



## Social Investment Board

**Date:** FRIDAY, 18 SEPTEMBER 2015  
**Time:** 11.30 am  
**Venue:** COMMITTEE ROOMS, 2ND FLOOR, WEST WING, GUILDHALL

**Members:** Alderman Peter Hewitt (Chairman)  
Deputy Robert Howard (Deputy Chairman)  
Nicholas Bensted-Smith  
Roger Chadwick  
Henry Colthurst  
Wendy Hyde  
Jeremy Mayhew

**Enquiries:** Philippa Sewell  
tel. no.: 020 7332 1426  
philippa.sewell@cityoflondon.gov.uk

Lunch will be served in the Guildhall Club at 1pm  
**NB: Part of this meeting could be the subject of audio or video recording**

**John Barradell**  
Town Clerk and Chief Executive

# AGENDA

## Part 1 - Public Agenda

1. **APOLOGIES**
2. **MEMBERS' DECLARATIONS UNDER THE CODE OF CONDUCT IN RESPECT OF ITEMS ON THE AGENDA**
3. **MINUTES**  
To agree the public minutes and non-public summary of the meeting held on 3 June 2015.  

**For Decision**  
(Pages 1 - 4)
4. **CHARITIES (PROTECTION AND SOCIAL INVESTMENT) BILL**  
Report of the Remembrancer.  

**For Information**  
(Pages 5 - 8)
5. **PROGRESS REPORT**  
Report of the Chief Grants Officer.  

**For Decision**  
(Pages 9 - 16)
6. **PRESENTATION FROM JP MORGAN**  
To receive a verbal presentation.  

**For Information**
7. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**
8. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**
9. **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 the Schedule 12A of the Local Government Act.

## Part 2 - Non-Public Agenda

10. **NON-PUBLIC MINUTES**  
To agree the non-public minutes of the meeting held on 3 June 2015.  

**For Decision**  
(Pages 17 - 20)
11. **PORTFOLIO UPDATE**  
Report of the Chief Grants Officer.  

**For Information**  
(Pages 21 - 44)

12. **INVESTMENT REVIEW: GLASGOW TOGETHER 2015 BOND**

Joint report of the Chamberlain and Chief Grants Officer.

**For Decision**  
(Pages 45 - 68)

13. **INVESTMENT REVIEW: GOLDEN LANE HOUSING 2014 BOND**

Joint report of the Chamberlain and Chief Grants Officer.

**For Decision**  
(Pages 69 - 90)

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

15. **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, 3 June 2015

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

### Present

#### Members:

Henry Colthurst

Alderman Peter Hewitt

Deputy Robert Howard

Jeremy Mayhew

#### In Attendance:

Alderman Alison Gowman

#### Officers:

Philippa Sewell

Town Clerk's Department

Kate Limna

Chamberlain's Department

Anne Pietsch

Comptrollers and City Solicitor's Department

David Farnsworth

City Bridge Trust

Tim Wilson

City Bridge Trust

Martin Hall

The City Bridge Trust

Damian Nussbaum

Director of Economic Development

Peter Cunnane

Economic Development Office

Russ Bublely

i-for-change (Social Investment Analyst)

Jeff Dober

FSE Group

Mark Bickford

FSE Group

#### 1. **APOLOGIES**

Apologies were received from Nick Bensted-Smith, Roger Chadwick and Wendy Hyde.

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

Alderman Hewitt declared a non-pecuniary interest by virtue of FSE having a joint venture with a company he owned. This venture was dissolved in January.

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

The Town Clerk advised of two clarifications to the co-option protocol: to correct an omission at paragraph 3(a) and to clarify that any co-optees would be subject to duty of confidentiality at paragraph 9.

**RESOLVED** – That the composition, quorum, Membership, terms of reference and co-option protocol be noted.

4. **ELECTION OF CHAIRMAN**

Members were invited to elect a Chairman in accordance with Standing Order 29. A list of Members eligible to stand was read out and Alderman Peter Hewitt, being the only Member indicating his willingness to serve, was declared to have been elected for the ensuing year.

