



Social Investment Board

Date: TUESDAY, 23 APRIL 2013
Time: 11.00am
Venue: COMMITTEE ROOMS, 2ND FLOOR, WEST WING, GUILDHALL

Members: Alderman Peter Hewitt (Chairman)
Deputy Edward Lord (Deputy Chairman)
Deputy Ken Ayers
Ray Catt
Roger Chadwick
Deputy Robert Howard
Deputy Richard Regan

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John Barradell
Town Clerk and Chief Executive

AGENDA

Part 1 - Public Agenda

1. **APOLOGIES**
2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**
3. **MINUTES**
To agree the public minutes and summary of the meeting held on 14 December 2012 (copy attached).

For Decision
(Pages 1 - 6)
4. **MEETINGS ATTENDED**
Report of the Chief Grants Officer.

For Decision
(Pages 7 - 8)
5. **CHIEF GRANTS OFFICER'S REPORT**
Report of the Chief Grants Officer.

For Decision
(Pages 9 - 12)
6. **INVESTMENT CRITERIA**
Report of the Chief Grants Officer

For Decision
(Pages 13 - 16)
7. **FINANCIAL RETURN - PROPOSED TARGETS**
Report of the Chamberlain and Chief Grants Officer.

For Decision
(Pages 17 - 18)
8. **UPDATE ON THE WORK OF THE CITY OF LONDON SOCIAL INVESTMENT ADVISOR**
Report of the Chief Grants Officer

For Decision
(Pages 19 - 24)

9. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**

For Decision

10. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**

11. **EXCLUSION OF THE PUBLIC**

MOTION – That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A of the Local Government Act.

For Decision

Part 2 - Non-Public Agenda

12. **NON-PUBLIC MINUTES**

To agree the non-public minutes of the meeting held on 14 December 2012 (copy attached).

For Decision
(Pages 25 - 28)

13. **PORTFOLIO UPDATE**

Report of the Chief Grants Officer.

For Decision
(Pages 29 - 32)

14. **INVESTMENT PROPOSAL**

Report of the Chamberlain and Chief Grants Officer.

For Decision
(Pages 33 - 66)

15. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**

There were no questions on matters relating to the work of the Board.

For Decision

16. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE BOARD AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

For Decision

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SOCIAL INVESTMENT BOARD

Friday, 14 December 2012

**Minutes of the meeting of the SOCIAL INVESTMENT BOARD held at
GUILDHALL, EC2 on FRIDAY 14 DECEMBER 2012 at 10.00am**

Present

Members:

Deputy Ken Ayers (Chief Commoner)
Ray Catt
Roger Chadwick
Robert Howard
Deputy Edward Lord

Officers:

Simon Murrells	- Assistant Town Clerk
Greg Moore	- Town Clerk's Department
Clare Thomas	- Chief Grants Officer
Tim Wilson	- City Bridge Trust
Paul Mathews	- Chamberlain's Department
Anne Pietsch	- Comptroller & City Solicitor's Department
Sanjay Odedra	- Public Relations Office
Katie Hill	- Social Investment Adviser, Economic Development Office

In Attendance:

John Kingston	- Social Finance Ltd
Trupti Patel	- Social Finance Ltd

1. APOLOGIES

Apologies were received from Alderman Peter Hewitt and Deputy Richard Regan.

2. MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA

Deputy Ken Ayers declared a personal non-prejudicial interest in respect of item 14 by virtue of having previously worked with some of the individuals involved in the proposed project.

3. ELECTION OF CHAIRMAN

The Committee proceeded to elect a Chairman in accordance with Standing Order No. 29. A list of Members eligible to stand was read, and both Alderman Peter Hewitt and Deputy Edward Lord declared their willingness to serve if elected.

A ballot having been taken, votes were cast as follows:-

Alderman Peter Hewitt	-	3 votes
Deputy Edward Lord	-	2 votes

Alderman Peter Hewitt was therefore duly elected as Chairman for the ensuing year.

4. **ELECTION OF DEPUTY CHAIRMAN**

The Committee proceeded to elect a Deputy Chairman in accordance with Standing Order No.30. The Town Clerk read a list of Members eligible to stand and Deputy Edward Lord, being the only Member who expressed his willingness to serve, was duly elected as Deputy Chairman of the Board for the ensuing year, and took the Chair for the remainder of the meeting.

