



## Social Investment Board

**Date:** WEDNESDAY, 18 SEPTEMBER 2013

**Time:** 11.30am

**Venue:** BASINGHALL SUITE, GUILDHALL EC2

**Members:** Alderman Peter Hewitt (Chairman)  
Edward Lord (Deputy Chairman)  
Deputy Ken Ayers  
Ray Catt  
Roger Chadwick  
Revd Dr Martin Dudley  
Deputy Robert Howard

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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 20 June 2013 (copy attached).  

**For Decision**  
(Pages 1 - 8)
4. **MEETINGS ATTENDED**  
A report of the Chief Grants Officer (copy attached).  

**For Information**  
(Pages 9 - 12)
5. **PROGRESS REPORT**  
A report of the Chief Grants Officer (copy attached).  

**For Decision**  
(Pages 13 - 16)
6. **HIGH-RISK, HIGH-IMPACT INVESTMENTS**  
A report of the Chief Grants Officer (copy attached).  

**For Decision**  
(Pages 17 - 24)
7. **UPDATE ON THE WORK OF THE SOCIAL INVESTMENT ADVISOR**  
A report of the Director of Economic Development (copy attached).  

**For Information**  
(Pages 25 - 30)
8. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**
9. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**
10. **EXCLUSION OF THE PUBLIC**  
**MOTION** - That under Section 100A(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.

**For Decision**

## **Part 2 - Non-Public Agenda**

11. **NON-PUBLIC MINUTES**  
To agree the non-public minutes of the meeting held on 20 June 2013 (copy attached).  
  

**For Decision**  
(Pages 31 - 34)
12. **PORTFOLIO UPDATE**  
A report of the Chief Grants Officer (copy attached).  
  

**For Information**  
(Pages 35 - 44)
13. **INVESTMENT REVIEW: FRAMEWORK HOUSING**  
A report of the Chamberlain and the Chief Grants Officer (copy attached).  
  

**For Decision**  
(Pages 45 - 102)
14. **INVESTMENT REVIEW: MIDLANDS TOGETHER**  
A report of the Chamberlain and Chief Grants Officer (copy attached).  
  

**For Decision**  
(Pages 103 - 144)
15. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**
16. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE BOARD AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**

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# Agenda Item 3

## SOCIAL INVESTMENT BOARD

Thursday, 20 June 2013

**Minutes of the meeting of the Social Investment Board held at the Guildhall EC2 at 1.45pm**

### **Present**

#### **Members:**

Alderman Peter Hewitt (Chairman)  
Edward Lord (Deputy Chairman)

Deputy Ken Ayers  
Deputy Robert Howard

#### **Officers:**

Lorraine Brook	- Town Clerk's Department
Clare Thomas	- Chief Grants Officer, The City Bridge Trust
David Farnsworth	- Chief Grants Officer (designate), The City Bridge Trust
Tim Wilson	- The City Bridge Trust
Martin Hall	- The City Bridge Trust
Paul Sizeland	- Director of Economic Development
Paul Mathews	- Chamberlain's Department
Anne Pietsch	- Comptroller & City Solicitor's Department
Karen McHugh	- Comptroller & City Solicitor's Department
Katie Hill	- Social Investment Advisor, Economic Development Office
Susanna Lascelles	- Public Relations Office

#### **In attendance:**

Vincent Dufresne (Symbiotics)(item 6)  
Fabio Sofia (Symbiotics) (item 6)  
Nicholas Colloff (Oxfam) (item 6)

(Deputy Ken Ayers in the Chair until item 5.)

The order of business was amended as follows.

#### **1. APOLOGIES**

Apologies for absence were received from Ray Catt, Roger Chadwick (Chairman, Finance Committee) and The Revd Dr Martin Dudley.

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

Edward Lord declared a disclosable interest in respect of item 8 on the agenda due to his position as a remunerated non-executive director of The Social Investment Business Group.

3. **APPOINTMENT OF THE SOCIAL INVESTMENT BOARD: -**

Following consideration by the Investment Committee on 14<sup>th</sup> May 2013, the Board considered its terms of reference, its membership and its frequency of meetings in 2013/14.

NOTED.

4. **ELECTION OF CHAIRMAN**

The Board proceeded to elect a Chairman in accordance with Standing Order No. 29.

The Town Clerk read out a list of Members eligible to stand as Chairman and Alderman Peter Hewitt, being the only Member indicating his willingness to serve, was duly elected Chairman for the ensuing year, and took the Chair.

Having moved into the Chair, the Chairman welcomed David Farnsworth (Chief Grants Officer) to the meeting and invited him to provide Members with a brief introduction to his background. The Chairman then went on to extend, on behalf of the Board, his sincere thanks to Clare Thomas (outgoing Chief Grants Officer) for her contribution to the work of the Board and progress made thus far in respect of the social investment agenda. Clare Thomas thanked the Chairman and the Board for its foresight and wished Members well for the future.

**RESOLVED** – That:-

- (i) Alderman Peter Hewitt be elected as Chairman of the Social Investment Board for the ensuing year; and
- (ii) the Board extend its thanks and best wishes to Clare Thomas in view of her imminent departure from the City of London Corporation and her position as Chief Grants Officer.

5. **ELECTION OF DEPUTY CHAIRMAN**

The Board proceeded to elect a Deputy Chairman in accordance with Standing Order No. 30.

The Town Clerk read out a list of Members eligible to stand as Deputy Chairman and Edward Lord, being the only Member indicating his willingness to serve, was duly elected Deputy Chairman for the ensuing year.