5. **ELECTION OF DEPUTY CHAIRMAN**

Members were invited to elect a Deputy Chairman in accordance with Standing Order 30. A list of Members eligible to stand was read out and Deputy Robert Howard, being the only Member indicating his willingness to serve, was declared to have been elected for the ensuing year.

The Chairman welcomed Henry Colthurst and Nick Bensted-Smith, in his absence, as new Members of the Board, and thanked outgoing Members Andrew McMurtrie and the Revd Dr Martin Dudley.

6. **MINUTES**

**RESOLVED** – That the public minutes and non-public summary of the meeting held on 4 February 2015 be approved as a correct record.

**Matters Arising**

Investment Committee Membership

The Town Clerk confirmed that the proposal to make the Chairman of the Board an ex-officio Member of the Investment Committee had been met favourably. In the meantime, the Chairman could seek appointment from the Policy and Resources Committee as there were still three vacancies.

7. **PROGRESS REPORT**

The Chief Grants Officer introduced a progress report on social investment activity within the Corporation.

Stepping Stones Fund

The Principal Grants Officer reported that 41 applications had been received and, following a review of their submitted business plans and panel interviews in March and April, the Trust had short-listed 17 organisations which were approved by the Chairman and Deputy Chairman of the City Bridge Trust Committee. Each organisation sought grant funding of £10,000 - £50,000 and had a combined total of slightly less than £700,000.

The Chairman of the City Bridge Trust Committee confirmed the high standard of applications received, and advised that, in principle, he thought there would be enough demand for this exercise to be repeated. In response to Members' queries regarding how the long-term success of the Fund would be measured, officers advised that quarterly monitoring was a requirement of the grants and the follow-up activities of the organisations would be reported to the Board for information.

Right to Buy

The Chief Grants Officer advised that his officers would continue to monitor any new legislation on the extension of Right to Buy to housing association tenants

and would present a report on the risks to current investments and the possible impact for the future in due course.

#### Social Investment Research

The Chief Grants Officer advised that the City of London Corporation would publish “Developing a Global Financial Centre for Social Impact Investment” in June 2015. This would focus on the role London might play in becoming a “global social investment hub”, including a series of practical recommendations for policy makers and organisations. Members requested an update on the research findings at their September meeting.

#### Investment Pipeline

Members noted that regular informal meetings between officers and the Chairman and Deputy Chairman would begin taking place in between formal Board meetings to allow for closer engagement and direction regarding possible investment proposals.

### **8. PRESENTATION FROM THE FSE GROUP**

The Board received a presentation from Jeff Dober (Head of Social Impact Funds) and Mark Bickford (Senior Fund Manager) from the FSE Group, after which Members of the Board had the opportunity to ask questions.

Mr Dober advised that the FSE Group was a social enterprise with a long history of impact lending. They are an FCA-Authorised fund management, training and consultancy organisation working to develop small and medium enterprises through various funds over the past few years. Members noted that the FSE Group had a blended ethos between financial, social and economic objectives, and an active interest in the social investment sector. Mr Dober stated that most referrals to them were suitable for investment, though the majority needed further development first, and approximately 20% of demand was unsuitable.

Mr Dober discussed the current social sector market, which was a key component of the UK economy estimated at £24billion Gross Value Added. Members noted the FSE’s Social Impact Accelerator (SIA) which provided flexibly-structured loan finance to ambitious social sector organisations, and Mr Bickford detailed a case study of a London-based organisation which provided apprenticeships in construction for disenfranchised young people. In response to Members’ queries, Mr Dober advised that, arguably, there was a trade-off between financial and social return, as organisations were often incurring additional costs by delivering work that purely commercial organisations in the same sector were not doing. This would result in different issues being factored in to the business model and in overheads. Ultimately, the market was trying to encourage the development of creative and sustainable business models to maximise both, and, the Chairman added, this was why the City of London Corporation was keen to develop a universal approach to social impact measurement.

The Chairman thanked Mr Dober and Mr Bickford for their presentation.