5. **PROGRESS REPORT ON THE ESTABLISHMENT OF THE SOCIAL INVESTMENT BOARD**

The Board considered a report of the Chief Grants Officer summarising the decisions taken so far to establish the governance and operating arrangements of the Social Investment Board, proposing a schedule for papers to future meetings, recommending the appointment of Social Finance Limited as an independent adviser authorised to undertake investment reviews, and recommending delegation arrangements to allow for investment when opportunities arise outside of scheduled meetings.

John Kingston and Trupti Patel withdrew from the room for discussion of this item.

In answer to a query as to the terms of appointment for Social Finance Ltd, it was advised that they were currently appointed on a case by case basis. The suggestion was made that it might be appropriate to seek sounder footing, perhaps through appointing them on a retainer basis, but it was clarified that this might not provide value for money given that there were relatively few investments in the pipeline and that Social Finance were often involved at an earlier stage in applications coming for approval and therefore it would not be appropriate for them to review every investment opportunity. The Deputy Chairman suggested that it would be useful to look for other advisers as well as Social Finance so that there was a pool of approved companies that could be drawn from whenever necessary. Members accordingly agreed to delegate authority to the Town Clerk in consultation with the Chairman and Deputy Chairman to come up with a list of suitable names for approval at the next meeting, along with some standard terms of approval to allow the list to be added to as appropriate.

It was noted that the intention was for the Board to generally meet three times a year, but it was agreed that in the first year it would be more sensible to meet quarterly and the Town Clerk undertook to liaise with the Chairman to arrange suitable dates accordingly.

Reference was made to an existing social investment fund in the City of London with a similar name, and officers were asked if thought had been given to a potential change of the Fund's own branding. The Chief Grants Officer advised

that potential name changes would be explored but, given the positive publicity to be gained by the City of London Corporation through association with the Social Investment Fund's work it could well be preferable to stick with the current branding.

With regard to the composition of the Board, the Deputy Chairman took the opportunity to suggest that the ability to co-opt was utilised to allow for a greater diversity of skills, background and ethnicity to be brought on to the Board. The Chief Grants Officer echoed the Deputy Chairman's suggestion, commenting that the inclusion of individuals with relevant experience and knowledge who are independent of the Corporation would be extremely beneficial and enhance the transparency of the Board. It was consequently agreed that a Panel, comprising the Chairman and Deputy Chairman along with the Chairman of the Investment Committee, be formed to establish a recruitment process with a view to identifying some suitable candidates to suggest at the next meeting.

RESOLVED:

- (a) That the appointment of Social Finance Limited as an independent adviser be approved;
- (b) That a further report be submitted seeking approval to appoint further advisers with a view to creating a pool of expertise that can be engaged in appropriate circumstances;
- (c) That the schedule of papers as proposed in paragraph number 26 be approved;
- (d) That authority to approve investments of up to £500,000 (when investment opportunity deadlines occur outside of regular meetings of the Board) be delegated to the Town Clerk in consultation with the Chairman and Deputy Chairman of the Social Investment Board.
- (e) That a Panel comprising the Chairman and Deputy Chairman, along with the Chairman of the Investment Committee, be established to consider potential candidates for co-option to be considered at the next meeting of the Board.

6. INVESTMENT CRITERIA

Members considered a report of the Chief Grants Officer setting out the investment criteria of the Social Investment Fund as approved by the Court of Common Council and proposing additional criteria to help guide investment decisions.

A Member expressed concern at the wording of the "Fund Aims", suggesting it was currently too nebulous, with a lack of clarity over whether the average interest referred to was on a short, medium or long-term basis. Discussion was also had as to the rate of return, with the suggestion made that a 2% benchmark should be set, as a fixed rate would allow for more accurate measurement of success. However, the desire to retain some flexibility was

also felt to be important, and so officers were asked to explore the issue and alter the proposed wording to give a clearer idea on what the targeted return should be. The trade-off between the investment return and the social benefits achieved was also noted, and whilst it was of course difficult to quantify social benefit, some sort of method of measuring impact to enable Members to see where it offset a lower investment return would be beneficial.

In reference to returns on indirect investments being capped, the Chief Grants Officer advised that this was in line with criteria set by Big Society Capital, with the idea behind the cap being that it would ensure that the planned social benefit of an investment would not be diminished for a better return. The Deputy Chairman added that this was where the line was drawn between commercial and social enterprise, thus distinguishing a social investment from a standard investment.

