Committee:	Date:
Social Investment Board	4th February 2015
Subject: Progress Report	**Public**
Report of: Chief Grants Officer	**For Decision**

Summary

This is the regular progress update of the Chief Grants Officer.

Recommendations

- To note the report;
- To approve the job description for co-opted Board members.

Main Report

Social Impact

1. Social impact is a key component of social investment and we continue to work with others to explore how this may best be considered and, where possible, measured. To this end we have been working with Eva Varga, an independent consultant with extensive social investment experience. Eva is engaged with the social investment market at a European level, and serves as a Member of the European Commission's Expert Group on Social Business. She has prepared a paper (found at Annex A to this report) on social impact measurement and will present at the meeting. Eva will join today's meeting to discuss her paper and share her thoughts on social impact measurement options available to your Fund.

Investment Proposals

2. Unfortunately, we have no suitable investment opportunities for today's meeting. Officers continue to work on deal sourcing through discussions with other investors, through the work of the Social Investment Analyst, and through direct approaches from prospective investees.

Stepping Stones Fund

3. You will recall that City Bridge Trust's Stepping Stones Fund, a £1m grants programme designed to encourage London-focused charitable organisations to engage with the social investment market was launched in November 2014. The deadline for applications will have passed by the time of your meeting and I will be in a position to report the level of interest in this Fund. So far, however, we have had considerable encouragement from organisations working in this field of the need for such a programme, and we are delighted that UBS will be working with us on the selection of grantees. City Bridge

Trust expects to make its first awards through Stepping Stones Fund in May 2015. We remain committed to updating both the Social Investment Board and the City Bridge Trust Committee on the progress of this programme as the links between different funding models (i.e. grant finance and repayable investment) need to be made.

Work of the Economic Development Office

4. The EDO is leading a research project to examine London's potential to act as a global hub for social investment. PwC has been commissioned to conduct the research, and EDO expect a draft report to be available in April, with final publication in May (after the general election). Peter Cunnane (City Affairs Officer in EDO) will attend the meeting in case Members have questions concerning this project.

5. EDO is also engaged with HM Treasury on financial promotions, and the degree to which social investments can be presented to a wider range of investors. This work is expected to continue until the general election, and a more detailed update will be included in the papers for your June meeting.

Board Recruitment

6. Following discussion of the findings from the recent skills audit, and of the options available for you to co-opt new Board members (including those from beyond the Court) you requested that officers prepared a job description for co-opted members. This is included as Annex B to this report and includes the details of the preferred skills. If approved by you today, the job description will be advertised to the Court of Common Council and through external sites such as that for Public Appointments hosted by the Cabinet Office.

Recommendations

- To note the report;
- To approve the job description for co-opted Board members.

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Annex A

Measuring and Managing Social Impact

Summary

This is a follow up to a paper on social impact measurement submitted to your meeting in December 2013. It gives an overview of different approaches to impact measurement and explains a few initiatives in detail, in order to illustrate the challenges investors and investees face, and possible solutions that different methodologies offer. It gives an overview of the current COLCSIF portfolio in a financial and social return framework, highlighting the specific questions that COLCSIF should consider. It offers a few suggestions that the Fund could follow for a better understanding, measurement and demonstration of the social impact of its investments.

While there was significant progress in the thinking about social impact in 2014, the Holy Grail has not been discovered. There is consensus that social impact management is essential for social investment and that it is not only about measurement. The recommendation of the G8 Social Impact Investment Task Force and the Social Impact Expert Group of the European Commission (GECES) is that basic principles and processes must be applied by investors in order to understand what is behind the data and to move towards a more transparent and consolidated social investment market. A number of measurement methodologies and indicator sets have been developed to meet the varying needs of investors and investees. It is generally accepted that social impact measurement requires resources and that a cost benefit analysis should be performed by each investor in order to select the measurement approach/methodology that is most appropriate for their objectives. Increased efforts for sharing best practices and data, plus a possible shift towards standardisation should lead to more robust information and the strengthening of the sector.

