



Liverpool City Region Impact Fund: Guidelines 2019

Introduction

The Liverpool City Region Impact Fund (LCRIF) provides repayable finance to charities and social enterprises in the Liverpool City Region i.e. Knowsley, Liverpool, Sefton, St Helens and Wirral to help them to increase their economic and social impact.

The fund will make two waves of investment. Eight investments were made under wave one (2014-16). We are now looking to make the second wave of investments from the returns on the first wave. Once wave two investments are repaid, the remaining funds will create a legacy for charities and social enterprises in the North West.

We have circa. £475,000 to invest by March 2020, and a further £153,000 to invest by May 2021. We are currently looking to make 2-3 investments.

The fund is financed by the European Regional Development Fund (ERDF) 2007-13 programme and the SIB Foundation.

Aim of the fund

The aim of the Fund is to:

1. Support community-based charities or social enterprises in the Liverpool City Region, to help them to increase their economic and social impact.
2. Invest in charities or social enterprises to enable them to develop and expand trading activities so that they can become strong, sustainable businesses making a major contribution to their community by reinvesting profits or surpluses made into the organisation or community to further their social and economic aims.
3. Help investees achieve financial sustainability for themselves: this means that they can boost the local economy and community through increased economic activity and by delivering services of benefit to the community.
4. Make investments that will safeguard existing jobs, support the creation of new jobs, increase organisational turnover, enable capital purchase, support bidding for and winning new contracts and other sales activity.



What does the fund offer?

- Secured and unsecured loans
- Between **£150,000** to **£250,000**
- Rates of between **3-8%** fixed
- Repayment terms of up to 10 years
- Repayment holiday of up to 12 months
- No hidden fees e.g. arrangement fees, early repayment fees
- Repaid funds constitute a legacy for the North West.

Note:

- The target investment range is £150,000 to £250,000. However, if funds from other sources aren't available/ suitable we could consider investments below £150,000.
- The fund will provide predominantly unsecured loan finance. However, we might take security if it helps to de-risk an investment and/or make it more affordable for the applicant.
- Lower interest rates will only be given to applicants that can demonstrate strong impact and/ or where we can de-risk an investment by taking security. *All investments must be [State Aid compliant](#) - this could affect the interest rate you are charged.*
- Longer repayment terms will only be given to organisations that can demonstrate sustainability and are likely to be bankable at the end of the term. We must seek the Ministry of Housing Communities and Local Government's (MHCLG) approval for any repayment period beyond 5 years.
- The fund can support co-investment with other funders/ investors.

What types of loans does the fund provide?

Our investments can support varied organisational costs, including capital to purchase a building, capital for the development and/ or refurbishment of a building, capital to purchase equipment, seed capital to start something new, growth capital to increase the capacity of an organisation.

Whatever form the investment takes, applicants must be able to demonstrate that they can repay the loan, plus interest, within the agreed repayment term.

Applicants must also be able to demonstrate how the investment will directly improve their organisations performance, make a substantial contribution to the economic growth of the LCR and deliver activity that benefits their community and delivers social value.

The investment terms will be based on risk and affordability. We will offer a repayment plan that takes account of the applicant's needs. This plan will be developed in conjunction with the applicant during Stage 4: Assessment and Site Visit. This may include repayment holidays and/or the rolling up of interest during the early years of the loan.

The normal repayment profile is monthly payments of capital and interest from the date the loan is disbursed; however, other profiles will be considered which more accurately match the applicant's forecast cash flows.



The maximum interest and/ capital payment holidays that we will offer will be 12 months. If we agree to an interest holiday the interest payable during that holiday will be rolled up and added to the principle.

Penalties will not be imposed for early repayment.

Security

In a small number of cases we might take security where we think it appropriate:

1. In situations where we believe it will allow us as an investor to play an influential role in a crisis situation, which experience shows can lead to a better outcome for both the investee and the investor.
2. In high risk propositions, to mitigate risk of loss to the fund in circumstances where a rescue is not achievable/the debt would otherwise be irrecoverable. This will maximise our chances of recouping funds for investment in other organisations.

In such cases, where security taken is by way of property then we will require a professional valuation of the asset.

Where co-investment is with a mainstream loan provider we would expect to rank behind them in terms of security but in all other circumstances we will only make investments on the basis of a first charge or pari passu the co-funder.