The Chief Grants Officer advised that the publishing of investment criteria online would be important, as this would encourage applications from those who were eligible as well as deterring applications from those who would not qualify. Members supported the proposal, and suggested that the criteria should be reviewed after a year once the Board had gained a good level of experience and were better placed to propose improvements. It was further agreed that a seminar for the Board should be held in the New Year to assist Members in developing a fuller understanding of the social investment market.

RESOLVED:

- (a) That the new investment criteria as set out in paragraphs 10 to 15 of the report be agreed; and,
- (b) That officers make the investment criteria available online to help guide prospective investees.

7. UPDATE ON WORK OF THE CITY OF LONDON CORPORATION'S SOCIAL INVESTMENT ADVISER

The Board received a report of the Chief Grants Officer providing an update on the work delivered to date by the City of London Corporation's Social Investment Adviser, who has enabled the Corporation to strengthen relationships with a number of public, private and charitable-sector organisations involved in social investment.

In response to a Member's query concerning partnership involvement it was advised that all potential options were being explored, including partnerships, such as the arrangement already in place with Oxfam. The Member commented that he was aware that the British Red Cross and the Kuwait Investment Authority could be interested in such a joint venture and he would direct them to the Social Investment Adviser for further discussions should their interest continue.

RECEIVED.

8. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**

There were no questions.

9. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**

There were no urgent items.

10. **EXCLUSION OF THE PUBLIC**

RESOLVED: - That under Section 100 A (4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A of the Local Government Act as follows:-

Item Nos.

Exempt Paragraphs

11 - 14

3

11. **PORTFOLIO UPDATE**

The Board considered a report of the Chief Grants Officer summarising investment opportunities received by the City of London Corporation Social Investment Fund to date, introducing the application and appraisal processes, and setting out opportunities for naming rights.

12. **INVESTMENT REVIEW: SCOPE**

The Board considered a joint report of the Chamberlain and Chief Grants Officer concerning an investment proposal in the Scope Note Programme.

13. **INVESTMENT REVIEW: SOCIAL JUSTICE AND HUMAN RIGHTS CENTRE LTD**

The Board considered a joint report of the Chamberlain and Chief Grants Officer concerning a proposed investment in the Social Justice and Human Rights Centre Ltd.

14. **INVESTMENT REVIEW: REAL LETTINGS PROPERTY FUND**

The Board considered a joint report of the Chamberlain and Chief Grants Officer concerning a proposed investment in the Real Lettings Property Fund.

15. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**

There were no questions.

16. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE BOARD AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

There were no urgent items.

The meeting closed at 11.45am

Chairman

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Social Investment Board

Meetings attended 1st December 2012 to 11th April 2013

Date	Organisation	Comments	City Corporation representatives
06.12.12	Nesta	An opportunity to learn more about Nesta's Impact Investments Fund, an indirect investment opportunity supporting work in the areas of community sustainability, learning and employability of children and young people, and ageing.	Katie Hill and Tim Wilson
14.01.13	Community Development Finance Association	A useful catch-up meeting with CDFA – a membership body which is aiming to create a thriving community finance industry. Members lend money to people, business or social enterprises who struggle to get money from high street banks. CDFA discussed its capacity-building role and officers advised on City Bridge Trust's Strengthening the Third Sector programme.	Clare Thomas and Tim Wilson
23.01.13	Triodos Bank and Bristol Together Community Interest Company (CIC)	A meeting with representatives from Bristol Together CIC and Triodos Bank to discuss a possible housing-based social investment product in the Midlands.	Katie Hill and Tim Wilson
01.02.13	Oxfam and Symbiotics	A discussion of reporting arrangements for the Corporation's first social investment, the Small Enterprise Impact Investment Fund (SEIIF).	Tim Wilson
04.02.13	Big Issue Invest	A catch-up meeting with the Chair and Director of Big Issue Invest to discuss their work to date, the City's social investment priorities and ways of working together.	The Chairman and Tim Wilson

