

# RECOMMENDATIONS FOR CHANGES TO INVESTMENT FUNDS FOR VCS (PART I) UPDATE 2021 AND INCLUSIVE ECONOMY FUND PROPOSAL



## Introduction

The purpose of the paper is to put forward recommendations for restructuring the funds held by the Economic Development, Economy, Employment and Enterprise Team that have been used to support social enterprise development. The Fund was originally established in 2014 as the Social Enterprise Investment Fund, then loan repayments were recycled into a Co-operatives and Mutuals Development Fund (CMDf) from 2018.

This proposal is to rename the CMDf and combine the funds into one Inclusive Economy Fund.

By structuring the fund for the 'Inclusive Economy', it is also more flexible for responding to the economic recovery.

Recommendations include widening the scope to use a more collaborative funding format with the aim of leveraging more money into the city from other funders.

## Decision Making

Overall authority for the Fund was delegated to the Section 151 Officer through a decision by the Leader of the Council in January 2019. The fund is managed through the Inclusive Economy team. Applications are considered by a Panel.

The panel is made up of Plymouth City Council Members and staff in the form of:

- The Cabinet Member (previous PFH for Housing and Cooperatives);
- A representative from Economy, Enterprise, Employment department;
- A representative from Finance;

As appropriate, expertise is sought from:

- A representative from the Land & Property Team;
- A representative from Planning / the Corporate Policy Team; and,
- The Commissioning Team.

Recommendations from the Panel are given to the Section 151 Officer who has delegated authority to award contracts.

## Recommendation

It is recommended :

- That the design and governance of the new fund as outlined below is approved and that the funding tools of project specific loans, convertible loans to equity, equity and social investment bonds are employed as a means of making awards, each subject to a funding agreement with the recipient
- Within the SEIF budget that £40,732.59 of loan budget and £10,293.98 of revenue budget be reallocated to the capital grant budget
- That £159,371.71 unallocated monies from the Social Enterprise Investment Fund is transferred to the new Inclusive Economy fund

- That £869,360.35 from the Coops and Mutuals fund is transferred to the new Inclusive Economy fund
- That any continued capital receipts from SEIF loan repayments be ring-fenced to the new fund

### **Original Social Enterprise Investment Fund - SEIF Objectives (2014)**

The Social Enterprise Investment Fund (SEIF) was designed to help social enterprises, with limited financial resources, establish themselves and grow within Plymouth. Established in 2014, SEIF consisted of a revenue contribution to provide high quality business support and a capital contribution at the project business case stage through a capital grant / loan mix. Investments were made to social enterprises registered within the Plymouth Unitary Authority area.

The outcomes for SEIF are for enterprises to:

- Create jobs;
- Bring redundant buildings back into use in the city;
- Lever in match funding from other sources.

#### **Investment Approach**

Working in partnership with Plymouth Social Enterprise Network (PSEN), the city identified a need for flexible social investment particularly to help smaller social enterprises grow. Social investment (and mainstream finance) is often out of the reach of ambitious small to mid-size social enterprises – it is either too expensive or set at too high a level for many companies.

The SEIF was designed to be both responsive and flexible. A mix of small grants to develop business plans and feasibility studies sits alongside investment loans at zero or very low interest rates. This makes it very accessible. Importantly the loan is tailored to the needs of the social enterprise – small loans of £5k-10k can be made alongside larger investments of £50k-£100k.

In a recent innovation the Council has even taken equity stakes in some social enterprises. In our experience this is an unusual and particularly innovative approach aimed at supporting the growth of the inclusive economy in the city.

The aim is to :-

- Build the culture of entrepreneurship in the city.
- Remove financial barriers from groups in disadvantaged areas trying to establish or grow a new enterprise.
- Be a catalyst for local social enterprise growth addressing local needs.

#### **SEIF Achievements (Evaluation report 2017)**

The fund was independently evaluated by external consultants in September 2017. Evaluation findings showed that a total of 44 SEIF awards were made between November 2014 and May 2017.

It is currently expected that award recipients will collectively bring 14 buildings/pieces of land back into productive use whilst also generating 127 jobs.

### **Co-operatives & Mutuals Development Fund (2019)**

By 2019 SEIF funds had been allocated and a business case was prepared for investment in Co-operatives and Mutuals proposing to recycle the loan repayments. This delivered on the Councils' 2018 pledge to double the Co-operative sector by 2025.