**RESOLVED** – That the presentation be noted.

9. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**  
In response to a Member's question regarding previous investments, the Chairman advised that, owing to the Fund's fiduciary and reputational duties, capital preservation was crucial.
10. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT**  
There was no other business.
11. **EXCLUSION OF THE PUBLIC**  
**RESOLVED** – That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12A of the Local Government Act.
- | <b>Item No.</b> | <b>Exempt Paragraphs</b> |
|-----------------|--------------------------|
| 12-14           | 3                        |
| 15-16           | -                        |
12. **NON-PUBLIC MINUTES**  
**RESOLVED** – That the non-public minutes of the meeting held on 4 February 2015 be approved as a correct record.
13. **PORTFOLIO UPDATE**  
The Board considered a report of the Chief Grants Officer.
14. **INVESTMENT PROPOSAL: HCT GROUP**  
The Board considered a report of the Chief Grants Officer.
15. **QUESTIONS ON MATTERS RELATING TO THE WORK OF THE BOARD**  
There were no questions.
16. **ANY OTHER BUSINESS THAT THE CHAIRMAN CONSIDERS URGENT AND WHICH THE BOARD AGREE SHOULD BE CONSIDERED WHILST THE PUBLIC ARE EXCLUDED**  
There was no other business.

**The meeting closed at 12.52 pm**

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Chairman

**Contact Officer: Philippa Sewell**  
**tel. no.: 020 7332 1426**  
**philippa.sewell@cityoflondon.gov.uk**



|  |                        |
|--|------------------------|
| <b>Committee(s):</b>   | <b>Date(s):</b>        |
| Social Investment Board  | 18 September 2015      |
| The City Bridge Trust Committee  | 23 September 2015      |
| <b>Subject:</b><br>Charities (Protection and Social Investment) Bill   | <b>Public</b>          |
| <b>Report of:</b><br>Remembrancer  | <b>For Information</b> |
| <b>Summary</b>   |                        |
| <p>This Report outlines the provisions in the Bill which may be of interest to your Committee. The Bill:</p> <ul style="list-style-type: none"> <li>● proposes greater powers for the Charity Commission to tackle misconduct by charity trustees</li> <li>● gives charities a new power to make social investments</li> </ul> |                        |

## Main Report

### Background

1. The Bill is in two parts. The first follows a consultation by the previous Government, in December 2013, which included proposals to extend the Charity Commission's powers to tackle abuse in charities.
2. The Bill's second part is likely to be of greater City interest and, following a recent Law Commission consultation, proposes the liberalisation of the rules governing social investments by charities.

### Charities

3. The measures follow criticism of the Charity Commission from the House of Commons Public Accounts Committee (PAC) and from the Public Administration Select Committee (PASC). Much of the criticism has been directed at what the PAC called the Commission's "reactive" approach and what the PASC called a "far too vague and aspirational" regulatory approach. In general terms, the Charity Commission agreed with the criticisms of its lack of powers and, as a result, the Bill contains many provisions requested by the Charity Commission.
4. The Bill would give the Charity Commission a power to issue official warnings to any charity or charity trustee if it considered there had been a breach of trust or duty or other misconduct or mismanagement. The Bill clarifies that a trustee's misconduct or mismanagement in the administration of the charity would be established where a person had been responsible for the

misconduct or mismanagement, or that a particular person's conduct had contributed to it or facilitated it. The Bill would enable the Charity Commission, when coming to a decision about a person's misconduct or misbehaviour, to consider any other conduct of that person outside of the charity. The Bill proposes a power to enable the Commission to remove from a charity a person if they remain in a position in a charity once disqualified (at present such a person could remain at a charity so long as he does not act as a trustee).

