



Department for  
Digital, Culture  
Media & Sport

# NCRF SOCIAL INVESTMENT FUND

Guidance notes for Intermediaries

July 2018



## INTRODUCTION

1. This guidance note is to provide eligible (intermediary) organisations with the information needed to submit a bid to manage the NCRF Social Investment Fund (“the Fund”).
2. This guidance sets out the priorities for the Fund. It then explains the bid conditions, the application process and the indicative timetable associated with the process.

## BACKGROUND

3. In November 2015, the UK Government and the Department for Digital, Culture, Media and Sport (DCMS) announced plans for a Great Exhibition of the North. The Exhibition is taking place this summer in Newcastle Gateshead, and is celebrating the great art, culture and design of the North of England. Alongside the Exhibition, the Government has announced £15 million for a legacy fund, the Northern Cultural Regeneration Fund (NCRF). It aims to amplify the impact of the Exhibition and pave the way for future cultural investment in the North of England.
4. **As part of the NCRF, the Government has earmarked £3,195,000 to create the NCRF Social Investment Fund.**
5. The Fund will provide innovative financing solutions in the North of England. It seeks to achieve the wider aims of the NCRF by granting patient, repayable finance to organisations in the cultural and creative sector that make positive, demonstrable and sustainable changes to places, people and spaces, and are otherwise unable to get access to mainstream capital.

## SUMMARY

6. This Fund will be dedicated to **social investment objectives**, and will primarily focus on investment that leads to both social and financial returns.
7. The Fund will be awarded in its entirety to a third party intermediary fund manager, or to a partnership of intermediaries, who will be charged with managing the money. **The money will be a capital injection, going onto the balance sheet of the chosen intermediary**, and the intermediary/intermediaries will not be required to pay back any interest or capital to DCMS.
8. The Fund is designed to target a gap in the market for flexible, patient unsecured loans (or other forms of repayable finance) with affordable interest rates for amounts in the region of £20k to £150k. To reach the intended gap in the market, we envisage a soft-cap of £150,000.

9. The selected intermediary is to design, manage and administer the investment programme in its entirety. In terms of the type of investments, seniority and investment structure, DCMS will look to the intermediary fund manager to make appropriate decisions (although we expect that loan-finance would be the most suitable method to address the gap in the market, as identified above).
10. There is an obligation on the selected fund manager to comply with the State Aid rules in relation to all of the loans (or other forms of grant or repayable finance) it makes - it will be for the fund manager (in conjunction with the end recipient) to satisfy itself that the loan is State Aid compliant and that any necessary administrative requirements are complied with.
11. The fund design and structure can be flexible to optimise investment drawdown and impact, but basic guidelines apply and are outlined in this guidance note.
12. The intermediary will also be responsible for considering blended finance options that include an element of grant money: an indicative expectation of deployment is £2.195 million in loans (or other forms of repayable finance) and £1 million in grant. We anticipate that this will allow financing to reach a broader set of organisations.

#### **ELIGIBILITY**

13. The Fund is open to bids from all organisations (or a partnership of organisations) that are able to demonstrate the ability to run a social investment fund within the guidelines set out in this document.

#### **FUNDING OBJECTIVES & GOALS**

14. The intermediary submitting a bid to manage this Social Investment Fund should be able to demonstrate their ability to contribute to the Fund's and wider NCRF goals. These include:
  - Encouraging sustainable cultural and creative regeneration in the North of England.
  - Benefitting areas in the North of England that have historically had low levels of cultural and creative investment.
  - Increasing opportunities for people, including children, young people, elderly, those with disabilities etc. to experience arts and culture.
  - Enabling better quality of life and wellbeing in communities.

- Building more resilient and sustainable cultural and creative organisations.
15. The investee organisations sought out by the intermediary, and the investment in them, should facilitate at least one, but preferably more, of the following outcomes:
- Increased opportunities for people, including children and young people, to experience and be inspired by culture and creativity.
  - Improved quality of life and wellbeing within local communities.
  - Increased resilience and sustainability of cultural and creative organisations.
  - Innovative and effective partnerships between the cultural and creative sector and other sectors, especially digital and technology sectors.
  - Increased investment and economic growth.
16. The intermediary organisation should also be able to illustrate how they are able to facilitate the below investment-related goals:
- Manage an investment portfolio with suitable diversification and a target risk-adjusted return.
  - Leverage private and/or philanthropic capital through co-financing options alongside DCMS's £3.195 million investment.
  - Deploy the capital within the timeframe set. This should be demonstrated by an indicative pipeline of investment opportunities, as well as through any other means that the bidder deems relevant.
  - Encourage innovation and wider social investment in the North of England, the cultural and creative industries and beyond.