**RESOLVED** – That Edward Lord be elected as Deputy Chairman of the Social Investment Board for the ensuing year.

6. **PRESENTATION FROM SYMBIOTICS AND OXFAM**

Vincent Dufresne (Head of Asset Management, Symbiotics), Fabio Sofia (Head of Investor Relations, Symbiotics) and Nicholas Colloff (Director of Innovation, Oxfam) were welcomed to the meeting. The Chairman then invited them to provide the Board with an overview of the Small Enterprise Impact Investment Fund (SEIIF), which emerged from work led by Oxfam, with support from the City of London Corporation, to strengthen economic development in low income countries by focussing on the provision of affordable credit to small and

medium sized enterprises to generate positive social returns as well as financial returns for investors.

Vincent Dufresne and Fabio Sofia commented on Symbiotics' current microfinance funding activities, the status of the investment portfolio in 2012/13, fund management and investor arrangements for the Small Enterprise Impact Investment Fund (SEIIF); and anticipated funding targets by July 2014. In respect of future investment opportunities, it was noted that further investments in South America and Sub-Saharan Africa were being considered.

Members were advised that all SEIIF investees were required to gather impact information to ensure that Symbiotics could assess overall benefit for end clients and provide investors with collated data on the impact of the fund portfolio. Clarification was provided in respect of monitoring methods used, including data point collation, semi-annual reporting and Portfolio Analysis (static/dynamic). Members were advised that, in some instances, it was difficult to generate information as certain investees did not have suitable systems or processes in place. Consequently, Symbiotics was working closely with Oxfam who provide investees with technical assistance, to improve impact reporting arrangements. Whilst this was a challenging issue, it was felt that over time, there would be much improved assessments of impact for all end-clients.

In respect of future activities, Members were advised about the opening of a Symbiotics office in London in August 2013 and further business development with Oxfam around the provision of technical support and assistance in respect of impact measurement and data collation systems, which was cutting-edge.

At the conclusion of the presentation the Board was invited to ask questions.

The Chairman sought clarification regarding investment exit routes and the agreed policy of recovery in the event that a loan could not be repaid. He was advised that investors were, through fixed investments, tied for 36 months but thereafter they could have their finances returned or reinvested. In respect of equity investments, the commitment was far greater (in excess of 7 years) due to the complexity of the investments. In respect of the policy on recovery, Vincent Dufresne advised that due diligence was undertaken by personnel at Symbiotics through visits and comprehensive reviews of financial data. On the basis of those investigations and credit risk assessments, the Investment Committee would then take a view on the institution's potential to repay a loan after 36 months. Close monitoring would also be undertaken throughout the lifetime of the loan, however it was noted that there remained a risk of default.

In respect of the investment pipeline and a query about the possibility of making investment commitments before the necessary funding had been raised, Members were advised that the capital held in other Symbiotic funds could not be used to invest in SEIIF opportunities so consequently these could only be progressed once funding had been raised.

In response to a query regarding an anticipated FSA ban on certain specialised funds and the possibility of having to convert the SEIIF to a regulated fund (i.e.

for retail clients), Fabio Sofia explained that the fund required better liquidity and it remained suitable for qualified investors only so the fund would not be moved to retail in the future.

The Chief Grants Officer, Clare Thomas sought further clarification regarding the current impact measurements that were used, in particular the 22 data points per end-client and the range of metrics. Nicholas Colloff explained that two sets of metrics were used – (i) core and (ii) wider (for those SME's that were expected to grow). In respect of the core metric, this included an assessment of whether the business was developing, who owns the business and who benefits in terms of employment creation; and payment levels. The Board acknowledged that excessive metrics created resistance and that the current approach not only encouraged institutions to use data to create effective business plans but also ensured that impact remained integral to making business decisions.

Following a query regarding whether Symbiotics would create financial intermediaries if they were not already in place, Members were advised that institutions should already exist to effectively manage initiatives on the ground and that this was not the purpose of the fund. They were further advised that it was very important to utilise local expertise and capacity through established local intermediaries who were best positioned to work with clients.

The Board welcomed the opening of the London office and asked for further information to be provided to ensure that the City Corporation could assist practically, if possible, but also to maximise Symbiotics' profile.

The Board thanked the representatives from Symbiotics and Oxfam for attending the meeting.

7. **MINUTES**

The public minutes of the last meeting held on 23<sup>rd</sup> April 2013 were approved as an accurate record subject to a correction to the formatting of the information in respect of those Officers present at the meeting.

8. **MEETINGS ATTENDED**

The Committee considered a report of the Chief Grants Officer relative to events and meetings attended between 12<sup>th</sup> April and 6<sup>th</sup> June 2013.

Members praised Officers for their hard work in progressing the Corporation's social investment agenda through those events and meetings that had been attended.

RECEIVED.

9. **PROGRESS REPORT**

*[In advance of the discussion about appointment of two additional Fund advisors, Edward Lord withdrew from the meeting.]*



The Board considered a report of the Chief Grants Officer relative to progress in respect of investment opportunities, the possibility of ring-fencing part of the Social Investment Fund for a high-risk allocation and the appointment of Fund advisors.

In respect of future investment in housing bonds, Members were advised that Officers had, at the Board's request, now investigated the opportunities to invest in housing association bonds. The Principal Grants Officer explained that whilst such investment opportunities had initially been promoted, existing housing association bonds were not now deemed to be suitable given the investment criteria, the difficulty in relating such investments to specific social impact and the generally long maturity on these products.

In-line with the Board's decision of 14<sup>th</sup> December 2012 to appoint a "pool" of social investment advisors with a range of experience and views, the Principal Grants Officer explained that following a comprehensive selection process the FSE Group and the Social Investment Business Group/Investing for Good/ The Good Analyst were recommended for approval as additional Fund advisors.

At the Board's request it was agreed that Officers should provide clarification to the newly appointed advisors about those areas that should be addressed.