### **Charity Commission Powers**

5. The Charity Commission has no general power to disqualify a person from being a trustee. At present it may only disqualify after an enquiry. The Bill would give the Charity Commission a more flexible power to disqualify a person in relation to all charities, specified charities or types of charities. The power would be triggered where the person was judged by the Charity Commission to be unfit to be a charity trustee and if an order disqualifying that person was desirable in the public interest. This power would, in the Government's view, help to protect public trust and confidence in charities generally.
6. The Bill would enable the Charity Commission to issue 'official warnings' if it considered that there had been misconduct or a breach of duty. The Government considers that adding this power to the Charity Commission's existing powers would add a 'quick fix' sanction for less serious cases. The proposed power would sit in between the Charity Commission's two existing powers (to issue guidance and to open a full enquiry). In addition, the period for which a trustee may be suspended would be extended from 1 year to 2 years.
7. Whereas the Charity Commission is currently able to remove a trustee only after it has opened an enquiry and has concluded that there was misconduct and a risk to charity property, the Bill proposes greater flexibility for the Charity Commission so that it may remove a trustee after an enquiry where it finds either misconduct *or* a risk to charity property. This proposed power would extend to being able formally to remove a trustee even when that trustee has resigned (for example to avoid removal and disqualification).
8. The Bill proposes a new power for the Charity Commission to order a charity not to pursue a particular action. This power would be available only after the Charity Commission had started an enquiry. A further power, to order trustees to wind up a charity, would be available to the Charity Commission in circumstances where an enquiry had established misconduct or where charity property needed, in the Charity Commission's judgement, protection. The Government has indicated that the winding up power would rarely be used.
9. The range of people who would be automatically disqualified from being a charity trustee is expanded under the Bill. Those with unspent criminal convictions for money laundering, bribery or terrorism offences would be

included. In addition, a person subject to certain civil court decisions would be disqualified from being a trustee – a person found guilty of contempt of court; a person designated under a terrorist asset-freezing order; and a person who has been found by the High Court to have disobeyed a Charity Commission order.

## **Social Investment by Charities**

### *Background*

10. Lord Hodgson of Astley Abbots' 2012 review of the Charities Act 2006 was a significant milestone in the development of an improved legislative structure of charity governance. While Lord Hodgson's review did not focus on social investment, it did conclude that charity law was "certainly not set up to support" the sector.
11. In 2014 the Law Commission consulted on aspects of charity law as they relate to social investment. The Remembrancer's Office and the Economic Development Office, on behalf of the City Corporation, engaged with the Law Commission's project and commented on the proposals regarding charity trustees' powers to make, and duties when making, social investments.
12. It was widely accepted, and the City was among those that pressed the Law Commission to address this point, that charities refrain from making social investments because they fear they are not allowed to accept a reduction in financial returns in circumstances where an investment would promote a charity's objectives but produce less than commercial financial returns. The City emphasised the need for greater clarity regarding charities' powers to invest in ways that seek to achieve both their charitable purposes and a financial benefit.
13. In its final proposals the Law Commission supported the creation of a new statutory power for charity trustees to make social investments and called for certain aspects of the Charity Commission's guidance on social investment to be improved. The Law Commission recommended that it should be made clear that charity trustees may use their permanent endowment to make social investments, provided they expect the capital value of the endowment to be preserved, and proposed the introduction of statutory duties specific to social investment. The Law Commission's recommendations were welcomed by the sector and subsequently incorporated in the Bill.

### *The Bill*

14. The Bill defines social investment as an investment that is done with a view to both (a) "directly" furthering the charity's purposes and (b) achieving a financial return for the charity. The requirement that an act must be done with a view to "directly" furthering the charity's purposes means that there is likely to be continued debate about the degree of connection required between the act done and the charitable good achieved. The Government has indicated

that a charity's purpose may be "directly" furthered by an investment in a third party, for example if a medical charity buys shares in a medical company.

