



Social Investment Board

Date: FRIDAY, 13 DECEMBER 2013
Time: 1.45pm
Venue: COMMITTEE ROOMS, 2ND FLOOR, WEST WING, GUILDHALL

Members: Alderman Peter Hewitt (Chairman)
Deputy Ken Ayers
Roger Chadwick
Revd Dr Martin Dudley
Deputy Robert Howard

Enquiries: Alistair MacLellan
tel. no.: 020 7332 1416
alistair.maclellan@cityoflondon.gov.uk

John Barradell
Town Clerk and Chief Executive

Lunch will be served in the Guildhall Club at 1pm

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 18 September 2013.

For Decision
(Pages 1 - 6)
4. **EVENTS AND MEETINGS ATTENDED**
Record of events and meetings attended for the period 6 September – 3 December.

For Information
(Pages 7 - 10)
5. **PRESENTATION FROM REAL LETTINGS PROPERTY FUND**
6. **PROGRESS REPORT**
Report of the Chief Grants Officer.

For Decision
(Pages 11 - 20)
7. **MEMBERS' HANDBOOK**
Report of the Chief Grants Officer.

For Decision
(Pages 21 - 38)
8. **RESEARCH AND DEVELOPMENT FUND**
Report of the Chief Grants Officer.

For Information
(Pages 39 - 42)
9. **SOCIAL IMPACT MEASUREMENT**
Report of the Chief Grants Officer.

For Information
(Pages 43 - 48)

10. **UPDATE ON THE WORK OF THE SOCIAL INVESTMENT ADVISOR**
Report of the Director of Economic Development.

For Information
(Pages 49 - 52)

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

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

13. **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 on the grounds that they involve the likely disclosure of exempt information as defined in Part I of Schedule 12A of the Act.

For Decision

Part 2 - Non-Public Agenda

14. **NON-PUBLIC MINUTES**

To agree the non-public minutes of the meeting held on 18 September 2013.

For Decision
(Pages 53 - 58)

15. **REPORT ON URGENT ACTION TAKEN SINCE LAST MEETING**

Report of the Town Clerk.

For Information
(Pages 59 - 62)

16. **PORTFOLIO UPDATE**

Report of the Chief Grants Officer.

For Information
(Pages 63 - 82)

17. **INVESTMENT REVIEW - GREENWICH LEISURE LIMITED**

A joint report of the Chamberlain and the Chief Grants Officer.

For Decision
(Pages 83 - 114)

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

19. **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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SOCIAL INVESTMENT BOARD

Wednesday, 18 September 2013

Minutes of the meeting of the Social Investment Board held at the Guildhall
EC2 at 11.30am

Present

Members:

Alderman Peter Hewitt (Chairman)
Deputy Ken Ayers
Ray Catt

Roger Chadwick
Deputy Robert Howard

Officers:

Xanthe Couture	- Town Clerk's Department
Alistair MacLellan	- Town Clerk's Department
Katie Hill	- Town Clerk's Department
David Farnsworth	- City Bridge Trust
Tim Wilson	- City Bridge Trust
Martin Hall	- City Bridge Trust
Liz Skelcher	- Economic Development Office
Paul Mathews	- Chamberlain's Department
Deborah Cluett	- Comptroller and City Solicitor's Department
Karen McHugh	- Comptroller & City Solicitor's Department
Sanjay Odedra	- Public Relations Office

In attendance:

Andrew McMurtrie CC	- Member for Coleman Street
John Kingston	- Social Finance
Richard Todd	- Social Finance

1. APOLOGIES

Apologies were received from Edward Lord and Reverend Dr Martin Dudley.

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

There were no declarations.

3. MINUTES

The public minutes and summary of the meeting held on 20 June 2013 were agreed as a correct record.

4. MEETINGS ATTENDED

The Board considered a report of the Chief Grants Officer on recent events and meetings involving relevant City of London Corporation staff. In response to a

query from the Chairman, the Social Investment Advisor outlined the duties and remit of the role of the City Corporation's Corporate Responsibility Manager.

5. **PROGRESS REPORT**

The Board considered a report of the Chief Grants Officer on the progress made in allocating monies from the social investment fund during its first year.

The Chairman noted the comment in paragraph 8 of the report stated that social investment in the UK at present was characterised by an 'overemphasis' on the financial, as opposed to social, return from capital invested. He said that such a characterisation did not fully represent the approach of the Social Investment Board nor that of Social Investment generally. He stated that it was essential that prudent investments were made with as near certain (as possible) 'exits' so that the reputation of the nascent social investment market as a whole, would not be tarnished by failing investments. Accordingly it was important for the Board to strike the right balance between obtaining a financial and social return from the capital it invested.

Furthermore he noted with interest the prediction that there would be a demand for £1billion of social investment over the next five years.

There was a discussion regarding the running costs for the City Corporation's Social Investment Fund and it was noted that they were comparatively modest compared to the private sector. In response to a question from a Member, the Chief Grants Officer said that social investment currently occupied circa 3.5 days per week of officer time but that this was expected to increase as the work of the Board became more established and the volume of investments increased. He noted that his team would be liaising with colleagues in the Economic Development Office over the resource needs to deliver social investment work, and a business case for additional resources would be jointly submitted to the Policy and Resources Committee.

RESOLVED:-

- That the report be received and its contents noted;
- That officers prepare a report for the Court of Common Council on the first year of the social investment fund's operation and the Corporation's policy work on social investment.

6. **HIGH-RISK, HIGH-IMPACT INVESTMENTS**

The Board considered a report of the Chief Grants Officer on high risk, high impact investments. The Chief Grants Officer indicated that he would welcome feedback from the Board on the principle of financing early stage social enterprise activity in principle before the Board went on to consider setting aside a small percentage of the investment fund to high impact investments.

Members were concerned about calling the investments 'High Risk' as this was clearly in contravention to their fiduciary duties as Trustees. Whilst agreeing

with the general principle of a high impact element being attractive, members were not yet convinced that the proposals as drafted worked. Accordingly officers were asked to reconsider how such a proposal might work and to establish whether it was possible to draw such a fund from another source that might not have such high level fiduciary obligations.

RESOLVED, that:

- The contents of the report be noted;
- The social investment fund would be used to make investments with a high social impact, whilst acknowledging such investments may entail higher risk than the City of London is accustomed to. Such investments would be made in light of the fact that the social investment market is in its early stages and in need of encouragement and support, and that each investment would be considered on a case-by-case basis.
- Officers to prepare a paper identifying possible sources of funds, detailed disbursement and investment criteria for a £250,000 - £500,000 fund targeting high impact social investments for the next meeting of the Board in December 2013.
- Officers to reconsider how such proposed investments might work and to establish whether it was possible to draw such a fund from another source that might not have such high level fiduciary obligations.

7. UPDATE ON THE WORK OF THE SOCIAL INVESTMENT ADVISOR

The Social Investment Advisor introduced a report outlining major activities designed to develop both the City of London's social investment strategy and the social investment fund, noting in particular the recent appointment of the Chairman of the Policy and Resources Committee to the UK Advisory Board to the G8 Social Impact Investment Taskforce, and the publication of a jointly-commissioned (by the City of London, Big Society Capital, Big Lottery Fund and HM Government) report on growing the social investment market.

A Member expressed concern whether, once the social investment market was more established and more investors joined it, thus promoting competition, this would impact negatively on the Corporation's efforts to identify promising social investment opportunities. In response the Social Investment Advisor replied that the market was still in its very early stages and competitiveness not an issue at present, and indeed such a situation, if and when it emerged, would be a promising indicator of the market's development.

In response to a request from a Member over how the impact of a social investment could be assessed and measured, officers noted that organisations such as Big Society Capital were dedicating significant time to this issue. Key indicators included the estimated cost savings that a social investment offered: i.e. the amount of public money saved in terms of social services on a local issue such as homelessness, versus the social investment in a project providing stable accommodation. It was noted that it was harder to assess

impact if the focus of the social investment was on prevention, rather than on immediate cost-saving, and if an investment was spread over a wide geographic area rather than in one location.

In response to wider discussion over how the impact of a proposed investment could be gauged by the Board, the Chairman suggested that officers review methods of presenting information in their reports. It was generally agreed by Members and officers that the adoption of a 'traffic light' system in monitoring and reporting would be useful, with the Chief Grants Officer noting such a review by officers would be particularly useful once the forthcoming Global Impact Investing Network (GIIN) conference had taken place. Lastly, the Board noted that each investment that came before the Board would be examined on its merits and that a degree of intuition would be a factor.