**RESOLVED – That:-**

- (i) the contents of the report be noted;
- (ii) Officers be authorised to bring indirect investments to the Social Investment Board for consideration at future meetings;
- (iii) no consideration be given to investing in existing housing association bonds;
- (iv) the FSE Group and Social Investment Business/Investing for Good be appointed as advisors to the Fund on the same arrangement as the current advisor, Social Finance; and
- (v) Officers prepare a report on options for a high-risk allocation for the Board's September meeting.

**10. UPDATE ON THE WORK OF THE SOCIAL INVESTMENT ADVISOR**

The Board received an update in respect of the work of the City Corporation's Social Investment Advisor in developing the Social Investment Strategy, in addition to her work on the Social Investment Fund. Particular reference was made to the advisory work with the Treasury on the remit of the consultation on tax relief for social investment and it was acknowledged that whilst much work had been undertaken in advance of circulation of the report, further work would be necessary to ensure that key issues, including the definition around eligible investee organisations, were appropriately addressed. Members welcomed this work and also the contributions made to the G8 policy debate in respect of social investment.

In respect of future events, the Board requested that advance notification be sent to all Board Members at the earliest opportunity as events were schedule in order to avoid diary clashes.

RECEIVED.

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

There were none.

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

***Future meeting dates***

The Board considered its future meeting dates.

RESOLVED – That:-

(i) the proposed meetings of the Social Investment Board in July 2013 and October 2013 be cancelled; and

(ii) the 2014/15 meeting dates be confirmed in writing in due course.

13. **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
14 – 16, 18(i)	3

14. **NON-PUBLIC MINUTES**

The non-public minutes of the last meeting held on 23<sup>rd</sup> April 2013 were approved as an accurate record.

15. **PORTFOLIO UPDATE**

The Board received a report of the Chief Grants Officer relative to an update on the Social Investment Fund portfolio.

16. **SOCIAL JUSTICE AND HUMAN RIGHTS CENTRE**

The Board received a report of the Chief Grants Officer relative to an update on the Social Justice and Human Rights Centre.

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

There were none.

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

With the Chairman's consent the following item of urgent business was considered:-

***(i) Report of Action taken under Delegated Authority since the last meeting***

The Committee noted a verbal update from the Town Clerk in respect of a decision that was taken under delegated authority (in accordance with Standing Order No. 41 (b)) since the last meeting, in respect of an investment proposal.

NOTED.

**The meeting closed at 3.08pm**

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Chairman

**Contact Officer:**  
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## SOCIAL INVESTMENT BOARD

### Events and Meetings Attended 7<sup>th</sup> June– 5<sup>th</sup> September 2013

Date	Organisation	Type of Event	City of London's Representative	Location/ Borough	Summary Comments
10 <sup>th</sup> June	Social Finance	Meeting	Katie Hill	Great Portland St	Discussion on tax relief, Social Finance's VCT and their Care and Wellbeing Fund
12 <sup>th</sup> June	Teach First reception	Information / presentation event	Katie Hill	City	Presentation on Every Child Can; discussions around Teach First's Social Innovation fund
25 <sup>th</sup> June	Carbon Leapfrog / PURE Breakfast meeting	Meeting	Katie Hill and City Corporation's Sustainable Development and Environmental Coordinator	Guildhall	Updates on Carbon Leapfrog/ Pure financing and strategy plans
25 <sup>th</sup> June	Apposite Capital	Meeting	Katie Hill	Moorgate	Update on Apposite Capital plans for a health related social enterprise investment fund
26 <sup>th</sup> June	Tomorrow's People (Hosted by Mazars LLP)	Debate	Chief Grants Officer and Tim Wilson	Mazars LLP, Tower Bridge House, E1	A debate on a jointly authored paper by Robbie Davison and Helen Heap entitled "Can Social Finance Meet Social Need?".
27 <sup>th</sup> June	Young Foundation and Impetus Trust	Launch of research	Katie Hill	Hub Westminster	Presentation of report on social investment opportunities within education sector
27 <sup>th</sup> June	Framework	Launch	Tim Wilson	House of Commons	Formal launch of the Framework Nottingham social investment proposal
27 <sup>th</sup> June	Cabinet office	Meeting	Katie Hill	Cabinet Office	Discussion on charitable trusts and foundations and social investment following CO report on this topic
1 <sup>st</sup> July	CAN Invest	Meeting	Katie Hill	City of London	General discussion on CAN's investment priorities and CoLCSIF

3 <sup>rd</sup> July	J P Morgan	Meeting	Katie Hill and City Corporation's Corporate Responsibility Manager	Canary Wharf	Discussion on our respective areas of activity in social investment, research, CR and international / EU policy work
10 <sup>th</sup> 11 <sup>th</sup> July	IIPC – Impact Investment Policy Collaborative	Part of a five day international seminar group	Chairman, Chief Grants Officer, Katie Hill and Tim Wilson	NESTA and then Guildhall	Discussion on policy issues around social investment; contributions from over policy makers in 30 countries; culminated in a half day of presentations and discussion to celebrate the launch of The London Principles, with BBC reporter Peter Day, Minister for Civil Society, Nick Hurd MP and Chairman of Policy, Mark Boleat.
11 <sup>th</sup> July	Trust for London	Meeting	Chief Grants Officer and Tim Wilson	Trust for London EC1	A meeting of the Social Impact Investors Group.
17 <sup>th</sup> July	Downing	Meeting	Chairman and Tim Wilson	Guildhall	Meeting to discuss advisory services
18 <sup>th</sup> July	Sonen Capital and Social Finance	Meeting	Katie Hill and Tim Wilson	Guildhall	Initial discussion on Sonen Capital's plans to raise an impact investment fund
22 <sup>nd</sup> July	Mercer	Meeting	Chairman and Tim Wilson	Guildhall	Meeting to discuss advisory services
23 <sup>rd</sup> July	Social Finance	Meeting	Chief Grants Officer and Tim Wilson	Great Portland St	Meeting to discuss plans for the social investment fund and possible future collaboration
25 <sup>th</sup> July	Esmee Fairbairn Foundation	Meeting	Tim Wilson	Kings Cross	Part of a regular series of pitching days with presentations from prospective investees
30 <sup>th</sup> July	GIIN UK (Global Impact Investors Network)	Meeting	Katie Hill and City Corporation's Corporate Responsibility Manager	Guildhall	Introductory meeting with GIIN UK liaison officer and update on GIIN conference to be held at the Guildhall in October
30 <sup>th</sup> July	Social Venture Fund, Germany	Phone call	Katie Hill	At desk	Update on SV plans to raise a second social venture fund for international investments
30 <sup>th</sup> July	Esmee Fairbairn Foundation	Meeting	Katie Hill	Guildhall	Informal discussion on state of market, GIIN, SIG and financing gaps

