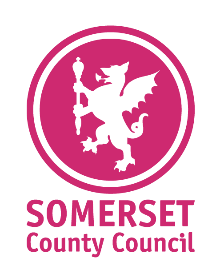
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Description generated with high confidence

Somerset Social Enterprise Fund

Information for applicants

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# Introduction

The Somerset Social Enterprise Fund (SSEF) was established as a partnership between Somerset County Council (SCC) and Somerset Community Foundation (SCF) to provide loan and grant funding alongside practical support for new and established Voluntary, Community and Social Enterprises (VCSEs) and enable delivery of social, environmental and economic benefits for communities in Somerset.

The SSEF was initially funded through a grant from SCC to SCF and began operating in November 2014.

In August 2017, SCF secured additional funding through the Access Growth Fund to enhance and grow capacity and flexibility in loan and grant making capacity.

The Access Growth Fund is a partnership between Access – The Foundation for Social Investment (Access), The National Lottery Community Fund and Big Society Capital (BSC) and aims to increase the social impact of VCSEs across England for whom some form of repayable finance is appropriate through direct funding to Social Investment Financial Intermediaries (SIFIs).

Since setting up the SSEF, SCF has also helped develop a wider range of support for VCSEs in Somerset, including:

* Reach Fund – SCF is an Access Point for VCSEs wishing to secure funding for initiatives to develop capacity and capability for ‘enterprise’ and to become ‘investible’. The Reach Fund is also funded by Access and managed by the Social Investment Business (SIB).
* Enhance Social Enterprise programme – SCF is one of the delivery partners funded to provide expert input and support to VCSEs planning to start-up, develop and grow. The Enhance Social Enterprise programme is funded through the European Regional Development Fund.

# Somerset Social Enterprise Fund – purpose, objectives, outcomes

Social investment is “the use of borrowing and investment to achieve a social as well as a financial return.” (Cass Business School Centre for Charity Effectiveness, Social Investment, Tools for Success: doing the right things and doing them right, May 2016).

The ***purpose*** of the SSEF is to:

* Provide social investment in the form of loans and grants and help VCSEs operating in Somerset establish and develop sustainable organisations that deliver social, environmental and economic benefits;
* Provide support to VCSE owner/manager/directors in preparing business plans and investment applications;
* Provide ongoing support to VCSE owner/manager/directors in managing and improving VCSE operations;
* Play an active role in and provide links to wider support networks for VCSE owner/manager/ directors.

The ***objectives*** of the SSEF are to:

* Promote social investment to eligible VCSEs;
* Support owner/manager/directors of eligible VCSEs to prepare business plans and applications for social investment
* Provide clear policy and guidelines regarding purposes for and terms on which social investment is provided;
* Provide clear and simple application and evaluation processes;
* Support owner/manager/directors of VCSEs successful in securing social investment through the SSEF to monitor release of benefits and sustain capacity for servicing and repaying loans;
* Report to stakeholders on financial performance and social impact;
* Comply with requirements of all funders and stakeholders including SCC, Access, The National Lottery Community Fund and BSC

The principal ***outcomes*** the SSEF intends to achieve are:

* Improvement in access to social investment for VCSEs in Somerset;
* A measurable improvement in social benefits delivered to individuals and communities through increasing activity of VCSEs.

# Governance – Social Investment Committee

The Social Investment Committee (SIC) is responsible for oversight of the SSEF and comprises:

* At least 2 SCC member representatives;
* 2 SCF trustees (one of whom chairs the committee);
* Co-opted experts and;
* Others as required.

The presence of 2 SCC members and 2 SCF Trustees is required for the SIC to be quorate.

A Growth Fund observer may also attend SIC meetings. The Growth Fund observer is not a member of the SIC per se and does not participate in decision making.