RESOLVED, that:

- Officers conduct a wider review on the reporting and monitoring format of both proposed and existing investments including the adoption of a Red, Amber, Green (RAG) system, and report back to the Board at the next meeting with their recommendations.

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 was no other business.

10. EXCLUSION OF THE PUBLIC

RESOLVED - 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.

Items	Paragraph(s)
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11-16	3
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11. NON-PUBLIC MINUTES

The non-public minutes of the meeting held on 20 June 2013 were agreed as a correct record.

Matters Arising

Golden Lane Housing 2013 Bond

In response to a query from a Member, officers agreed to provide clarification over the terms of investment agreed over the Corporation of London's investment in the Golden Lane Housing 2013 bond.

Members proceeded to discuss in more general terms the potential for a standardised investment agreement to govern future investments made by the Board, so that costs could be kept to a minimum

RESOLVED, that:

- Clarification to be provided to the Board on the details of the Golden Lane Housing 2013 Bond investment terms;
- Officers to draw up a standard form checklist to review criteria, terms and conditions for future investments for consideration by the Board.

12. **PORTFOLIO UPDATE**

The Chief Grants Officer introduced an update on issues affecting the social investment fund portfolio and its current investments.

The Board proceeded to discuss the preferred format and content of future portfolio updates before going on to outline the character of future investments.

RESOLVED, that:

- The portfolio report be received and its contents noted;
- Officers note suggestions from the Board over the preferred format of investment reporting;
- Officers note the preference of the Board for direct investment, or at least indirect investment in only one fund manager rather than funds of funds;
- An overview of the social investment fund targets for year 2 be submitted to the Board at its next meeting in December 2013.

13. **INVESTMENT REVIEW: FRAMEWORK HOUSING**

The Board considered an investment review of Framework Housing.

RESOLVED, that:

- The investment in Framework Housing be approved subject to the conditions outlined in the report.

14. **INVESTMENT REVIEW: MIDLANDS TOGETHER**

The Board considered an investment review of Midlands Together.

RESOLVED, that:

The investment in Midlands Together be approved subject to the conditions outlined in the report and the caveats set by the Board.

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

Product Development

At the suggestion of the Chairman, the Board agreed that officers investigate the viability of the City of London entering into the development of its own bond type product.

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

There was no other business.

The meeting closed at 1.10pm

Chairman

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SOCIAL INVESTMENT BOARD

**Events and Meetings Attended
6th September – 3rd December 2013**

Date	Organisation	Type of Event	City of London's Representative	Location/ Borough	Summary Comments
11 th September	Sarasin	Meeting	Tim Wilson	Guildhall	To discuss Sarasin's interest in social investment and the City's social investment fund
13 th September	Symbiotics	Meeting	Tim Wilson	City	To visit Symbiotics new London office and meet their UK representative
17 th September	Grassroots Capital	Seminar	Katie Hill	The Exchange, London Bridge Street	Introduction to this US based impact investment fund operating internationally
19 th September	Esmee Fairbairn Foundation	Meeting	Tim Wilson	Kings Cross	Part of a regular series of pitching days with presentations from prospective investees
19 th September	City of London Corporation	Meeting	Katie Hill	Guildhall	Presentation to the Policy & Resources Committee from the Social Investment Advisor on her work
19 th September	Social Finance	Reception	Chief Grants Officer, Katie Hill and Tim Wilson	Royal Institute of British Architecture	An evening reception to mark 10 years of Social Finance's work
24 th September	Cabinet Office	Meeting	Katie Hill	Cabinet Office	Update on G8 formation and City of London Corporation role
24 th September	Centrica	Meeting	Katie Hill	Central London	Introduction to CEO of the new social investment fund, Ignite, established by Centrica
26 th September	Big Lottery Fund	Meeting	Katie Hill & Tim Wilson	Guildhall	A meeting to discuss possible social investment collaboration

Date	Organisation	Type of Event	City of London's Representative	Location/ Borough	Summary Comments
2 nd October	Social Venture Fund	Meeting	Katie Hill and Tim Wilson	Guildhall	Discussion about Social Venture Fund's current investment offer
2 nd October	Cabinet Office	Meeting	Katie Hill and Tim Wilson	Guildhall	Discussion about possible collaboration on financial inclusion work
3 rd October	European Venture Philanthropy Association	Meeting	Katie Hill	State Street Foundation, City	Annual meeting of UK members of EVPA to update on EU initiatives and EVPA support
8 th October	Association of Charitable Foundations	Conference	Chief Grants Officer and Tim Wilson	Euston	Annual conference including a well-attended session on social investment which introduced ACF's new research briefing
9 th October	Cabinet Office	Meeting	Katie Hill	Goldman Sachs, Fleet Street	In advance of GIIN conference, meeting organised by Cabinet Office between US team of Goldman Sachs and UK social investors on activities and future plans
9 th October	Social Stock Exchange	1 st Investor Event	Chairman and Katie Hill	London Stock Exchange	Presentation of the mission of SSE, and on performance of impact investment funds by Sonen Capital
10 th – 11 th October	Global Impact Investors Network	Conference	Chairman of Policy & Resources, Chairman of Social Investment Board, Chief Grants Officer, Katie Hill and Tim Wilson	Guildhall	Major annual conference for social investors from around the world. This two day event was launched by the Chairman of Policy & Resources. Katie Hill and Tim Wilson spoke at panel discussions during the conference
21 st October	Hoares Bank	Meeting	Tim Wilson	Fleet Street	Regular meeting of charitable foundations active in the social investment market
25 th October	Worthstone	Conference	Katie Hill	Guildhall	Hosted seminar for 90 Financial Advisors, to hear from FCA, Treasury Minister, Chairman of P & R on opportunities and challenges in presenting impact investment opportunities to clients
30 th October	City Bridge Trust	Meeting	Chief Grants Officer, Katie Hill and Tim Wilson	Guildhall	Social investment presentation to City Bridge Trust Committee

Date	Organisation	Type of Event	City of London's Representative	Location/ Borough	Summary Comments
6 th November	Big Society Capital	Meeting	Katie Hill	Fleet Street	Discussion about the UK national advisory board to the G8 social impact investment taskforce
7 th November	Institute of Economic Affairs hosted by City Corporation	Dinner	Katie Hill	Guildhall	Dinner at Guildhall with Treasury Minister David Gauke; key topic was role of taxes
12 th November	Impact Investment Meeting Deutsche Bank	Breakfast seminar	Katie Hill	City	Presentation and Q & A on best practice around use of grants in social investment and impact measurement for funds
13 th November	Mayor's Fund and Greater London Authority	Meeting	Chairman and Tim Wilson	Guildhall	Meeting to discuss Mayor's Fund work on a social impact bond
13 th November	Greater London Authority	Meeting	Katie Hill	City Hall	Meeting with Assistant Director to discuss developments on Social Impact Bonds and commissioning issues
18 th November	Sarasin and Bridges Ventures	Meeting	Katie Hill and Tim Wilson	St Paul's	Meeting to discuss forthcoming investment fund from Sarasin and Bridges Ventures
19 th November	Esmee Fairbairn Foundation	Meeting	Tim Wilson	Kings Cross	Part of a regular series of pitching days with presentations from prospective investees
20 th November	Financial Times	Meeting	Katie Hill and Tim Wilson	Guildhall	Background briefing for an FT journalist on the Corporation's social investment work
21 st November	Social Finance	Meeting	Tim Wilson	Great Portland Street	Meeting between Social Finance and several grant-making trusts to discuss possible future social investment products
28 th November	European Commission GECES Expert Panel	Meeting	Katie Hill	European Commission, Brussels	update on progress with the EU's Social Business Initiative and preparation for Strasbourg Conference in Jan 2014
2 nd December	British Council and other co-sponsors (EUNIC)	Social Entrepreneurs hip Summit	Katie Hill	Athens	Conference on social entrepreneurship and investment :presented on UK developments and City of London Corporation's role as investors
3 rd December	Cambridge Associates for GIIN	December UK member event	Katie Hill for City Bridge Trust (a GIIB member)	City	Meeting with UK members to discuss the GIIN's latest work, industry updates, and share feedback from the GIIN Investor Forum.