08.02.13	Big Society Capital	Discussion to share respective roles in the social investment arena.	The Chairman, The Deputy Chairman and Clare Thomas
12.02.13	Big Society Capital	An evening reception to launch a new publication "The Good Investor" and to hear from social impact work done by a range of leading social investors.	Tim Wilson and Sophie Hulm (Economic Development Office)
20.02.13	Big Issue Invest	A wide-ranging conversation, in which we learnt more about Big Issue Invest's business and plans.	The Chairman and Clare Thomas
26.02.13	Social Investment Investors Group	A quarterly round-table meeting of grant-making charities that also have a social investment programme. The meeting was an opportunity to discuss latest work on social investment by the agencies and by the Cabinet Office.	Tim Wilson
01.03.13	Social Finance Ltd	A preliminary discussion with Social Finance Ltd on a possible product in the field of health and social care.	Katie Hill
01.03.13	Big Society Capital	A meeting convened by Big Society Capital to introduce their investment team to staff in charitable trusts making social investments.	Tim Wilson
06.03.13	Golden Lane Housing and Triodos Bank	Discussion to clarify aspects of the Investment Memorandum for Golden Lane Housing's 4% Bond	Katie Hill and Tim Wilson
02.04.13	Berenberg Bank	Discussion of the Impact Ventures UK Fund. Berenberg, one of the oldest banks in the world, gave an interesting presentation and overview of their history and activities.	Chairman, Clare Thomas and Katie Hill.

Agenda Item 5

Committee:	Date:
Social Investment Board	23 rd April 2013
Subject: Progress Report	Public
Report of: Chief Grants Officer	For Decision
<u>Summary</u>	
<p>This paper summarises activities your officers have undertaken since your first meeting on 14th December 2012.</p> <p>It updates you on progress in developing a 'pool' of social investment advisors and on the recruitment of co-opted Board members.</p> <p>It proposes a policy in relation to the issue of 'naming rights', for your consideration.</p> <p>Recommendation:</p> <p>That naming rights are not pursued at this time, but that the option to consider these remains open, should there be a compelling reason for reconsidering this.</p>	

Main Report

Advisors to the Social Investment Board

1. Currently, you have only approved Social Finance Ltd as your independent social investment advisor. Members agreed at the 14th December 2012 Board meeting to approve a 'pool' of social investment advisors and to delegate authority to the Town Clerk, in consultation with the Chairman and Deputy Chairman, to draw up a list of other suitable organisations for approval at this meeting.
2. This action was taken forward; and a call to submit an expression of interest was sent to thirteen appropriately qualified organisations. By the deadline of 5th April 2013, six of these had responded, and the details of their specifications were drawn up in a matrix. The list covers a range of both mainstream and social investment organisations, fund managers, advisors and intermediaries, offering a wide range of sector expertise and including experts in both financial risk and risk assessment, with an understanding of impact measurement and who are FSA registered.
3. The Chairman and Deputy Chairman will be meeting representatives from the three organisations which most closely measure up to the specification; who, if approved, will be included in a 'pool' of advisors. Their services will be spot purchased, and matched according to the suitability of their expertise to the proposal in question. The 'pool' will be reviewed from time to time and may be enlarged occasionally, should additional expertise be required.

Co-options to the Social Investment Board

4. At your 14th December 2012 meeting, it was agreed to enhance the skills base of the Social Investment Board by the inclusion of up to three co-opted, independent

members with specialist expertise in social investment; who would also increase the diversity of the Board. Your officers have drafted a brief which outlines the responsibilities, expertise and competencies required for co-opted membership. We will be seeking individuals with relevant experience which might comprise:

- *Extensive knowledge/experience of leadership in the social investment field;*
- *Board experience*

and whose competencies should include, for example:

- *The ability to scrutinise and challenge;*
- *Commitment to and understanding of the diversity agenda.*
- *Sound judgement.*

5. It was agreed that suitably qualified and interested individuals would be interviewed by a panel comprising the Chairman and Deputy Chairman of the Board and the Chairman of the Investment Committee. A short-list of potential co-opted members has been drawn up.
6. However, following an informal meeting with the Chairmen of the Social Investment Board and the Investment Committee, Town Clerk, Comptroller & City Solicitor and your officers, it was decided to defer the search until later in the year, by which time Members would be better positioned to assess which areas of expertise were needed on the Board.

Members' Seminar – 14th February 2013

7. As requested by a Member at the December Board meeting, your officers organised an informal seminar on the development of social investment. The Chairman of Policy & Resources Committee provided an overview of the development of the City of London Corporation Social Investment Fund (the Fund). He explained that the Fund was established to be an 'impact first' fund with a financial floor.
8. External presenters shared their experience of social investment and the development of the social investment market. John Kingston from Social Finance Ltd emphasised that it was a nascent market, and social investments new asset class and it was important to balance the investment portfolio to allow for a majority of safe returns, whilst also making a minority of investments where the social benefit might be much higher, but which were higher risk or lower financial return.
9. Dawn Austwick and Lord Chandos from the Esmée Fairbairn Foundation (CEO and Chairman of the Investment Committee, respectively) gave a helpful and frank account of their Foundation's approach and social investment strategy. Your officers are working on proposals which emerged from the discussions for your formal consideration at later meetings. A copy of the notes from the Seminar has been sent to you for information.