# Eligible Organisations

To be eligible for SSEF funding, organisations must operate within the Somerset County Council administrative area and be able to demonstrate that they are a VCSE. ‘VCSE’ means an incorporated voluntary, community or social enterprise organisation that is either a Charity, Community Interest Company or Community Benefit Society, registered with the relevant registry body, or an unregulated organisation that:

* Has a clear social mission that, in the reasonable opinion of the Social Investment Committee, is analogous to a recognised charitable purpose;
* Distributes less than 50% of post-tax profits and reinvests at least 51% of surpluses into pursuing its social mission;
* Has a constitutional or contractual lock on its social mission, its dividend and surplus distribution policy and “asset-lock”;
* Carries out, or has ambitions to carry out, trading activities in support of and which are causally linked to its social mission;
* Offers its products and services for public benefit without restrictions and barriers, such as affordability;
* Is open to undertaking an independent social impact audit;
* Has a remuneration and benefits policy that it is willing to make publicly accessible, and which is reasonable and proportionate relative to the market practice for VCSEs;
* In the case of a sale of the organisation, the directors make best efforts to preserve the social mission under new ownership;
* Can demonstrate that no private benefit will arise from the Grant;
* No state aid issues have been identified;

## 

## Asset Lock

An asset lock is a legal device preventing the assets of an organisation being used for private gain rather than the stated purpose of the organisation. The principal purpose of an asset lock is to ensure that the public benefit or community benefit of any social investment is maintained, thus ensuring that funds are used for the purposes intended.

There is a clear relationship between the asset lock and social/community interest test, in that the test may not be seen to be met if it is considered that the activities of the social enterprise are being carried out for the benefit of the company’s directors, employees, or service providers, rather than for the benefit of the community.

VCSEs applying for funding through the SSEF will also be required to demonstrate compliance with relevant legislation and, specifically:

* Equality Act 2010
* Freedom of Information Act 2000
* Data Protection Act 1998

The SSEF is not authorised under the Financial Services & Markets Act to lend to individuals or unincorporated organisations.

## State Aid

State Aid is any advantage granted by public authorities through state resources on a selective basis to any organisations that could potentially distort competition and trade in the European Union.

The SSEF is funded from public funds and loans or grants will not be used in a way that constitutes State Aid.

SCF has a duty of care to ensure that VCSE applicants and investment recipients are aware of their obligations under State Aid requirements and requires VCSE applicants to take responsibility for ensuring they do not breach State Aid requirements and provides guidance in application forms and supporting information for applicants.

The social investment manager is responsible for supporting VCSE applicants in understanding and complying with State Aid rules and requirements and seeking independent specialist advice if required.

State Aid Rules can (among other things) apply to the following:

* Grants; Loans;
* Tax breaks, including enhanced capital allowances
* The use or sale of a state asset for free or at less than market price

## De Minimis Regulation

The De Minimis Regulation allows small amounts of aid – less than €200,000 over 3 rolling years – to be given to an undertaking for a wide range of purposes.

The SIC requires VCSE applicants to take responsibility for ensuring they do not breach State Aid requirements and provides guidance in application forms and supporting information for applicants.

The Social Investment Manager is responsible for supporting VCSE applicants in understanding and complying with State Aid Rules and requirements and seeking independent specialist advice if required.

# Eligible investment purposes

The SIC considers investment applications from VCSEs for purposes including but not limited to:

* Start-up and development costs;
* Project funding to enable and support organisational and service growth/development;
* Investment in marketing and business development systems and resources;
* Purchase, maintenance and improvement of property that is occupied or directly used in delivery of the organisation’s social objectives;
* Purchase of equipment and/or vehicles used in delivery of the organisation’s social objectives;
* Working capital.

The SIC will not consider applications for purposes than cannot be supported with National Lottery Funding i.e.:

* Political campaigning or the advancement of religion;
* Funding that seeks to substitute services already funded by Exchequer expenditure.

The SIC does not consider grant only applications.

