somerset
COMMUNITY | FOUNDATION

In partnership with

SOMERSET
County Council

Somerset Social Enterprise Fund

Information for applicants

1. Overview 1
2. Somerset Social Enterprise Fund – purpose 1
3. Somerset Social Enterprise Fund – objectives 1
4. Somerset Social Enterprise Fund – outcomes 2
5. Governance 2
6. Eligible Organisations 2
7. Eligible Funding Purposes 3
8. Amount of borrowing 3
9. Evaluation Criteria 3
10. Interest and Fees 5
11. Loan monitoring and control 6
12. Loans in distress and / or default 6
13. Complaints procedure 7

1. Overview

The Somerset Social Enterprise Fund (SSEF) has been established by Somerset County Council (SCC) and Somerset Community Foundation (SCF) to start, develop and expand innovative and successful social enterprises that will bring significant benefits for the communities of Somerset.

A social enterprise is a "business with primarily social objectives and where surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners". They generate all, or at least the majority, of their revenue through trading (including providing commissioned services for the public sector).

Underlying commercial viability of the organisation will be a primary criterion in appraising applications for funding.

2. Somerset Social Enterprise Fund – purpose

The purpose of the Somerset Social Enterprise Fund (SSEF) is for SCF to work alongside SCC in:

- Providing loans and grants to social enterprises based in Somerset and serving communities in Somerset to support them in developing sustainable services that meet the needs of local communities and have a clear social / societal benefit
- Creating a support structure for local social enterprises through peer-learning, mentoring and other non-financial measures
- Developing a loan making capacity that is, in itself, more sustainable than grant-making i.e. capable of supporting ongoing operations through generation of an operating surplus
- Be a catalyst for a broader SCF programme of loan making, supported by funding from a wider range of donors and supporting their aims

3. Somerset Social Enterprise Fund – objectives

The objectives of the SSEF are to:

- Identify current and prospective social enterprises and other beneficiaries that might need and qualify for support through the fund
- Provide clear guidelines as to the purposes for which loans and grants will be provided
- Enable qualifying organisations to access funding through a clear and simple application and appraisal process
- Support qualifying organisations and individuals in preparing funding applications, related business plans and delivering plans to realise benefits of funding
- Work with borrowing organisations to monitor release of benefits and ensure capacity to service and repay loans is maintained
- Report to stakeholders (including regulatory authorities) on fund performance
- Establish and maintain a record of sustainable growth in lending and related benefits

4. Somerset Social Enterprise Fund – outcomes

The principal outcomes of the SSEF will be:

- Improvement in access to finance for social enterprises in Somerset
- An increase in the number of social enterprises in Somerset attaining the 'Social Enterprise Mark'
- A measurable improvement in the benefits delivered to local communities through increasing activity of Social Enterprises

5. Governance

Responsibility for oversight of the SSEF will rest with an SCF Loans Committee comprising at least 2 Somerset County Council representatives, 2 SCF trustees, one of whom will chair the committee and others as required.

6. Eligible Organisations

To be eligible for funding under the SSEF, organisations must be operating within Somerset and be able to demonstrate that they are social enterprises. This means that they:

- Have a clear social and / or environmental mission set out in their governing documents
- Generate the majority of their income through a commercial operation
- Reinvest the majority of their profits
- Are autonomous of state; controlled in the interests of the social mission; accountable and transparent
- Have specific powers to borrow for the purpose of carrying on their commercial operations

A variety of organisational structures are eligible within these criteria – including charities, Community Interest Companies (CICs), Companies limited by guarantee, Limited Liability Partnerships, Industrial & Provident Societies etc.

Organisations applying for funding through the SSEF will be required to demonstrate their compliance with all relevant legislation and, in particular:

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

7. Eligible Funding Purposes

The SCF Loans Committee will consider applications for loan funding for purposes including but not limited to:

- Working capital – for the purpose of funding a specific contract as opposed to general day-to-day operations of the organisation
- Purchase of equipment and / or vehicles
- Purchase, improvement and maintenance of property, where the property is occupied or directly used in delivery of the organisation's commercial activities or social enterprise objectives
- Project funding to enable and support organisational growth and development

The SCF Loans Committee will also consider applications for grant funding and, generally, it is expected that the purpose of grant funding will be closely related to the setting up, development and growth of a social enterprise as part of an integrated funding application i.e. part loan, part grant.

8. Amount of borrowing

The SCF Loans Committee will normally consider applications for loans from £10,000 (minimum) to £100,000 (maximum).