Social investment fees

10. Following a Member's concern that the costs of placing a social investment appear high relative to mainstream market norms (especially for funds of funds where fees are typically 2 – 2.5%) officers have examined the reasons for this and whether there is potential for fees to reduce in the near future. The social investment market

remains nascent market and does not yet benefit from standardisation of investment deals. In addition, investees incur the costs of additional monitoring and reporting of social benefit which is not commonly required in mainstream investments. It is worth noting that funds of funds, in which investors place capital into a pool from which onward investments are made into organisations, have helped to tackle both social and mainstream investors' requirements for scale, risk mitigation and size of investment. The approach allows for sector or geographic specific focus and provides investors with larger investment opportunities. The effect of this is increase the reach of the finance to more organisations. It is expected, however, that over time as more deals are done and replication can follow, fee rates should drop to nearer the mainstream levels of 1.5 % - 2%. Your participation in the market, and willingness to accept (at this stage) relatively higher fee levels should help in the longer term to lower benchmark fees.

The Role of a Social Investment Trustee

11. Following a discussion at the Members' Seminar on 14th February 2013, further clarification is set out below on the role of a social investment trustee.
12. The Social Investment Board, being an investment sub-committee of the Court of Common Council, has responsibility for the prudent financial, investment of assets under the control of City Corporation acting as Trustee of Bridge House Estates. Trustees have overall responsibility for the investment of the charity's funds to achieve a financial return on the capital so that its value is not eroded and so that it generates funds to further the objects/purposes of the charity. This means that Trustees have a crucial role to play in making strategic decisions about how to use a charity's assets to achieve its aims. Trustees may choose to delegate day to day decisions about investments.
13. Trustees must:
 - use their skills and knowledge in a way that is reasonable in the circumstances ('the duty of care'). For example, a trustee with investment experience should draw on his or her skills and knowledge of investments when making decisions;
 - consider how suitable any investment is for their charity. Trustees must be satisfied that:
 - (a) an investment type or class is appropriate for the charity (for example, shares),
 - (b) the investment within that type or class is appropriate for the charity (for example, shares in a specific bank);
 - consider the need to diversify investments (for example, owning shares in a number of different companies, or investing in different asset classes);
 - take advice from someone experienced in investment matters where they consider they need it; and
 - review investments (and their investment manager) from time to time, changing them if necessary.
14. A more detailed summary of Trustee's duties is available from the office of the Town Clerk.

Naming Rights

15. At the 14th December 2012 Board meeting, following a discussion on an outline proposal, the Deputy Chairman asked that a draft policy statement in respect of the issue of 'naming rights' be prepared for Members to consider.
16. Your officers have considered the benefits and drawbacks. We advise that attaching the City of London Corporation's name to a social investment fund is not likely at this stage to prove a necessary or beneficial approach. The City of London Corporation is currently managing the reputation of its own Social Investment Fund directly. There appears to be no great advantage in being associated with a further fund and it may serve to confuse; also to be a reputational risk, should this fund take investment decisions contrary to the Corporation's own best judgement. Whilst this risk could be mitigated by direct engagement with such a fund, this has considerable personnel and resource implications. Furthermore, whilst investment propositions are not yet so plentiful, there is the likelihood of repetition of investments and City of London might be exposed to risk on two counts.

Recommendations:

That you:

- a) note the contents of the report,
- b) do not pursue naming rights at this time, but that the option to consider these remains open, should there be a compelling reason to do so

Clare Thomas, Chief Grants Officer
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Report written: 10th April 2013

Committee:	Date:
Social Investment Board	23 rd April 2013
Subject: Investment Criteria	Public
Report of: Chief Grants Officer	For Information
<u>Summary</u>	
<p>Court of Common Council approved investment criteria for the City of London Corporation Social Investment Fund (the Fund) at its meeting on 25th October 2012, and the Social Investment Board supplemented these criteria at its meeting on 14th December 2012. This paper restates those criteria. A separate proposal providing options for the target financial return is included in the papers for today's meeting.</p> <p>Recommendation:</p> <p>That you receive this report and note its contents.</p>	

Introduction

1. This paper presents the investment criteria which were approved by the Court of Common Council at its meeting on 25th October 2012 and which were supplemented at the first meeting of the Social Investment Board on 14th December 2012. A separate proposal providing options for the target financial return is included in the papers for today's meeting.