15. Under the Bill, a charity's funds would not have to be applied with a view to generating a financial profit (whether in the form of income or capital growth), or even to be neutral from a financial perspective, in order for the act to qualify as a social investment. Further, a social investment made under the new arrangements would be regarded as making a financial return if there was some income or growth but where the financial element of the investment decreased in value. In other words, a social investment may be loss-making but an investment that is *expected* to result in a total loss of the relevant funds would not come within the definition of a social investment.
16. The Bill deals slightly differently with social investments made from permanent endowments so that power to make such investments is restricted to instances where charity trustees expect the value of the permanent endowment to be maintained. This means that greater restrictions would apply to social investments from a permanent endowment.
17. The Bill sets out a number of considerations that charity trustees, in relation to investments made after the Act comes into force, should take into account prior to exercising a power to make a social investment. They should consider whether in all the circumstances any advice about the proposed social investment ought to be obtained and take any such advice into account and must satisfy themselves that it is in the interests of the charity to make the social investment. The trustees must from time to time review the charity's social investments.
18. The Bill applies to charities in existence at the time the measure comes into force, as well as in relation to charities established in the future.

## **Consultation**

19. The Comptroller and City Solicitor's office and the City Bridge Trust were consulted in the preparation of this report.

## **Conclusion**

20. The Bill affects the City's interests as a social investor, as a supporter and administrator many charities and as trustee of City Bridge Trust. The most notable measure, the support for charities wishing to make social investments, reflects comments from the City Corporation among others.

## **Contact:**

**Philip Saunders**  
Parliamentary Affairs Counsel  
020 7332 1201

|   |                     |
|---|---------------------|
| <b>Committee</b>                          | <b>Dated:</b>       |
| Social Investment Board                   | 18 September 2015   |
| <b>Subject:</b><br>Progress Report        | <b>Public</b>       |
| <b>Report of:</b><br>Chief Grants Officer | <b>For Decision</b> |

## Summary

The report:

- introduces guests from Mercers' Company;
- introduces speakers from JP Morgan at today's meeting;
- provides an update on research by PwC on the development of a global financial centre for social investment;
- provides an update on City Bridge Trust's Stepping Stones grants programme for London charities exploring the social investment market;
- describes a series of regular meetings to help manage the investment pipeline;
- updates Members on the East London Bond, the City Bridge Trust's first social investment (entered into in 2010);
- introduces the investment proposals included in today's papers;
- recommends three investment targets for 2015-16; and
- provides an update on the co-option of new Members to the Social Investment Board.

## Recommendations

- a. That you maintain a target minimum return (per investment) of 2% and target total return of 2.7% across the portfolio for December 2015 – November 2016 as outlined at paragraph 17;
- b. That you approve a minimum target deployment rate of £3m for December 2015 – November 2016 as outlined at paragraph 18; and
- c. That officers prepare a paper for the October Court of Common Council updating Members on progress of the Fund and recommending that the London and UK investment allocations be combined as outlined at paragraphs 19 and 20.

## **Main Report**

### **Mercers' Company**

1. Members will need no introduction to Mercers' Company, an institution rivalling the City Corporation itself for longevity. Already well-regarded for its grant-making, Mercers' recently made its first social investment (in Charity Bank) and has had initial discussions with the Corporation about our approach to investment appraisal. Tim Haywood (Master) and Trevor Sykes (Head of Finance) from Mercers' Company will attend today's full meeting as observers.

### **JP Morgan**

2. Yasemin Saltuk and Kristoffer Jonsson from JP Morgan will join your meeting and introduce the bank's social finance work. Since 2010 JP Morgan has worked with the Global Impact Investing Network (of which City Bridge Trust is a member) to produce an annual report on the state of the social investment market. Based on a global survey of social investors, the most recent report was published in May 2015 and covers a range of topics including market size, priority social themes, attitudes to loss, provision of technical assistance, approaches to impact measurement and exit arrangements. The 2015 study is based on a sample of 146 organisations with USD60bn of social investment commitments. Charitable foundations represented 18% of the sample but only 6% of the assets under management. Across the whole sample, some key findings are of particular interest to the City's Social Investment Board:
  - 55% of the sample sought market-rate returns, 27% slightly sub-market returns and 18% capital preservation alone;
  - 74% of the assets under management were held in direct investments and 20% as indirect investments;
  - investments were divided equally between emerging and developed markets;
  - the single largest social welfare theme was housing, representing 27% of assets under management; and,
  - significant market development barriers included the shortage of high-quality investment opportunities and the difficulty exiting social investments.
3. JP Morgan's Social Finance team has also published a study of how 21 leading social investors approach impact measurement. This report "Impact Assessment in Practice" includes the Big Society Capital framework which is currently used by City Bridge Trust to categorise the intended impact of each portfolio holding.