As outlined in section 11, SCF will consider applications for grant funding from the SSEF. The maximum grant will normally be no more than 10% of the loan amount.

9. Evaluation Criteria

Applications for funding through the SSEF will generally be evaluated in terms of their commercial viability and sustainability as well as the community benefits that would be achieved through application of funds.

The areas considered in evaluating commercial viability and sustainability include but are not limited to:

Character – organisations will be required to demonstrate that executives, non-executives and / or senior managers are of good character and have sufficient capacity and capability for running sustainable commercial operations in their chosen sector / market.

This includes organisational leadership and management as well as specialist skills, knowledge and experience in delivering specific or specialist services.

Capital – organisations will be required to evidence availability and sources of capital applied within the organisation beyond the loan being sought from the SSEF.

'Capital' within the context of this policy includes share capital, bonds, guarantees, loans, overdrafts, grants and physical assets that have been gifted to the organisation.

Capability – organisations will be 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 will be 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 will be required to specify the purpose(s) to which funds advanced through the SSIF will be applied.

Evidence will also be required to show, once funds have been advanced, that monies have been applied exactly as set out in the funding application.

In addition, organisations will be required to set out:

- The social / societal benefits expected to be realised through application of funds in the purpose(s) specified
- How the benefits will be measured
- How the benefits will be reported

Amount – organisations will be required to set out how the amount of funding being sought has been calculated.

This will usually be in the form of general or specific cash flow forecasts supported by a business plan.

Repayment – organisations will be required to demonstrate sufficient capacity in future cash flows to service and repay borrowing through the SSEF.

Evaluation of '*amount*' and '*repayment*' will usually be informed by historic financial information as well as cash flow forecasts and business plans.

Terms – organisations will be required to demonstrate sufficient internal financial and operating performance reporting systems to ensure that any terms, conditions or covenants relating to a loan can be met.

Examples of such terms, conditions or covenants include:

- Provision of management accounts / reports on a regular basis
- Ensuring that any fees, charges, capital and interest payments are met on a timely basis
- Measurement and reporting of benefits realised from application of loan funds to specified purpose(s)

Security – organisations will be required to set out what security is available to support the loan application. If assets are committed as security to other creditors / funders then organisations will be required to provide evidence of the extent to which the assets are relied upon by the other creditors / funders.

It is not a prerequisite of the SSEF that security is available or provided. However, as a matter of principle, if suitable security is available, then organisations will be required to offer it in support of a loan application.

Loan Scheme Evaluation Matrix – evidence provided under the criteria outlined above will be evaluated and judgement based on the output of an 'evaluation matrix' – see next page.

Loan Scheme evaluation criteria			
Criteria	**Score**	**Low score description (1)**	**High score description (5)**
Character / Capability		Limited information / evidence	Full, reliable and objective evidence
Capital		Weak, less than 10% of loan amount	Strong, at least equivalent to loan amount
Purpose		Poorly defined and uncertain	Clearly defined and well evidenced
Amount		Basis of calculation unclear and unjustified	Basis of calculation robust and supported
Security		None available	Suitable security offered
Grant application *not included in loan score		Does not support loan purpose	Integral to loan purpose and success of business plan
Total			
Social / Societal benefits			
Criteria	**Score**	**Low score description (1)**	**High score description (5)**
Social Enterprise characteristics		Alignment unclear and unjustified	Alignment robust and supported
Community need		Low priority, strong existing provision	High priority, weakness or gaps in existing provision
Social benefits		Poorly defined with weak measures	Clearly defined with appropriate measures
Links to target community		Weak / no established links	Strong and established links
Community support for enterprise		Low satisfaction / active resistance	High satisfaction / active support
Total			

10. Interest and Fees

Interest – the rate of interest charged on loans granted through the SSEF will be fixed for the duration of the loan and will be agreed between SCF and SCC.

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

The loans committee will consider requests for periods of interest-only repayments for an initial period of a loan.

Fees – may, at the discretion of the Loans Committee, be charged in respect of:

(i) Costs of work carried out relating to the appraisal and evaluation of applications and,
(ii) Costs of effecting security

Fees will be advised to borrowers at the time applications are received and may be added to the amount of loan required and will be deducted from the loan principal on drawdown.

11. Loan monitoring and control

The SCF Loans Committee 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 SSEF 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.

In the event that a borrowing 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 loans committee approach to support and recovery in event of distress and / or default.

12. Loans in distress and / or default

The SCF Loans Committee will endeavour 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 SSEF loans committee. The SCF Loans Committee will only recommend and seek realisation of security as a last resort.

13.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 will be 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