Fund aims

2. The Fund aims to achieve a financial return at a rate not less than the average interest earned on the City's cash holdings and a demonstrable social benefit. It will help position the City of London as a leader in social investment, develop London as a global centre for social investment and by so doing, help to grow the market.

Fund objectives

3. The Fund has two objectives:
 - To provide loan finance, quasi-equity and equity that provides development and risk capital to organisations working towards charitable ends or with social purpose; and
 - To help develop the social investment market

Eligibility for investment

4. The Fund will consider both direct investments (providing returnable funds to organisations which pursue charitable, community or social objectives) and indirect investments (into funds managed by others in order to reach a greater number of charities and social enterprises).

Financial return

5. Each investment should offer a financial return at a rate equal to or above the average interest rate earned on the City's cash holdings. Where individual investments are expected to produce a lower financial return than the Consumer Price Index (CPI) inflation rate, they will only be considered if there is a significant case that the social outcomes achieved compensate for the loss of income.

Social benefit

6. Each investment must offer a well-defined and measurable social benefit which can be achieved within the term of the investment. Investees must be capable and willing to provide regular updates on the social benefit achieved throughout the term of the investment.

Investment portfolio

7. In line with the Corporation's commitment to build the UK social investment market, most investments made from the Fund will be allocated towards work that benefits communities in the UK. Over the £20m, the Fund will seek to allocate
 - 60% of its total value to benefit London beneficiaries
 - 30% of its total value to benefit UK-based beneficiaries
 - 10% of its total value to benefit international beneficiaries

Direct investments

8. Eligibility for direct investment will be restricted to those organisations that:
 - Have a financially viable business plan which shows how revenue will be generated to repay the investment; it will also have clearly articulated social impact
 - Have strong management and governance
 - Have a clear exit strategy / end term for the investment to be repaid
9. Direct investments will normally be made for purposes of either: service expansion; organisational development; purchase of property or other capital items that support service delivery.
10. In addition to making direct investments in organisations that are registered with the Charity Commission or Community Interest Company Regulator, direct investments can also be made in for-profit social sector organisations where the organisation's governance embodies and protects its social mission by:
 - Setting out objects in its constitutional documents that are primarily concerned with the provision of benefits to society
 - Having a policy in relation to the distribution of profit after tax that ensures surpluses are principally used to achieve social objectives. Practically this means that the payout of cumulative profit after tax to shareholders will be capped at 50% over time, and therefore ensures that any surpluses generated over time will be mainly
 - i. reinvested in the business
 - ii. applied in advancement of the organisation's social objects or
 - iii. distributed or donated to other social sector organisations

- Having a constitutional or contractual lock on its social objects, dividend and surplus distribution policy and ensuring the disposal of assets is compatible with the social objects embedded in its constitutional documents
- Demonstrating that the remuneration of its officers and employees, including salaries, benefits and all forms of distribution or other participation is disclosed in a manner consistent with the Statement of Recommended Practice for accounting by charities
- Making best efforts to preserve the social purpose or social mission of the organisation in the event of a change of ownership or control.

Indirect investments

15. Investment can be made in funds managed by others where those funds
 - Have charitable, community or social benefit and clearly articulated social returns
 - Show that the distribution of profits generated by the funds are capped to investors
 - Make available to investors on a regular basis, an assessment of the fund's performance in social and financial terms

Conclusions

16. Notwithstanding basic key criteria as proposed above, the Court of Common Council agreed that eligibility should be kept sufficiently wide-ranging as to incorporate the most suitable opportunities arising in this nascent field.
17. Given that social investment is still a relatively new discipline, it is likely that the investment criteria for the Fund will continue to develop over time. Officers will continue to present the criteria to your meetings as a standing item and will propose amendments or updates where appropriate. The criteria are available online so that prospective investees have a better understanding of what the Fund will and will not invest in.