In considering investment applications, the SIC must ensure that funding is used to support VCSEs that deliver benefits for the ‘authorised beneficiary’ groups listed below:

* People experiencing long-term unemployment;
* Homeless people;
* People living in poverty and/or financial exclusion;
* People with addiction issues;
* People with long-term health conditions/life threatening or terminal illness;
* People with learning disabilities;
* People with mental health needs;
* People with physical disabilities or sensory impairments;
* Voluntary carers;
* Vulnerable parents;
* Vulnerable children (including looked after children);
* Vulnerable young people and NEETs;
* Older people (including people with dementia);
* Ex-offenders; and People who have experienced crime or abuse.

# Blended social investment – products and approach

The SIC aims to structure investment applications and provide a blend of loan and grant investment (including the use of returnable/repayable grants) to meet specific needs of applicant VCSEs.

The Social Investment Manager works with applicant VCSEs to analyse proposals and prepare applications and supporting information for evaluation and decision by the SIC.

## Loans

Generally, loans are provided to fund capital and/or revenue expenditure that is expected, in turn, to directly enable increases in income and/or reductions in cost of operations in the short-term i.e. within 12 to 18 months of investment draw down.

Loans are usually structured to be repaid over periods of up to 5 years at a fixed interest rate and, to provide flexibility and ease cashflow pressures in the months after investment draw down, interest-only periods of up to 12 months are considered.

Interest and interest and capital repayments are made monthly by standing order.

## Grants

The SIC considers grants for a proportion of total investment funding and these are usually intended to fund specialist support and/or activities that develop capacity and capability for managing operations in VCSEs. Illustratively, purposes might include:

* Specialist legal services to ensure that VCSEs are properly constituted and compliant with legal and regulatory requirements;
* Specialist financial services to develop effective and economic financial management and reporting systems;
* Specialist marketing and business development services – particularly digital marketing – and including investment in marketing activity;

The social investment manager, engaging with VCSEs and conducting situational and organisational analysis, identifies key risks, weaknesses and gaps in organisational capacity/capability and works with VCSEs to agree appropriate proposals of support to address the issues.

The nature of this investment means that benefits in terms of impact on VCSE income and costs may not be directly apparent or realisable at the VSCE but should give rise to non-financial benefits that are generally realised over the medium to long term.

## Returnable Grants

There are also situations where investment could enable financial and social returns and perceived risks prevents VCSE owner/manager/directors and/or SIC members using pure repayable finance.

This may, particularly with small VCSEs, reflect lack of experience and confidence in using social investment and/or lack of reserves to underwrite an untested or otherwise riskier initiative.

In such cases ‘patient capital’ or ‘quasi-equity’ can be a more appropriate tool to use – see box below:

|  |
| --- |
| According to Venturesome - a social investment fund – there are situations in which debt financing is inappropriate or too onerous for charities or social enterprises (especially in early stage, high-risk start-ups), and the use of share capital is simply not possible because of the way many such enterprises are legally structured e.g. companies limited by guarantee (Charities Aid Foundation, Venturesome, *Case Study in using Revenue Participation Agreements, March 2008*).  In such circumstances, quasi-equity instruments may offer a useful source of finance. Unlike a loan, this investment is dependent on the financial performance of the organisation. If future expected financial performance is not achieved, a lower financial return is paid to the investor. Conversely, if performance is better than expected, then a higher financial return may be payable.  A quasi-equity investment may be structured so that its return is capped or be limited in duration.  Quasi-equity can be utilised by any organisation, but may be more attractive to a social enterprise that cannot offer shares or if a loan would be too risky. Quasi-equity provides a more equal sharing of risk and reward between investor and investee. |

The SIC aims, therefore, to de-risk elements of potential investments that could deliver financial and social returns but where the outcome is less certain, by aligning an element of grant investment with the concept of ‘quasi equity’ and making it ‘returnable’.

Returnable grants will be deployed alongside structured loans and, possibly, grants to support efforts to stretch the potential of the investment proposition. Examples of purposes to be funded by returnable grants could include:

* Employment of new staff to grow marketing, sales and business development capacity beyond the projected forecasts e.g. marketing garden maintenance services to new communities
* Costs associated with untested (at least by the individual VCSE) marketing strategies such as digital channels or direct mail e.g. promoting products created through a wood recycling scheme more effectively on the internet
* Enhancements to property or equipment or other measures that improve overall customer experience e.g. installing an enhanced hydrotherapy pool in a Wellbeing Centre.