### **City of London Corporation and PwC**

4. Commissioned by the City of London Corporation, PwC published its research report, "Developing a global financial centre for social impact investment" on

24<sup>th</sup> June 2015. This report explores what measures leading financial centres might take to support and enable the global growth of the social investment market. The research considered what the current social investment market looks like and the direction of travel for its globalisation. It outlines a three-stage model of development for a global financial centre, with particular consideration of London's current position, though the model can be used as an assessment tool and 'route map' for any financial centre looking to act as a 'hub' for the global social impact investment market.

5. The research identified three progressive stages of development for financial centres: stage 1 – a mature national financial centre; stage 2 – an emerging global financial centre; and stage 3 – a mature global financial centre for social impact investment with inward and outbound flows of international social capital. Considering London's current position against this model, PwC drew the following conclusions:
  - London is seen as a mature national financial centre for social impact investment with a strong basis and potential to become a global financial centre for the market, performing particularly well in terms of the maturity and attractiveness of its financial markets, and in providing a favourable legal, regulatory and business environment.
  - London performs less well in terms of its knowledge and expertise resource. There is scope to do more to combine financial acumen and social sector knowledge to develop a pipeline of talent for the sector; and London is seen to be lagging behind product innovation comparative to other markets, particularly in relation to stimulating retail investment.
  - A major area for development for London but also overall for the market's globalisation, is in social impact standards and reporting, and linked to this, accreditation and certification models. The research suggests that although a good deal of work has been done in the UK on developing standards, there is more to be done jointly on a global scale for enabling market growth. London bodies could play a key role in leading such developments.
6. The report presents a number of recommendations for the development of the global market. These include reforming the regulatory environment, such as through the financial promotion regime, to enable greater retail investment, as well as the development of new routes and pathways to accessing retail investment for social enterprises; developing targeted initiatives and tools for greater cross-fertilisation of knowledge and expertise between the financial, corporate and social sectors; greater technical assistance provision for social enterprises seeking funding to enable 'scale up'; and the development of an accreditation/certification standard for the market.
7. Officers are reviewing how City of London social investment work might build on the research findings and are meeting a number of external stakeholders to this end. In addition, as PwC are major sponsors of the forthcoming Good Deals conference, there will be a session focusing on the internationalisation of social investment.

8. The research is available to download from the City's website:  
<http://www.cityoflondon.gov.uk/business/economic-research-and-information/research-publications/Pages/Developing-a-global-financial-centre-for-social-investment.aspx>

### **Stepping Stones Fund**

9. I have shared updates on the City Bridge Trust's social investment grants' programme (Stepping Stones Fund) at previous Board meetings. Stepping Stones, which launched in November 2014, is designed to help charities and social enterprises in Greater London to engage with the social investment market. Applicants can seek funding to develop their business models, engage consultancy support, and test the suitability of their ideas for a wider market. The first 17 grants have now been made through this programme and I have appended details to this report (please see appendix A). The organisations were selected from a strong field of candidates, and decisions were made based not only on the quality of the proposals received, but also the case each applicant made for its future commitment to social investment.
10. Throughout the first round of Stepping Stones Fund the Trust worked closely with UBS and I am delighted to say that the bank has stated its continued commitment to the programme. Members will have received email invitations to an event in the Livery Hall on 23<sup>rd</sup> September where City Bridge Trust, UBS and one of the grantees will speak about our respective plans for the future. I hope that you will be able to attend as we announce details of the second round of funding, which is part of our efforts to develop the social investment market.

