

Third Sector Enterprise Fund

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Third Sector Credit Union Fund

Investing in the Third Sector, Investing in Scotland

Investment Strategy 2008-11

May 2009

This document can be translated on request into your community language, or can be made available on request in large print, Braille or audio cassette/other formats. Please contact Scottish Government, Third Sector Division, telephone number 0131 244 3540.

Our Investment Strategy

Introduction

This document sets out what we want to achieve with the Third Sector Enterprise Fund and the Third Sector Credit Union Fund, how we will focus our investment, what forms our investment will take and how the Funds will be delivered.

The Third Sector Enterprise Fund is part of a comprehensive funding package for the third sector as set out in the Enterprising Third Sector Action Plan:

- £30 million [Scottish Investment Fund](#) for established third sector organisations
- £12 million [Third Sector Enterprise Fund](#) for organisations at an earlier stage in enterprise development. The Third Sector Credit Union Fund is part of the Enterprise Fund, and we have set aside £250,000 for established Scottish Credit Unions. Further details are given at Annex B.
- £1 million for activities to support individual social entrepreneurs, including the [Social Entrepreneurs Fund](#) delivered in conjunction with a range of support through Firstport

This will ensure that we have a continuum of funding for a range of different types of organisation, underpinned by business support available through other Scottish Government programmes, intermediaries and agencies.

Purpose of the Third Sector Enterprise Fund

The Scottish Government has been clear from the outset that it wants to take a strategic approach to government with a focus on outcomes. We are focusing 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 Scottish Government established a [National Performance Framework](#), published in the Spending Review 2007, to underpin delivery of this purpose.

Our **vision** for the Third Sector Enterprise Fund is to make strategic investments in ambitious and enterprising third sector organisations enabling them to develop and grow in order to support the progression of those organisations towards meeting their full potential and increasing enterprise within the sector. We recognise that in the current economic climate there is potential for a significant increase in demand and opportunities for third sector organisations. In turn they become an even more vital component in ensuring resilience within our communities.

The **purpose** of the Third Sector Enterprise Fund is to build capacity, capability and/or financial sustainability in the third sector; we believe that a strong, active and ambitious third sector can make a key contribution to the [National Outcomes](#) of the Scottish Government.

The Third Sector Enterprise Fund will offer grant funding of between £25,000 and £100,000 to third sector organisations, based on an assessment of financial, social and environmental outcomes. We envisage investments in around 200 organisations over the period 2009-2011. We will be targeting those organisations that can make a strong contribution to our aims for Scotland.

In order to achieve this the Fund will support the following types of activity:

- Development of enterprise business models to increase income generation and financial sustainability
- Organisational development and capacity building - including operations, marketing and business development, workplace changes or re-organisation, governance and financial controls
- Innovation to improve business and service efficiency and growth potential
- Support for skills, skills utilisation and workforce development

We expect to invest in both capital and revenue items, e.g., buildings, plant and machinery, advice and support on marketing, human resources, accountancy or legal aspects. The revenue support could also include business advice, support for growth management and financial sustainability. We are keen to encourage organisations to access mentoring support from mainstream businesses or other third sector organisations, and leadership training.

Awards from the Fund will be made following an objective assessment of each application. Applicants must provide clear evidence of how they expect the Fund to contribute towards improved outcomes for their organisation and in addressing at least one of the Scottish Government's National Outcomes. Applications for £70,000 or more need to be accompanied by a business plan, demonstrating how the investment will help to make a transformational step change in the organisation's capacity, capability and/or financial sustainability.

Focus of the Third Sector Enterprise Fund

We aim to support organisations with ambition for their growth and development. The fund will **focus** on supporting enterprise in the third sector through investment in organisations – increasing organisational capacity, rather than project funding.

The fund will focus on supporting organisations that want to build their capacity to operate in an enterprising way. The investment criteria are the same as those we have used for the Scottish Investment Fund:

- Investment Criteria 1 – the outcomes for Scotland realised by our investment
- Investment Criteria 2 – the organisational potential realised by our investment

The initial priority for investment will be within organisations that address **employability, environmental action, or tackle the underlying causes of health inequality.**

Investment Package

Where possible we expect to see examples of how applicant organisations can attract additional funds to maximise the investment potential of the Fund. We envisage investment packages bringing together a blend of funding sources and matching of other resources. Ideally we would expect to fund up to of 70% of any proposal cost. An investment package could include loan funding from a variety of providers, funding from grant-making organisations and the private sector. And of course we shall take account of applicants' own resources.