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Agenda Item 6

Committee:	Date:	Item No.
Social Investment Board	13 th December 2013	
Subject: Progress Report		Public
Report of: Chief Grants Officer		For Decision
<u>Summary</u>		
<p>This paper introduces a draft report to Common Council on the achievements of your Fund in its first year.</p> <p>It proposes an investment target for the second year of the Fund.</p> <p>It provides an update on initial work done to examine the feasibility of a City of London social investment product.</p> <p>It recommends a new advisor to your Fund.</p> <p>It provides an update on staffing developments.</p> <p>Recommendations:</p> <p>That you receive the report and note its contents</p> <p>That you approve the attached report and authorise officers to submit this in your name to Court of Common Council</p> <p>That you approve an investment target of £3m for the second year of your Fund</p> <p>That you appoint Albion Ventures as advisor to your Fund on the same terms as existing advisors.</p>		

Main Report

Progress Report to Common Council

1. Your Fund has achieved the first-year targets set by Common Council. At your last meeting you requested officers prepare a paper reporting these achievements to Court, and a draft is attached as annex A. Officers recommend you approve this paper and that you authorise them to submit it in your name to Court of Common Council.

Investment Target 2013-14

2. 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 met this target at your 18th September 2013 meeting, and the portfolio report included in the papers for today's meeting shows £2.1m committed to five social investments.
3. The Chief Grants Officer's report to your September meeting noted that the social investment market was still 'warming up' and that it was taking time to generate deal flow suitable for your Fund's criteria. The investment pipeline included in the portfolio report for today's meeting continues to show a large number of opportunities which are not yet ready for Board consideration.
4. In the first year of operations your officers established good networks with other investors and with social investment intermediary organisations. As a result of these contacts your officers get early notice of investment opportunities, and have seen a growing number of investors enter the market. In response to the market-building work of Big Society Capital and others there is evidence of a growing number of products, and improved tailoring of new products to investor priorities.
5. As a result of this growing activity officers believe it is realistic to aim for a target investment rate of £3m in the second year of your Fund (ending October 2014). The appointment of an in-house investment analyst (see paragraphs 6 and 7 of this paper) and the expansion of your advisory pool is also likely to accelerate the process by which opportunities are screened and allow officers to assess a larger number of proposals.

Staffing developments

6. Your Fund has gained a good deal of recognition and momentum since it was established. In the light of our experience of investing the first £2.1m, officers are now in a better position to identify the management resources required to ensure not only that a good flow of proposals are brought to your meetings, but also that portfolio investments are properly monitored. Officers are working with colleagues across the Corporation to secure the resources required both for the Fund itself and the supporting policy work. Resources permitting we hope to appoint a suitable consultant in early 2014. This person will attend your meetings and speak to investment proposals.
7. In the short-term officers plan to engage a consultant Investment Analyst to join the Social Investment Fund team to work in-house and increase capacity. The analyst will develop a standardised checklist for investment appraisal, support the assessment of the Fund's growing pipeline of investment opportunities, and provide in-depth review of the most promising prospects before passing these to the Fund's third party advisors for due diligence. The analyst will also support the monitoring of active investments and provide some advisory support to organisations with formative proposals which may be suitable for the Fund in due course. The consultant will also inform the recruitment of an employed analyst. Their appointment will increase capacity whilst reducing the need to go to external advisors.

City of London Social Investment Product

8. At your meeting in September 2013 you asked officers to investigate the viability of the City of London entering into the development of its own bond-type product.
9. Officers have started discussions with colleagues across different Corporation departments and with other agencies to identify possible focus and resource requirements of such a project. Resource constraints have meant we have not progressed this as far as we would have liked. However officers are currently trying to identify resources for a feasibility study.

Advisors to the Social Investment Board

10. When it established your Fund on October 25th 2012, Common Council specified that the investment proposals should be subject to a financial assessment by an independent FSA (now FCA) regulated agency.
11. You have appointed three independent advisors to your Fund so far: Social Finance Ltd; The FSE Group; and a partnership of The Social Investment Business, Investing For Good, and The Good Analyst.
12. Whilst all three advisors know the social investment market well, and have staff with suitable qualifications and experience to appraise investment proposals, they are also involved in the development of products which may fit your Fund's criteria. In advance of today's meeting, one investment proposal could not be considered because all three advisors had conflicts of interest and could not prepare an independent appraisal.
13. To avoid this happening in the future, officers recommend you appoint another advisory firm which understands the market well but is less likely to be conflicted on the investment prospects you currently receive.
14. Albion Ventures was founded by Patrick Reeve in 1996 as the venture capital arm of Close Brothers Group PLC. Its main activity is the raising and management of venture capital trusts (VCTs), where it currently has over £230m under management in 6 VCTs. In addition, it provides management services to a number of smaller funds and businesses, including Albion Community Power, a developer of renewable energy. It was bought by its management out of Close at the end of 2008 and is now a LLP (Limited Liability Partnership) owned by its nine partners, though Close still retains an interest. Albion has invested in just under 120 unquoted small and medium enterprises since 1996 many of which, though for profit, have a social angle. These include care-homes, domiciliary care businesses, psychiatric hospitals, schools, community renewable energy providers, medical instrumentation and diagnostics providers. Albion has a total head-count of 28 and is based in the City of London.
15. The Chairman, Chief Grants Officer and Principal Grants Officer have met Patrick Reeve and discussed your Fund with him. Officers recommend that you appoint Albion Ventures as an advisor to your Fund on the same spot-purchase basis as your existing advisors.

Recommendations:

That you:

- a) note the contents of the report
- b) approve the attached report and authorise officers to submit this in your name to Court of Common Council
- c) approve an investment target of £3m for the second year of your Fund
- d) appoint Albion Ventures as advisor to your Fund on the same terms as existing advisors.

David Farnsworth, Chief Grants Officer
020 7332 3713

David.Farnsworth@cityoflondon.gov.uk

Report written: 26th November 2013

Progress Report: Annex A

Report of the Social Investment Board

City of London Corporation's Social Investment Fund First Year Activities

Summary

Under the leadership of the Chairman of Policy & Resources Committee, the City Corporation is working to position London as a global hub for social investment. In October 2012 you approved a designation of £20 million from Bridge House Estates for investments that produce a positive financial return and demonstrable social benefit. In its first year, the City of London Corporation Social Investment Fund (the Fund) has committed £2.1 million to a range of ventures across the UK and overseas. The Fund's work complements the City Corporation's social investment policy and advocacy work, which has been a wide-ranging programme of major events, research and policy consultation.

Your Fund has exceeded its investment target for its first year. Your social investment policy and advocacy work has helped position the City Corporation as a leader in this field.

Recommendation

The Court is recommended to receive the report and note its contents.

Main Report

Background

1. The City of London has a long-standing commitment to social investment. It is working to establish London as a recognised global hub for social investment, under the leadership of the Chairman of Policy & Resources Committee, by pursuing the following aims:
 - Encouraging and steering a growing supply of appropriate finance into social investment;
 - Working to improve the regulatory and fiscal framework needed to support the social investment marketplace; and
 - Developing the capacity of social organisations to access investment and secure contracts and markets.

2. At its meeting on 24th May 2012 the Court agreed to designate £20 million from Bridge House Estates for investments in activities that produce both financial returns at a rate not less than the average interest rate earned on the

City's cash holdings and a demonstrable social benefit. This designation is known as the City of London Corporation Social Investment Fund (the Fund).

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.
4. The Fund can invest directly into organisations pursuing charitable, community or social objectives and indirectly into socially-focused funds managed by others.
5. 60% of the Fund is designated to support work that benefits Londoners, 30% for UK-based beneficiaries, and 10% for overseas beneficiaries.
6. A Social Investment Board was established to oversee the Fund, and its aims, objectives, outline investment strategy and governance arrangements you approved at your meeting on 25th October 2012. The Social Investment Board sits alongside the Financial and Property Investment Boards and is to be appointed annually by the Investment Committee. Alderman Peter Hewitt was elected as its Chairman.
7. The Fund is administered by the Chief Grants Officer for the City Bridge Trust with input from Chamberlain's, Comptroller and City Solicitor's Departments and the Economic Development Office. Independent, FCA-regulated advisors are involved in the financial assessment of each proposal presented to the Social Investment Board.