To reflect the longer-term nature of ‘quasi equity’, the period over which returnable grants are repaid is up to 10 years and, generally, no repayments will be required within 2 years of initial investment.

Returnable grants are interest-free for their duration.

Repayment terms are flexible and based on the specific circumstances and performance of the applicant VCSE. Specific terms and reference points for evaluating capacity for making repayments are negotiated prior to investment draw down with clear, simple, transparent conditions and proportional documentation.

As part of ongoing monitoring of the investment portfolio, annual reviews of VCSE performance are undertaken, incorporating operating and financial performance and delivery of social benefits and impact.

The review of financial performance is critical to assessment of capacity for making repayments on returnable grants and the principal factors taken into consideration in evaluating capacity for making repayments are:

* Levels of reserves – due regard is taken of applicant VCSE reserves policy and, generally, repayment of returnable grant elements are not required if reserves are not sufficient meet at least 6 months of operating costs
* Levels of gross annual income – according to Venturesome, this is the most effective measure to base repayments on. Gross annual income includes ‘restricted income’ for the purpose of calculating repayments but no ‘restricted funds’ are used in making repayments.
* Investment plans – due regard is taken of applicant VCSE plans and need for ongoing investment

Generally, judgement with regards to repayment is based on an evaluation of all these factors in context of the VCSE’s broader operating environment.

Any amount of returnable grant element outstanding 10 years after initial investment is written off.

# Amount of investment

Investment offered to any VCSE from the SSEF will not exceed £150,000

Investment offered to any VCSE from the SSEF will not, generally, be less than £25,000

The SIC will consider investment applications for less than £25,000. However, these investments can only be funded from SCC Grant and, to conserve that element of the SSEF, comprise loan funding only.

In any investment, the amount of grant offered will not exceed 50% of the loan amount i.e. a Loan/ Grant ratio of 2/1.

# Interest and Fees

*Interest* – the rate of interest charged on loans is fixed for the duration of the loan and agreed between SCF, SCC and Access Growth Fund. This interest rate is currently 6%pa.

Interest will be accrued at the prevailing rate and charged to loans monthly. Monthly repayments will include capital and interest elements.

The SIC considers requests for periods of interest-only repayments for an initial period of a loan – usually up to 12 months.

*Fees* – an administrative fee is charged as a contribution to costs of work carried out in supporting VCSEs to prepare applications and supporting business plans and evaluating applications.

The administrative fee will usually be 1% of the amount of loan funding and may be added to the amount of loan required and deducted from the loan principal on drawdown.

# Application and due diligence processes

Investment applications are managed through a structured application process that comprises the following stages:

## Application

Social Investment Manager is responsible for supporting VCSEs in preparing investment applications and supporting information whilst ensuring that VCSEs meet eligibility criteria of the SSEF and carrying out due diligence checks.

This is facilitated through a series of structured discussions with the purpose of preparing and testing financial and operational plans and addressing due diligence information requirements.

The Social Investment Manager supports VCSEs to identify areas where specialist advice might be required or beneficial. This includes financial and legal advice and extends to connections with experts in community engagement, fundraising etc.

Where appropriate, the Social Investment Manager will support VCSEs in preparing applications to the Access Reach Fund for grant funding to meet costs of specialist support and/or activities to deliver operational plans that meet the requirements of SIC.

The Social Investment Manager will also support VCSEs in registering for support through the Enhance Social Enterprise programme and effect introductions to delivery partner organisations.

The purpose of the application process, structured discussions and planning activities is to explore and understand:

* Organisational background, history, services and operating model;
* Key customer/service user groups and why/how they are targeted;
* How services are delivered and evidence of need, value and quality;
* Experience, knowledge and skills of people involved in delivering services and/or running the organisation;
* How the organisation is managed and controlled - from financial and operational perspectives;
* Social impact and how it is measured and reported.

