

<b>Committee:</b>	<b>Date:</b>	<b>Item No.</b>
Social Investment Board	13 <sup>th</sup> December 2013	
<b>Subject:</b> Progress Report		<b>Public</b>
<b>Report of:</b> Chief Grants Officer		<b>For Decision</b>
<b><u>Summary</u></b>		
<p>This paper 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><b>Recommendations:</b></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 18<sup>th</sup> 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 25<sup>th</sup> 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.

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Report written: 26<sup>th</sup> November 2013