First Year Targets

8. In its report to you on 25th October 2012, the Policy & Resources Committee noted that the Fund would focus on capital preservation and the development of expertise in its first year. It was noted that first investments were likely to be in instruments offering lower risk such as secured loans and short-term bonds as appraisal and monitoring processes were established.
9. The target dispersal rate for the first year (ending October 2013) was £2 million.

First Year Activity

10. In its first year the Fund has committed £2.1 million across five social investments. £1.6 million of this commitment has been placed, with the remaining £500,000 pledged subject to completion of satisfactory legal agreements (currently underway).

11. The four active investments are: the Small Enterprise Impact Investing Fund, the Real Lettings Property Fund, the Golden Lane Housing Bond, and Midlands Together.
12. The Small Enterprise Impact Investing Fund is a product from Oxfam / Symbiotics, which was developed with support from the City of London. It supports small and medium sized enterprises in low to middle income economies, prioritising those investment opportunities that focus on job creation, food security and women's empowerment. £318,513 has been invested in this fund.
13. The Real Lettings Property Fund has been developed by the homelessness charity Broadway in partnership with Resonance Limited. Their fund aims to purchase up to 260 one and two bedroom properties in Greater London for tenants who are, or have previously been, homeless. £500,000 has been invested in this fund.
14. Golden Lane Housing, a subsidiary charity to the Royal Mencap Society, issued a bond in 2013, with funds raised reserved for the purchase, adaptation and letting of up to 30 freehold properties to people with learning disabilities. £500,000 has been invested in this bond.
15. Midlands Together, a new venture, also issued a bond in 2013 with funds reserved for a programme providing employment, training and mentoring to 100-150 ex-offenders through a property refurbishment programme across the West Midlands. £300,000 has been invested in this bond.
16. £500,000 has been committed to invest in accommodation for homeless people in the Midlands, and full details will be announced once the investment is placed.

Region	Total committed	Proportion of Fund commitments to date
London	£500,000	24%
UK	£1,300,000	61%
Overseas	£318,513	15%

Social Investment Policy

17. The Fund complements the City Corporation's social investment policy and advocacy work.
18. The City Corporation has hosted a large range of events (including an international conference attracting over 300 potential investors from 35

countries), meetings and delegations with a view to promoting the opportunities of social investment to new investors, and to understand and unlock the barriers faced for their involvement. The total value of new social investment funds (some of which are still raising capital) will provide in excess of £100 million additional finance to the stock of capital available. Meanwhile, demand for social investment has risen from £165 million in 2010- 2011 to £202 million in 2011-2012.

19. The City Corporation is part of a small market stewardship group with Big Society Capital, Cabinet Office, Big Lottery Fund and Social Enterprise UK to ensure there is a strategic vision and coordinated action across the sector. The City Corporation is also a co-founder member of a new Social Investment Research Council comprising the market stewardship members and Citibank. This work provides understanding of the needs of social enterprises as well as the needs of the social investment market.
20. The City Corporation's policy and advocacy work has supported a range of market-enabling outcomes including: the introduction of a Social Investment Tax relief in the 2014 Budget, underpinned by detailed research commissioned by City Corporation and Big Society Capital on the rationale and likely impact of introducing such a relief; the engagement of the Financial Conduct Authority with the social investment market; recognition in the Financial Services Bill of the motivations of a social investor and a review of the Community Interest Company structure to see how it could encourage investors more effectively; debate in the European Union as to how Structural Funds could be used to support the strengthening of the social sector organisations across Europe; and representation, by the Chairman of Policy & Resources on the UK National Advisory Board to the G8 Taskforce on social impact investment.

Conclusions

21. The City of London Corporation Social Investment Fund has been welcomed as a forward-thinking initiative and helps to strengthen your work to position London as a global hub for social investment. The Fund has exceeded its first year investment target, and has provided capital to support socially beneficial ventures that also meet the Fund's financial criteria. The governance and administrative arrangements have worked well, providing scrutiny to investment proposals and monitoring current holdings.
22. The City Corporation's policy and advocacy work has helped to situate London as an international hub for social investment, as a place in which impact fund managers are represented, deals are done, products are designed, expertise is available, and the operating regime is enabling.

All of which we submit to the judgement of this Honourable Court.

DATED

SIGNED on behalf of the Board

Alderman Peter Hewitt
Chairman of the Social Investment Board

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Agenda Item 7

Committee:	Date:	Item No.
Social Investment Board	13 th December 2013	
Subject: Members' Handbook	Public	
Report of: Chief Grants Officer	For Information	
<u>Summary</u>		
<p>This paper introduces a Social Investment Board Members' Handbook. This reference resource pulls together your terms of reference, membership, investment criteria and supporting information. It suggests the Handbook be given to new Members of your Board and made available on the City of London's Members' intranet.</p>		
Recommendations:		
That you note the contents of this report		
That you authorise the publication of the Social Investment Board Members' Handbook on the City of London's Members' intranet		

1. This paper introduces a new Social Investment Board Members' Handbook, pulling together in one source information relating to the composition of your Board, your current investment criteria, your fiduciary responsibilities as trustee of Bridge House Estates, and a social investment glossary.
2. Since the Court approved your aims and objectives in October 2012, you have updated and clarified your investment criteria at your Board meetings. Officers have established an investment appraisal process, and you have sought clarification on your duties as charity trustees. This has resulted in a rather ad-hoc assembly of policies. The proposed Members' Handbook rectifies this by presenting key information in a single document.

Recommendations:

That you note the contents of this report

That you authorise the publication of the Social Investment Board Members' Handbook on the City of London's Members' intranet

David Farnsworth, Chief Grants Officer

020 7332 3711

David.Farnsworth@cityoflondon.gov.uk

Report written: 2nd December 2013

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City of London's Social Investment Board

Members' Handbook



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Terms of Reference

The terms of reference for the Social Investment Board shall be as follows:-

- a) to approve criteria for social investments and to authorise social investments in accordance with such criteria
- b) to approve the appointment of and monitor the performance of independent advisors tasked with undertaking due diligence of investment proposals; and
- c) all of the above to be consistent with the strategic investment policies determined by the Policy and Resources Committee and the Investment Committee.

There is provision within Standing Orders to enable the Chairman of the Social Investment Board to report on and speak to their activities and responsibilities in the Court of Common Council and to ensure that any decisions are taken without undue delay.

The Board meets four to six times a year.

***Note on the Chairmanship**

The Social Investment Board shall elect annually a Chairman and a Deputy Chairman from amongst all of its Members (including ex-officio Members who shall also have the power to vote in such elections) with the exception of any co-opted people.

Composition

The Social Investment Board will be appointed annually by the Investment Committee. However, in view of the very specialist nature of this type of investment activity, it is suggested that the membership of the Board should comprise a mix of ex-officio and directly elected Members. In this way, the ex-officio Chairmen are able to serve or, should they so wish, nominate individual Members of the Court of Common Council who may have experience or expertise in this field to serve in their stead. The Investment Committee will be represented and the Court is able to directly elect two Members to serve. The proposed composition is as follows:-

- The Chairman of the Policy & Resources Committee for the time being or his/her nominee;
- The Chairman of the Finance Committee for the time being or his/her nominee;
- The Chairman of the City Bridge Trust Committee for the time being or his/her nominee;
- The Chairman of the Financial Investment Board for the time being or his/her nominee;
- One Member of the Financial Investment Board;
- Two Members elected by the Court of Common Council, one of whom shall have fewer than five years' service on the Court at the time of their appointment.

All nominees must be Members of the Court of Common Council.

In addition, the Social Investment Board shall have the power to co-opt people with relevant expertise or experience, including non-Members of the Court, in the same way as the other two Boards.

Quorum

The quorum consists of any 3 Members.

Social Investment Board Members

Alderman Peter Hewitt (Chairman)	Nominee of the Chairman of the Policy & Resources Committee
Roger Chadwick	Chairman of the Finance Committee
Deputy Ken Ayers	Nominee of the Chairman of City Bridge Trust
<i>Vacant</i>	Chairman of the Financial Investment Board
<i>Vacant</i>	One member of the Financial Investment Board
The Revd Dr Martin Raymond Dudley Deputy Robert Howard	Two Members elected by Court of Common Council on 16 May 2013

The Role of a Social Investment Trustee

1. 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.
2. 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.
3. 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.
4. A more detailed summary of Trustee's duties is available from the office of the Town Clerk.