1 <sup>ST</sup> August	Big Lottery Fund	Meeting	Chairman, Chief Grants Officer	Big Lottery Fund, Plough Place	A meeting to progress interest in possible collaboration between Big Lottery Fund and CoL on social investment.
22nd August	Cabinet Office Social Finance Unit	Informal Meeting	Katie Hill	Horseguards Parade	Initial discussion about finance for social enterprises at development phase of businesses (post incubator)

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# Agenda Item 5

<b>Committee:</b>	<b>Date:</b>	<b>Item No.</b>
Social Investment Board	18 <sup>th</sup> September 2013	
<b>Subject:</b> Progress Report	<b>Public</b>	
<b>Report of:</b> Chief Grants Officer	<b>For Decision</b>	
<b><u>Summary</u></b>		
<p>This paper provides an update on your Fund's dispersal rate since it was established in October 2012.</p> <p>It introduces a longer paper on options for a high-risk, high-impact social investment fund and how this may help you achieve your aims.</p> <p>It provides details of running costs incurred so far in management of your Fund.</p> <p><b>Recommendation:</b></p> <p style="padding-left: 40px;">That you receive the report and note its contents.</p> <p style="padding-left: 40px;">That you authorise officers to prepare a paper to Common Council reporting on the first year of your Fund</p>		

## **Main Report**

### **Disbursal Rate**

1. When Common Council approved the aims and objectives of the City of London Corporation Social Investment Fund (hereafter 'the Fund') it agreed a target dispersal rate of £2m by end of October 2013. You have already made £1.3m of investments, and today's meeting recommends a further £800,000 - £1m for your approval.
2. Depending on the outcome of today's meeting, and the ability of investees to meet your conditions, you could slightly exceed the target dispersal rate and you may wish officers to prepare a short update to Common Council reporting progress made to date. A similar dispersal rate for likely for the second year of your Fund as the market continues to 'warm up'.
3. It is taking time to generate deal flow and, as noted in your 20<sup>th</sup> June meeting the investment pipeline shows a large number of opportunities which are not yet ready for Board consideration. This reflects a market which is still at an early stage of development and should not cause concern. Some commentators have drawn comparisons between dispersal rates in social investment and that of pioneering venture capitalists such as Apax Partners who took twelve years to reach £10m under management.

4. Officers are examining the most promising proposals for both direct and indirect investment opportunities. Where investment funds are brought to your meeting, accompanying papers will examine fee structures and the degree to which the investment fund can report on the underlying assets they invest in. Based on experience to date, it can take several months between first contact with the Fund and receipt of a final investment proposal.

### **High Risk-High Impact Allocation**

5. Further to the request at your meeting on 20<sup>th</sup> June 2013, today's papers include options for allocating funds for high risk, earlier stage, and potentially high impact investments that may not be secured by assets.
6. Your Fund has been welcomed by peers in the social investment market and has generated favourable comment from several mainstream financial institutions. The City of London's active role as a social investor is helping to achieve the Corporation's goal of establishing London's position as a global hub for social investment.
7. One of the objectives of your Fund is to develop the social investment market. As of September 2013 the market is very much a work in progress. Whilst progress has been made in terms of the supply of social investment finance, much more work is needed in order to attract a wider range of investors (both institutional and individual), expand the pool of investment-ready products, improve deal-sourcing facilities, and strengthen the quality of market data.
8. Social investment in the UK is currently characterised by high transaction costs, an absence of standardised products and, arguably, an overemphasis on the financial rather than social return on each deal. There is also currently a mismatch between the capital available and the finance needs of most social purpose organisations as most investors seek secured loans whilst investee demand is largely for unsecured funds.
9. Data on deal flows show that the majority of social finance is currently issued as secured lending to organisations with evidence of a reliable revenue stream and a track record of high performance. However, few social purpose organisations have a strong asset base on which to secure their lending. These organisations are also frequently prevented by their legal structures from offering the kinds of equity stakes that may be sought by venture capitalists. A 2013 study by Social Enterprise UK found that access to finance remained the top barrier to growth for the majority of social purpose organisations.
10. As noted at your 20<sup>th</sup> June 2013 meeting there is a funding gap in the market. Research from the Big Lottery Fund and Big Society Capital indicates that whilst there will be demand for approximately £1bn social investment over the next five years, this will largely be for unsecured debt.
11. Social investment is likely to remain a relatively small and niche market unless more finance is made available for early stage investment either in new organisations or new ventures.

12. As discussed at previous meetings, there is scope for you to play a valuable role by providing finance for high risk, potentially high impact social investment propositions. Providing some support to this section of the market is likely to be welcomed, benefit the City of London's reputation as a progressive social investor and, in the longer term, increase the number of deals reaching you for larger investment.

