

Committee:	Dated:
Finance Committee – For decision	12 th September 2017
Subject: Accounting treatment for City of London Corporation's Social Investment Fund	Public
Report of: The Chamberlain Report author: Karen Atkinson, Head of Charity and Social Investment Finance, Chamberlains Dept.	For Decision

Summary

At its meeting on the 24th May 2012, the Court of Common Council agreed to designate £20m from Bridge House Estates (BHE) general reserves for investments in activities that generated a financial return, alongside an associated social return, creating the Social Investment Fund (SI Fund).

Since inception the SI Fund has committed to 20 investments totalling £12.6m, of which £8.7m is currently invested. £0.55m has been received relating to the SI Fund, up to 31 March 2017, being the distributed income of the investments. This has been accounted for as income in the BHE financial statements, adding to the surplus in the General Unrestricted Fund.

In order to continue to maintain the value of the SI Fund, protecting against any future losses, the net value of distributed income, gains and losses on divestment / maturity and the returned underlying capital should be designated to the SI Fund. Of the above, the net value of distributed income is currently being accounted for within the General Unrestricted Fund of BHE. The SI Fund would reinvest any additional balances designated to the fund in line with its previously agreed purposes.

This paper is not proposing any amendments to the aims of the SI Fund.

Recommendations

Members are asked to:

- approve the designation of the net value of distributed income, alongside gains and losses on divestment/maturity and the returned underlying capital, to the SI Fund.
- approve the transfer of the cumulative impact of all distributed income to date from inception of the fund from the BHE General Unrestricted Fund and designated against the SI Fund, being a £0.55m adjustment.
- approve the reinvestment of any additional balances that are designated to the SI Fund in line with its' previously agreed purposes.

The above recommendations would take effect within the 2017/18 financial year, as a transfer between the funds held within the BHE balance sheet.

Main Report

Background

1. At its meeting on 24 May 2012, the Court agreed to designate £20m from BHE reserves for investments in activities that generated a financial return, alongside an associated social return. The designation for this was the City of London Corporation's Social Investment Fund (the SI Fund).
2. As this fund forms part of the City Corporation's overall investment portfolio, the SI Fund's investments are managed in accordance with the agreed investment strategy and policies under the responsibility of the Investment Committee.
3. The SI Fund's strategy, aligned to the overall investment strategy, was set out in the report by the Policy and Resources Committee presented to the Court of Common Council on the 25 October 2012:
The Fund will be financed from accumulated cash reserves which would otherwise be invested on the money markets. Accordingly, the Fund will seek a return across the portfolio that at least matches the interest earnings that will be foregone.
4. As social investment involved a new approach and requires careful balancing of the financial and social returns, the Investment Committee amended their terms of reference to enable a Social Investment Board (SIB) to be established, enabling the benefit of specific and dedicated scrutiny and decision-taking.
5. The terms of reference for the SIB are as follows:-
 - to approve criteria for Social Investments and to authorise social investments in accordance with such criteria;
 - to approve the appointment of and monitor the performance of independent advisors tasked with undertaking due diligence of investment proposals;
 - all of the above to be consistent with the strategic investment policies determined by the Policy and Resources Committee and the Investment Committee.
6. The SIB also actively monitors and reviews the risk associated with the investments across the portfolio and works to mitigate and limit these.
7. When the SI fund was created the focus was on the purpose of the fund, rather than on the on-going management of the fund. As such there was no explicit guidance on accounting treatment. This paper is not proposing any amendments to the aims and return targets of the SI Fund.

8. The SI Fund is a designated element of the overall investment strategy, with an expected return as part of a balanced portfolio of the charity's investments. In order to continue to maintain the value of the fund, protect against any potential losses and to monitor the target return, the net value of distributed income, gains/losses on divestment /maturity and the returned underlying capital should be recycled throughout the life of the fund and as such designated to the SI Fund for further investment. Of the above accounting transactions, the net value of distributed income is currently being accounted for within the General Unrestricted Fund of BHE. Such in-year revenue transactions will continue to be accounted for within the Income and Expenditure account, with the proposed change simply being a year-end transfer between funds held within the BHE balance sheet.
9. A designation of funds held within the accounts is at the discretion of the City of London Corporation, as the sole trustee of BHE, in accordance with the Statement of Recommended Practice (SORP) Accounting and Reporting by Charities 2015.
10. Since inception, the SI Fund has committed to 20 investments totalling £12.6m, of which £8.7m is currently invested. 2 investments were redeemed in 2016/17. The investments are largely Unlisted Loan and Bond agreements with no active secondary markets.
11. To date, £0.55m income has been received relating to these investments, which has been accounted for in the BHE General Unrestricted Fund.

Financial Year	Distributed Income £'000	Cum. value of Investments £'000	Cum. number of Investments
2012-13	-	300	1
2013-14	5	2.000	5
2014-15	62	6.200	12
2015-16	179	8.200	20
2016-17	300	8.700	18
	546		

12. Indirect costs incurred relating to Social Investments, such as City of London staff time, advisory costs or any costs relating with placing the investments are to continue to be accounted for within the BHE General Unrestricted Fund, in line with the treatment of other financial investments held by the charity.

Proposal

13. It is recommended that all distributed income and direct costs incurred, alongside gains/losses on divestment/maturity and the returned underlying capital, should be designated to the SI Fund.

14. It is recommended that the cumulative impact of all distributed income, net of direct costs, received to date is transferred from the BHE General Unrestricted Fund to the SI Designated Fund, a £0.55m adjustment. This would take place within the 2017/18 financial year, as a transfer between the reserves held within the BHE balance sheet.

Conclusion

15. This report presents a proposal to cover the accounting treatment for all movements attributed to the BHE Social Investment Fund, recommending that the net annual distributed income be designated to this fund within the balance sheet of the charity alongside other fund movements. Should the recommendation be agreed, a further paper will be circulated to the Investment Committee to provide clarification on the accounting treatment for the sake of completeness.

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