Social Investment Criteria

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.

The Social Investment Board approved additional criteria at its meeting on 14th December 2012.

Criteria have been developed following consultation with several other social investors, and with advice from Social Finance Limited and Big Society Capital.

Fund aims

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

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

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

The Social Investment Board should seek a **total** 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%).

Investment portfolio

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

Social benefit

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

Direct investments

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

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.

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.

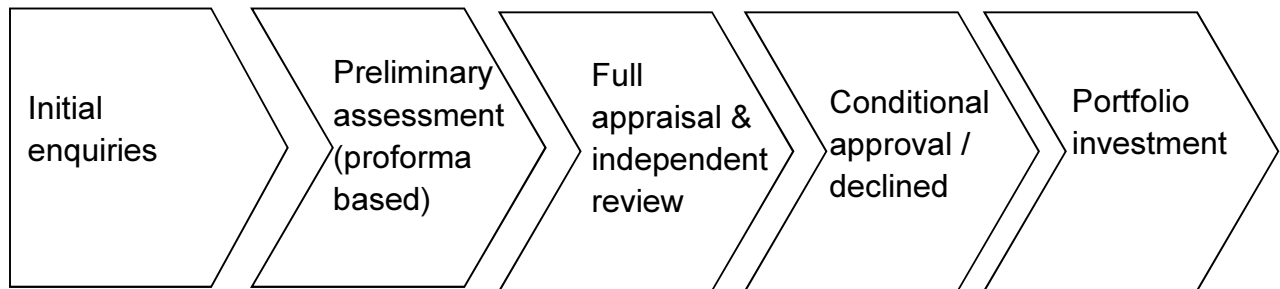
Indirect investments

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

Assessment Process

The Fund's investment appraisal process is as follows:



The first stage of the process is initial enquiry, and officers record details of all organisations which make contact with the Fund or which they find through other channels. Some contacts relate to products under development, others have been for products which are investment ready, but for which detailed investment proposals are not yet available. All prospective investees are asked to complete the proforma application on the Fund website as this allows officers to gather information on investment proposals in a systematic way by asking standard questions about financial return and social benefit.

Once more detailed information is received, officers from Chamberlain's Department and the City Bridge Trust section of the Town Clerk's Department meet to review the investment's suitability for Fund support.

If judged suitable by officers, a full appraisal and independent external review follows the preliminary assessment stage. At this point, and in line with guidelines set by the Court of Common Council, an independent FCA-regulated agency is commissioned to provide a report appraising the investee's underlying business model, capital requirements, projected financial return, investment commitments, and to examine the risks to the investment. Chamberlain's officers examine this independent report, and City Bridge Trust officers assess the likely social benefit of the investment.

Staff List

David Farnsworth – Chief Grants Officer, City Bridge Trust

Tim Wilson – Principal Grants Officer, City Bridge Trust

Katie Hill – Social Investment Advisor

Martin Hall – Grants Assistant, City Bridge Trust

Paul Mathews – Corporate Treasurer, Chamberlain's Department

Alistair MacLellan – Committee & Member Services Officer, Town Clerk's Department

Deborah Cluett – Assistant City Solicitor, Comptroller & City Solicitor's Department

Anne Pietsch – Chief Legal Assistant, Comptroller & City Solicitor's Department

Karen McHugh – Principal Legal Assistant, Comptroller & City Solicitor's Department

Liz Skelcher – Assistant Director of Economic Development

External Advisors

Social Finance Ltd

The FSE Group

The Social Investment Business *plus* The Good Analyst *plus* Investing for Good

Glossary of Terms

Blended finance	The provision of finance through a combination of grants and/or equity/quasi-equity finance and/or debt finance.
Blended return (to investors)	The combination of receiving financial return as well as social returns from an investment. There is often assumed to be a trade-off between these two factors.
CC14	CC14-Charities and Investment Matters: A guide for trustees. Charity Commission guidance for trustees on how to make decisions about investing charity funds.
Charitable bond	Finance mechanism whereby investors provide capital to a not-for-profit organisation to fund a project through an unsecured bond, often with a lower than market-rate return.
Community asset building	Activity that builds the assets of community service organisations for long-term financial sustainability.
Community asset transfer	The transfer of land and buildings from public bodies to voluntary, community and social enterprise organisations.
Community Banks	For-profit, insured banks or savings institutions that target low-income people or others who lack adequate access to financial services. Given the typically low to moderate-income customer base of development banks, they often depend on additional deposits from outside of the community to fund their lending activity.
Community finance	Finance provided to community organisations, especially those that have difficulty accessing mainstream finance.
Community Interest Company (CIC)	(UK) limited company operated for community benefit and with a requirement that all assets and profits remain within the company and are used solely for community benefit.
Community investing	Investment programmes, which support development initiatives in economically challenged communities through community-based financial institutions such as development banks, loan funds, and community credit unions.
Community Investment Tax Relief (CITR)	(UK) tax relief available to individuals and organisations to incentivise investment in enterprises in disadvantaged areas.
Crowd funding	The use of small amounts of capital from a large number of individuals to finance a new business venture. The regulations around crowd funding are not fully clarified, and depend on the investment opportunity, including collective investment scheme.

Development capital	Enables organisations to invest to build capacity, for example by purchasing property or other assets, or developing new products and services.
Endowment	The property of a charity (including land, buildings, cash or investments) which is required to be invested or kept and used for the charity's purposes. Whether it can be spent or disposed of depends on the conditions under which the endowment was originally given.
Exclusionary (negative) screen	Ethical criteria that may disqualify companies for consideration of investment.
Finance mutual organisation	Third sector financial organisation that allows distribution of assets to its members if the organisation is taken over or wound up; includes credit unions, certain building societies and mutual insurers.
Fund of funds	An investment strategy of holding a portfolio of other investment funds rather than investing directly in stocks, bonds or other securities (this is a form of indirect investment).
Growth capital	Capital for funding significant growth, innovation, service or product development or building the capacity of the organisation or its human resources to enhance the organisation's social impact. See soft development capital.
Impact	The changes an investment or organisation achieves; the difference it makes through its outputs and the outcomes they generate.
Impact investment	Investment made with the expectation of delivering measurable social and/or environmental impact as well as financial return.
Impact-first investment	Investment that prioritises a social or environmental impact above a financial return; this may be through accepting a lower than market-rate return to achieve more difficult social or environmental outcomes not seen as achievable through traditional philanthropy or mainstream investment.
Microcredit	Small, low interest loans to low-income entrepreneurs who have little or no collateral.
Microfinance institutions	Organisations that provide small amounts of capital, often as little as \$50 in developing countries, to people with little or no collateral so they can avoid usurious rates. Also gaining recognition in U.S. communities as well, although micro-loan amounts are considerably higher there.
Mission-Related Investment	The use of expendable resources by a charity in a way which may generate a financial return but is principally for the furtherance of the charitable purpose or purposes of the charity. Examples of this include the provision of loans, loan

	guarantees or the subscription or purchase of shares or through the letting of land and buildings by the charity.
Mixed motive investment	An investment that cannot be justified as wholly furthering a charity's aims or seeking the best possible financial return. Trustees may be able to invest in this way if they are satisfied that it would be in the interests of their charity.
Mixed portfolio of funding	A range of income streams which may include grants, donations, earned and investment income.
Negative screening	Screening out of an investment portfolio organisations that are known to have harmful social or environmental outcomes.
Non-trading co-operative	Membership organisation, established by producers to collectively promote or market their product, which cannot distribute profit to members.
Not-for-profit organisation / non-profit organisation	Organisation that conducts activities to further its purpose, and not for the gain of individual members or owners; not-for-profits are not allowed to distribute assets to members or owners when wound up.
Outcome Based Agreement (OBA)	Agreement, usually between a service provider and government, which defines an outcome or set of outcomes that must be achieved, in some cases to trigger payment for the delivery of the service.
Output	Work generated by a project.
Outcomes	Changes that take place as a result of a project.
Patient capital	Loans or equity investments offered on a long-term basis (typically 5 years or longer) and on soft terms (e.g. capital/interest repayment holidays and at zero or sub-market interest rates).
Payment by results	A type of public policy instrument where payments are based on independent evaluation of results.
Peer-to-peer lending	The practice of lending money to unrelated individuals, or "peers", without going through a traditional financial intermediary such as a bank or other traditional financial institutions.
Philanthropy	The giving of funds, capital items, time or other assets in the form of a donation.
Programme-related investment	The use of expendable resources by a charity in a way which may generate a financial return but is principally for the furtherance of a charitable purpose; examples of this include the provision of loans, loan guarantees or the subscription or purchase of shares or through the letting of land and buildings by the charity.