Current state of the market

1. How to compare apples with oranges? The question of standardisation has been in the forefront of the impact measurement and reporting debate for years. While it is recognised that impact methodologies can be and need to be very diverse in order to meet the needs of the charities that are using them, investors have a growing desire for comparison. Standardisation and the use of uniform tools could be solutions, but what should be standardised?

2. Some investors focus their attention on standardised impact reporting as a first step in the right direction. This has been motivated by the desire for transparency, comparability and a consideration for limited resources in the social sector. The best known example is the **German Social Reporting Standard** (GSRS)[1], which provides a template for reporting social impact and financial performance. Organisations can adopt GSRS freely and it does not require them to standardize their impact measurement frameworks.

[1] http://www.social-reporting-standard.de/wp-content/uploads/2011/09/SRS_Leitfaden_120716_en.pdf

Considerable effort has gone into standardizing social impact measurement and indicators with the aim to benchmark and make investment decisions easier.

3. The **G8 Social Impact Measurement Working Group** published a paper in September 2014, which provides an overview of the current impact measurement methodologies and dilemmas and lays out the most important future trends. The paper calls for a common set of tools and language in impact measurement, shared standards to lead to more successful benchmarking and for more capacity building in impact measurement for investees. It portrays the evolution of the market with four stages of development:

    a. Emergence – the point when individual organizations develop their own practices;
    b. Consensus – where best practices emerge and increasing alignment occurs across organizations;
    c. Standardization – where standards for performance measurement and transparency gain traction; and
    d. Integration – where standards become part of a market's formal infrastructure.

    It suggests that the first three phases currently co-exist and global as well as European guidelines indicate a forming consensus (see EU guidelines below). According to the authors the standardisation phase has already started, but the adoption of standards is still optional. The paper argues that in the future this should be followed by required standards and "Formalized Reporting and Disclosure Regimes".

4. The paper foresees the establishment of an impact measurement convention, which is defined as "a standardized impact measurement and reporting system that enhances the availability of material, reliable, comparable, 'additional,' and universal impact data."[2] Finally, it provides a roadmap and calls on all actors in the social investment market to commit to impact measurement, use existing and preferably standardised tools and contribute to joint learning by sharing best practices.

5. It is a very inspiring paper, which paints a long-term vision at sector/eco-system level. It is more aspirational than practical, and there is a long way to go before we reach its vision, as the sector is still in its early stages in most countries, and experimentation and failure are topics of the day. The paper can, at the same time, be a good basis for detailed work at portfolio and investor level. It suggests that new entrants follow the work of pioneers and adopt tested solutions. The paper is not a recipe for short term action; there are many challenges and considerations (see later) that need to be taken into account when designing an appropriate individual action plan for impact measurement.

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[2] Measuring impact; Subject paper of the Impact Measurement Working Group. G8 Social Impact Investment Task Force. September 2014

6. A major European initiative in this field is that of the **European Commission (EC)**, which commissioned a task force to provide guidance on social impact measurement to social investors. This was necessitated by the European Social Entrepreneurship Funds (EuSEF) legislation[3], which requires European Funds with this label to measure, report and prove the social impact of their investments. Recognising that using the same impact measurement methodology and indicators for all social investments across Europe is not possible or practical, the EC's recommendation is for EuSEFs to adopt a standardised impact management process, which ensures that key principles of social impact orientation are in place leading to transparent and accountable social investment practices. The process consists of 5 steps:

Figure 1: The impact management process

Source: European Venture Philanthropy Association (EVPA)

- **set objectives**: of the various parties in seeking measurement, and of the service being measured;
- **analyse stakeholders**: clarify who gains, who gives what, and how;
- **measure results**: what is the social enterprise's theory of change and what indicators will be used;
- **verify and value impact**: assess whether the targeted outcomes are actually achieved in practice; and
- **monitor and report**: prepare regular reports to internal and external audiences.

The EC suggest that such a process helps bring a standardized logic and approach to impact measurement, while also leaving enough flexibility for different market contexts, geographies and types of organisation to be taken into account during the actual implementation.