### **Managing Pipeline**

11. Your June meeting noted that regular meetings between officers and the Chairman and Deputy Chairman would begin, between Social Investment Board meetings, to discuss the investment pipeline. The first meeting took place on 24<sup>th</sup> July and considered five short investment reviews prepared by the Social Investment Analyst. Three opportunities were judged unsuitable and the remaining two will be subject to further due diligence (neither is ready for inclusion in today's papers). Further pipeline reviews are scheduled between Social Investment Board meetings and it is hoped that this will help reduce the Fund's due diligence costs.

### **East London Bond**

12. One of the first social investments the City was involved in was in the East London Bond. In July 2010, with funding from the main grants' budget, Members of the City Bridge Trust Committee invested £100,000 in this five year instrument. Principal was loaned to Places for People Homes, a registered social housing provider. City Bridge Trust chose to forgo interest payments on the bond, with accruals distributed in the form of unrestricted funding for two well-regarded East London charities, Bromley by Bow Centre



and Community Links. The East London Bond matured on 29<sup>th</sup> July 2015 and the principal was returned to the Trust. City Bridge Trust Committee will meet on 23<sup>rd</sup> September to consider proposals for use of £100,000 and to review a progress report on the work delivered with funding from the East London Bond.

### **Investment Proposals**

13. Today's papers include investment proposals from Glasgow Together and Golden Lane Housing. The first follows a very similar model to Midlands Together, in which you invested £300,000 in October 2013. Golden Lane Housing is an existing portfolio holding (you invested £500,000 in July 2013) which now has bonds listed on the London Stock Exchange. The latter is a particularly positive development for social investment finance since it provides Golden Lane Housing with exposure to a wider cross-section of retail and institutional investors.

### **Investment Criteria**

14. The May 2012 Court of Common Council designated £20m from Bridge House Estates for social investment, and the October 2012 Court approved the investment criteria for that capital, including the following:
  - the target return (across the portfolio) would be at least equal to the interest earned on the City's cash holdings;
  - the target dispersal rate in the first 12 months would be £2m with higher dispersal rates in subsequent years; and
  - £12m would be used to benefit Londoners, £6m to benefit the wider UK, and £2m for international benefit;
15. The April 2013 Social Investment Board clarified the financial target for the Fund as follows:

*“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%).”*
16. In line with the usual term for assessing the performance of other City investments it was agreed that the financial target would be reviewed and (if necessary) revised on its third anniversary, late 2015.
17. Members will be aware that interest rates have not risen since the Fund was established, and that the CPI rate has fallen (it was 0.1% in July 2015). Officers recommend that the Board maintains the April 2013 financial targets (2.7% total return and a minimum return, per investment, of 2%) for a further year. These targets should be reviewed and, if necessary revised, in late 2016.

18. Members receive updates on the Fund's deployment rate through the Portfolio Report, a standing item at your meetings. The social investment market is developing slowly, and the pipeline of suitable opportunities remains relatively weak. A number of steps have been taken to improve the situation including the City Bridge Trust's investment-readiness grants' programme (the Stepping Stones Fund) and the engagement of a Social Investment Analyst to work with formative proposals. However, the greatest obstacle remains the limited supply of good quality proposals within the risk tolerance of this board who remain vigilant about possible capital loss. Officers recommend that Members approve a minimum target deployment rate of £3m for the coming year (December 2015 – November 2016). Based on our own market intelligence from other charitable investors, the relatively slow rate of deployment is a common experience for many providers of social investment capital.
19. The geographical allocation of investments is also presented in the regular Portfolio Report. Since the Fund was established (and not including the investments presented to today's meeting) £4.3m of the £6m set aside for UK-benefit has been allocated. If today's investments are approved and placed then only £0.7m will remain on the UK allocation of your Fund. By comparison, it has been harder to find suitable London-focused opportunities and £9.2m of headroom remains on this allocation. The situation is summarised in the table below:

| <b>Geography</b> | <b>Ring-fence</b> | <b>Commitment to date</b> | <b>Headroom</b> |
|------------------|-------------------|---------------------------|-----------------|
| London           | £12m              | £2.8m                     | £9.2m           |
| UK               | £6m               | £4.3m                     | £1.7m           |
| International    | £2m               | £0.8m                     | £1.2m           |