Eligibility

The Third Sector Enterprise Fund is designed for ambitious third sector organisations that want to operate in a business-like and enterprising way with a view to achieving increased sustainability and/or growth in turnover. Eligibility will not be related to the size of the organisation. However, we expect those organisations at a more developed level of enterprise activity to seek funding from the [Scottish Investment Fund](#) rather than the Third Sector Enterprise Fund. We will expect most applications to come from individual organisations but will also consider joint or consortia approaches. Applications from subsidiaries of third sector intermediary bodies and RSLs, which have a legal personality (ie an organisation must be formed in such a way that it can legally be a party to a contract, for example a limited company, partnership, trust etc) will also be considered.

The following will be eligibility requirements:

- Established third sector organisations with an appropriate legal personality in place, and social or environmental aims (including aims related to equality and diversity), and who reinvest surpluses for a social purpose
- Organisations located or operating/ trading in Scotland. This could however include UK-based organisations working with Scottish beneficiaries
- Organisations with the potential to grow their turnover and/or become financially sustainable
- Organisations with appropriate management and governance arrangements in place to support our investment

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

- Organisations that are insolvent or at risk of insolvency
- Unincorporated associations
- Activities that support beneficiaries who live outside Scotland
- Organisations that are in the process of accessing, or have already accessed, the Scottish Investment Fund
- Proposals that seek to replace existing debt finance
- Core functions of third sector organisations, support bodies and intermediaries
- 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 with a legal personality are eligible and it is possible for RSLs to be part of consortium applications
- Proposals that relate to the on-going delivery costs of services or projects, i.e., costs related to the existing day-to-day running of the organisation, rather than

funding which will positively impact on the organisation in relation to increasing capacity, capability and sustainability

- Proposals that would normally be funded by commercial loan finance or other funding sources

Investment Criteria

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

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

The Fund will invest in third sector organisations that contribute to the achievement of one or more of the [15 National Outcomes](#) which describe what the Scottish Government wants to achieve over the next 10 years (see Annex A).

We believe that third sector organisations can contribute to these outcomes in multiple ways; this 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 providing support and services to homeless people.

Investment Criteria 2 – the organisational potential realised by our investment

The Fund will aim to secure a transformational step change in organisational capacity, capability and/or financial sustainability. The Fund will invest in activities that will build this in areas such as:

- operations
- skills and skills utilisation
- 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

The Fund will therefore be able to invest in both capital and revenue aspects of business development. We expect approximately 50% of the Fund to be invested in these types of capital items, which importantly will help develop long-term assets for the sector.

We will ensure that the Fund incorporates a ‘working capital’ element to support activity that requires a flexible approach and where this can be clearly demonstrated by the applicant.

Investments will be targeted at organisations that can demonstrate that the investment will build their organisational capability and capacity to contribute to the Scottish Government’s priorities, and to develop their financial sustainability in the future, either through business growth and increasing their turnover or through making their existing business sustainable.

Application Process

The Fund opened in January 2009. Further details and guidance are available on the Scottish Government website.

<http://www.scotland.gov.uk/Topics/People/15300/funding/enterprising-skills-fund>

The following process will operate:

- Applicants should undertake an initial self-assessment as to their suitability for the Fund by reference to the published information and guidance
- Submission of a full application explaining clearly the rationale for the proposal and the expected outcomes. In addition, applicants for funding of £70,000 or more will need to submit a business plan, which will be required to assess developmental potential and demonstrate sustainability after the period of funding.

Fund Delivery and Decision-making

Scottish Government Third Sector Division will manage and deliver the Third Sector Enterprise Fund. Details of the assessment and appraisal process are available in the Information and Guidance for Applicants.

The Fund will remain open until the £12 million has been committed. We expect to make awards throughout 2009 and all funds must be claimed by March 2011. Scottish Ministers will receive regular updates on progress and will consider whether any changes are required to the operation of the Fund.

Additional Scottish Government Support for the Third Sector

For organisations and individual social entrepreneurs at an early stage of development there will be alternative Scottish Government funding and other developmental support provided through many of the actions within our [Enterprising Third Sector Action Plan](#). The Action Plan aims to create the environment in which an enterprising third sector can grow and develop.

The £1 million **Social Entrepreneurs Fund** provides a new source of support for individuals to develop their social enterprise business ideas. The Entrepreneurs Fund will be managed and delivered by [Firstport](#) to encourage individual entrepreneurs to establish new social enterprises.

Our **wider support for the third sector** will also complement the Third Sector Enterprise Fund. This will include strategic work on partnerships and relationship management with the Scottish 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.