### **Running Costs of the City of London Corporation Social Investment Fund (October 2012 – September 2013)**

13. Common Council assigned responsibility for Fund administration to the Chief Grants Officer of City Bridge Trust. The Trust publishes details of your investment criteria, acts as first point of contact for prospective investees, and works actively to source prospective deals. City Bridge Trust staff work closely with colleagues in the Chamberlain's Department to appraise individual investment proposals, and with the Economic Development Office which leads for the Corporation on social investment policy.
14. It is a requirement of Common Council that all investment opportunities be subject to a third party financial review, and you have appointed three advisory firms to undertake this work so far (Social Finance Limited, the FSE Group, and a partnership between the Social Investment Business, Investing for Good, and the Good Analyst). The Trust manages these relationships and average spend per investment review has been £3,000, with £12,000 spent in total between October 2012 and September 2013.
15. Legal costs have been incurred for each investment, with the majority of chargeable hours delivered by City Solicitor's Department. In the case of one investment, officers instructed a third party firm to undertake a legal review. So far £27,430 of internal and £4,000 of external legal costs have been incurred.
16. In addition, the Trust has incurred fees for the development of an investment management database, but this has been done as cost-effectively as possible by building on existing Corporation systems. The Trust has spent £1,200 on IT so far.
17. The Fund has also benefitted from the input of the Social Investment Advisor, who is paid for by Policy & Resources and City Bridge Trust Committee. Her contract with the City of London is due to expire in March 2014.
18. City Bridge Trust and Chamberlain staff time on the Fund has not been identified separately so far, but the first year of operations this new initiative has required significant input as appraisal and administrative systems are established. Continued time is needed to source and evaluate deals. The Trust will be carrying out its comprehensive business planning this autumn, however it is likely approximately 3.5 days per week of City Bridge Trust staff time will be needed over the next 12 months to manage the Fund. The Trust has reviewed staffing roles to ensure this work can be met in the short-term, but it will be necessary to seek additional administrative support to help with the time-consuming process of placing and monitoring investments once approved by your Board.

19. Total fees outlined above, net of staffing and the Social Investment Advisor total £44,630, or 3.4% of the value of investments placed to date:

Independent advisory fees	£12,000
Legal fees	£31,430
IT costs	£1,200
<b>Total</b>	<b>£44,630</b>

20. Fees and staffing (with the exception of the grant to cover costs of the Social Investment Advisor) have been met within City Bridge Trust's local risk budget which was set at its current level prior to the establishment of the Fund. This is not sustainable in the medium / long-term. As noted in the 25<sup>th</sup> October 2012 paper to Common Council, the ongoing nature of the Fund means that the Trust will seek approval from the Policy & Resources Committee for an uplift in this budget.

**Recommendation:**

That you note the contents of the report.

That you authorise officers to prepare a paper to Common Council reporting on the first year of your Fund

David Farnsworth, Chief Grants Officer  
020 7332 3711

[David.Farnsworth@cityoflondon.gov.uk](mailto:David.Farnsworth@cityoflondon.gov.uk)

Report written: 2<sup>nd</sup> September 2013

# Agenda Item 6

<b>Committee:</b>	<b>Date:</b>
Social Investment Board	18 <sup>th</sup> September 2013
<b>Subject:</b> High-Risk, High-Impact Investments	<b>Public</b>
<b>Report of:</b> Chief Grants Officer	<b>For Decision</b>

**Summary**

This paper discusses the positive contribution that finance for early stage social enterprise activity could bring to the social investment market. Such finance has the potential to achieve a high social impact and to build the market, but it is high risk as (on a per deal basis) investors have little evidence of track record on which to base their decision, and as new ventures there is greater likelihood that capital will be lost.

The paper proposes that you ring-fence a small percentage of your Fund (1.25% - 2.5%) for high-risk, high-impact investments. It notes that this could be done without negative impact on your target return.

**Recommendation:**

That you agree to consider high-risk, high-impact investment proposals.

That you ring-fence between £250,000 - £500,000 of your Fund in order to support this work.

That you ask officers to prepare a paper for your next meeting outlining dispersal and assessment criteria and for high-risk, high-impact investments.

## **Main Report**

### **Introduction**

1. The Corporation is working to establish London as a global hub for social investment, and the creation of your Fund is a central part of achieving this strategy.
2. One of the aims of your Fund is to develop the social investment market, and at your meeting on 20<sup>th</sup> June 2013 you asked officers to prepare a paper on options for using capital for earlier stage, potentially high-risk, high-impact investments that may not be secured by assets.
3. On 14<sup>th</sup> February 2013 you met social investors from the Esmée Fairbairn Foundation and your advisors at Social Finance Limited to discuss the state of the social investment market. This meeting highlighted that the majority of social investment issued so far has been in the form of secured loans. You, like the majority

of other social investors, prefer to back organisations that can provide evidence of reliable revenue streams and a track record of high performance.

## **Market Need**

4. Research by the Big Lottery Fund and Big Society Capital, however, indicates a growing mismatch between what social investors currently offer and the investment needs of social purpose organisations. *“Investment Readiness in the UK”* (July 2012), for example, found that the majority of organisations seeking finance were looking for longer-term investment of less than £100,000. *“The First Billion”* by Boston Consulting Group (September 2012) found that the majority of demand for social investment over the next five years was likely to be for unsecured forms of finance.
5. Whilst the market has grown, the majority of social investment on offer to organisations is in the form of secured lending. Research which the City of London co-commissioned in July 2013 (*Growing the Social Investment Market: the landscape and economic impact*) found that whilst secured loans had grown as a proportion of total market value from 84% in 2010/11 to 90% in 2011/12, unsecured lending had fallen from 11% of total market value to 5% over the same period.
6. The current funding environment makes it particularly hard for start-up social enterprises or even established social purpose organisations starting new ventures, to raise the investment capital they require. There are three reasons why there is a gap between the capital sought from social purpose organisations, and the capital offered by social investors.
7. First, social purpose organisations are not generally well endowed with assets on which to secure asset backed lending (the notable exceptions being those which hold property). This usually makes the investment riskier, with the potential for capital loss.
8. Second, many of the activities that social purpose organisations deliver are innovative, and there is often a gap in the available data to help investors determine whether the enterprise is likely to achieve its aims. Whether the work is concerned with reducing re-offending rates, improving the quality of family support offered to parents of disabled children, providing loans to small businesses in emerging economies, or offering supported accommodation to adults with learning disabilities, social purpose organisations are usually trying to do something new for which there is little track record.
9. Third, social investors cannot necessarily seek high returns on successful investments to cover the write-offs of unsuccessful investments. Many social purpose organisations are established with some form of asset lock that, whilst ensuring the continuation of their social focus, also places a ceiling on the returns they can offer to their investors.

