

Committee:	Date(s):
Social Investment Board	26 th Feb 2014
Subject:	Public
Progress Report	
Report of:	For Decision
Chief Grants Officer	

Summary

Finance Committee has approved resources to allow recruitment of an investment analyst who will help your officers to appraise a growing pipeline of, often formative, investment offers. The analyst should be in post in time for your April meeting and will help with the disbursement of the Social Investment Fund (“the Fund”).

We are also, increasingly, being asked to enter into Non-Disclosure Agreements as a pre-condition to receiving information necessary to enable officers to evaluate investment offers. This report asks you to expressly delegate authority to the Chief Grants Officer to enter into these agreements, consistent with his role in administering the fund.

The City of London continues to work to develop the social investment market. City Bridge Trust (which undertakes the grant-making activities of Bridge House Estates funded through the charity’s income) has been consulting other charitable foundations, market intermediaries and charities as it works on a new grants programme to encourage more of London’s charities to engage with the social investment market. This new programme will be presented to City Bridge Trust Committee at their April meeting for approval, and details will also be shared with your Board for information. It is expected that there will be scope for the City Bridge Trust grants programme to support the objectives of the Fund (which invests Bridge House Estates’ capital).

As your Fund holds more investments under management, and as these investees seek to raise more funds, it is expected that the City of London as trustee of the charity will, from time to time, be asked to approve minor variations to the terms of its investment. To allow timely negotiation and approval of these variations, you are asked to approve a standing delegation to the Chief Grants Officer in consultation with the Chairman and Deputy Chairman which matters will be reported back to the next meeting of your Board.

Recommendation(s)

Members are asked to:

1. Note the report.
2. Delegate authority to the Chief Grants Officer to enter into non-

disclosure agreements which may be required as a pre-condition to receiving information necessary to enable the evaluation of investment by officers;

3. Approve a standing delegation to the Chief Grants Officer, in consultation with the Chairman and Deputy Chairman, to approve minor variations to the terms of existing social investments where these do not materially impact upon the charity's investment.

Main Report

Staffing developments

1. As reported to your 13 December 2013 meeting, the recognition and momentum that the Fund has gained means there is a growing stream of investment proposals reaching City of London for consideration. Many are at formative stage and offer the City the opportunity to shape the terms of the investment. Although helpful, this is time consuming and beyond current staff capacity.
2. The Chief Grants Officer of the City Bridge Trust in his role as administrator of the Social Investment Fund, identified the need for a dedicated Investment Analyst (initially for 3 days per week, expected to rise to 4-5 days after 12 months as the number of investments under management grows). The Analyst would assist the appraisal of the pipeline, help shape formative proposals (where appropriate) and provide in-depth review before passing the most promising prospects across to the Fund's third party advisors for due diligence. The Analyst would also help monitor active investments and, where appropriate, work with prospective investees to shape terms of investment. The Analyst would be based in both the Chamberlain's Department and the City Bridge Trust Team.
3. Finance Committee (21 January 2014) approved an allocation of £20k from its Bridge House Estates contingency for the cost of the Analyst during 2013/14. We will engage somebody on a consultancy basis, and have made contact with several candidates who will be interviewed by officers in City Bridge Trust and Chamberlain's, and who will complete an investment review exercise to gauge technical competency. We aim to have the appointed consultant in time to attend your April 7th meeting. We anticipate the consultant will be engaged for 6-12 months and their work will inform the role description of the permanent appointment.

Developing the social investment market

4. The first objective of the Fund is to provide repayable finance to organisations working towards charitable ends or with social purpose while still providing a suitable return on investment to the charity as part of a balanced investment portfolio. The second objective of the Fund is to help develop the social

investment market, and you are aware of the problems faced by investors and investees who wish to execute deals in this space. Investees generally face high-costs to bring deals to market, and often attract little interest unless they can offer security against loans. Investees operate with information shortfalls and an absence of market infrastructure to facilitate their investment activities.

5. You have received several reports detailing initiatives by the City of London generally and others to strengthen market infrastructure, attract new capital to the market, improve the policy framework and improve information flows for investors and prospective investees.
6. Whilst the Fund operates within the clear fiduciary parameters associated with the investment of capital from a permanently endowed charity and therefore needs to take a cautious approach to risk, there is no doubt that the charity's participation in the market has been welcomed. Since the Fund was launched there has been a noticeable upturn in the level of investee and intermediary activity. Officers expect this trend to continue given the level of resource being directed at market development by Cabinet Office, Big Society Capital and others, as well as a growing pool of investors from both charitable and commercial sectors.
7. At your December meeting officers updated you on City Bridge Trust's plans for a new grant programme (funded from Bridge House Estates' income) to attract more of London's charitable organisations to the social investment market. As you will recall from your December meeting, this programme will be designed following consultation with other investors, market intermediaries and charitable organisations.
8. These meetings took place in late January and early February, and identified several options for useful market development work which officers are now working up into fuller proposals. These include the provision of early stage finance, funding for market infrastructure and research for measuring 'what works' when addressing a social problem. You will receive a full update on this programme at your April meeting.
9. It has been mooted that the City of London should explore the development of its own product. This would take some time; and involve risks in holding other investors' capital and being accountable for their investment return. Given this and the fact that the market is developing rapidly, officers recommend maximising the use of the City's name and convening power to support others in the development of products rather than develop its own. Any proposal that would involve the charity's capital would need to be carefully reviewed and would require further consideration and advice to ensure it was consistent with the charity's powers of investment.
10. It was recommended that the City (both as trustee of Bridge House Estates in administering the Fund, and acting in its other capacities) should instead focus its work in partnership with the City Bridge Trust to explore the possibility of enabling new and innovative forms of finance to be made available to support the wider range of emerging investment opportunities. This would be done by

considering the continuum from grant finance through to social investment finance and indeed the possibility of combining the two. Research into this space is currently underway to define the best way forward; the Chairman of SIB has inputted into one of the focus groups informing this research and SIB will have an opportunity to discuss the emerging findings in their April meeting

Non-disclosure agreements

11. An increasing number of prospective investees have asked the City to sign a non-disclosure agreement before providing full details of their investment proposals. Non-disclosure agreements do not bind the Social Investment Board to an investment agreement, but rather place binding and mutual duties on the parties to respect the confidence of any information disclosed under that agreement. The Court of Common Council resolved in 25 October 2012 that the Chief Grants Officer would have responsibility for administering the Fund; however, he has no express delegations (unlike Chief Officers) to take decisions to enter into agreements, such as those noted above. To-date, authority to enter into non-disclosure agreements has been implied. Therefore it is recommended that express authority be delegated to the Chief Grants Officer to enter into non-disclosure agreements which would better enable him to undertake his role in administering the fund and presenting investment opportunities to your Board for consideration. Consistent with usual practice, the advice of the Comptroller and City Solicitor's Department would be sought as necessary.

Variations in investment terms

12. As your Fund holds more investments under management, and as many of those investees raise further funds, experience has shown that some investees will seek minor variations to the terms of their existing investment arrangements with the City of London. In order to allow timely negotiation it is proposed that you approve a standing delegation to the Chief Grants Officer, in consultation with the Chairman and Deputy Chairman, to approve minor variations to existing investment terms, providing that these do not materially impact upon the charity's existing investment. The Comptroller and City Solicitor's Department has confirmed that this is within your power to delegate.

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