Criteria and Eligibility

Who can we fund?

Charities and social enterprise applying to the fund must:

1. Require a loan and be able to repay the loan within a maximum of 10 years and at an interest rate of between 3-8% (terms to be negotiated at assessment stage and will be based on risk and affordability for the applicant).
2. Have its principal place of business or a material part of its operations, people or trading based in the LCR i.e. Knowsley, Liverpool, Sefton, St Helens and Wirral.
3. Be legally constituted and a registered charity or social enterprise, primarily constituted for social benefit.
4. Be economically viable and not in financial difficulty i.e. not subject to collective insolvency proceedings.
5. Not operate within any of the “**excluded sectors**”.
6. Not use the loan to pay for any of the “**ineligible items**”.



7. Be able to demonstrate the proposal they are seeking investment for is “un-bankable” i.e. unable to secure the finance through mainstream/ commercial investors/lenders (a letter from a bank will be requested at **Stage 3: Application**).
8. Be able to demonstrate that the investment is not being used to replace funding already earmarked by existing agencies and authorities (the investment must bring added value over domestic funding), and the project would not take place in the same form without the investment.
9. Be able to demonstrate the organisation is planning or already engaged in income generating activities with the aim of developing robust income streams to produce sufficient surpluses to repay the loan, and become more financially sustainable and independent (a viable business plan linked to the utilisation of the loan will be requested).
10. Be able to demonstrate that the investment will directly help improve their organisations performance (e.g. increase organisations turnover), substantially contribute to the economic growth of the LCR (e.g. safeguarding existing jobs, supporting the creation of new jobs), and delivers activity that benefits their community and delivers social value.
11. Be able to demonstrate all outputs, results and impacts delivered as a result of the investments will be delivered in and impact upon the LCR.
12. Have in place appropriate environmental, health and safety, equal opportunities and disability policies/ statements (copies of policies will be requested).
13. Meet the positive characteristics we are looking for in an application listed below.

What do we look for in an application?

In addition to the above eligibility criteria, when assessing an application, we also look for the following **positive characteristics**:

- Organisations which have a clear social mission with significant measurable, direct outcomes.
- Organisations which have strong management with proven capability to deliver and good corporate governance.
- Organisations which can provide a viable business plan and financial projections linked to the utilisation of the loan.
- Organisations which are independent and controlled locally by residents and/ or representatives of local groups - including marginalised groups.
- Organisations which deliver activities / services of benefit to the local community providing services, broadly in one or more of the following areas: social welfare, education, recreation (including culture and sport), environmental activity, economic or vocational services, and/or voice and advocacy services.
- Organisations which empower, or plan to empower, its community through activities and services that support community development and stimulate community led action.

Economic, social and financial return



All investments will be linked explicitly to the economic returns and impacts that ERDF seeks, and the financial and social return that SIB seeks (as co-investors into the fund). In all cases we will expect to see the following economic outcomes:

- Increase in new jobs created.
- Existing jobs safeguarded.
- Growth in organisation turnover.
- Increase in organisations with improved financial performance.
- New or improved products, processes or services.

Measures of improved performance could include increased annual turnover; increased value of assets held; increased unrestricted reserves; increased income from trading.

In all cases we will expect to see the following financial and social outcomes:

- Increased numbers of users.
- Increased activities / services/ facilities being provided for local people.
- Improved quality of existing activities/ services/ facilities provided.
- Growth in Gross Value Added (GVA). GVA is defined as total wage costs + net profit before tax and interest and depreciation.
- Forecast increase in turnover and value of assets (if appropriate).
- Forecast increase in unrestricted reserves.

We will also expect to see other outcomes which are specific to the services provided by the applicant.

What we can't fund

The LCRIF is funded by the European Regional Development Fund (ERDF). There are a number of sectors in which business cannot be supported with ERDF due to the existence of particular State Aid and other regimes or because State Aid would distort competition. The demarcation requirements of the ERDF programmes also restrict some sectors which are otherwise supported through the European Agricultural Fund for Rural Development (EAFRD) or European Fisheries Fund (EFF).