A business case was approved in Feb 2019 which authorised the recycling of all capital receipts from the SEIF loan repayments predicted to be £1,258,965 to fund the Co-operative Mutuals Development Fund (CMDf) and retained the primary criteria.

### **Predicted Social Enterprise Funding needs in the City**

Inequality has been poignant in 2020 with those suffering challenges such as low incomes, health limitations, ethnic backgrounds and caring responsibilities have been further challenged by Covid 19 and its consequences. Those individuals and the voluntary, community and social enterprise sector organisations that focus their support on them, have shown extraordinary resilience and innovation but are still under acute strain.

Emerging projects through the Covid Economic Recovery Programme that could have a bearing on how a new fund is applied include:

- Pipeline projects worked up under the Co-ops and Mutuals Fund programme include:
- Capital projects including those of CEDTs and co-operatives in the city.
- A Meanwhile use programme to fill city centre shops through collaboration with VCS and SE organisations
- Food aid collaboration project that is exploring the potential to establish a co-operative to address food insecurity in the city through more collaborative collection, buying, storage and distribution.
- Projects emerging from the Resurgam Charter. An Interreg funded programme (C – Care) started in April 2021 \* , will capture the learning on a wide range of social and economic interventions which have mitigated the impact of the pandemic with a particular focus on social innovation – designing and implementing effective new methodologies to minimise the negative impact of the pandemic on people's lives. This will include identifying gaps in local supply chains and exploring opportunities to set up new businesses to address them.
- POP has been collating ideas from organisations with project proposals with the intention of promoting them to funders
- The Social Enterprise Support programme, funded by ERDF, has been extended and is likely to generate new growth projects.

\* <https://www.visitplymouth.co.uk/invest/business-support/c-care-covid-channel-area-response-exchange>

### **Proposed Change to the Funds**

In order to inform a new investment programme based around the Inclusive Economy, it is desirable that the fund evolves to respond to the impacts that Covid 19 has had on the voluntary community and social enterprise sector and also to build on the success of the SEIF and Co-ops & Mutuals Funds. While we are committed to maintaining a revolving fund – to enable a long term approach to support – other aspects of the fund are open to revision. We have proposed 3 such areas of evolution:

- A. The scope for the fund beyond co-operatives and mutuals
- B. Changing the process to enable collaboration with other funders/ investors
- C. New investment tools

It is proposed that:

A. The scope of the fund is widened beyond Co-operatives and Mutuals to cover wider social investment and social innovation so that it is flexible enough to respond to the changing circumstances whilst still retaining the original outcomes:

- Create jobs – especially getting people back into work after Covid ;
- Bringing empty or underused building assets back into use in the city;
- Lever in match funding from other sources.

Likewise the aims should remain the same, namely to:

- Build the culture of entrepreneurship in the city, especially in the north of the city.
- Remove financial barriers from groups in disadvantaged areas trying to establish or grow a new enterprise.
- Be a catalyst for local social enterprise growth addressing local needs.

B. The process supports a partnership approach with other funders who share similar aims. This would support applicants to find a mix of complementary investments for their projects. We propose promoting funders that are interested in supporting Plymouth's VCS and SE organisations.

For instance, Plymouth Octopus Project (POP) runs a Funders' Forum in the City, which the council participates in. Members have been approached to identify interest in collaboration and positive responses were returned from:

- The National Lottery Communities Fund
- Power to Change
- Rank Foundation
- Resonance Social Investment
- POP

Heritage Lottery are interested in participating where a project is aligned with their aims. And City Change Fund is interested in being promoted to applicants but is unable to configure their Crowdfunding model to incorporate a presentation panel.

New Economics Foundation have been researching collaborative approaches to funding for POP. They have focussed on opportunities to pool funding, particularly for smaller funders and are interested in participating in the network.

C. Investment tools

The SEIF provided a mix of grant and loan funding and the CMDF sought share offers to invest in for the evolved fund, we are interested in exploring alternative investment mechanisms. Nesta produced a Funding Innovation Practice<sup>1</sup> guide in November 2018 which explains different funding tools.

If it is assumed that the new fund will embrace the principle of "impact" investment which is an approach to investment that aims to generate **specific beneficial social or environmental outcomes** in addition to financial return. Understanding, quantifying and reporting the social or environmental impact that results from investment decisions is a crucial component of impact investing.

