

<b>Committee:</b>	<b>Date:</b>
Social Investment Board	14 <sup>th</sup> December 2012
<b>Subject:</b> Progress Report on the Establishment of the Social Investment Board	<b>Public</b>
<b>Report of:</b> Chief Grants Officer	<b>For Decision</b>
<b><u>Summary</u></b>	
<p>This paper summarises decisions taken so far to establish the governance and operating arrangements of the Social Investment Board. It proposes a schedule for papers to future meetings and recommends the appointment of Social Finance Limited as an independent, FSA-regulated, adviser, authorised to undertake investment reviews in line with requirements set by the Court of Common Council. The paper also recommends delegation arrangements to allow for investment when opportunities arise outside of scheduled meetings.</p>	
<b>Recommendations:</b>	
<p>(a) That you formally approve the appointment of Social Finance Limited as one of your independent advisers;</p> <p>(b) That you approve the schedule of papers as proposed in paragraph number 26;</p> <p>(c) That you delegate authority to approve investments of up to £500,000 (when investment opportunity deadlines occur outside of regular meetings of the Board) to the Town Clerk in consultation with the Chairman and Deputy Chairman of the Social Investment Board.</p>	

### **Main Report**

#### **Purpose**

1. This paper summarises decisions taken so far concerning the establishment of the Social Investment Board, its governance and its operating arrangements. It proposes a structure for papers to assist Board Members in considering its decisions. It seeks your formal approval to appoint Social Finance Limited as one of your independent advisers.

#### **Background**

2. At its meeting on 24<sup>th</sup> 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 City of London Corporation Social Investment Fund (the Fund) will provide the City Corporation with a significant opportunity to maximise the social impact of its 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 City of London Corporation published its influential report: “Investor Perspectives on Social Enterprise Funding”, 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, a series of master classes were held, communicating both the value of and the challenges involved in social investment. 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”; and in July 2012, the Lord Mayor hosted the third of these master classes at a breakfast for private wealth advisors. 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. Social investment remains 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.
6. Earlier this year, a dedicated Social Investment Adviser was appointed for a period of one year, to advise the Economic Development Office on the production of a City Corporation 5-year Social Investment Strategy. She is formally accountable to the Economic Development Office and the City Bridge Trust. In your papers today you will find the report of this Adviser, entitled “Report on Activities of the Social Investment Adviser” and this report is “For Information”.
7. 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. It involves a new approach and requires careful balancing of both financial and social returns. 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, will help to grow the market.
8. Investment criteria approved by the Court of Common Council, as well as proposed additional criteria, are presented elsewhere in your papers for this meeting.

### **Investment Approach**

9. 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.

### **Proposed Governance**

10. 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 the social returns. The Terms of Reference of the Investment Committee were amended to enable the Social Investment Board to be established. This Board has the power to make decisions in the field of social investment and will sit alongside the Financial and Property Investment Boards.
11. The Investment Committee's Terms of Reference were 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.

### **The Social Investment Board – Membership**

12. The Court of Common Council approved the composition of the Social Investment Board 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.

13. 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.

### **Chairmanship**

14. 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. Standing Orders have been amended accordingly.

### **Terms of Reference**

15. The terms of reference for the Social Investment Board are 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 advisers 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.
16. In the same way as the Chairmen of the Financial and Property Boards are able to operate, Standing Orders have been 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.

### **Meetings**

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

### **Management**

18. 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 and officers will report on all initial proposals and how they were dealt with in the report to be entitled “Portfolio Update”.

### **Appraisal**

19. Initial proposals which meet recognised criteria will be invited to submit a full proposal. You have three proposals in your papers today for your decision. A full assessment has examined 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.
20. An independent FSA regulated agency will usually undertake financial assessment. Where possible, Officers will work with co-investees to share risk and reduce cost. The three proposals in today’s papers have been assessed by Social Finance Limited, a leading social investment advisory body. Your decision is needed to formally appoint Social Finance Limited as one of your independent advisers. In future you may wish to approve the appointment of other specialist agencies to ensure that the best agency is selected for the appropriate investment appraisal and to avoid any conflict of interests.
21. The Chamberlain has commented on the independent investment review and the City Bridge Trust the social impact of the potential investments. A combined report has been provided for your decision, together with the external assessment in papers entitled “Investment Reviews”.
22. 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.

### **Delegated authority**

23. There may, on occasion, be social investment opportunities that are in line with Fund criteria but which close to investors before the Social Investment Board is due to meet. These opportunities would be subject to the same degree of officer and third party appraisal, but you are asked to delegate authority to approve investments of up to £500,000 to the Town Clerk in consultation with the Chairman and Deputy Chairman of the Social Investment Board.

### **Monitoring the Investment**

24. Following any 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 reports to the Social Investment Board meetings. 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.

25. In your papers today you will note that there is an update on the Oxfam/City of London/Small Enterprise Impact Investing Fund investment. You will find this in your paper entitled “Portfolio Update”.

### **Social Investment Board Papers**

26. Officers propose that regular reports to the Social Investment Board should comprise:
- Progress report on developments in the social investment field and strategic issues pertinent to the work of the Social Investment Board;
  - Investment reviews on each opportunity (produced by an independent adviser);
  - Report of the Town Clerk and the Chamberlain, containing summary comments on each investment review;
  - Portfolio update (existing investments, proposals in the pipeline and spending to date);
  - Report on activities of the Social Investment Adviser;
  - Investment criteria (guidance for Members).

### **Communications**

27. The Fund is already attracting high-profile interest. The first social investments may be approved today and your officers have met with the Director of Media to discuss how these may best be communicated. The City of London Corporation is now operating one of the largest, dedicated, social investment funds and this is a real opportunity to disseminate the City of London Corporation’s leadership in this area; and to help realise the Chairman of Policy & Resources’ ambition to position London as a centre for social investment. Officers will bring a detailed Communications Plan to your first meeting in 2013.

### **Conclusion**

28. As a new Board, it is likely that your investment criteria will evolve over time, informed by real proposals in this nascent marketplace. You have the power “*to approve criteria for social investments*”, provided that they are “*consistent with the strategic investment policies determined by the Policy & Resources Committee and the Investment Committee*”. The City Bridge Trust will summarise the investment criteria at each of your meetings, updating as necessary in the light of policy decisions taken. This will be the Investment Criteria (guidance for Members) referred to in paragraph number 26.

## **Recommendations**

29. That you formally approve the appointment of Social Finance Limited as one of your independent advisers;
30. That you approve the schedule of papers as proposed in paragraph number 26;
31. That you delegate authority to approve investments of up to £500,000 (when investment opportunity deadlines occur outside of regular meetings of the Board) to the Town Clerk in consultation with the Chairman and Deputy Chairman of the Social Investment Board.

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