

<b>Committee:</b>	<b>Date:</b>
Social Investment Board	14 <sup>th</sup> December 2012
<b>Subject:</b> Investment Criteria	<b>Public</b>
<b>Report of:</b> Chief Grants Officer	<b>For Decision</b>
<b><u>Summary</u></b>	
<p>The Court of Common Council approved investment criteria for the City of London Corporation Social Investment Fund (the Fund) at its meeting on 25<sup>th</sup> October 2012. This paper restates those criteria and proposes additional criteria to help guide investment decisions including:</p> <ul style="list-style-type: none"> <li>• Social benefit</li> <li>• Direct investments</li> <li>• Indirect investments</li> </ul> <p><b>Recommendations:</b></p> <p>a) That you agree new investment criteria as set out in paragraphs 10 to 15 of this paper.</p> <p>b) That officers make the investment criteria available online to help guide prospective investees.</p>	

### **Introduction**

1. This paper presents the investment criteria which were approved by the Court of Common Council at its meeting on 25<sup>th</sup> October 2012.
2. It proposes additional criteria to guide investment decisions and advise prospective investees of their eligibility to seek support from the City of London Social Investment Fund (the Fund). New criteria are set out in section 10.
3. Your officers have been instructed to utilise the skills and learning of other more experienced social investors. The investment criteria in this paper have been developed following consultation with several other social investors, and with advice from Social Finance Limited and Big Society Capital. Paragraph 14, which provides guidance on investment in for-profit

social sector organisations, is closely based on criteria written by Big Society Capital.

### **Existing criteria**

4. Court of Common Council approved several investment criteria when they accepted proposals for the Fund at their meeting on 25<sup>th</sup> October.

### **Fund aims**

5. The Fund will aim to achieve a financial return at a rate not less than the average interest 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.

### **Fund objectives**

6. 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

### **Eligibility for investment**

7. 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).

### **Financial return**

8. Each investment should offer a financial return at a rate equal to or above the average interest rate earned on the City's cash holdings. Where individual investments are expected to produce a lower financial return than the Consumer Price Index (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.

### **Investment portfolio**

9. In line with the Corporation's commitment to build the UK social investment market, most investments made from the Fund will be allocated towards work that benefits communities in the UK. Over the £20m, 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 international beneficiaries

### **New criteria**

10. Following advice from other more experienced social investors, officers propose that you approve additional investment criteria. These will help guide investment decisions and will deter speculative applications to the Fund. The criteria will also help ensure that your Fund is in line with social investment practice in the UK.

### **Social benefit**

11. Each investment must offer a well-defined and measurable social benefit which can be achieved within the term of the investment. Investees must be capable and willing to provide regular updates on the social benefit achieved throughout the term of the investment

### **Direct investments**

12. Eligibility for direct investment will be restricted to those organisations that:
  - Have a financially viable business plan which shows how revenue will be generated to repay the investment; it will also have clearly articulated social impact
  - Have strong management and governance
  - Have a clear exit strategy / end term for the investment to be repaid
13. Direct investments are normally be made for purposes of either: service expansion; organisational development; purchase of property or other capital items that support service delivery.
14. In addition to making direct investments in organisations that are registered with the Charity Commission or Community Interest Company Regulator, direct investments can also be made in for-profit social sector organisations where the organisation's governance embodies and protects its social mission by:
  - Setting out objects in its constitutional documents that are primarily concerned with the provision of benefits to society
  - Having a policy in relation to the distribution of profit after tax that ensures surpluses are principally used to achieve social objectives. Practically this means that the payout of cumulative profit after tax to shareholders will be capped at 50% over time, and therefore ensures that any surpluses generated over time will be mainly:
    - i. reinvested in the business;
    - ii. applied in advancement of the organisation's social objects; or
    - iii. distributed or donated to other social sector organisations.

- Having a constitutional or contractual lock on its social objects, dividend and surplus distribution policy and ensuring the disposal of assets is compatible with the social objects embedded in its constitutional documents;
- Demonstrating that the remuneration of its officers and employees, including salaries, benefits and all forms of distribution or other participation is disclosed in a manner consistent with the Statement of Recommended Practice for accounting by charities.
- Making best efforts to preserve the social purpose or social mission of the organisation in the event of a change of ownership or control.

### **Indirect investments**

15. Investment can be made in funds managed by others where those funds:
  - Have charitable, community or social benefit and clearly articulated social returns
  - Show that the distribution of profits generated by the funds are capped to investors
  - Make available to investors on a regular basis, an assessment of the fund's performance in social and financial terms

### **Conclusions**

16. Notwithstanding the basic key criteria as proposed above, the Court of Common Council agreed that eligibility should be kept sufficiently wide-ranging as to incorporate the most suitable opportunities arising in this nascent field.
17. Given that social investment is still a relatively new discipline, it is likely that the investment criteria for the Fund will develop over time. Officers will present the criteria to your meetings as a standing item and will propose amendments or updates where appropriate. The criteria will be made available online so that prospective investees have a better understanding of what the Fund will and will not invest in.

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