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<sup>1</sup> <https://media.nesta.org.uk/documents/Funding-Innovation-Nov-18.pdf>

Therefore the preferred funding tools that are most likely to fit the objectives of impact investment are<sup>2</sup>:

1. Project specific loans

These are loans linked to a specific project rather than an organisation. Funders can design loan funds to target areas in need of innovation – such as Innovate to Save supporting improved public sector delivery – or to bring new funding streams to targeted areas, as with the Arts Impact Fund bringing loan finance to the arts and cultural sector

2. Convertible loans to equity

These loans offer the funder rights to convert their investment into equity once specific conditions are reached such as revenue targets or milestones, a future equity round or the sale of a company. This type of loan is only applicable for organisations with shares, but provides the opportunity of an increased return to the funder.

3. Equity

Equity gives the investor a share in the ownership of an enterprise. It typically carries no fixed repayment or interest requirements, and investors recover their capital and make a return by selling their shares to a new owner.

4. Social Impact bonds

A social impact bond is a form of impact investment that provides finance to outsourced providers of public services. The finance enables the provider to fund the delivery of services, which are subsequently paid for in arrears under a contract with government.

## Design and Governance of New fund

This section covers operation of the fund – How it will be promoted, application processes and decision-making.

1. Defining and scoping the field

2. Finding the best innovations

Launch Fund – through a new set of guidance notes the objectives, eligibility and parameters of the fund will be clearly set out. For instance, how the fund intends targeting similar themes to other social investors and promotes the role of the VCSE sector and how the fund aligns with the Government's Covid 19 Recovery programme.

Funding awards will be a minimum of £10,000 and a maximum of £200,000.

Category	Funding	Comment
Research, surveys and assessments	Up to £10,000	Necessary surveys to inform feasibility study / project idea

<sup>2</sup> (see pages 31 – 39 of Nesta paper) <sup>2</sup> <https://media.nesta.org.uk/documents/Funding-Innovation-Nov-18.pdf>

		e.g. building condition survey site investigation survey
Project Feasibility Study (outline)	Up to £10,000	A detailed outline provides a road map so you stick to the goal of fully examining the success potential of your idea, without getting side tracked by findings along the way.
Professional services (business case preparation)	Up to £10,000	Turning the client brief into a project brief / design brief
Land acquisition / building acquisition	Up to £200,000	Capital investment to initiate project idea

### Eligible Categories of funding

EOI and full application packs – alongside the revised guidance notes both the EOI and full application forms will be reviewed so that the applicants are clear on the emphasis of each of the questions and the volume and quality of supporting documentation required.

The EOIs will be evaluated and shortlisted applicants invited to present to a Dragons Den style panel whose primary purpose is to assess the viability credentials of the project proposal.

Already numerous funders have expressed an interest in sitting on the panel. Specialist funders have expressed interest in being involved for projects that address their aims and others are interested in being included in a funding pack to applicants.

### **Matched crowd funding**

Matched crowdfunding is the process by which public, institutional or corporate funding is combined with smaller donations raised from the public on online platforms. It has emerged over the previous few years as a new way to leverage support to get ideas and projects off the ground. These have ranged from small community projects to larger capital or regeneration-focused ventures.

Two key differences distinguish both crowdfunding and matched crowdfunding from more traditional forms of online fundraising:

- **A focus on projects:** Crowdfunding involves raising funds for a specific project rather than for an organisation more generally, with fundraisers clearly defining how much funding is needed for a project and how the money will be spent. This means that those donating have a clear sense of what their money will be used for.
- **Campaign targets:** Crowdfunding platforms require fundraisers to set targets based on how much money is required to complete the project. Most platforms are set up so that fundraisers only receive the funding if this threshold is met within a fixed period of time, typically 30 days.

Those successful applicants will then be invited to submit a full application and their submissions assessed by a Panel

Role of the panel – The panel is made up of Plymouth City Council staff in the form of:

The Cabinet Member for Housing and Cooperatives (Chair);  
A representative from Economy, Enterprise, Employment department;  
A representative from Finance;

As appropriate, expertise is sought from:

A representative from the Land & Property Team;  
A representative from Planning / the Corporate Policy Team; and,  
The Commissioning Team.

Recommendations from the Panel are given to the Section 151 Officer who has delegated authority to award contracts.

Post Award Process – The new fund process will clearly define timelines for each stage of the process and making clear the level of support from the fund administrator and what responsibilities lie solely with the individual applicants.

Successful applicants will be requested to enter into a funding agreement subject to specified pre-conditions being discharged (as listed in the decision letter) following the Panel decision.