

The Scottish Investment Fund

Investing in the Third Sector, Investing in Scotland

Investment Strategy

**Scottish Government
June 2008**



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Our Investment Strategy

Introduction

The purpose of this document is to set out what we want to achieve with the Scottish Investment Fund and to give details of how we will focus our investment, what forms our investment will take and how the fund will be implemented.

Purpose of the Scottish Investment Fund

The **purpose** of the Scottish Government's £30m Scottish Investment Fund is to build capacity, capability and financial sustainability in the third sector; ensuring a strong and active third sector reaches its potential and makes a key contribution to the national outcomes of the Scottish Government. In order to achieve this the fund will support enterprise in the third sector through investment in individual organisations supported by integral business support and management development. The fund will offer a significant investment package for organisations in order to make a transformational step-change in their capacity, capability and sustainability.

Our **vision** is the Scottish Investment Fund as a **long-term way of investing in the third sector** not a three-year programme. We expect around half of the fund will be for loan and other repayable finance. It will, therefore, become a recycling fund operating beyond the current spending review period (2008-2011) to which further investment, potentially from a range of sources including the private sector, can be added to in the future.

The fund will focus on:

- **Investment in outcomes** linked to the purpose of the Scottish Government in creating a more successful country, with opportunities for all through increasing sustainable economic growth. This will be in the context of our “golden rules” for growth - solidarity, cohesion and sustainability – that is social equity, balanced growth across Scotland and respect for the environment. In particular applicants for investment will require to demonstrate how Scottish Government investment will assist achievement of the 15 National Outcomes. We will ensure evaluation is a key element of the fund to measure success in achieving outcomes.
- **Organisational capacity development** - not project funding - in order to create a more financially sustainable, enterprising and business-like third sector. This will include increasing the turnover of the social economy and reducing long-term dependence on grants and contributing to better public services by making the third sector more able to deliver effective, evidence-based and innovative services. This can include joint-venture or consortium based activity, perhaps with newer organisations working with more established enterprises.

- **Integrated funding** involving a mix of finance types, finance providers and appropriate support and advice to ensure business development is sustainable. The fund should be a catalyst for the increased provision and availability of loan finance by the commercial banking sector and should ensure the drawing down of additional funding, including mainstream local funding in the context of single outcome agreements.

The Scottish Investment Fund is for **investment-ready organisations** – we envisage significant investments in around 60-80 organisations over the period 2008-2011. We will be targeting those that can make a strong contribution to our aims for Scotland.

For organisations and individual social entrepreneurs at an earlier stage of development in terms of enterprise activity, than those the Investment Fund will support, there will be additional Scottish Government funding and other developmental support. Support will be provided through many of the actions within our **Enterprising Third Sector Action Plan**, which aims to create the environment in which an enterprising third sector can grow, develop and thrive.

Funding for such organisations will be available through the **Third Sector Enterprise Fund**, which will support organisations that want to build their capacity to operate in an enterprising way. Details of this £12m fund will be available over the coming months. A total of £2.7m will be invested in 2008/09, with £5m in 2009/10 and £4.3m in 2010/11. Scottish Government will offer funding of up to £100,000 in third sector organisations based on assessment of business plans and social outcomes.

Our **wider support for the third sector** will also support the Scottish Investment Fund and the Third Sector Enterprise Fund. This will include strategic work on partnerships and relationship management with Government, as well as areas covered by the action plan including skills and learning, procurement and service commissioning, new ways of investing in the third sector and local third sector infrastructure.

Eligibility

The following will be eligibility requirements:

- Established third sector organisation located and trading in Scotland with an appropriate legal constitution in place, with social or environmental aims, including related to equality and diversity, and reinvest surpluses for a social purpose.
- Have been operating successfully, partly through income generation, for at least three years. In the case of new joint venture or consortium arrangements at least one of the partners must have been trading successfully for at least three years.
- Have established, successful experience in public service delivery or trading in other markets.
- Have potential to grow their turnover and/or become financially sustainable.
- Are investment-ready in terms of management, governance and financial position or in a position to become investment-ready with business support.