This includes meeting with organisational boards to test commitment to the concept of repayable finance and ensure clarity around requirements for reporting.

It remains the applicant organisation’s responsibility to prepare and deliver completed applications and supporting information.

## Evaluation

Evaluation effectively starts during the application process as applications and supporting information are developed and formal evaluation comprises:

* Sharing application forms and supporting information with members of the SIC;
* Preparation and sharing of a briefing note for members of the SIC. The briefing note is prepared by the Social Investment Manager.
* Discussion with representatives of the applicant organisation at a quorate meeting with the SIC.

Evaluation of commercial/financial sustainability focuses on the following areas:

*Character* – organisations are required to demonstrate that executives, non-executives and/or managers have strong personal qualities such as honesty, integrity and reliability and have relevant experience.

An effective mix of competence in organisational leadership and management as well as specialist knowledge and experience in delivering specific services is required.

*Capital* – organisations are required to evidence amounts and sources of funds applied within the organisation beyond funding being sought from the SSEF.

‘Capital’ includes share capital, bonds, guarantees, loans, overdrafts, grants and physical assets that have been gifted to the organisation. In this context, requirements around *Asset Locks* and *State Aid* are considered (see Section 4 – Eligible Organisations).

*Capability* – organisations are required to evidence a track record of success in developing and maintaining sustainable commercial operations in their chosen sector/market.

Start-up or young organisations are required to evidence that, in addition to *Character*, the organisation employs and/or is directly supported by individuals with required skills, knowledge, experience and track record in developing and maintaining sustainable commercial operations albeit in other sectors/markets.

*Purpose* – organisations are required to clearly explain purpose(s) to which funds being sought through the SSEF will be applied.

Evidence is required to show, once funds have been drawn down, that monies have been applied exactly as set out in the funding application.

In addition, organisations are required to set out:

* The social, economic and environmental benefits expected to be realised through application of funds in the purpose(s) specified;
* How benefits will be measured and reported.

The Social Investment Manager supports applicant organisations in defining social, economic and environmental benefits and their measurement and reporting. In this context, requirements of SCC and Access Growth Fund are considered.

*Amount* – organisations are required to explain how the amount of funding being sought has been calculated. This is usually in the form of operating/ cashflow forecasts supported by a business plan.

The Social Investment Manager supports applicant organisations to prepare these.

*Repayment* – organisations will be required to demonstrate sufficient capacity in future cashflows to service and repay loans and returnable grants

Evaluation of ‘*amount*’ and ‘*repayment*’ will usually be informed by historic financial information as well as operating and cashflow forecasts and business plans.

*Terms* – organisations are required to evidence capability for regular reporting of financial performance as well as social, economic and environmental impact.

*Security* – is not required.

## Decision

Investment decisions are made at quorate meetings of the SIC that are held at regular intervals.

Applicant organisations are invited to send representatives to SIC meetings to present plans, address any questions and discuss key elements of their plans/requirements.

The Social Investment Manager supports applicant organisation representatives in SIC meetings and does not play a part in decision making other than to clarify information and answer questions.

Decisions are facilitated by the SIC chair and the aim is to reach a consensus or, failing that, a majority decision. A simple majority is required for a decision to be binding and no party has a veto.

In the event of a tied vote, the SIC chair has a casting vote.

# Due Diligence and Investment Draw Down

Application and Evaluation processes include checks to be carried out on VCSE applicants as follows:

* Searches at Companies House and Charity Commission and checks of VAT registration alongside other practicable checks. Copies of documentary evidence are retained;
* Scrutiny of governing documents to ensure VCSEs have powers to carry out operations and are eligible to apply and borrow. Copies of governing documents are retained;
* Ensuring the VCSE has relevant policies and procedures in place and the VCSE Board/Trustees are aware of the application;
* Verifying identification of directors and/or beneficial owners through appropriate documentation with certified copies retained;
* Financial health and track record – check for solvency via VCSE accounts and cashflow projections;
* Ensuring compliance with State Aid Rules;
* Validation of purpose and activities through website checks and referees;
* Ensuring appropriate policies valuing cultural diversity and promoting accessibility, participation, equality of opportunity, inclusive communities and reducing disadvantage of inclusion;
* Evidencing VCSE compliance with industry regulations e.g. if working with children the staff are CRB checked and have child protection policy;
* Ensuring that the VCSE in receipt of finance will assess and measure as far as possible, the social impact of the finance and will be able to report on it regularly. SCF and the VCSE agree the key social outcome(s) that they seek to measure and how this will be achieved in advance of providing the finance.