We therefore can't fund the following "**excluded sectors**":

- Dismantling of nuclear power stations.
- Housing construction and renovation other than specialist renewable energy in social housing.
- Owning, operating or development of retail (see below for further guidance.)
- The synthetic fibres sector.
- The coal, steel and shipbuilding sectors.
- The primary production, processing and marketing of agriculture products.
- The primary production, processing and marketing of the fisheries and aquaculture sectors.
- Banks and insurance companies.
- Large scale transport companies.



- Provision of generalist (school age) education.
- Provision of social welfare facilities e.g. hospitals, nursing homes, fire stations, sports facilities, parks, public libraries.
- Or as those sectors may be amended from time to time by the European Commission and/ or the Secretary of State for Communities and Local Government.

The LCRIF also can't be used to pay for the following **“ineligible items”**:

Ineligible **revenue** items:

- Notional costs, for example, where an item usually retails at £x, but the applicant buys it cheaper but claims the difference between the price paid and £x.
- Payments for activity of a political nature.
- Provisions – i.e. money set aside to pay for future events e.g. sink funds.
- Contingencies and contingent liabilities.
- Dividends.
- Interest or service charges arising on debt incurred including finance leases, hire purchase and credit arrangements.
- Costs resulting from the deferral of payments to creditors.
- Costs involved in winding up a company.
- Payments for unfair dismissal.
- Compensation for loss of office.
- Bad debts arising from loans to employees, proprietors, partners directors, guarantors or shareholders.
- Payments for gifts and donations.
- Entertainments apart from food and non-alcoholic drink provided as part of a meeting.
- Statutory fines and penalties.
- Criminal fines and damages.
- Legal expenses in respect of litigation.

- Costs incurred by individuals in setting up and contributing towards private pension schemes, or the setting up of such schemes by organisations in receipt of ERDF.
- Costs incurred by organisations in relocating personnel displaced by the refurbishment or conversion of a building for ERDF use.
- Recoverable VAT.
- Non-taxable bonus payments or other non-taxable benefits.
- Exceptional or extraordinary provision for pension rights.

Ineligible **capital** items:

- Major transport infrastructure, such as airports, railways, bridges or major roads.
- Child-minding facilities including day nurseries.
- Mobile infrastructure such as buses, boats and other vehicles.
- Tourist infrastructure facilities which primarily service local people.

Note also that the below activities are **not normally eligible**:

- Retail facilities. The general principle is that support for retail facilities will not assist economic development and that improved performance for one facility will displace similar activity elsewhere.
- Coastal protection, soil conservation and infrastructures.



- That proportion of public expenditure incurred in land acquisition not directly linked to productive investment or investment in infrastructure.
- Major infrastructure in private-sector ports.
- Major electronic telecommunications infrastructure, such as the provision of broadband, except in Convergence and Phasing-in areas.
- Standalone car parks. Providing car parking may be eligible if it is part of a larger project for development of a site or premises. The number of parking spaces should be based on the standards agreed by the local planning authority. If there are more spaces than set out in the standard they will not be eligible unless it can be evidenced that they are required.

Retrospection

The LCRIF also cannot fund retrospectively i.e. the loan cannot be used to cover expenditure which pre-dates the date on which any offer letter is signed.

Retail

Retail could include any product or service that an organisation sells to the general public e.g. community café, social enterprise hotel, shop. If the proposal you have in mind involves selling anything to the general public, please contact us to discuss your proposal first.

Questions about eligibility

If your organisation / proposal falls within any of the ineligible items listed above, please contact us to discuss your proposal before applying – **020 3096 7900** (press option 2) or loans@sibgroup.org.uk.



Applying to the Fund

When to apply

We are looking to make 2-3 investments by March 2020. If you are interested in applying to the fund, we strongly recommend you complete the short expression of interest at your earliest convenience, so that we can start to discuss your application.

How to apply

- Stage 1: Fund Guidelines
- Stage 2: Expression of Interest
- Stage 3: Application Documents
- Stage 4: Assessment & Site Visit
- Stage 5: Investment Committee

Stage 1: LCRIF Guidelines

First read the LCRIF Guidelines to make sure the fund is suitable for your organisation and the proposal you have in mind.

Stage 2: Expression of Interest

Once you've read the Guidelines and you're happy the fund is suitable and you meet the eligibility criteria, complete the online Expression of Interest (EOI) to register your interest.