Quasi-equity investment	A hybrid of equity and debt investment. Equity investment may not be possible if an organisation is not structured to issue shares. A quasi-equity investment allows an investor to benefit from the future revenues of an organisation through a royalty payment which is a fixed percentage of revenue. This is similar to a conventional equity investment, but does not require an organisation to issue shares.
Revenue funding	Income received to pay for an organisation's running costs
Revolving loan fund	Within a group of microentrepreneurs, a loan is made and must be paid back in full before a second loan is granted to another member of the group. In some cases group members will provide the funds rather than an outside funding source.
Risk capital	Equity or quasi-equity investment which is most at risk in recovering an investment if the project or organisation fails.
Screening	The inclusion or exclusion of corporate securities in investment portfolios.
Social bond	Debt finance mechanism whereby investors provide capital to a not-for-profit organisation and receive a lower than market-rate return alongside social returns.
Social economy	Comprises co-operatives, mutuals, associations, charities, trusts and foundations.
Social enterprise	A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.
Social investing	The act of making investment decisions to achieve social as well as a financial return.
Social Investment Finance Intermediary (SIFI)	An organisation that provides, facilitates or structures financial investments for social sector organisations and/or provides investment-focused business support to social sector organisations.
Social investment wholesaler	An investor which makes larger investments in funds or financial organisations (social investment finance intermediaries) that will themselves invest smaller amounts in a number of frontline social sector organisations.
Social sector organisation	An organisation that exists primarily to deliver social impact; that reinvests the majority of surpluses to further its social mission; and that is independent of government. The social sector includes voluntary and community organisations, charities, social enterprises, cooperatives and mutuals.

Social venture capital	Funds raised to support economic ventures with a focus or mission involving the improvement of society.
Social venture intermediary	Organisation that provides either social finance or expertise to help establish or capacity-build social enterprises.
Socially Responsible Investment (SRI)	Investment method using positive screening or, more commonly, negative screening, or investment in companies with poor social or environmental records to provide opportunity for shareholder advocacy or activism to promote corporate responsibility.
Soft development capital	Capital for funding significant growth, innovation, service or product development or build the capacity of the staff/organisation to enhance the organisation's social impact. See growth capital.
Strategic philanthropy	Form of philanthropy using focused research, creative planning, proven strategies, careful execution and thorough follow-up to achieve the intended results; ideally reflects and is driven by the philanthropist's core values and concerns.
Third sector	Sector comprising a wide range of social purpose organisations, including charities, religious organisations, not-for-profits, co-operatives, mutuals, trade unions, chambers of commerce, social enterprises, advocacy groups, community organisations and welfare organisations.
Trading co-operative	Membership organisation with share capital, established by producers to collectively promote or market their product, which can distribute profit to members.
Triple bottom line	Refers to a balance between a company's social, environmental, and financial return.
Working capital	Finance used to manage the timing differences between spending money and receiving it (income and expenditure).

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Agenda Item 8

Committee:	Date:	Item No.
Social Investment Board	13 th December 2013	
Subject: Research and Development Fund	Public	
Report of: Chief Grants Officer	For Information	
<u>Summary</u>		
<p>This paper examines how the City of London Corporation could play a distinctive role in developing the social investment market. Having already expressed an interest in allocating £250,000 - £500,000 for research and development purposes, the paper looks at different ways in which this work could be resourced. It notes the forthcoming City Bridge Trust grants programme for social investment market development, and suggests close collaboration between your activities and the work of that grant scheme.</p>		
Recommendation:		
That you receive this report and note its contents.		

Main Report

Introduction

1. One of your Fund's aims is to develop the social investment market. Members will be aware that whilst most social investment is currently offered in the form of (relatively low-risk) secured loans, market research indicates a growing mismatch between this offer and the unsecured finance most investees need. Some of the most innovative work currently relies on unsecured finance.
2. It is particularly difficult for new organisations to access the social investment market. It can also be difficult for well-established organisations to raise social investment if they want finance for a new venture. The three main reasons for these difficulties are: relatively few social purpose organisations have assets they can offer as security; new organisations or new ventures lack the track record that can reassure investors; and many social purpose organisations have some form of asset lock in their governing documents that ensures the permanence of their social mission, but restricts the returns payable to investors. This latter point means that investors cannot necessarily rely on part of their social investment portfolio covering losses they might make in other ventures.

3. Research and development capital is needed otherwise the flow of social investment proposals is likely to remain sluggish, and few organisations will be able to enter the market on any meaningful scale.
4. The City of London Corporation has the potential to do something very positive in the research and development space by maximising both its monetary and non-monetary assets. This would be welcomed by other organisations interested in the market and could result in the development of more opportunities suitable for your investment.
5. You have previously expressed an interest in seeing a City of London research and development fund of £250,000 - £500,000. To progress this we need to identify both the distinctive contribution which the Corporation can make, and the resources to ensure that any research and development fund has sufficient management and administrative resources to ensure excellent delivery.

Distinctive City of London Contribution

6. The social investment market is developing rapidly. Big Society Capital has had a catalytic effect on the creation of new social investment products, not only by social investment intermediaries, but also by mainstream institutions. The Big Lottery Fund is currently examining how grants and loan finance could complement each other to encourage more charities to enter the social investment market. Government is working to develop the market with support to early stage social enterprises and to develop Social Impact Bonds. Alongside this activity, there is infrastructure work to create trading platforms and improve the quality of market data.
7. Against this changing context the City of London's distinctive contribution needs to be identified. This should take into account the scope the Corporation has to maximise all of its assets, including its reputation, networks, financial expertise, and expertise in supporting and evaluating organisations that achieve social impact.
8. The City of London has the opportunity to play its role through the new City Bridge Trust Investing in Londoners grant programmes. These were launched in September 2013 and include a programme to support charitable involvement in the social investment market. Activities under this programme could include: supporting the provision of market infrastructure services such as product development and skills training; supporting the development of a City of London social investment product; and offering stepping stone packages such as grant-funding followed by loan finance. Any City of London research and development work would be designed to complement market infrastructure work delivered by Big Society Capital and Big Lottery Fund.
9. To progress this, a market research specification has been drafted and will form the basis of discussions for three focus groups which will take place in January 2014 involving other investors, social investment market intermediaries, and social enterprises. Once these focus groups have taken place the brief will be refined and

the market research commissioned (February). We expect the study to be completed within one month and a new programme designed shortly afterwards.

Resourcing Research and Development

10. To maintain the Corporation's reputation for excellence and to continue to demonstrate leadership in this area we will need to ensure there are appropriate resources both for research and development activities, but also for management and administration.
11. There are four possible sources of finance for a new research and development fund: returns on your existing investments; revision of your existing investment criteria to allow a research and development ring fence; locating new funds within the Corporation or Bridge House Estates; or working towards your aims through the new City Bridge Trust grants programme.
12. You received a paper at your last meeting describing how returns on your existing investments could be re-used by your Fund. This paper noted that it would take some time before you had the £250,000 - £500,000 target figure you would like to use for research and development, and indicated that all investment decisions are currently bound by the criteria approved by Common Council. As a result, your scope for developmental work would be somewhat constrained.
13. You could therefore seek a revision of your existing criteria, in order to ring-fence funds specifically for research and development. This would need to be routed through other Committees and Common Council and would therefore take time. The ring-fence would be on capital that is otherwise earning interest, and as such there would need to be consideration of how this fits with your fiduciary duty as trustee of the Bridge House Estates charity. As noted in previous meetings Members have overall responsibility to ensure that the charity's funds are invested in such a way to achieve a financial return on the capital and not eroded its value but rather generate funds to further the purposes of the charity.
14. You could explore potential for other sources of funding within the Corporation, and to progress this your officers have arranged a meeting with the Chairman of Policy & Resources where, among other matters, this will be discussed.
15. Finally, you could work towards your aims through the City Bridge Trust grants programme. The Chairman has already expressed an interest in joining one of the forthcoming focus group discussions, and other Members would be welcome depending on availability. The new programme should be scoped, designed and approved by City Bridge Trust Committee in the first quarter of 2014-15, and operational shortly after.