20. The London-focused market has not developed as rapidly as hoped since 2012. In response, City Bridge Trust has launched the Stepping Stones Fund and awarded its first grants to organisations who may, in time, seek social investment finance from your Fund. Until then, and to avoid slowing the deployment rate, officers recommend that a short paper go to Court of Common Council on 15<sup>th</sup> October on behalf of the Chairman, providing an end year report on the Fund, and asking permission to combine the London and UK allocations. This would give the Fund a total allocation of £18m for the UK. Officers would continue to monitor London-focused investment, and detail this as part of the Portfolio Report submitted to your meetings.

### **Co-opted Members**

21. Following your skills audit and subsequent approval for the recruitment of co-opted Board Members, vacancies will be advertised in September via Big Society Capital, City Bridge Trust and a number of its partner networks. The opportunity will also be promoted to Members of the Court and I can provide a verbal update at your meeting.

## Appendices

Appendix 1: City Bridge Trust's Stepping Stones Fund: details of first round grantees are set out for your information (you will recall, as grants, these are governed by the City Bridge Trust Committee).

### David Farnsworth

Chief Grants Officer, City Bridge Trust

T: 020 7332 3713 | E: [david.farnsworth@cityoflondon.gov.uk](mailto:david.farnsworth@cityoflondon.gov.uk)

## Appendix 1: City Bridge Trust's Stepping Stones Fund Round 1 Grantees

### Strand 1: Capacity Building

| Organisation                             | Award           | Purpose  |
|--|-----------------|--|
| Action Tutoring                          | £50,000         | To help the organisation develop its investment proposal to expand its work in London schools                                      |
| Age Concern Havering                     | £46,000         | To support the organisation to improve its monitoring and measurement of impact and to develop a social investment model.          |
| Cardboard Citizens                       | £49,700         | To fund business modelling which will help the organisation expand its training services.  |
| Camden Town Unlimited Community Project  | £50,000         | To help Camden Town Unlimited Community Project develop a social investment business plan.   |
| Communities into Training and Employment | £49,500         | Funding to help CITE implement improvements to its information management systems  |
| Deptford Reach                           | £50,000         | To fund intermediary support from Social Finance, helping Deptford Reach raise social investment for a capital development scheme. |
| Forest Farm Peace Garden                 | £12,600         | Funding for a business plan to help the charity expand its organic growing scheme.   |
| Investing for Good CIC                   | £45,000         | Support for the development of a charity bond platform to help smaller charities raise social investment.                          |
| Meanwhile Space CIC                      | £49,500         | To fund the development of incubator accommodation for small enterprises.  |
| Media Trust                              | £50,000         | To fund a business development programme to help Media Trust explore social investment.  |
| Pure Leapfrog                            | £20,000         | To support the cost of implementing loan-fund procedures and documentation for the organisation's new community energy fund.       |
| Women's Resource Centre                  | £25,000         | To support the preparation of a business case for a third sector Women's Building.   |
| <b>Sub total</b>                         | <b>£497,300</b> |  |

## Strand 2: Piloting Outcomes

| <b>Organisation</b>               | <b>Award</b>    | <b>Purpose</b>   |
|-----------------------------------|-----------------|--|
| Enabling Enterprise               | £40,000         | To support the organisation to measure and report the outcomes of its work with schools.   |
| Federation of London Youth Clubs  | £50,000         | To help the charity develop social investment plans for its construction trades programme. |
| Providence Row                    | £48,200         | To cover the costs of work to develop the charity's bakery and room hire businesses        |
| Tower Hamlets Community Transport | £49,200         | To fund an online marketplace pilot for community transport                                |
| <b>Sub total</b>                  | <b>£187,400</b> |  |

## Strands 1 & 2: Capacity Building & Piloting Outcomes

| <b>Organisation</b>       | <b>Award</b> | <b>Purpose</b>   |
|---------------------------|--------------|--|
| National Zakat Foundation | £16,900      | To help the organisation develop its investment model. |

**Grand total = £701,600**

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