7. The social impact paper presented to your December 2013 meeting listed the main impact measurement methodologies and provided a few examples of usage. Your Fund applies the **Big Society Capital (BSC) Social Outcomes Matrix**[4], focusing on outcomes in the impact value chain (inputs-activities-outputs-outcomes-impact). The matrix goes beyond mere guidelines and

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[3] http://ec.europa.eu/finance/investment/social_investment_funds/index_en.htm

[4] http://www.bigsocietycapital.com/outcomes-matrix

offers a detailed set of outcomes and indicators by social issue area and target group type (individual or community/society). Investors and investees are able to select the outcomes and indicators most appropriate for them, but the onus of measurement and data collection is on them. If investors want aggregate portfolio outcomes, they need to find a way to gather the same data from all their investees. The outcome matrix can help set targets, pick indicators and gather data, but an analysis has to be performed in order to determine why change happened and how it really impacted the target beneficiaries.

Challenges

8. The approaches described above reflect different approaches and responses, which can be applied depending on the objectives of the investor and the resources available to the investor and the investee for impact measurement and analysis. There remain a number of challenges that all actors in the social investment space are struggling with:

    a. What trade-offs do social investors have to make: how can the expectations for quick investment rate, high financial return and high social impact be achieved and balanced?
    b. Can minority investors (such as the City of London in the majority of cases) demand tailor made impact measurement from the investees?
    c. Can the same outcome/impact methodology and indicators be used for investees that work in different social issue areas, so that the social return on investment can be compared or benchmarked?
    d. How can investors make sure that the investees have the capacity and resources to capture and report the data?
    e. How can proper analysis of measurement results be performed and integrated into the investment process?

9. Several responses can be considered to address the above challenges on the short or longer run. They each have their costs, which need to be taken into account when deciding how to address them.

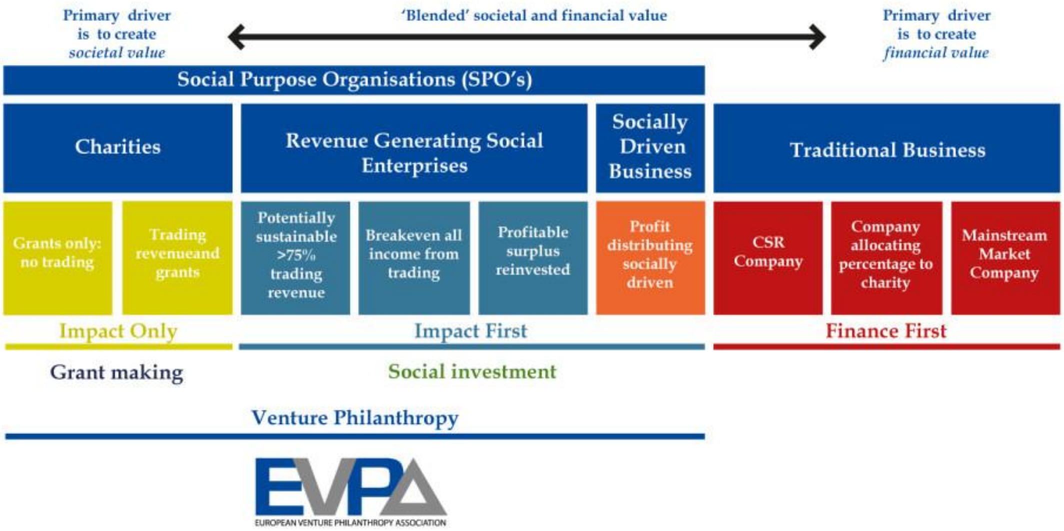
Managing trade-offs between investment rate, financial return and social impact

10. Given the state of products currently in the market, a drive towards rapid investment is likely to lead to compromises on risk (i.e. placing funds in products with no track record or where repayment is dependent on the achievement of outcome targets), or on social impact (i.e. focusing on products that are lower risk but which offer less scope to achieve social impact). Managing risk through investing smaller amounts means a slower investment rate, more deals and higher costs across the portfolio once fees and due diligence costs are aggregated.