- Pre-application Phone Call

Once you've submitted the EOI, a member of the SIB Team will contact you by phone to discuss your organisation, proposal and the fund further.

The EOI and phone call is intended to help us establish whether your proposal is one that we might consider investing in, before you spend time writing and submitting the Application Documents.

Stage 3: Application Documents

Once you've successfully completed the EOI and Pre-application Assessment and you are satisfied that the fund is suitable for your organisation, you can now complete and submit the Application Documents.

To apply you need to submit the following documents:

- A viable business plan linked to the utilisation of the loan
- Cash flow forecast linked to the utilisation of the loan
- Audited accounts (3 years/operating period if available)
- Management accounts (YTD), including balance sheet, cash flow and income statement
- Governing document
- Organisational chart
- Board minutes
- Impact reports (if any)
- Evidence of un-bankability (**we will ask for evidence in writing**)



- Environmental, Health & Safety Policies, Equal Opportunity and Disability Policies

The Application Documents should be emailed to loans@sibgroup.org.uk.

When submitting the Application Documents please state clearly the fund you are applying to i.e. Liverpool City Region Impact Fund, the name of your organisation and your name and contact details. If possible, include all the documents as one single zipped folder. If you are sending more than one email please ensure that they are numbered e.g. Email 1 of 4.

We will confirm receipt of your application within 5 working days of receiving it, and we will notify you within 15 working days whether your application is being progressed to Stage 4: Assessment and Site Visit.

Stage 4: Assessment and Site Visit

If your application is progressed to Stage 4, you will be assigned a Relationship Manager who will review all of the documentation you provide and come back to you with any queries/questions they have.

The Relationship Manager will also carry out a site visit to your organisation to explore key aspects of your proposal, including management and governance, financial viability, economic and social impact, fund eligibility and investment terms.

During this stage we are looking to assess whether your proposal is ready to go forward to the Investment Committee. The Relationship Manager may ask you for a range of further information/ documentation to help them better understand your organisation / proposal and to pre-empt questions the Investment Committee are likely to have.

Following the site visit, the additional documentation you provide and the further assessment of your application, the Relationship Manager will make a decision on whether they feel able to recommend your application for investment.

If they can't recommend your application for investment, you will be notified in writing and be given the main reasons.

If they can recommend your application for investment, the Relationship Manager will write an assessment report, including a clear recommendation.

The Assessment and Site Visit stage could take anything up to 3 months to complete. We will notify you of the rough timeframe at the point of notifying you whether your application has been progressed to Stage 4.

Please note, at this stage there is no guarantee your application will be recommended for investment and go through to the Investment Committee, this is subject to the findings of the Assessment and Site Visit.

Stage 5: Investment Committee

If your application is recommended for investment, the assessment report and recommendation will be sent to the Investment Committee for consideration and a final decision.



The Committee making final decisions is the SIB Foundation Investment Committee which currently has four members, who are Trustees of the SIB Foundation.

You may be required to attend the Committee meeting to present your proposal. Ideally the Chair, or another board member, and the CEO of your organisation should attend along with a finance executive or Project Manager.

If you present to the Investment Committee - Once you have made your presentation and the Committee have completed their questions, you will be free to leave. The Committee will then have a discussion and come to a decision. Sometimes they will ask the Relationship Manager to work further with you before they can make a decision.

An invitation to present to the Committee does not guarantee an investment. Success depends on a good and succinct presentation which gives the Committee the confidence that the organisation has the resources, skills and knowledge to carry out the proposed work and the financial acumen to be able to re-pay the loan and make the organisation sustainable and successful.

Any organisation invited to present their proposal to the Committee should expect to be robustly challenged on their plans.

The Relationship Manager will contact you after the meeting to inform you of the outcome.

If you are unsuccessful, you will be notified by letter and be given the main reasons.

If you are successful, you will be sent an offer letter and contract.

Timeline

You should expect the whole process, once you've submitted your application and up to any offer being made, to take up to 6 months in total. However, it will usually be much quicker than this.

Questions about applying to the fund

If at any point during the application process you have any queries on the fund, eligibility criteria, or if you would like to discuss the application process or your proposal further, please contact a member of the Social Investment Business team who will be more than happy to talk to you **020 3096 7900** (press option 2) or email loans@sibgroup.org.uk.