Conclusions

16. The City of London Corporation could play a further significant role in supporting the development of the social investment market through the creation of a Research and Development Fund. This would be consistent with the Corporation's overall aim of positioning London as a global hub for social investment.
17. There is already market development work underway by a wide range of organisations including Big Society Capital, Big Lottery Fund, the network of social investment intermediaries, and smaller specialist infrastructure providers.
18. It is important that the City of London's contribution is complementary and maximises our unique position, and therefore that it is based on market analysis. Such a study is due to start soon thanks to work approved by the City Bridge Trust Committee.
19. City Bridge Trust will design a social investment grants programme in early 2014, and this will be reviewed by the Committee with an expected launch date in the second quarter of 2014-15. There is good synergy between your aims for research and development work, and the activity happening through this programme.

Recommendations:

That you note the contents of the report,

David Farnsworth, Chief Grants Officer
020 7332 3711

David.Farnsworth@cityoflondon.gov.uk

Report written: 29th December 2013

Agenda Item 9

Committee:	Date:	Item No.
Social Investment Board	13 th December 2013	
Subject: Social Impact Measurement	Public	
Report of: Chief Grants Officer	For Information	
<u>Summary</u>		
<p>This paper examines how social investors are working to measure the social impact of their investments. It notes the different approaches available to assess impact, and describes the work that the City of London Corporation Social Investment Fund is developing to assess the intended impact of each investment proposal it receives.</p> <p>The paper notes that, unlike financial accounting standards, there is a broad range of tools and approaches to measuring social impact. The range reflects the different resources available to social purpose organisations of different sizes, needs, focus areas, and the availability (or otherwise) of robust data on which they can build their work. A tool which is effective in one context may not work in another for very good reasons.</p> <p>Whilst there have been efforts to develop systems where social impact can be classified in common categories, the commonly held principle is that a measurement approach should be driven by the type of intervention and by the needs of the organisations that deliver that work.</p> <p>A screening tool, such as the risk-assessment framework which your officers are developing, will help to identify social impact risk to each proposed investment. In time, when more investments have been placed in common thematic areas it will be possible to look at trends and aggregated impact.</p> <p>Recommendation:</p> <p>That you receive this report and note its contents.</p>		

Main Report

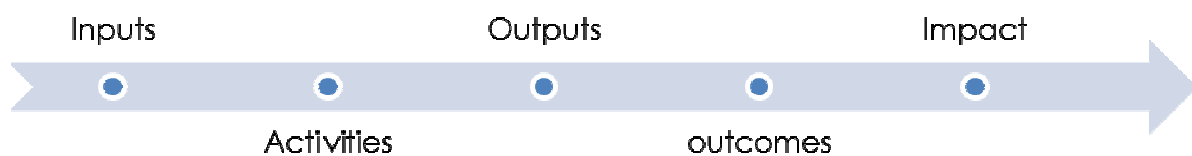
Introduction

1. Social investment is based on the principle that investors receive both social and financial returns. Accordingly, effective social impact measurement is essential for the credibility of the concept of social investment.

2. At your last meeting you asked how the impact of your social investments could be assessed and measured, and whether it was possible to use a common standard for all investment activities. This paper provides a summary of the work done in this field by social investors and evaluators, and describes the work that officers are doing to ensure that your Fund takes a rigorous approach to social impact measurement.

The Concept

3. Social impact measurement aims to assess the difference between what would happen with a given action and what would happen without it. It aims to answer questions such as 'did an intervention work?' 'How did it work?' 'Will it work again?' 'Does it work every time?' and 'Why did it work?'
4. Measurement often focuses on different points of the impact chain (below), looking at whether specific inputs and activities result in the same outputs each time, what outcomes (changes, benefits or learning) occur for different target groups, and what longer-term difference (or impact) results from a programme of work.



5. Depending on the area of intervention, there will usually already be a body of evidence providing some impact chain data, and the evaluator or social impact analyst will try to fill in specific gaps relevant to the programme they are examining.

Methods

6. Social change is a broad field, and your current investments support a range of activities including: accommodation for adults with learning disabilities; employment training for ex-offenders; housing for formerly homeless people; and small and medium enterprise development in low-income economies. Each area of activity requires its own indicators, and each has been developed by different organisations with their own social impact measurement tools.
7. A range of different tools exist, and there is extensive debate regarding which are more or less effective for different circumstances. Social purpose organisations are diverse both in size and focus, and the impact measurement approach taken by a small organisation focused on a specific group of service users in a local area will not be suitable for a large international charity with a multi-million turnover.
8. Despite the range of tools, each can be classed into one of five broad categories of approach:

- 8a. **Cost-benefit analysis:** (such as Social Audit and Accounting, and Social Return on Investment) which calculate the approximate monetary value of the outputs, outcomes and impact arising from a specific set of inputs and activities. These approaches compare the cost of work with the value of the benefits arising. An example is the study by Oxford Economics to assess the social return on Anchor House's work with formerly homeless people (<http://www.oxfordeconomics.com/publication/open/224360>) This is generally a rigorous and in-depth method, but is costly and time-consuming, and works better for certain types of intervention than others.
- 8b. **Statistical approaches to assessing change:** (such as benchmarking, 'before and after' comparisons, and randomised control trials) which work well when there is already a well-established data set and a high degree of confidence that an approach can be replicable. An example is a randomised control trial conducted with a voluntary sector befriending project working with people who care for dementia sufferers (<http://www.bmj.com/content/336/7656/1295>). These approaches can provide good information on causality, but may not pick up the full story of difference made. They can be expensive methods and may not be suitable for every type of social initiative.
- 8c. **Outcome indicator banks:** (such as Big Society Capital's outcomes matrix), which gather common measures of change for use by investors to categorise the intended impact of their investment. (Big Society Capital's outcome matrix can be found here: <http://www.bigsocietycapital.com/outcomes-matrix>). Whilst indicator banks help with classification of social approaches, by itself it is not enough to examine broader questions about why change has occurred, whether it was cost-effective, and whether it is replicable.
- 8d. **Impact rating platforms:** (such as the Impact Reporting and Investment Standards, or IRIS, and the Global Impact Investing Rating System, or GIIRS) which provide standard metrics but are more suitable for emerging market investments rather than activity in the UK. (Details of IRIS can be found here: <http://iris.thegiin.org/>). As with Big Society Capital's outcomes matrix, the platforms do not attempt to provide a complete analysis of the social impact generated from a specific intervention.
- 8e. **Case-by-case approach:** where a bespoke method is developed for the specific case. Bespoke methods are the most widely used in the social sector and allow for something tailored to the circumstances. It is extremely difficult to aggregate data from different bespoke evaluations.
9. Philanthropic grant-makers have amassed extensive experience of social impact measurement, and this is proving useful to those working on the same problems in the field of social investment. Grant-makers, including City Bridge Trust which has

distributed over £250 million of grant-funding, recognise that social impact can be measured more easily in certain situations than in others. Data on outcomes such as educational attainment and employment is easier to gather than data where the outcomes relate to preventative work or work of high sensitivity, such as interventions that seek to slow the rate of the onset of dementia or prevent instances of domestic violence. Precision and standardisation is far more straightforward in certain fields of social intervention than in others.

City of London Corporation Social Investment Fund approach

10. Your Fund currently classifies the intended benefit of all its active social investments using the Big Society Capital Outcomes matrix. However, standard classification does not reflect standard evaluation methods by investees and, to date, each investment proposal submitted for Fund consideration has been proposed with its own bespoke approach to social impact measurement. This is unsurprising and reflects the range of social outcome areas which you are supporting.
11. Ahead of your meetings, officers scrutinise the social impact approach of prospective investees. This includes an examination of how beneficiary progress will be measured, the resources the organisation has set aside to measure social impact, how the measurement process will be quality controlled, when data will be available, and how the business model might be adapted if the intended social outcomes are not being achieved.
12. A standard risk-assessment framework is under development to help screen investment proposals, and this tool includes questions relating to social impact such as:
 - Is the overall aim of the work sufficiently specific?
 - What are the intended outcomes of the work?
 - Are these outcomes important, and are they likely to result in longer term impact?
 - To what extent is the investee able to deliver the intended outcomes?
 - How can we be sure the intervention resulted in the intended outcomes, or would these changes have happened anyway?
 - Is it possible that the problem will move elsewhere as a result of the work delivered?
 - What are the most significant risks to impact and how will the investee mitigate these?
 - Will everyone involved in the work rate the impact positively?
 - What data will investors receive during programme delivery, and will this data be credible?
13. The social benefit of the proposed work is then presented in the investment case submitted to your meeting.