11. In order to decide what trade-offs COLCSIF is prepared to make the **objectives of the Fund** may need to be reconsidered. Is COLCSIF more a

"finance first" or more a "impact first" investor? The Stanford Social Innovation Review[5] defines "impact first" investors as "*actively placing capital in enterprises that generate social or environmental goods, services, or ancillary benefits such as creating good jobs, with expected financial returns ranging from the highly concessionary to above market*." The City of London needs to preserve the value of Bridge House Estates' permanent endowment and has therefore set minimum expected rates of return for its Social Investment Fund. The Fund currently has to disregard investments that don't promise the minimum return, regardless of their social impact, but has not yet clarified the extent to which it is willing to forego financial return in order to realise higher social return.

12. It may be helpful to consider this issue using the European Venture Philanthropy Association's blended value spectrum. This enables investors to clarify whether their focus lies more towards the "finance first" or "impact first" ends of the spectrum.



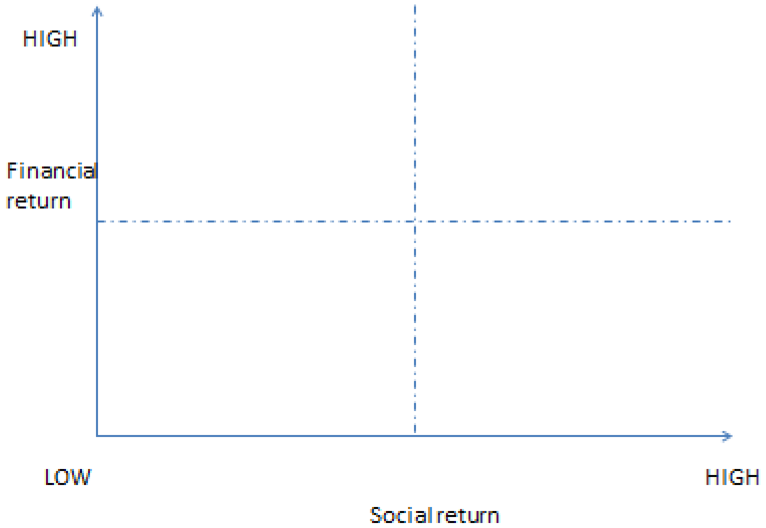
13. Your Fund could decide to make a mix of investments, some more profitable financially, while others more "profitable" socially. It could make specific allocations for both and consider the former subsidising the latter. According to the Stanford Social Innovation Review, if a fund calls itself an impact investor, they must make financial sacrifice; otherwise they do not contribute anything that the market would not do anyway[6]. Could concessionary investments (favourable terms, no financial return) and non-concessionary investments balance out at portfolio level in the City of London Corporation Social Investment Fund? In order to answer this question it would probably

[5] http://www.ssireview.org/up_for_debate/article/impact_investing

[6] "But if an impact investor is not willing to make a financial sacrifice, what can he contribute that the market wouldn't do anyway? We believe that in publicly traded large cap markets, the answer is nothing: Even quite large individual investments will not affect the equilibrium of these essentially perfect markets." http://www.ssireview.org/up_for_debate/article/impact_investing Fall 2013

be necessary to review past investment proposals to see, what sort of concessionary investments were requested (if any) and/or assess the future pipeline to predict, whether concessionary deals might be in sight. This information would be needed to decide, whether such split in allocation would make sense at all and what pricing compromise can be made. Would City Bridge Trust with its grant making ability be a good partner to involve?

14. The Portfolio Report in the papers for today's meeting includes a new approach to analyse current Fund investments according to social and financial return potential as follows:



15. The Portfolio Report analysis shows that most investments so far are in the middle to top-right-hand-corner of the 4-quadrant chart. To what extent would the Fund make investments that fall into the bottom-right corner if there are counter-balancing investments in the top-left (and vice-versa)?