Further Information

This Strategy and further information is available at:

www.scotland.gov.uk/Topics/People/15300/funding/enterprising-skills-fund

If you cannot find the information you are looking for, please email your enquiry to:

enterprisefund@scotland.gsi.gov.uk

Scottish Government
May 2009

Scottish Government 15 National Outcomes

1. We live in a Scotland that is the most attractive place for doing business in Europe.
2. We realise our full economic potential with more and better employment opportunities for our people.
3. We are better educated, more skilled and more successful, renowned for our research and innovation.
4. Our young people are successful learners, confident individuals, effective contributors and responsible citizens.
5. Our children have the best start in life and are ready to succeed.
6. We live longer, healthier lives.
7. We have tackled the significant inequalities in Scottish society.
8. We have improved the life chances for children, young people and families at risk.
9. We live our lives safe from crime, disorder and danger.
10. We live in well-designed, sustainable places where we are able to access the amenities and services we need.
11. We have strong, resilient and supportive communities where people take responsibility for their own actions and how they affect others.
12. We value and enjoy our built and natural environment and protect it and enhance it for future generations.
13. We take pride in a strong, fair and inclusive national identity.
14. We reduce the local and global environmental impact of our consumption and production.
15. Our public services are high quality, continually improving, efficient and responsive to local people's needs.

Third Sector Credit Union Fund

Introduction

We have set aside £250,000 from the Third Sector Enterprise Fund as a dedicated resource for established Scottish Credit Unions to help them grow and weather the current global downturn

This Annex sets out what we want to achieve with the Third Sector Credit Union Fund and gives details of how we will focus our investment, what forms our investment will take and how the Fund will be implemented.

Purpose and Focus of Third Sector Credit Union Fund

The purpose of the Third Sector Credit Union Fund is to build capacity, capability and financial sustainability of established Scottish credit unions to help them reach their potential and make a key contribution to the national outcomes of the Scottish Government. We want to support credit unions with ambition for their own development and for Scotland. To achieve this we will focus on investing in enterprising credit unions – to increase their organisational capacity. The Fund will support credit unions who want to grow and build their capacity to operate in a more enterprising and sustainable way.

A total of £250,000 will be invested from 2008/09 to 2010/11. The Scottish Government will offer funding of between £2,500 and £25,000 based on assessment of an application form. We envisage making investments to around 20 organisations and all investments will be in the form of grant funding.

The fund aims to encourage credit unions to be innovative through developing and offering new services and products, e.g., flexible savings products, lower cost loans, credit union current accounts, affordable insurance products, Pay Point, etc.

The Fund will support collaborative working and this could range from informal networks and alliances through to joint actions that increase effectiveness and efficiency in order to improve services for members. Collaborative working can be advantageous in terms of synergy and economies of scale, and this could involve two or more credit unions and/or other organisations, e.g., Jobcentre Plus, housing associations, money advice centres and Citizens Advice Bureaux.

The Fund **will** support organisational capacity development activities such as:

- Business planning;
- Product development;
- Service improvements;
- Volunteer/staff training and development;
- Marketing and advertising;

- Recruitment of school, college and university members;
- IT equipment and upgrades.

The Fund will **not** support:

- Study groups;
- Feasibility studies;
- Credit union networks;
- Trade associations;
- Providing audited accounts;
- Bad debt provision;
- Boosting a credit union's reserves;
- Payment of dividend to members;
- Proposals that relate to the on-going delivery costs of services or projects.

Overall criteria for investment will follow that used in the Third Sector Enterprise Fund:

- Investment Criteria 1 – the outcomes for Scotland realised by our investment
- Investment Criteria 2 – the organisational potential realised by our investment

The Fund will therefore focus on:

- **Investment in outcomes** - Applicants for investment will need to demonstrate how Scottish Government investment will assist the achievement of one or more of the [15 National Outcomes](#). We want to support organisations with ambition for their own development and for Scotland. 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 credit unions, reducing long-term dependence on grants, contributing to better public services and by making credit unions more able to deliver effective, evidence-based and innovative services.

Eligibility

The following will be eligibility requirements:

- Established credit unions located and trading in Scotland;
- Credit unions must be registered with the Financial Services Authority (FSA) and comply with all relevant FSA requirements;
- Credit unions must have an appropriate constituted management board and governance in place to support the investment.

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

- Credit unions that are insolvent or at risk of insolvency;
- Third sector support, intermediary or infrastructure functions;

- Proposals that would normally be funded by commercial loan finance or other funding sources;
- Organisations where the beneficiaries live outside Scotland.

Application Process

The application process is the same for both the Third Sector Enterprise Fund and the Third Sector Credit Union Fund. The same documentation applies to both funds. Credit unions seeking £25,000 or more should apply to the Third Sector Enterprise Fund.

Scottish Government
April 2009