10. The combined effect of these challenges is to create a funding gap between the investment that is offered, and the investment that is needed. Without other investors and grant-makers making such funding available it is unlikely that your existing investees would have been able to bring their proposals to you. Golden Lane Housing, for example, was able to develop the track record for its 2013 4% bond by piloting a housing bond programme in 2003. Similarly, the investment proposal from Midlands Together available today as a result of pioneering work done in 2011 in Bristol which the Esmée Fairbairn Foundation backed despite the investee's lack of track record.
11. A growing number of programmes and awards are helping to identify social purpose organisations with the potential to develop their business models to significant scale (see annex). However, these initiatives are only useful if there is a realistic opportunity that the participants can then secure investment. As noted above, currently, the number of investors offering high risk social financing for non-asset backed early stage lending is limited to a small number of trusts and foundations, high net worth individuals, and (social) business angel investors.

### **Ring-fencing capital for High-Risk High-Impact Investments**

12. Officers believe there is potential for you to help meet the social investment financing gap by providing some support to organisations that are currently unable to attract mainstream finance but which, nonetheless, have high potential to grow and generate significant social impact.
13. Procedurally, the most straightforward way to do this would be to ring-fence a small proportion of capital (£250,000 - £500,000) within your existing £20m City of London Corporation Social Investment Fund.
14. If you were to ring-fence existing funds, consideration would be needed for the potential impact on your target total return which, at your meeting on 23<sup>rd</sup> April 2013, you set at 2.7% on investments placed (to be reviewed on 25 October 2015). It is worth noting that currently, assuming no bad debt or write-offs, investments placed to date exceed this target:

<b>Investee organisation</b>	<b>Expected IRR</b>	<b>Investment size</b>	<b>Return over 3 years*</b>	<b>Total expected value of Investment</b>
Golden Lane	4% p.a.	£500,000	£62,432.	£562,432
Real Lettings	4% p.a.	£500,000	£62,432	£562,432
Oxfam SEIIF	5% p.a.	£318,513	£50,206	£368,719
Total investments to date		£1,318,513	£175,069	£1,493,583
Target equivalent	2.7%	£1,318,513	£35,600	£1,354,113
Difference between current portfolio return and target return				£139,469

*\*in the case of Real Lettings and Oxfam SEIIF these are nominal rather than actual returns, as only Golden Lane will pay interest each year, and full repayment to the investor is realised in terms longer than 3 years. These indicative returns make no provision for bad debt or write-offs.*

15. The difference between the expected returns on the portfolio from existing investments compared with the target return identifies some scope to make higher risk investment and Chamberlain has confirmed that returns are available to the Fund for reinvestment.

#### **Disbursement options for high-risk, high-impact capital**

16. If you were to ring-fence capital for high-risk, potentially high-impact investments, then your disbursement options could include:



<b>Disbursement option</b>	<b>Advantages</b>	<b>Disadvantages</b>
Make investments according to the pipeline of acceptable propositions	Straightforward and meets investees' immediate needs for capital	There would be potential to use up the total allocation very quickly and have little to offer in later years, when proposals might be more robust.  If the allocation was invested rapidly then higher risk investments could be the highest proportion of investments placed, thus raising the return needed on larger, less risky, social investment proposals.
Establish an annual ceiling	Spreads the capital and prevents fast usage of the total sum	May limit the extent to which this capital can catalyse the social investment market.
Stipulate a ceiling of high risk investments as a proportion of the overall portfolio of investments – (e.g. total high risk investment must be under 10% of all of the Fund's investments held at any one time)	Mitigates some risk to the portfolio return	May limit the extent to which capital can catalyse the social investment market and could cause perverse incentives to make other investments.

17. You could set additional criteria to guide investment such as:

- setting a maximum sum per investee (e.g. £50,000 maximum) in order to spread funding more broadly and encourage others to co-finance the proposal;
- providing no more than a certain percentage of the total investment sought (e.g. 25% - 50%);
- expectations are set with each investee regarding business-development support;
- only providing finance where match funding is already committed; and
- providing investment in staged tranches on evidence of specified milestones to help ensure that the entire capital sum is not at risk from the point of investment.

Criteria would be worked up more fully by officers depending on your preference for investment in high-risk, potentially high-impact enterprises.

## **Conclusions**

18. Social investment capital can play a critical role in developing the market by supporting high risk, potentially high impact enterprises. You have discussed the possibility of providing such catalytic capital at previous meetings, and it appears that the market will struggle to grow without more investors offering unsecured, high-risk finance.
19. The Corporation is working to establish London as a global hub for social investment, and one of the aims of your Fund is to develop the social investment market. Allocating capital for early stage investments would be in line with these goals and would likely results in very positive publicity for the Corporation.
20. Based on the indicative returns of investments placed to date and the comparison of these to your current target returns it appears possible to allocate a small percentage of your Fund for a high risk potentially high impact allocation. However, should you choose to do so, it is advisable that this remains in balance with active investments, and that any allocation takes account of provision for bad debt and write-offs from these investments.