16. Such analysis could be repeated periodically, using actual impact data collected from investees, not only predicted social return. This could help refine future return expectations, allocations of capital to concessionary and non-concessionary investments and pricing brackets.

Minority investment and bespoke measurement

17. The City of London usually co-invests alongside others and therefore cannot oblige the investee to use a specific social impact measurement methodology without driving up the investee's transaction costs (possibly even to the point where the investment offer is declined).

18. Instead, the City of London can make social impact assessment part of the due diligence process by introducing "gating factors" to screen out

opportunities that offer insufficient information on intended social impact, monitoring and reporting. The Fund may decide only to invest if the potential investee meets agreed minimum requirements. This is probably a reasonable and cost-effective option, given that due diligence and risk assessment is performed on each investee anyway.

19. The City of London could also work with co-investors to agree impact targets and measurement which they will all demand from the investee. This could be tried in the next such investment deal. The approach may have extra costs, depending on what measurement methodology all investors agree on, and this could be considered as part of the investment 'price'.

20. Another option would be for the City of London to pay for its own evaluation during or after the investment. This has cost implications, but could be considered either across the entire portfolio (from time to time) or per investment if an individual investee requires it.

Comparing impact in different social issue areas

21. Your Fund uses the Big Society Capital's outcomes matrix to identify intended benefit of each investment, but otherwise allows each investee to report using its own impact tools. Given the range of social issues supported across the portfolio, it remains difficult to compare social performance in one investment with another.

22. The City of London could introduce mandatory indicators, requiring investees to measure and report on factors such as revenue growth, growth in beneficiary numbers or increase in sustainability. Such indicators could be aggregated into portfolio-wide flagship indicators. In order to keep this a cost-effective exercise, the choice of indicators is key: they need to be meaningful and useful for the investee's management decisions as well. That way there will likely be more buy-in from the investees and they won't consider impact measurement an extra cost. However, to ensure quality, a mandatory indicator suite is likely to require some capacity building so that all investees have the required skills and practices in impact measurement. The City of London should consider whether this is something it would fund directly, or whether it would expect investees to cover costs through programmes offered by other organisations, such as the Social Investment Business' Impact Readiness Fund.

23. Alternatively, your Fund could decide to focus on specific social issues in the future and only invest in organisations generating impact in those social areas. This would make the establishment of measurement and indicators easier, as they would be applied to a more homogenous group of investees. At the same time, it may make the pool of desirable investees too small, which would slow down the investment rate and may lead to unsatisfactory financial performance if the narrow focus led to increased risk. It is thus advisable to assess first, who the operators in the priority thematic area are and whether there would be enough interesting investment opportunities among them in the future.

24. As the portfolio grows, it could be segmented and specific indicators set for cohorts of investees. Whilst this would allow some degree of comparison within segments, it would add a level of complexity by requiring a range of data management across multiple segments and would drive up the City of London's operating costs. Additionally, any decision to restrict the number of segments may reduce the pool of prospective investees, most likely slowing the rate of investment.

25. It is recommended that the City of London continues to monitor some of the impact measurement initiatives under development in the wider market. This includes the "implied impact"[7] concept attempts to measure social impact through a capital pricing spread between the risk-adjusted financial return of the social investment and the market rate return. This concept is not operational yet, as it needs further resources for development and testing.

Resourcing investees to capture and report social impact data

26. Who should bear the financial burden of social impact measurement? The answer is usually never only the investor or the investee: the costs have to be split, as efforts will be needed on both sides. It is to mutual benefit if investors ensure that investees have enough resources to gather and report social impact data. On a per deal basis, it would be useful for the City of London to consider whether its investment could include a portion of funds dedicated to covering the costs of activities related to social impact management (possibly through a dedicated grant fund).

Conclusions

27. The management and measurement of social impact is not straightforward and there is still some way to go before the market has a satisfactory solution that works across a broad range of investment products and portfolios. The City of London, with its growing portfolio of investments, experience and data should stay engaged in the development work underway. The views of the Social Investment Board on the issues covered by this paper would be appreciated.