## FUNDING TERMS

17. **The capital grant from Government comes with the restriction that it must be drawn down and invested within a two year period**, which is expected to start during financial year 2019 and end in financial year 2021 (i.e. by 31 March 2021). The repayment terms of the investments can be flexible to suit investable opportunities, within a 3-15 year horizon. (N.B. This deployment requirement will be for the Government investment only, any other additional co-investment will be subject to the fund manager's terms.)

18. The grant money has been profiled by DCMS into two tranches: £1 million in 2019/2020 and upon review of the first tranche, a further £2.195 million in 2020/2021. Drawdown arrangements are to be agreed in due course, but committed capital would be drawn down by the intermediary fund manager only after forward commitments have been made to investees, this is to ensure that DCMS is not paying money that goes unutilised. Inability to deploy funds by 31 March 2021 would result in a requirement to repay any underspend back to DCMS.
19. The intermediary is also responsible for **recycling any capital following repayment of investment positions. The intermediary will be required to recycle repaid capital in the spirit of the initial DCMS grant, so that the money continues to benefit the North of England's cultural and creative sector.** However, to allow for flexibility, there will be no formal requirements for the redeployment of capital (outside of the above mentioned spirit of the grant), and we expect the intermediary to deploy the money in the most appropriate manner, as deemed by them.
20. We expect to announce the winning intermediary bid in November 2018 and to enter into a grant agreement with this partner in the spring of 2019. We envisage all the investments to be made between April 2019 and 2021.
21. The fund must benefit the northern part of England (as defined by the geographic area covered by the eleven northernmost Local Economic Partnerships in England).
22. There is a reporting requirement associated with this Fund. This will allow DCMS to evaluate this (novel) way of financing the sector in the North of England. The intermediary is expected to provide both financial and social impact reporting to DCMS.
23. The award cannot be used to cover fund management costs. These costs would need to be covered by the fund manager from interest, internal resources or by another funder.
24. The Government funding available is capital grant funding. The award to a third party fund manager would constitute capital spend provided the funds are used as forward financing (e.g. loans) to end-user recipient organisations. **The loans themselves would not have to be restricted to capital spend** (e.g. you may issue working capital finance).
25. The fund manager may distribute a portion of the funds (up to £1 million) as grant. **However, where grants (as opposed to loans or other form of repayable finance) are made to end-users, these grants must be used for capital funding.** Capital funding must be used for the purchase and enhancement (but not routine maintenance) of land, buildings, equipment (including office equipment and software) and vehicles with an expected useful life in excess of one year. If the fund

managers' auditors find any expenditure in breach of the capital funding rule, these funds are repayable to DCMS.

26. The fund can be used for both nonprofit and for-profit enterprises in the cultural and creative sectors, subject to meeting eligibility and social impact criteria. The social impact criteria would be tied into achievement of the cultural regeneration objectives stated above.
27. **Loan and interest repayments are permitted to be recycled without this capital restriction**, subject to any further parameters for how the third party fund manager invested the initial loans and repayments.
28. There are no restrictions that inhibit using leverage in the fund, i.e. borrowing from other investors against the same capital asset. Co-financing is encouraged to mobilise more financing to the sector. DCMS gap analysis and research suggests that a leverage ratio of at least 1:1 would be appropriate in this instance, and we would look to further guidance from intermediaries on what the final ratio should be.
29. While the capital grant can be used as collateral to secure borrowing from other investors against the same capital asset (and subject to co-funders debt seniority requirements), it cannot be used to repay any borrowing.
30. We recognize that target investee organisations may need **business and investment readiness support**. Funding for such support is not available from Government, however, we are seeking views on how these support needs could be met through existing programmes/funding (e.g. Access's [Reach Fund](#)) or attracting co-financing for this specific proposition.
31. Investments should not be made with any arduous or restrictive conditions, including, for example, the need for demonstrable job creation. The funding terms should also be at affordable (and likely below market) rates.
32. **We also recommend that the intermediary select and appoint an experienced Investment Committee** of 3-7 members to oversee investment decisions with a mix of creative, business and finance backgrounds as well as links to Local Economic Partnerships (LEPs), respective local authorities and the Northern Powerhouse regeneration plans. The aim would be to ensure this is a lean, commercially-experienced, and outcomes-focussed board that brings both creative sector and local knowledge.
33. DCMS may require a non-objection of all appointees as well as representation on the Investment Committee, but Government would *not* have a determining role in any investment decisions.