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Agenda Item 7

Committee:	Date:
Social Investment Board	23 rd April 2013
Subject: Financial return	Public
Report of: Chamberlain and Chief Grants Officer	For Decision
<u>Summary</u>	
<p>Members have requested that the target financial return for the City of London Corporation Social Investment Fund (the Fund) be clarified. This paper proposes a target that the Social Investment Board can use to assess return across its portfolio, as well as a minimum target (financial floor) for any individual investment.</p>	
<p>Recommendation:</p> <p>a) That you agree the proposed targets and review date</p> <p>b) That your investment criteria are updated and republished in amended form.</p>	

1. At your meeting on 14th December 2012, Members requested clarification of the City of London Corporation Social Investment Fund's target financial criteria. This paper proposes benchmarks which will help guide investment decisions until 25 October 2017.
2. On the 25th October 2012 Common Council agreed that the Fund should achieve an overall financial return: *"at a rate of not less than the average interest earned on the City's cash holdings"*, and, given that the Fund will consider a number of investment proposals (from the same Court paper) *"where individual investments are expected to return a lower financial return than the CPI inflation rate they will only be considered if there is a significant case that the social outcomes compensate for the loss of income"*.
3. The October paper did not set target figures for the overall return or the minimum acceptable return per investment (financial floor). The Chamberlain and Chief Grants Officer propose that Members adopt the following criteria by way of clarification: *"The Social Investment Board should seek an overall return equivalent to the CPI inflation rate (2.7%) on the day when the £20m allocation was made (25 October 2012) and that the individual investments should seek a return which at least matches the average cash rate achievable on that date (2%)."*
4. It is further proposed that these targets be reviewed and revised on their 5th anniversary (25 October 2015) in line with the usual investment term for assessing the performance of other City traditional investments. You will

receive updates from the Corporate Treasurer on the average interest earned on the City's cash holdings at each meeting.

5. The proposed targets are in line with the previously agreed Court Resolution.

Recommendation:

- a) That you agree the proposed targets and review date
- b) That your investment criteria are updated and republished in amended form

Agenda Item 8

Committee:	Date:
Social Investment Board	23 rd April 2013
Subject: Update on work of the City of London Corporation's Social Investment Advisor	Public
Report of: Chief Grants Officer	For Information

Summary

Since your last meeting on 14th December 2012, the Social Investment Advisor (SIA) has continued to build up external relationships with public and private sector bodies involved in social investment both in the UK and internationally.

Policy highlights since December include a budget commitment to introduce a social investment tax relief, a significant role for the City of London Corporation in the formation of the G8 agenda, which features social impact investment for the first time.

Also, the conclusion from the Cabinet Office's Red Tape Challenge is a commitment to examine the key barriers to the take up of social investment, as identified in the City of London Corporation's submission.

The social investment agenda is also well reflected in the amendments to the Financial Services Bill. A range of other initiatives have attracted further interest to social investment from financial advisors and asset managers.

Main Report

The City of London Corporation's Social Investment Strategy

1. The work of the Social Investment Advisor (SIA) supports the City of London Corporation's Social Investment Strategy, under the leadership of the Chairman of Policy & Resources Committee. The post is co-funded by Policy & Resources and City Bridge Trust Committees.

The Strategy has the following aims:

- a) Increasing the supply of appropriate capital to social investment;
- b) Supporting social organisations to generate income and to become investment-ready;
- c) Working towards an enabling legal, regulatory and financial environment for social investment; and
- d) Establishing and developing the Corporation's own Social Investment Fund.

The overall aim is to work towards establishing London as a recognised global hub for social investment.

Events

2. In March, City of London hosted an event to introduce 100 financial advisors and wealth managers to social investment, the first of its kind. They heard directly from the Financial Services Authority officer responsible for social investment and heard presentations from five investment product developers. The feedback showed there was much interest in this event (<http://www.pioneerspost.com/pp-tv/20130326/regulation-not-barrier-social-investment-growth>). The plan is for similar events to be rolled out more broadly across the UK.
3. On behalf of the Chairman of the Policy & Resources Committee, the SIA addressed the attendees of the Social Stock Exchange's first 'closed event' in March, which was hosted by the Head of AIM (alternative investment markets) at the London Stock Exchange. The full launch is due to synchronise with the UK hosting of the G8 meeting in June 2013.
4. The SIA is preparing for two other international events on impact investment which City of London is hosting at the Guildhall. These are the International Impact Investing Policy Collaborative in July and the Global Impact Investors Network in October.

