

Committees:	Dates:
Policy and Resources Committee City Bridge Trust Committee Investment Committee Court of Common Council	6 th September 2012 27 th September 2012 Delegated Authority 25 th October 2012
Subject: City of London Corporation's Social Investment Fund Governance and Operating Arrangements	Public
Report of: Chief Grants Officer	For Decision
<u>Summary</u>	
<p>At its meeting on the 24th May, the Court of Common Council agreed to designate £20million from Bridge House Estates for investments in activities that produce both social and financial returns at a rate not less than the average interest rate earned on the City's cash holdings. The proposed designation for this is the City of London Corporation's Social Investment Fund.</p> <p>The Fund involves a new approach and requires careful balancing of both financial and social returns. This requires specific and dedicated scrutiny and decision-taking and it is proposed that the terms of reference of the Investment Committee be amended to enable a Social Investment Board to be established for this purpose. The new Board will have the power to make decisions, where funds have been designated for this purpose, in the field of social investment and will sit alongside the Financial and Property Investment Boards.</p> <p>The Fund will be administered by the Chief Grants Officer and her team for the City Bridge Trust and all investments proposed will be channelled through the City Bridge Trust. Outline proposals will be reviewed monthly by the City Bridge Trust Grants Unit and the Chamberlain's Department which will filter out proposals falling outside the approved criteria. A combined report from Chamberlain's Department and the Chief Grants Officer for the City Bridge Trust will be provided for the Social Investment Board's decisions, together with any external assessment and/or applicants' prospectuses.</p> <p>Recommendations</p> <ul style="list-style-type: none"> • That, subject to the concurrence of the Court of Common Council, approval be given to the aims and objectives, outline investment strategy and governance arrangements (including altering the Terms of Reference of the Investment Committee) 	

as set out in this report for the future management of the City of London Corporation's Social Investment Fund activities;

- That the Post-Implementation Review Working Party be advised of the proposed governance arrangements in order to inform its work; and
- The Town Clerk be authorised to make any necessary adjustments to Standing Orders to reflect the arrangements recommended in this report.

Main Report

1. Introduction

This paper has the support of members of the Resource Allocation Sub-Committee and its contents were discussed when it met informally at its Away Day Meeting on 6th July 2012.

2. Background

At its meeting on 24 May, the Court of Common Council agreed to designate £20 million from Bridge House Estates for investments in activities that produce both social and financial returns. The proposed designation for this is the City of London Corporation's Social Investment Fund (hereinafter *the Fund*). It will provide a significant opportunity to maximise the social impact of the City Corporation's investments.

3. Over the past two years, the City Corporation has done much to raise awareness of the importance of social investment and to advance the social investment agenda. In July 2011, the CoL published its influential report "Investor Perspectives on Social Enterprise Financing" which explored what more could be done to attract the talent and resources of investors who wish to generate both social and financial returns.
4. As a response to this report, City Bridge Trust held a series of master classes communicating both the value of and the challenges involved in social investment. In July 2012 the Lord Mayor hosted the third of these master classes at a breakfast for private wealth advisers, which was chaired by the Chairman of the Policy & Resources Committee. The wide-ranging discussion highlighted the need to secure a wider and deeper investor base for social investment and the importance of leadership in this nascent market.

5. In April 2012, the Chairman of the Policy & Resources Committee chaired an Action Group on Social Investment as part of the Prime Minister's "Giving Summit".
6. Social Investment is high on the coalition Government's agenda and the establishment of Big Society Capital (which CoL supports by paying its premises cost) will further accelerate the social investment market.
7. The Policy & Resources and the City Bridge Trust Committees earlier this year approved the establishment of a dedicated Social Investment Advisor role for one year, to advise the Economic Development Office on the production of a City Corporation 5-year Social Investment Strategy.
8. The City Corporation is well placed to play a major role in the development of the social investment market. The Fund will demonstrate "by doing" the value of such investments.