## **Recommendations:**

That you:

- a) note the contents of the report,
- b) agree that your Fund will make high-risk, high-impact investments
- c) ring-fence between £250,000 and £500,000 of your Fund for high-risk, potentially high-impact investments
- d) ask officers to prepare a paper with detailed disbursement and investment criteria for your next meeting.

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Report written: 30<sup>th</sup> August 2013

## Annex: sources of investment opportunities in high-risk, high-impact social purpose organisations

The following sources could provide a pipeline of potential investment opportunities, where prospective investees have already been screened and received some form of business development support:

- Organisations receiving support from the Cabinet Office's Investment and Contract Readiness Fund and/or Big Lottery Fund's Big Potential Programme
- Social purpose organisations participating in the RBS Inspiring Enterprise programme
- Incubator programmes supporting selected high potential organisations such as the DeLoitte Social Pioneers programme and the Young Foundation Accelerator
- Business development hubs attached to universities including UCL, London School of Economics, University of Oxford, and the University of Northampton
- Competitions and award schemes to identify high potential, high impact social enterprises such as the Big Venture Challenge, Nexters, and the European Social Innovation award (especially where winners are awarded grant-funding or match finance)

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<b>Committee:</b>	<b>Date:</b>
Social Investment Board	18 <sup>th</sup> September 2013
<b>Subject:</b> Update on work of the City of London Corporation's Social Investment Advisor	<b>Public</b>
<b>Report of: Director of Economic Development</b>	<b>For Information</b>

### Summary

This report covers the major areas of activity of Katie Hill, the Social Investment Advisor (SIA) in developing the City of London's social investment strategy, in addition to her work on the City of London Corporation social investment fund.

Since your last meeting on 20<sup>th</sup> June, key work has included:

- involvement in two high profile international events on social / impact investment: the G8 Social Investment Symposium and the Impact Investment Policy Collaborative (IIPC), feeding the key outcomes from these into the Global Impact Investing Network (GIIN) event to be held at the Guildhall on October 10<sup>th</sup> and 11<sup>th</sup>;
- participating as part of a specialist consultative cross-sector group advising the Treasury on the proposed tax relief consultation; drafting a submission to H M Treasury on this consultation on behalf of the City of London Corporation;
- launching a co-commissioned report into the size, deal flow and economic impact of social investment in advance of the G8 symposium;
- continued efforts, with other leading social investment sector organisations, to address the key regulatory and market challenges faced by the sector; examining the opportunities to collaborate further on research where there is a gap in specific knowledge; and
- liaising with Financial Conduct Authority (FCA) on developments in social investment, including the EU's recently launched fund structure for social investment (EUSEF), and feeding in to the European Commission and other members of the panel of experts for the EU's Social Business Initiative.

## Main Report

### **The City of London's Social Investment Strategy**

1. The work of the Social Investment Advisor (SIA) supports the City of London'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 SIA advises the Chief Grants Officer on matters relating to the City Bridge Trust and the Social Investment Fund as well as the Director of Economic Development on delivery of the Strategy. The Strategy has the following aims:
  - a) Encouraging and steering a growing supply of appropriate finance into social investment (including establishing and developing the City of London's own £20 million Social Investment Fund)
  - b) Working to improve the regulatory and fiscal framework needed to support the social investment marketplace
  - c) Develop the capacity of social organisations to access investment and secure contracts and markets

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

### **Events**

2. **The G8 Symposium on Social Impact Investment** was held on June 6<sup>th</sup>. It brought together a wide range of investors, politicians, officials and some enterprises to discuss the potential as well as the key challenges faced by developing a global marketplace for social impact investment. The City was represented by the Chairman of the Policy and Resources Committee and the SIA. The report outlining the key themes of the symposium<sup>1</sup> highlights the following ambitions:
  - to build on the international collaboration as the market develops and share best practice across all sectors (government, investors, users of investment and intermediaries);

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<sup>1</sup>[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/225547/G8\\_Social\\_Impact\\_Investment\\_Forum\\_-\\_Outputs\\_and\\_Agreed\\_Actions.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/225547/G8_Social_Impact_Investment_Forum_-_Outputs_and_Agreed_Actions.pdf)

- to work towards creating common frameworks for impact measurement based on transparency and openness<sup>2</sup>.
3. At the G8 symposium, a series of announcements and initiatives were made to support these goals, including the creation of a Social Impact Investment Taskforce, to be chaired by Sir Ronald Cohen. The Taskforce will aim to report within a year on at least three fronts:
    - the policy framework required to take social impact investment to a tipping point;
    - a common international approach for measuring social outcomes; and
    - ways to achieve a specific allocation by Foundations, institutions and private investors to this new asset class.
  4. In advance of the conference, the City of London joined 87 other asset managers, owners and service providers in co-signing a letter of support<sup>3</sup> for G8 efforts to be a catalyst for this market and to encourage the G20 to take up this agenda.
  5. **The Impact Investing Policy Collaborative**, (IIPC) took place in July in Oxford and London and was developed in partnership with the City of London, Cabinet Office, Big Society Capital and NESTA. The five day conference brought together policy makers, investors and entrepreneurs from over 30 countries to discuss the critical role of policy makers in developing a social investment marketplace. The Deputy Chairman of the Policy and Resources Committee hosted the culminating event at the Guildhall, at which the London Principles for impact investment were launched. The Principles<sup>4</sup> are intended to anchor government efforts to develop the market place and complement the ambitions expressed at the G8. The Chairman of the Social Investment Board and Deputy Ken Ayres both attended the conference.
  5. Work is underway to prepare for the **Global Impact Investing Network (GIIN)** event to be held at the Guildhall on 10<sup>th</sup> and 11<sup>th</sup> October. This expects to bring together over 300 asset owners, managers and experts to share on the practicalities of engaging in social impact investment internationally. The intended audience is both engaged investors and interested parties; the agenda, speaker and sponsorships are in final draft stages. There has been wide interest in engaging with this event already in advance of tickets becoming available.
  6. The second event in the **Social Investment Academy** series, hosted and supported by the City of London, is likely to take place on October 22<sup>nd</sup>. The Academy is designed by Worthstone (a social investment research and