Research

5. In March 2013 the City of London and Big Society Capital published "*The Role of Tax Incentives in Encouraging Social Investment*". Its target audience was HM Treasury and financial advisors. As a result of this publication, as well as considerable sector efforts, the 20th March 2013 Budget confirmed a commitment to introduce a tax relief for social investment. A group of experts (including City of London representatives) is helping to draft the shape of a tax relief. A short video presentation of the tax relief report is available at <http://colresearch.typepad.com/colresearch/2013/03/encouraging-social-investment-through-tax-incentives.html>
6. City of London is co-commissioning research into the economic impact of social investment, for publication in summer. In order to calculate this impact, the research will examine the impact of lending undertaken by financial intermediaries (including those supported by Big Society Capital investment). This research will be underpinned by substantial information on social investment lending in the UK, although non-disclosure agreements will mean that individual lending by intermediaries will not be identified. The annex to this paper lists the investments already made by Big Society Capital into financial intermediaries in its first year of operation.

Relationships with EU and Government

7. The SIA is part of an EU Expert Panel, and was able to feed in views directly to Commissioner Michel Barnier (responsible for markets and services) on his visit to London in February, on EU state aid and how this affects finance, where there is market failure or weakness. The SIA continues to keep in touch with the potential use of EU structural funds in the UK post 2014, and how they can be used to support the social economy. The main agenda sits with the Department for Business and Skills;

and the SIA feeds into this, along with the National Council for Voluntary Organisations (NCVO), Big Lottery Fund and Cabinet Office. City of London also sponsored, co-designed and chaired a panel discussion at a European focused conference, represented by 14 countries and with 6 EU officials in attendance. The key points raised were taken back to Brussels.

8. The inclusion of social investment on the G8 agenda provides another opportunity to help position London in a leading role globally on this theme. City of London will be represented by the Lord Mayor and Chairman of Policy & Resources on 5th and 6th June, at a high level symposium on the topic. The aim will be to bridge the various different levels of engagement in social impact investment across the 8 countries. The SIA is working with the Cabinet Office on the policy content to the agenda; along with No. 10 officers and a Department for International Development representative.

Annex: Big Society Capital investments to date (as of April 2013)

Investment name	Amount	Purpose
ClearlySo	£1 million	A staged investment in key social investment market infrastructure. ClearlySo provides capital raising services for social enterprises and social impact investment funds
Community Land and Finance	£2.5 million	Loan fund providing secured loans to Community Land Trusts to finance the building and purchase of affordable rental homes to members of local community. The homes are predominantly in rural areas that are underserved by housing associations and social housing
Community Generation Fund / Finance South East	£750,000	Loan fund that will lend to disadvantaged communities to enable them to finance community owned renewable energy infrastructure. Again, the excess returns generated will be recycled into local social initiatives
Impact Ventures UK	£10 million	Cross sector impact investing fund managed by LGT Venture Philanthropy in association with Berenberg Bank, providing growth capital to social enterprises in the UK
Licence Fund/Franchising Works	£1 million	Loan fund to enable long-term unemployed individuals to purchase and operate franchise licences in Manchester and Newcastle
Nesta Impact Investment Fund	£8 million	UK based impact investing fund providing early stage capital targeted towards the areas of Ageing Well,

Investment name	Amount	Purpose
		Learning and Employability of Children and Young People, and Sustainable Communities
PURE	£1 million	Loan fund to finance small community owned renewable energy projects in disadvantaged communities. The excess revenues generated will be used to deliver social impact within the local community
Results Fund	£10 million	To provide finance for social sector organisations competing for Government payment by results contracts (including through social impact bond structures)
Social Investment Market CIC	£875,000	Secured loan to enable SIMCIC to underwrite the issuance of a fixed income bond in order to build the market for further issuance of bonds by charities and social enterprises
Social Stock Exchange	£850,000	An investment into the SSE, again a key piece of market infrastructure. SSE aims to become the world's first dedicated regulated investment platform and exchange for Social Businesses
ThinkForward Social Impact / Private Equity Foundation	£450,000	Social Impact Bond to finance intensive school based support programmes designed to prevent young people from becoming Not in Employment, Education or Training (NEETs) in Tower Hamlets, London
Triodos New Horizons	£450,000	Social Impact Bond to finance programmes supporting young people moving from Key Stages 3 & 4 (including those who are currently in the care system, young offenders and who

Investment name	Amount	Purpose
		have learning difficulties) and those Not in Employment, Education or Training (NEETs) to Employment, Education or Training in Merseyside

Agenda Item 12

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Agenda Item 13

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