9. Aims

The Fund will aim to achieve a financial return at a rate not less than the average interest rate earned on the City's cash holdings and a demonstrable social benefit. It will help position the City of London as a leader in social investment, develop London as a global centre for social investment and by so doing, help to grow the market.

10. Objectives

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
- To help develop the social investment market

11. The Fund will consider both direct investments (providing returnable funds to organisations which pursue charitable, community or social objectives) and indirect investments (into funds managed by others in order to reach a greater number of charities and social enterprises).

12. Geographical Focus

In line with the Corporation's commitment to build the UK social investment market it is recommended that most investments made from the Fund be allocated towards work that benefits communities in the UK.

13. It is proposed that the Fund will seek to allocate:

- 60% of its total value to benefit London beneficiaries;
- 30% of its total value to benefit UK-based beneficiaries
- 10% of its total value to benefit overseas beneficiaries

14. Investment Strategy

To maintain its real value, the Fund will seek a return across the portfolio that at least matches the Office of National Statistics' CPI inflation rate (2.4% as of June 2012).

15. Notwithstanding basic key criteria as proposed above, it is suggested that eligibility is kept sufficiently wide-ranging to incorporate the most suitable opportunities arising in this nascent field.

16. Where individual investments are expected to produce a lower financial return than the CPI inflation rate, they will only be considered if there is a significant case that the social outcomes achieved compensate for the loss of income. The financial return on individual investments will, in all cases, match or exceed the average interest rate earned on the City's cash holdings.

17. In order to preserve capital and develop expertise, first investments are likely to be in instruments offering lower risk, for instance, secured loans and short term bonds. The target dispersal rate in the first year will be £2 million with a higher dispersal rate in subsequent years once the appraisal and administration process is well established.

18. Investment terms

On approval of an investment, the Comptroller & City Solicitor's Department will negotiate a binding contract with the investee to protect the Fund's position.

19. Proposed Governance

The City Corporation's investments, both property and non-property, are managed through the Investment Committee.

20. Although it will form part of the City Corporation's overall investment activity, social investment involves a new approach and requires careful balancing of both the financial and social returns. In light of this, it is appropriate for social investment to benefit from specific and dedicated scrutiny and decision-taking and it is, therefore, proposed that the terms of reference of the Investment Committee be amended to

enable a Social Investment Board to be established. This new Board will have the power to make decisions in the field of social investment and will sit alongside the Financial and Property Investment Boards.

21. To facilitate this, it is proposed that the Investment Committee's Terms of Reference be amended as follows:
 - a) To be responsible for the strategic oversight and monitoring of the performance of all of the City of London Corporation's investments, in accordance with the investment strategy determined by the Policy & Resources Committee.
 - b) To fulfil (a) above by means of
 - i. the appointment of a Property Investment Board and a Financial Investment Board, responsible for property and financial investments (excluding social investments) respectively;
 - ii. the appointment of a Social Investment Board, responsible for social investments.

22. The Social Investment Board - Membership

The Social Investment Board will be appointed annually by the Investment Committee. However, in view of the very specialist nature of this type of investment activity, it is suggested that the membership of the Board should comprise a mix of ex-officio and directly elected Members. In this way, the ex-officio Chairmen are able to serve or, should they so wish, nominate individual Members of the Court of Common Council who may have experience or expertise in this field to serve in their stead, the Investment Committee will be represented and the Court is able to directly elect two Members to serve. The proposed composition is as follows:

- a) The Chairman of the Policy & Resources Committee for the time being or his/her nominee;
- b) The Chairman of the Finance Committee for the time being or his/her nominee;
- c) The Chairman of the City Bridge Trust Committee for the time being or his/her nominee;
- d) The Chairman of the Financial Investment Board for the time being or his/her nominee;
- e) One Member of the Financial Investment Board;
- f) Two Members elected by the Court of Common Council, one of whom shall have fewer than five years' service on the Court at the time of their appointment.