34. Please see below an illustration of proposed funding terms. This is based on DCMS research and local gap analysis, and provides what we believe to be a realistic set of funding terms.

<b>FUNDING TERMS</b>	
<b>DCMS grant amount</b>	£3.195m
<b>Use of funds</b>	Minimum of £2.195m for forward financing (expected to be predominantly unsecured loans) Up to £1m for capital grants. All funds are restricted to benefit the Northern region of England. Deployment requirement: Fully deployed (drawdown) by 31/03/2021, any underspend must be repaid to DCMS.
<b>Finance offer</b>	
<b>Loan amount*</b>	£20k - £150k, but with a soft-cap so that larger investments could be made (if for example there is finance gap or it enables additional leverage/other funding to be deployed).
<b>Loan type*</b>	No fixed conditions but expected to be largely unsecured, junior debt which can catalyse co-investment at senior position
<b>Interest rate*</b>	6 – 8% per annum plus arrangement fee
<b>Term*</b>	3 – 15 years
<b>Repayment terms*</b>	Monthly capital and interest, but with possibility of repayment holidays for agreed period
<b>Expected write-offs*</b>	Up to 15% - Portfolio investment risk management, loan loss provisioning and write-off policies to be agreed in advance.
<b>Innovation</b>	Intermediary to have flexibility e.g. reduce interest rates for higher social impact, where appropriate
<b>Total no of loans*</b>	25 with average size of £80,000
<b>Total no of grants*</b>	20 with average size of £50,000 for capital spend only
<b>Partner intermediary</b>	Intermediaries may decide to tender in partnership.
<b>Performance-based</b>	DCMS to agree key performance indicators and have an annual performance review. The grant agreement could be awarded to another intermediary in the event of non-performance.
<b>Structure of funding</b>	To be agreed with intermediary, could either remain on main balance sheet or be granted to separate ring-fenced company.
<b>Use of recycled capital</b>	Intermediaries to commit to use recycled funds for reinvestment in arts and culture organisations over long-term.
<b>Operating cost coverage</b>	Intermediary expected to cover fund management costs from interest and fee income earned over time. DCMS capital funding provides operational leverage and increases their operating efficiency. Any gap to be covered by intermediary.
<b>Set-up and pipeline development costs</b>	Intermediary expected to have a dedicated outreach, marketing and pipeline development capacity.
<b>Co-investment at fund level – capital mobilization/leverage</b>	Intermediary expected (not required) to raise either match funding or co-investment at the deal level over a 2-year period – applicants to be challenged to present a fundraising strategy to grow the scale of the Fund.
<b>Co-investment at deal level – capital mobilisation/leverage</b>	At least 50% of investments demonstrate catalytic and leverage effect in terms of mobilizing co-investment (to be categorised by type e.g. social bank, mainstream commercial bank, social investor, mainstream investor, government funding). To be tracked as key indicator.

*\*Indicative terms for illustration purposes and subject to change depending on intermediary bids.*



## APPLICATION PROCESS

35. Intermediaries are invited to submit one bid for the total £3.195 million grant, either independently or in conjunction with one or more suitable partner organisation(s). A partner organisation may assist in a number of ways, that include (but are not limited to), the investment of money, administration of the portfolio, social impact delivery, payment of management fees, and/or to help with the provision of support services to portfolio companies
36. The decision to award the £3.195m grant to an intermediary manager will be made by DCMS Ministers (see paragraphs 57-61) for further information on the assessment process).
37. Please submit at least the **bid proforma** in Annex B. Alongside it we would expect that application bids contain **complementary detail on:**

### Organisation and team

38. The bid should include a detailed description of your organisation and its structure, and include its role and function within the social investment landscape, if applicable.
39. The submitted bid must also provide a biography of key team members. An indicative composition of the investment committee should also be included.
40. Bids must explain the organisation's knowledge of both social investment as well as of the cultural and creative landscape of the North of England (this may also be demonstrated through a partnership with one or more external organisations and an illustration of their knowledge).
41. The bid should focus on how this fund will allow the intermediary to drive innovation and impact within the cultural and creative sector.
42. Intermediaries must be able to demonstrate an ability to have a sustainable and lasting impact through their investment programme

### Philosophy and process

43. The bid should outline the intermediary's (social) investment philosophy.
44. A clear description of the investment process should also be outlined. Please, at a minimum, describe how investment opportunities are sourced and screened, analysed and selected.

