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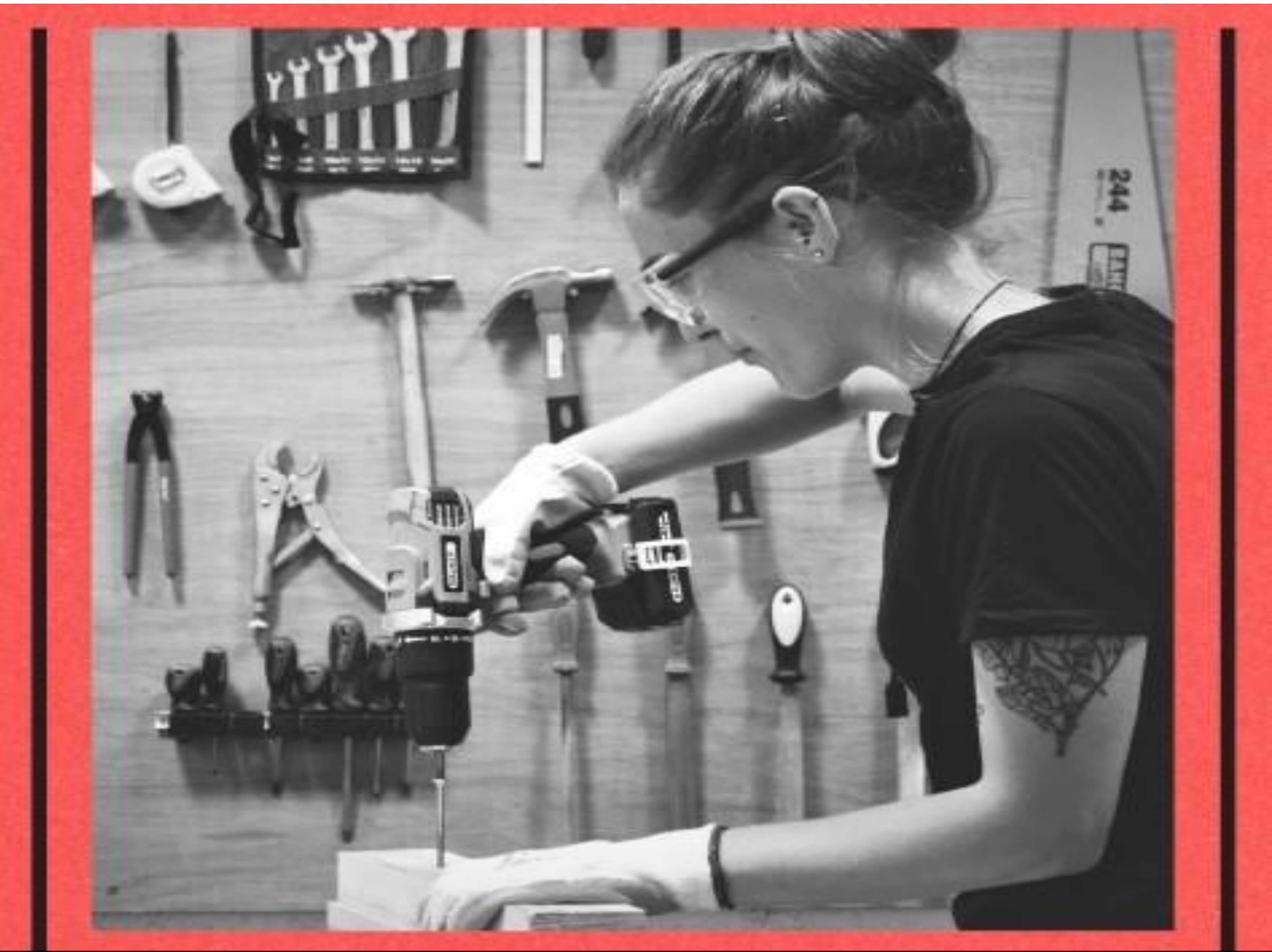

Summary update on the independent Growth Fund evaluation

July 2025

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1.0 The Growth Fund evaluation

This short update of the Growth Fund evaluation includes information on how the Growth Fund loans are performing, and the latest findings in relation to social investors and VCSEs involved in the programme.

The Growth Fund is a partnership between The National Lottery Community Fund and Better Society Capital, delivered by Access through a range of social investors. It makes up to £50m available to support charities and social enterprises to grow and create social impact in their communities. The Growth Fund uses a combination of grant funding, made possible thanks to National Lottery players, and loan finance from Better Society Capital and other co-investors, to address specific gaps in the social investment market. The Growth Fund launched in 2016 and will last until 2029.

The National Lottery Community Fund commissioned Ecorys UK, in partnership with ATQ Consultants, to evaluate the Growth Fund. The evaluation runs until December 2025 and aims to assess and track the effectiveness of the Growth Fund in enabling a wider group of voluntary, community and social enterprise (VCSE) organisations to successfully access social investment, become more resilient and deliver greater social impact. In January 2022, we published a full report on the emerging findings from the evaluation, followed by two shorter updates on findings as of March 2023 and April 2024. We also published a thematic insight on VCSE business models and social investment in March 2023. Here we provide a further update on the latest findings of the evaluation.

In addition to this, we are exploring the financial resilience of VSCEs in more depth and have visited an additional 20 VCSEs to understand this further. The report of findings was published in April 2024, underpinned by a Rapid Evidence Assessment. The next phase of this research is underway to explore what role, if any, repayable grants could play in supporting financial resilience, with a report due in Spring 2025. The final Growth Fund evaluation report is planned for December 2025.

