with a positive ethical impact; - through modelling indicative returns on a triple-bottom line basis (accounting for financial; social and regeneration returns); - to the mechanics of how the fund might be structured and organised in NI.
2.5	Finally the study is required to consider the opportunity to transfer any policy lessons into the policy framework for community asset transfer in NI, which is under development via DSD and an Inter-Departmental Steering Group.
2.6	Following extensive research and discussions with key stakeholders the final report recommends the following:
2.7	The working title for the fund is **Community Assets (NI)** rather than 'Ethical Property Fund' so that the breadth of vision for the fund is not limited and that future projects centred on land and energy are not precluded. The intention is that the fund should be transformative in terms of community value and impact and distinctive, complementing existing funding provision and achieving leverage with other support.
2.8	The approach of financing community projects on a repayable loan basis would also set the right tone in terms of the requirement for fund recipients to manage community assets on a sustainable, commercial basis when they have been transferred. However this is not to say that the fund could not operate in conjunction with other partners offering grant support, particularly in relation to grants for pre-feasibility and feasibility testing, for projects which has proved to be important elements of the 'ladder' of support in the community asset transfer policy arena in GB.
2.9	The intention is that the fund should be sustainable, meaning profitable at the level of the Fund and supporting ongoing social, economic and environmental change at the level of projects supported by the Fund. In the context of sustainability the concept is based on a staged and mixed portfolio approach centred on assets graded **A/B/C**.
2.10	Assets rated **A, B and C** will be tested in terms of risk and a balanced approach to property growth with assets **A** being high quality rented accommodation with strong tenant covenant (e.g. public sector body/ local authority); assets **B** will be less strong in terms of value, but may have strong social tenants and offer some growth potential; and assets **C** should be those with little (commercial) financial value but strong social value, such as community assets or assets in areas of market failure.
2.11	Essentially the highest performing assets, in financial terms, and with highest returns on investment, 'subsidise' the lowest returns found within some Class B and Class C asset types
2.12	If Community Assets (NI) is to have a growth and expansion strategy, following

	this balanced portfolio approach will allow 'social investment' so long as it is balanced with more 'commercial investment'. As a rule of thumb, investing first in the high value low risk assets will provide the stability and confidence to move in to other assets which are both high risk and low financial return, but offer greatest social impact
2.13	It is envisaged that the initial scale of the fund would be at least £10m, sufficient in scale to fund a number of demonstration projects, with contributions from a range of partners/ investors.
2.14	In terms of legal structure the main report reviews the range of legal options open to the partners in terms of the Funds operating status. Based on consideration of the relative advantages and disadvantages it is suggested at this stage that the preferred governance model is a (Charitable) Company Limited by Guarantee.
2.15	The eventual preferred legal model should follow a due diligence process whereby the business model of the fund is fully determined and the correct legal status followed to deliver the business case.
2.16	An indicative programme to establish the fund by September 2014 is contained in the Executive Summary/Key Findings attached to this report.

3	**Resource Implications**
3.1	There are no resource implications associated with this report.

4	**Equality and Good Relations Considerations**
4.1	No specific equality or good relations considerations attached to this report.

5	**Recommendations**
5.1	Members are asked to note the content of this report.

6	**Decision Tracking**
Reporting Officer: Cate Taggart	

7	**Key to Abbreviations**
CFNI - Community Foundation (NI) DSD - Department for Social Development	

8	**Documents Attached**
Appendix 1 - Study of Issues and Opportunities for Asset Transfer and Ethical Property Development in N I- and the Establishment of an Associated Fund - Community Assets (NI) - Executive Summary/Key Findings. Appendix 2 - Profile of the Study Team	