The following are **not** eligible for the fund:

- Organisations with no track record of generating income other than grants.
- Organisations that are insolvent or at risk of insolvency.
- Proposals that seek to replace existing debt finance.
- Third sector support, intermediary or infrastructure functions.
- Housing construction and management operations of Registered Social Landlords (RSLs) - however in line with the general eligibility criteria RSL owned subsidiary social enterprise trading companies may be eligible and it may be possible for RSLs to be part of joint-ventures.
- Proposals that relate to the on-going delivery costs of services or projects.
- Proposals that would normally be funded by commercial loan finance or other funding sources.
- Organisations where the beneficiaries live outside Scotland.

In considering whether to invest in organisations we will consider two main criteria:

Investment Criteria 1 – the outcomes for Scotland realised by our investment

This Government has been clear from the outset that it wants to take a strategic approach to government with a focus on outcomes. We are focussing all of government and public services on a single, over-arching purpose - to create a more successful country, with opportunities for all Scotland to flourish, through increasing sustainable economic growth. The Government established a National Performance Framework, published in the Spending Review 2007, to underpin delivery of this purpose.

We will invest in third sector organisations that contribute to the achievement of one or more of the **15 National Outcomes** which describe what Government wants to achieve over the next 10 years:

- We live in a Scotland that is the most attractive place for doing business in Europe.
- We realise our full economic potential with more and better employment opportunities for our people.
- We are better educated, more skilled and more successful, renowned for our research and innovation.
- Our young people are successful learners, confident individuals, effective contributors and responsible citizens.
- Our children have the best start in life and are ready to succeed.
- We live longer, healthier lives.
- We have tackled the significant inequalities in Scottish society.
- We have improved the life chances for children, young people and families at risk.
- We live our lives safe from crime, disorder and danger.
- We live in well-designed, sustainable places where we are able to access the amenities and services we need.

- We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others.
- We value and enjoy our built and natural environment and protect it and enhance it for future generations.
- We take pride in a strong, fair and inclusive national identity.
- We reduce the local and global environmental impact of our consumption and production.
- Our public services are high quality, continually improving, efficient and responsive to local people's needs.

In many cases third sector organisations can contribute to these outcomes in a multiple way and that is why we value the third sector so highly. For example, through recycling organisations that also contribute to employability; working with young people who have not had the chances their peers have had in life or people who are homeless; providing opportunities for people with a disability or other disadvantage to enter the labour market or tackling the underlying causes of health inequality such as lack of a good start in life for children, unemployment or low income or poor physical environments.

Priority for investment in the first year of operation of the fund will be organisations that address issues of **employability, environmental action and tackle the underlying causes of health inequality**. We shall consider other priorities as the fund develops.

Criteria for Investment 2 – the organisational potential realised by our investment

The fund will aim to secure a transformational step change in an organisation's capacity, capability and financial sustainability. The fund will invest in activities that will build this in areas such as operations, marketing and business development, governance and financial controls. The fund will also be able to invest in long-term assets, such as buildings, plant and machinery.

Investment will therefore be targeted at organisations that can demonstrate the investment will build their organisational capability and capacity to contribute to the Scottish Government's priorities and develop their financial sustainability in the future either through business growth and increasing their turnover or through making their established business sustainable and able to contribute over the long-term. It may be this is done through joint ventures and consortium development and the fund will be able to support this where this is shown to have strategic benefits to the participating organisations.

Investment Package

There is no overall template for investment packages – they will be flexible packages right for individual organisations within the broad parameters of our investment strategy. Scottish Government is making resources available on the following basis.

08/09	09/10	10/11	Total
4.0m	10.0m	16.0m	30.0m

As we wish to see the fund develop into a **long-term recycling fund** we envisage approximately 50% will be used for loan and other repayable finance. This applies across the fund as a whole and not necessarily individual cases. However, given the nature of the organisations we expect to invest in, we consider most funding packages from the fund would be limited to 50% of the overall funding package being non-repayable.

Any repaid capital and interest from investments will be returned to the fund and re-invested, including beyond the current spending review. Organisations must demonstrate the capability to generate sufficient financial returns to enable them to repay. The return agreed (interest rates, payment period and mix of grant and loan) will vary on a case-by-case basis. All investments will undergo a state aids assessment.