45. The bid should also include how portfolios are constructed, and the risk management processes in place.
46. More specifically, the bid should set out how the intermediary is planning to use this DCMS grant money, and how they expect investments to be structured (indicative terms).
47. The bid should indicate how the intermediary will develop their pipeline, get access to VCSE sector and/or commercial organisations and understand their respective cultural and creative projects. This process could include hiring someone with cultural/creative knowledge to help market the fund and/or strategic selection of investment committee members with local and sector knowledge.
48. There should also be an indication of interest charges, or any other return objective, set by the intermediary, and the consideration behind the expected risk-return trade-off should be outlined in the bid.
49. The bid should include detail on how the intermediary plans to use the flexibility to allocate up to £1 million in grant finance, alongside the repayable finance structure, and relevant experience in allocating funds in this manner.
50. Bids must outline how the intermediary aims to garner co-investment opportunities, and their experience in using leverage as well as the amounts that could realistically be raised. An emphasis should be placed on how risk is managed in this process, too.

### **Track record**

51. Please indicate any relevant performance information and give relevant examples of past investments, performance and impact.

### **Financial risk/return and impact measurement**

52. Please indicate how you measure social impact, how you intend to measure the impact of this fund against the fund priorities outline in paragraphs 17 & 18. Please also submit a copy of previous social impact reports.
53. Please indicate what your financial reporting process consists of, and how you aim to convey your financial results to DCMS. If possible, please provide any prior examples.

### **Examples**

54. Please provide examples of impact and investment performance reports.
55. Please provide examples of future pipeline investee organisations (anonymised if required), and past investments and their social impact and financial return.

56. Please illustrate co-funding sources of leverage, and the expected terms required to attract additional investment.

### **ASSESSMENT PROCESS**

57. Bids will be assessed by DCMS before being submitted to Ministers for decision. DCMS may consult other partners and stakeholders for advice and comments.

58. Bids will be assessed against the NCRF priorities and outcomes set out in this document.

59. The ability to drive innovation within the social investment sphere is a critical element of any bid evaluation. We are looking to grant money in a way that further develops social investment in the UK, and specifically in the North of England.

60. The full assessment criteria form is set out in Annex A.

61. A shortlist of candidate organisation will be interviewed by a DCMS panel to aid in making the final decision.

### **INDICATIVE TIMETABLE**

62. The indicative timetable is set out below:

9 September 2018	Deadline for intermediaries to submit bids
September 2018	Interviews held between DCMS and short-listed intermediaries
September-November 2018	Assessment of bids by DCMS officials
November 2018	Announcement of winning bid
By end of March 2019	Enter into grant agreement with winning intermediary partner
March 2019-2021	Allocation of capital by intermediary

### **Bid Proforma**

63. All bids must be submitted on the standard proforma in Annex B, which can also be found on the [www.gov.uk](http://www.gov.uk) website alongside these guidance notes.

64. The following additional guidance is given to assist in completion of the bid proforma:

**Other funding:** If applicable, this section you should indicate where additional funding to manage this fund or sources for co-investment will come from. You should list other funding sources and the sums requested from each of them to cover relevant costs. It would be helpful if you could say whether funding has been secured or, if you are at the application phase, when you expect to be informed of a decision.

**Investment structure and pipeline:** Please refer to the *Funding Terms* section above for required information and an indicative set of terms based on DCMS research into the market. Please also indicate details of proposed Investment Committee (please see paragraph 32-33).

**Delivery and risk:** This section should provide evidence of deliverability, capacity and risks including details of bid partners, project governance and arrangements for monitoring and evaluation.