Eva Varga, January 2015

[7] http://impliedimpact.org/

Annex B

Job Description for Co-opted Members

About the City of London Corporation Social Investment Fund

Established in 2012, the Fund is a £20m allocation within Bridge House Estates, a charity for which the City of London Corporation is sole trustee. 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.

Overseen by a Social Investment Board at quarterly meetings, the Fund has committed almost £7m to ventures across the UK and abroad since its inception.

Investment criteria and active investments can be found here:

http://www.citybridgetrust.org.uk/cbt/KnowledgeSharing/Social-Investment.htm

About the Social Investment Board

The Social investment Board is responsible for oversight and approval of the City Corporation's social investments and the approval and the appointment of independent advisors tasked with undertaking due diligence of investment proposals.

The Board are required to make decisions consistent with the strategic investment policies of the City Corporation's Policy and Resources Committee and Investment Committee.

There are currently seven Board Members, all drawn from the City of London Corporation's Court of Common Council:

- Alderman Peter Hewitt (Chairman)
- Deputy Robert Howard (Deputy Chairman)
- Roger Chadwick
- The Revd Dr Martin Dudley
- Wendy Hyde
- Jeremy Mayhew
- Andrew McMurtrie

Job Description

Through the Fund, Board Members manage charitable capital. The Board has responsibility for ensuring that investments achieve a financial return so that the overall value of the Fund is not eroded and that Bridge Houses Estates continues to generate income to further the purposes of the charity.

Whilst the key focus of the Social Investment Board is the quarterly meetings, each Board Member is expected continuously to develop their knowledge and understanding of the social investment market. Membership involves a time commitment.

The roles of Board Members are as follows:

- To attend all Board meetings whenever reasonably possible to do so, explaining any absences to the Chairman as relevant;
- To use any specific skills, knowledge or experience they bring to help the Board reach sound decisions – this will involve scrutinising Board papers, contributing to discussion, focusing on relevant issues, and providing advice and guidance to the Chairman and officers on areas which the individual Board Member has special expertise;
- To consider individual investment proposals, and their suitability for the Fund;
- To monitor the performance of investments in the Fund portfolio via information tabled by officers, making recommendations for action where necessary;
- To ensure the Fund achieves social impact;
- To shape and periodically redefine the Fund's Investment Criteria;
- To agree goals and targets for the Fund;
- To support constructive working relationships with officers involved in the Fund;
- To accept collective responsibility for decisions of the Board and to uphold those decisions;
- To maintain Board confidentiality where issues are discussed in non-public sections of the meeting; and
- To contribute to the monitoring of the Board's performance.

Person Specification

All Board Members need certain qualities, such as integrity and commitment, but not every Board Member needs the full range of experience required by the Social Investment Board as a whole.

Each Board Member must have:

- a commitment to the City of London Corporation Social Investment Fund;
- a willingness to devote the necessary and defined time and effort to the work of the Social Investment Board;
- an understanding and acceptance of the responsibility of the Social Investment Board as guardians of charitable capital;
- an ability to work at a strategic level, think creatively and criticise constructively;
- good, independent judgement with a willingness to speak their mind, but with a willingness to be persuaded and/or accept and uphold the views of the majority;
- an ability to be objective and to challenge assumptions;
- an ability to work effectively as a member of a team and to respect confidences;

The Board as a whole needs skills and experience in the following areas:

- risk management;
- financial regulation;
- investment classes including equities, fixed income securities, property, and collective investments;
- portfolio management;
- macroeconomics
- media and PR;
- welfare policy;
- social impact reporting;
- statutory commissioning; and
- legal matters.

Following a recent skills audit, the Social Investment Board is particularly keen to recruit new Board Members will skills and experience in

- welfare policy;
- social impact reporting;
- statutory commissioning; and
- legal matters.

The ideal Social Investment Board will also have:

- experience and knowledge of developments in the social investment market; and
- a satisfactory age, gender and diversity mix.