All nominees must be Members of the Court of Common Council.

23. In addition, the Social Investment Board shall have the power to co-opt people with relevant expertise or experience, including non-Members of the Court in the same way as the other two Boards.

24. Chairmanship

The Social Investment Board shall elect annually a Chairman and a Deputy Chairman from amongst all of its Members (including ex-officio Members who shall also have the power to vote in such elections) with the exception of any co-opted people, and Standing Orders will need to be amended.

25. Terms of Reference

The terms of reference for the Social Investment Board shall be as follows:

- a) to approve criteria for Social Investments and to authorise social investments in accordance with such criteria
 - b) to approve the appointment of and monitor the performance of independent advisors tasked with undertaking due diligence of investment proposals
 - c) all of the above to be consistent with the strategic investment policies determined by the Policy and Resources Committee and the Investment Committee.
26. In the same way as the Financial and Property Boards are able to operate, it is proposed that Standing Orders be amended to provide for the Chairman of the Social Investment Board to be able to respond and speak on their subjects in the Court and to ensure that any decisions are taken without undue delay.

27. Meetings

The Social Investment Board will meet at least three times each calendar year. Minutes will be circulated to the Investment Committee.

28. Management

The Fund will be administered by the Chief Grants Officer for the City Bridge Trust. In order to coordinate administration and portfolio management, all investment proposals will be channelled through the City Bridge Trust. Outline investment criteria will be published on City of London and City Bridge Trust's websites and all prospective investees will be required to submit a 2-sided (max) proposal. Outline

proposals will then be reviewed at monthly meetings of Officers from the City Bridge Trust Section of the Town Clerk's Department and of the Chamberlain's Department, with the initial sift filtering out proposals which are outside approved criteria.

29. Prospectus

Proposals which meet recognised criteria will be invited to submit a full proposal. A full assessment will examine the underlying business model, capital required, projected financial returns on the proposed investment, other investment already committed or in pipeline, risks to the investee and to the City of London as an investor, and the social outcomes sought. An independent FSA regulated agency will usually undertake financial assessment. Where possible, Officers will work with co-investees to share risk and reduce cost.

30. A representative from the Chamberlain's Department will review the independent FSA regulated agency's assessment. A City Bridge Trust officer will draft a short report on the social impact of the investment. A combined report will be provided for the Social Investment Board's decision, together with external assessment and/or prospectus.

31. Monitoring the Investment

Following investment, the City Bridge Trust Officers will check that all investment criteria have been met by the investee and continue to monitor the investment throughout its life, submitting quarterly reports to the Social Investment Board. Suitable coding for all investments will be established through the GIFTS database, in consultation with the Chamberlain's Department, and payment transactions will be made through the Corporation's CBIS system.

32. Resources

The Fund will need an allocation to cover costs of independent investment appraisals and to expand the IT system through the GIFTS database. For the remainder of the 2012-13 financial year, these fees and other running costs can be met within City Bridge Trust's local risk budget. In subsequent years, the City Bridge Trust would seek approval from the Policy & Resources Committee for an uplift in its local risk budget.

33. Consultation

The Town Clerk, Chamberlain, Comptroller & City Solicitor and Director of Economic Development have been consulted in the preparation of this report.

34. Conclusion

This report sets out the various proposals for establishing the criteria and governance in respect of the City Corporation's activities in the field of social investment. If the Committee approves these proposals and subject to the concurrence of the Court of Common Council, the Post-Implementation Review Working Party will be advised of the proposed governance arrangements to inform its work.

Background Papers:

20th July 2012 – Investment Committee – “City of London Corporation Social Investment Fund – Proposed Management and Governance Arrangements”.

24th May 2012 – Court of Common Council – “Report – Policy & Resources Committee: Social Investment Fund”

3rd May 2012 – Policy & Resources Committee – “Proposal for a City of London Social Investment Fund”.

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