As part of the application and evaluation process, applicants are required to submit documents including but not limited to memorandum and articles of association, objects, charity commission registration etc to evidence capacity to do what is intended and to borrow for intended purposes.

Similarly, policies relating to Health & Safety, Equality, Disability, Safeguarding are required as will confirmation that, if working with children, staff are CRB checked and have child protection policy.

Once an investment has been agreed, the Social Investment Manager works with applicants and legal advisors to prepare and complete loan agreement and relevant resolutions to facilitate drawdown.

It is a requirement that individuals signing loan documentation etc are formally identified through submission of appropriate documents, certified copies of which will be held on file. SSEF legal advisors undertake the formal ID and verification procedure.

# Investment monitoring and control

The SIC will monitor quality and control repayment of loans through a variety of means:

* Monitoring of loan repayments – ensuring that borrowers meet capital and interest repayments according to an agreed schedule;
* Monitoring of borrowing organisations’ performance – borrowers will be expected to submit regular reports comprising financial and non-financial information as part of the terms and conditions of loan drawdown;
* Visits to borrowing organisations by the Social Investment Manager;
* Establishing a ‘mentor support’ programme to leverage skills and knowledge of local individuals with relevant experience and capacity to provide ongoing support according to borrower needs.

The principal purpose of loan monitoring and control is to ensure that adequate performance reporting and management arrangements are in place in a borrowing organisation to assure success both commercially and in delivering social benefits.

The disciplines of regular reporting and periodic visits will also act as an effective ‘early warning’ in the event of operational weakness affecting cashflow and, therefore, loan serviceability.

If an organisation fails to meet scheduled capital and interest repayments then the extent to which the organisation’s managers have complied with reporting requirements etc will influence the approach to support and recovery in event of distress and / or default.

# Investments in distress and / or default

The SIC aims to support organisations experiencing pressures on cashflow and, therefore, capacity for servicing capital and interest repayments.

Each case will be judged on specific circumstances and decisions as to the nature and duration of support will be influenced primarily by evaluation of track record and organisational performance.

It is important to recognise that, where other lenders are involved, their approach to support will also influence the approach adopted by SIC.

# Complaints procedure

SCF is committed to providing a high-quality grant and loan scheme through the SSEF and, if decisions or service do not meet expectations, then the procedure for handling complaints is as follows:

* Complainants will be asked to submit their complaint in writing – by letter or email – to the fund manager
* The fund manager will send a letter acknowledging the complaint within 7 days of receiving it, enclosing a copy of this complaints procedure
* The fund manager and / or the SCF chief executive will then investigate the complaint
* Within 14 days of sending the acknowledgement letter, the fund manager and / or the SCF chief executive will invite the complainant to a meeting with the aim of resolving the complaint
* Within 7 days of the meeting, the fund manager or the SCF chief executive will write to the complainant to confirm any decisions or solutions that have been agreed
* If the complainant does not want, or is unable to attend, a meeting, the fund manager or the SCF chief executive will send a detailed written reply, including suggestions for resolving the matter, within 28 days of sending the acknowledgement letter
* If the complainant is not satisfied with the outcome of the meeting or the detailed written reply, the complaint will be reviewed by an SCF trustee or other person independent of the Loans Committee
* Within 14 days of the review, the SCF trustee or other person will confirm their final decision with reasons
* In the event of a failure to agree at this stage, this will be recorded and the complainant may take such further action as they choose