### **SUBMITTING YOUR BID**

65. The completed bid proforma and business case must be received in DCMS no later than **23:59 Sunday 9 September 2018** and should be sent to the NCRF mailbox at **ncrfund@culture.gov.uk** or by post to:

NCRF Social Investment Fund  
Government Inclusive Economy Unit  
Department for Culture, Media and Sport  
4<sup>th</sup> Floor, 100 Parliament Street  
London SW1A 2BQ

### **ENQUIRIES**

66. Please direct any enquiries to the NCRF mailbox at **ncrfund@culture.gov.uk**.

## Assessment criteria

Criteria	Consideration	Available marks
Fit with primary funding goals	<p><b>Social/creative &amp; cultural impact:</b>            Demonstrating ability to encourage sustainable cultural and creative regeneration in the North of England through social investment. In particular to benefit areas that have historically had low levels of cultural and creative investment, and to show demonstrable positive, social impact in these communities.</p> <p><b>Catalytic potential/sustainability:</b>            Show ambition in growing the wider social investment market in the cultural and creative sectors in the North of England through the proposed investment programme.</p> <p>We are open to new teams and first time fund managers, or those who have not previously managed a fund focussed on the cultural/creative sector. We are looking to grow the amount of financiers to the sector.</p>	20
Delivery of desired outcomes	<p><b>Sector/local knowledge and capability</b>            Demonstration of clear knowledge of the cultural and creative sector in the North of England, and how social investment can foster sustainable growth within it.</p> <p><b>Investment and social impact expertise</b>            Illustration of investment expertise, social impact measurement and a successful track-record of fund management, and the ability to apply this skill-set to manage the fund.</p> <p>Bid must address ability to deploy £3.195m of government investment by 31 March 2021. In the event that the fund manager is unable to fully deploy, for any reason, <i>any underspend</i> must be repaid to DCMS.</p>	25
Investment structure and pipeline	A strong rationale for suggested investment structures, use of grant and repayable finance, and illustrative pipeline organisations (as well as mechanisms to avoid any biases, and to create a diverse portfolio of investee organisations).	20

Value for money	<p>Explanation of how public and private funds have been leveraged to maximise impact.</p> <p>Clear explanation of costs, income streams and expected outputs, including long term financial sustainability.</p> <p>Explanation of how upskilling and business/investment readiness support for the investees will be managed.</p> <p>Clear explanation of how intermediary intends to recycle repaid capital to continue to support creative and cultural impact projects in the North of England.</p>	15
Delivery and risk	<p>Illustration of the ability to responsibly leverage and scale the grant money.</p> <p>Ability to deploy the capital within the timeframe set.</p>	20

**Annex B - BID PROFORMA**

<b>NCRF Social Investment Fund BID PROFORMA</b>	
<b>Name of Organisation(s)</b>	
<b>Postal address</b>	
<b>Contact name</b> <b>Telephone number</b> <b>Email address</b>	
<b>Other funding</b>	
<b>Summary of proposal (maximum 500 words)</b>	
<b>Funding priorities</b>	
Bids must contribute to the primary funding goals: <ul style="list-style-type: none"><li>● Encourage sustainable cultural and creative regeneration in the North of England;</li></ul>	

- Benefit areas in the North of England that have historically had low levels of cultural and creative investment.
- Increasing opportunities for people, including children, young people, elderly and those with disabilities to experience arts and culture.
- Enabling better quality of life and wellbeing in communities.
- Building more resilient and sustainable cultural and creative organisations.

Please indicate (by ticking relevant box/boxes) which further funding outcomes the bid will deliver.

1	Increased opportunities for people, including children and young people, to experience and be inspired by culture and creativity.	
2	Improved quality of life and wellbeing within local communities.	
3	Increased resilience and sustainability of cultural and creative organisations.	
4	Innovative and effective partnerships between the cultural and creative sector and other sectors, especially digital and technology sectors.	
5	Increased investment and economic growth.	

**How does the bid deliver against the Fund's primary funding goals and funding outcomes? (maximum 1,000 words)**



**Please outline how you aim to deliver the desired outcomes. (maximum 1,000 words)**

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**Please indicate your suggested investment structure and indicate potential pipeline opportunities. (maximum 500 words)**

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**Please explain how you aim to provide value for money. (maximum 500 words)**

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<b>Project timescales</b>	
<b>Activity</b>	<b>Milestone completion date</b>
Investment committee set-up	
Marketing	
Pipeline development	

Investment selection	
Deployment	
Other	
<b>Delivery and risk (maximum 300 words)</b>	