We envisage investment packages bringing together a **blend of funding sources** and matching in other resources. We expect approximately two-thirds of the fund to be invested in capital items, such as buildings, plant and machinery which importantly will help develop long-term assets for the sector.

This investment package could include:

Loan Funding

The organisation's business plan will be assessed for loan funding first before any non-repayable investment is considered. The loan could either be provided through the fund and if appropriate from a third party such as the commercial banking sector. Interest rates and repayment period from the fund would be negotiable on a case-by-case basis but are expected to be broadly in line with current market rates. Loans from the fund would seek to complement not replace the products available from commercial lenders. There would be no cap on the amount of loan finance other than the amount the organisation could service appropriately. Loans will start at £50,000.

Strategic Investments based on social outcomes

These investments would normally be made in the region of £100,000 - £500,000 but with larger investments being possible in exceptional circumstances. They would not require financial repayments but would be linked to identifiable social, economic and environmental outcomes. It is expected this form of investment would make up no more than 50% of any funding package, with the remainder being loan (either through the fund or a commercial loan) or other funding, including investment by the organisation itself. Linked to business plans the investment could be used for both asset and organisational development.

Other Financial Products

The funding package could also include new financial products for the third sector. Part of the fund would therefore be used for equity, patient capital (a loan where lengthy interest or capital holidays could be available) and other finance methods as appropriate to the package required by the organisation. It is likely these products would have a mix of repayable and non-repayable elements as appropriate to the

organisation. These products will be informed by development work undertaken by Social Ventures Scotland on behalf of Scottish Government.

Development Support

As well as providing the above financial support, the fund would, where required, pay for development and business support for organisations. This could include advice and support on marketing, human resources, accountancy or legal aspects. It could include business advice and support on growth management and financial sustainability. It could also include mentoring support from mainstream businesses or other third sector organisations and leadership training.

Application Process

As this is an investment fund there are no closing dates or investment windows – the fund remains formally open from **1 September 2008 until March 2011**. It is not first come first served. The Investment Team will select organisations to work with as the fund progresses. Prior to formal opening the team will be available for initial dialogue with interested organisations.

The following process will operate:

- Stage 1 - Initial self-assessment as to an organisation's suitability for the fund by reference to published information and criteria, including an on-line self-assessment tool. Telephone consultation with Investment Team also available.
- Stage 2 – Submission by the organisation of an Outline Investment Proposal (OIP) form to the Investment Team followed by discussion/feedback to assess organisation's potential for investment.
- Stage 3- Full Investment Assessment (FIA) – rigorous assessment of organisation's business plan, operations and local market assumptions and, if accepted for investment, development of an overall financial package to allow development and sustainability of the organisation.

If organisations are accepted for investment we expect the FIA and investment package assembly to take around 3 months. We expect the first tranche of organisations (circa 10-15) for FIA to be selected from October 2008.

Fund delivery and decision-making

Social Investment Scotland (SIS) will be the fund manager and lead delivery partner for the Scottish Investment Fund. SIS was established in 2002 by the Scottish Executive, Scottish Enterprise and Highlands and Islands Enterprise in partnership with RBS, HBOS, Clydesdale and Lloyds TSB banks in order to provide loan finance to the social economy.

Most decisions will be taken by an Investment Panel comprising Scottish Government and relevant agencies, SIS and members selected from the banking and finance industry, the third sector plus an independent person. Funding packages outwith the normal operational parameters of the fund may require consideration by Scottish Ministers.

Ministers will also agree the overall operating framework, receive regular updates on progress on the fund and consider whether any changes are required to the operation of the fund after the first year.

Further information

- Talk to staff on the Scottish Government and Social Investment Scotland stalls at *The Gathering* 19/20 June 2008.
- Visit Scottish Government (www.scotland.gov.uk) and Social Investment Scotland (www.socialinvestmentscotland.com) websites to check for further developments as we move towards the fund opening on 1 September 2008.
- Call Social Investment Scotland on 0131 558 7706.

Scottish Government
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