14. Along with their financial reports, investees are expected to present (at a minimum) annual updates on social impact achieved. You receive a summary of this data through your Portfolio Update, which is a standing item in your non-public papers.
15. You currently have four active and one conditional investment, representing £2.1m, supporting work in different geographies and on different social issues. Although it is too soon to talk about aggregated impact, at a point when you have several investments in a thematic area (such as move on accommodation for homeless people) it would be useful to evaluate these to identify what works, and where your investments could be directed to greatest impact in the future.

Conclusions

16. It is comparatively straightforward to measure the relationship between financial investment and financial return. Some social impact measurement can be simple and can be standardised, but this is rare. Inputs and activities may differ between organisations, and are delivered in an ever changing social, economic and political context. Outcomes and longer-term impact may only be apparent some time after the intervention was delivered, and may arise a result of other variables outside the control of the delivery agency. A rigorous social impact measurement approach is desirable and should be adopted, but will often need to be tailor-made to the specific intervention.
17. A broad range of tools and approaches exist to measure social impact. This plurality of approaches reflects the different resources available to social purpose organisations of different sizes, their different focus, needs, and the availability (or otherwise) of robust data on which they can build their work. A tool which is effective in one context may not work in another for very good reasons.
18. Whilst there have been efforts to develop systems where social impact can be classified in common categories, the commonly held principle is that measurement approach should be driven by the type of intervention and by the needs of the organisations that deliver that work.
19. A screening tool, such as the risk-assessment framework which your officers are developing, will help to identify social impact risk to each proposed investment. In time, when more investments have been placed in common thematic areas it will be possible to look at trends and aggregated impact.

Recommendations:

That you note the contents of the report,

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Report written: 29th December 2013

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Committee:	Date:	Item No.
Social Investment Board	13 th December 2013	
Subject: Update on work of the City Corporation's Social Investment Advisor		Public
Report of: Director of Economic Development		For Information
<u>Summary</u>		
<p>This report covers the major areas of activity of the Social investment Adviser (SIA) in developing the City Corporation's social investment strategy, in addition to her work on the City Corporation's social investment fund.</p> <p>Since your last meeting on 18th September, key work has included:</p> <ul style="list-style-type: none"> • hosting the first ever Global Impact Investment Network (GIIN) conference at the Guildhall; • hosting an event for Independent Financial Advisors, with guest speakers the Treasury Minister and the Financial Conduct Authority (FCA) Head of Investment Strategy; • launching the Social Investment Research consortium with Big Society Capital, Cabinet Office and Big Lottery Fund and starting on its first two projects; • coordinating response to the FCA's consultation on crowd-funding and its implications for social investment; and • feeding into the EU's panel of experts on the Social Business Initiative championed by Commissioner Barnier and his colleagues. 		

Main Report

The City of London's Social Investment Strategy

1. The work of the Social Investment Advisor (SIA) supports the City 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 SIA advises City Bridge Trust's 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 Corporation'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, as a driver of economic growth.

Events

2. **The Global Impact Investing Network (GIIN) held its first international conference at the Guildhall in October 2013.** Over 300 delegates from 35 countries attended. The conference attracted many 'new faces' to the event and provided an opportunity to inform potential investors of the range of international opportunities for social impact investment. Three key points arising included the importance and challenges of measuring the social impact created, the need to make it easier for an investor to source opportunities and the essential role that grants, underwriting, guarantees and other forms of subsidies have to play in kick-starting investments. The Chairman of the Policy and Resources Committee opened the conference, and GIIN, Minister Nick Hurd and outgoing Chair of Big Society Capital, Sir Ronald Cohen, all referenced gratefully the City Corporation's commitment to this agenda. A video with a follow-up interview with GIIN's CEO will be available on the City Corporation's video page shortly.
3. The second event in the **Social Investment Academy** series, hosted and supported by the City Corporation, took place on October 22nd. Over 80 Independent Financial Advisors and wealth managers on the social investment opportunities attended the event. The Chairman of Policy and Resources opened this event and was a panellist. Other speakers included the Treasury Secretary, David Gauke, MP and the Financial Conduct Authority (FCA) Head of Investment Policy, David Geale. This seminar revealed the perceived barriers faced by Financial Advisors from recommending social investments to their clients. The FCA reiterated how it considered that an advisor should determine the suitability of a social investment for a client.
4. **Research**

The City Corporation is a co-founder of the Social Investment Market Research Council, which was launched in October. This collaboration of sector leaders aims to co-ordinate and co-commission research projects. Other Research Council members are Big Society Capital, Big Lottery Fund, Cabinet Office and Citi bank. To date, two projects have been commissioned, and these will be published in early Q2 2014 ([Growing the social investment market: the landscape and economic impact](#), [The role of tax incentives in encouraging social investment](#)). Whilst there is already a waiting list of potential areas for research, proposals are encouraged from all interested parties. Each will be considered and prioritised by the Council for taking forward.

5. **EU issues**

The EU is hosting a large social entrepreneurship conference in Strasbourg in January 2014. The event will take stock of what has been done so far with the EU's Social Business Initiative and looks to set the future agenda for social enterprise and social investment through a special "Strasbourg Declaration". Whilst not attending the conference itself, the SIA is feeding into this in advance through her role on the EU's expert panel.

The SIA was invited to Greece in early December to present the UK experience and the City Corporation's engagement in social investment at the EU supported National Social Entrepreneurship Summit. The British Council kindly funded this trip. Other invitations to share UK experience are considered on a case by case basis.

Regulatory issues

6. The announcement on the Social Investment Tax relief is expected in early December with a further opportunity to feed in any views to H M Treasury before the budget formalises the relief in Spring 2014. The tax needs to balance the aim to incentivise individual investors with a comparatively attractive relief, whilst ensuring that the relief is supporting investments into genuine impact creating businesses. The relief is expected to be attached to investments that carry a level of risk, as in the equivalent of mainstream investment, even though the financial instruments used may differ in this sector (as debt is more commonly used than equity for higher risk investment). The SIA submitted a response to H M Treasury on behalf of the City Corporation on the details of the tax relief and has been part of a small working group formed by H M Treasury to consult with throughout this process.
7. The FCA has launched a consultation on crowd-funding which, in its proposals, has significant implications for the way in which certain unlisted investments (such as most social investments) may be promoted and offered to retail investors. The City Corporation, along with other parties, has sought amendments to the Financial Promotions Order to allow for a more proportionate regime around social investment. There are also a few crowd-funding platforms which are specifically focused on social investment, such as Ethex and Buzzbnk, with whom we are co-ordinating our responses to the consultation.
8. The SIA will feed into a response by the City Corporation to the Law Commission's consultation on fiduciary duties of investment intermediaries by late January. This consultation does now include a specific question relating to those duties of trustees of charitable foundations, which would help to clarify the position regarding social investment. A report with recommendations to Government (but no draft Bill) will be published by June 2014.

Market trends and issues - including G8 work

9. The market currently is broadly offering two types of social investments: these are indirect investments into sector or area specific fund structures, or individual direct investments into early – stage, and / or small scale organisations. There are a limited number of direct investments from charities and social enterprises with track

records, strong balance sheets and a desire to raise capital of the type that your Board has already invested in.

10. Social enterprises remain significantly under-represented in contract delivery for public sector services, in spite of the requirements imposed on commissioners by the Social Value Act to consider social impact generated. Issues of scale limit these organisations' ability to be prime contractors. Yet there is a need to see how new solutions to problems could be reached through better collaboration between commissioners, beneficiaries and social service providers. The UK National Advisory Board to the G8 is likely to prioritise this strand of work over the next year.

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Annex

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

Real Lettings	£5m	April 2013
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Agenda Item 14

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Agenda Item 15

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Agenda Item 16

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Agenda Item 17

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