What to expect if you're successful

Once an investment has been agreed, the investee (applicant) will be helped with any clarification needed to understand what is required prior to agreeing the contract, for example, by addressing any uncertainties over taking loan finance for the first time.

The contract between the investee and Social Investment Business will take a standard form of an offer letter, terms and conditions and a schedule of the investment package and drawdown conditions.

Drawdowns

The phasing of drawdown will be discussed as part of the assessment and the investment set-up process. Payments may be made in a single drawing or they could be phased in line with the achievement of certain conditions or milestones or in accordance with the profile of planned cash flows.

Each investment will have some pre-conditions attached; these are similar to what is seen from other finance providers. For example, payments towards property builds will typically be monitored against architects' certificates.

Drawdown date and offer periods

Our standard period for drawdown of an investment will be 6 months from the date of the offer being made.

This means that it is important that applicant's plans are well developed and advanced when they apply to us. We will expect to see a clear and detailed achievable implementation timetable at the point of application.

Fees and charges

Investees will be asked to pay a standard charge for the costs incurred in completing legal documentation including the perfecting of security e.g. legal fees (Solicitors or Land Registry etc.) or property valuation.

These fees will be invoiced and supporting evidence provided (e.g. solicitor's invoice to SIB Foundation).

In exceptional circumstances a re-commitment fee of 1% is payable in the event that an investment takes a longer time than initially agreed to be used.

There are no arrangement fees or penalties for early repayment.

Support for investees

Social Investment Business recognises that investees operate in a challenging and rapidly changing marketplace and acts as an 'engaged investor' which means:

- We offer services that are personalised to the needs of the organisation.



- We can offer capability building support in areas such as property, legal, financial, governance or contract negotiation.
- We give support to investees throughout the investment period to ensure sustainability and competitiveness in the long term.
- If an investee is experiencing financial difficulties, we will work with them to find a satisfactory solution.
- We have a clear aim to minimise the number of organisations that fail and the amount of funding lost.

Monitoring

Progress will be monitored throughout the lifetime of each investment. Generally information is required that an organisation is (or should be) already providing to its Trustees/Directors or governing body.

The monitoring will broadly consist of the following main areas:

- Quarterly financial management accounts, annual audited accounts and sight of bank statements.
- Quarterly progress reports that help to report on progress towards achieving the economic and social outcomes of the fund, including evidence of fund outputs and results.
- Annually updated baseline information.
- Annual visits to investees and regular telephone catch ups to discuss how things are progressing and what plans and support Investees may require.
- Simple surveys and telephone interviews to provide feedback on how well the fund is performing and to feed into the LCRIF evaluation.

We are unlikely to seek a position on the board of organisations that we invest in but we will require observer status at board meetings and copies of board minutes. We will ask for these without specifying period.

If problems arise

Managing public money requires an additional duty of care to ensure that all reasonable steps are taken to protect it. The aim is to make loans that will be repaid, however, it is recognised that some investees will encounter problems during the term of their loan. As an engaged investor, Social Investment Business will work closely with them to find an acceptable way forward.

Investees are expected to be open and honest in their dealings with SIB. If all relevant information cannot be shared, then SIB may not be able to support the investee through a difficult period.

If there is any evidence that the investee has acted recklessly or fraudulently, not complied with the terms and conditions of the loan or is simply unwilling to repay then the loan may be terminated and repayment demanded.

Exceptions

As the fund evolves and develops it is important to explore new ways of doing things. Consequently, in some cases exceptions may be made to the approach outlined in this plan.



As fund manager SIB reserves the right to vary the terms and conditions of individual offers as and where appropriate and in accordance with the objectives set for the fund.



Further information

Social Investment Business

Online: <https://www.sibgroup.org.uk/liverpool-city-region-impact-fund>

Twitter: @TheSocialInvest

Phone: 020 3096 7900 (press option 2)

Email: loans@sibgroup.org.uk

Key Contact

Enterprise and Development Team

Phone: 020 3096 7900 (press option 2)

Email: loans@sibgroup.org.uk

If you would like these guidelines in another format, such as large print or audio file, please contact Social Investment Business team on **020 3096 7900** (press option 2) or loans@sibgroup.org.uk.