<sup>2</sup> whilst recognising that 'not everything that counts can be counted' - anon

<sup>3</sup> <http://www.thegiin.org/binary-data/G8SupportLetter.pdf>

<sup>4</sup> The Principles are : clarity of purpose, engagement of all stakeholders, oversee market developments with stewardship, develop institutional capacity, ensure transparency

advisory agency) and focuses on informing the community of Independent Financial Advisors and wealth managers on the social investment opportunities available. Feedback from the first event, at which the FCA presented their position on the social investment marketplace, was positive<sup>5</sup>. Social Investment Board members will be sent invitations as soon as the date is confirmed.

### **Research**

7. City of London-managed research into the economic impact of social investment was launched in advance of the G8. This was co-commissioned, with the Cabinet Office, Big Society Capital and Big Lottery Fund. The report confirmed a 24% increase in the amount of social investment committed in 2011-2012, to a total of £202 million. The economic impact of this investment is to support or protect approximately 6,780 jobs nationally and to contribute approximately £58 billion annual GVA. The findings also highlighted the increased level of concentration, both amongst lenders – four large social banks account for 81% of all this investment, and the dominance of secured lending, which accounts for over 90% of all the investment. This raises questions about the extent to which access to appropriate finance is available, given the findings from the demand side show the unmet need is for unsecured lending.
8. The Economic Development Office and City Bridge Trust are examining the possibilities for further collaboration with social investment sector partners on specific research topics over the coming 6- 12 months.

### **EU issues**

9. Registration for management of a fund using the European Union Social Entrepreneurship Fund (EUSEF) regulation is now open on the Financial Conduct Authority's site. This structure allows fund managers seeking social investment from other countries to 'passport' (i.e. to gather finance from other investors across the EU) as long as the fund meets certain criteria relating to the social impact to be generated by the fund.
10. The EU is hosting a large social entrepreneurship conference in Strasbourg for over 2,000 delegates in January 2014. The panel of experts is feeding its views into the content and structure of this event.
11. The SIA was invited to Hungary to present the UK experience and the City of London's engagement in social investment at the Hungary Social Enterprise Day. The British Council kindly funded this trip. Other invitations to share UK experience are considered on a case by case basis.

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<sup>5</sup> <http://vimeo.com/62428306>



12. On behalf of City Bridge Trust, the SIA hosted a delegation of 17 French Foundation representatives, to hear about the UK's experience in social investment from a variety of key players. The delegation expressed an interest in following this up with further visits and information and delegates have been sent details of the GIIN conference to consider.

### **Regulatory issues**

12. Following the 2013 Budget announcement of a consultation on a proposed social investment tax relief, the SIA hosted the cross-sector consultative group for H M Treasury-led discussions at the City of London over the summer. The SIA will have drafted a submission by early September on behalf of the City of London to H M Treasury on the details of the tax relief.
13. The Law Commission is due to consult on fiduciary duties of investment intermediaries in October 2013<sup>6</sup>. This follows on from the Kay report on 'UK equity markets and long term decision making'. Included in the scope of this consultation is whether fiduciary duties apply to all those in the investment chain and the extent to which those with fiduciary duties must focus exclusively on maximising financial return, to the exclusion of ethical, social and environmental factors. This has significant implications for the take up of social investment by different investment intermediaries. A report with recommendations to Government (but no draft Bill) will be published by June 2014.
14. This review is unlikely to consider the fiduciary duties of charitable foundations, and this remains an outstanding point from the Red Tape Challenge. Additionally, work continues on the case for the potential benefits of a more flexible Financial Promotions Order which would enable smaller scale social investment opportunities reach potential retail investors.
15. The SIA fed in to the City of London's submission to the consultation on Green Finance, in order to draw on comparable issues between environmental and social finance.

### **Market trends and issues**

16. Communication issues around the disparity between the perception and the reality of the social investment market remain: whilst there has been significant progress in terms of investment opportunities arising, deal flow is still sluggish, transaction costs are high and the true level of potential realistic demand is difficult to gauge accurately.

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<sup>6</sup> See [http://lawcommission.justice.gov.uk/areas/fiduciary\\_duties.htm](http://lawcommission.justice.gov.uk/areas/fiduciary_duties.htm) for outline scope of the consultation

17. The lack of certain types of finance, for example high risk early stage capital, remains an issue and contributes to the 'Pioneer Gap'. A proposal on this topic is included in the papers for today's meeting.
18. Big Lottery Fund's £40million contribution to encouraging more effective commissioning for social value is an important contribution to the creation of more market opportunities for social enterprises.
19. In advance of the 2015 General Election, Social Enterprise UK has created a Social Economy Alliance with the aim of 'radically affecting the way all political parties formulate social and economic policies'. The City of London, whilst not officially part of the alliance, is supportive of the initiative and is contributing to the discussions.

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 5<sup>th</sup> September 2013

**Annex**

**Update on Big Society Capital's investment deals since April 2013**

At your meeting on 23 April 2013 you resolved that the Social Investment Advisor report include an update on investments approved by Big Society Capital. Since then one deal has been signed by Big Society Capital:

<b>Real Lettings</b>	<b>£5m</b>	<b>April 2013</b>
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# Agenda Item 11

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# Agenda Item 14

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