This summary report covers the latest data on loan deployment and repayment; the experiences of social investors; the experiences of VCSEs, and the impact of the Growth Fund on VCSEs. The findings are based on the following activities:

- 20 longitudinal case studies with VCSEs that received social investment through the Growth Fund. Case study VCSEs are visited up to 3 times: when they first take on the loan; part-way through; and a final visit when they have stopped repaying the loan.[1] At the time of writing this report in April 2025, 11 VCSEs had been tracked through to a final visit.
- Analysis of the latest available Growth Fund Management Information (MI) up to September 2024. This contained information on 724 investments and 578 VCSEs that received investment (some VCSEs received more than one).
- VCSE surveys, which consists of a baseline survey sent to VCSEs when they first take on a loan and a follow-up survey sent to VCSEs every year. The annual survey has been sent out six times (2019-2024), with the 2024 edition receiving 69 responses from 68 unique organisations.
- Annual interviews with the Growth Fund social investors. Ten social investors were interviewed between October-November 2024.[2]

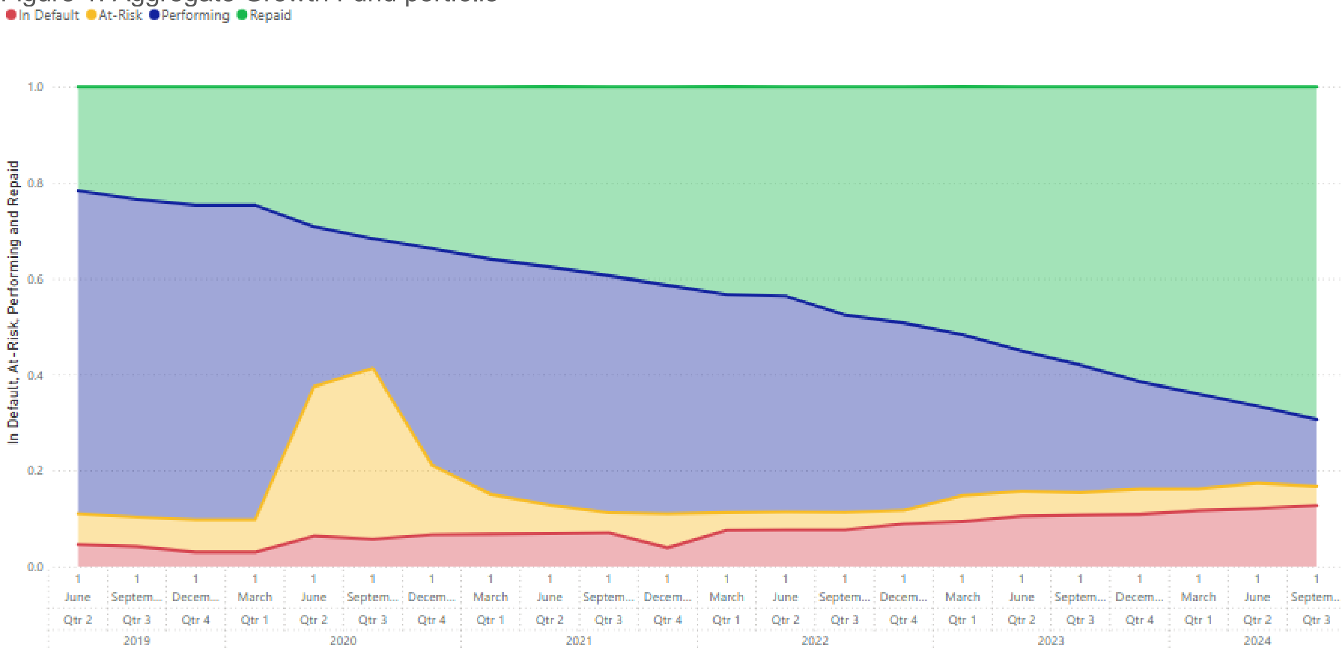
[1] Or to the loan no longer being repaid (i.e., written off or VCSE closure), or the end of the evaluation, if sooner.
[2] We interviewed 9 of the 10 social investors responsible for the Growth Funds that are still active and one of the 3 social investors which closed their Growth Fund due to under-performance.

2.0 Progress in delivering the Growth Fund

Up to September 2024, 83.3% of loan capital (£33.82M) was either repaid or on track to be repaid. A further 12.8% (£5.18M) was in default, a 2% increase from the previous year.

Looking at trends over time, data shows that VCSEs were progressively repaying loans back to social investors. Data submitted by investors showed that £28.13M (69.3%) of the loan capital deployed had been repaid (see Figure 1), and that repayments on £5.69M (14.0%) of the total distributed loans were on track. £1.58M (3.9%) was at risk, a small decrease from 4.6% in the previous year, and £5.18M (12.8%) was in default, an increase from 10.8% in the previous year. Thus, in 2024, the combination of capital in default and at-risk increased slightly from 15.4% in Q3 2023 to 16.7% in Q3 2024. It was always expected that defaults would increase over time, with expectations for defaults averaging at 21% across the Growth Fund.[3]

Figure 1: Aggregate Growth Fund portfolio



Source: Access, 2019-2024. Please note that the 'at-risk' and 'in default' options were put in place consistently in all funds only since June 2019. Data obtained from investors' own quarterly portfolio performance reporting.

The following sections describe social investors' and VCSEs' experiences of managing the loans and grants.

[3] Each fund had an initial default assumption ranging from 10% to 32%. At this stage, the maximum possible default would be 30.7%, but this assumes that no further repayments made between now and the Growth Fund end date in 2029.

3.0 Latest findings in relation to Growth Fund social investors

The Growth Fund is now in its closing phase with the last loan deployment completed in September 2023 and the first fund fully repaid in 2024. There is some time to go, however, as the final loan is not due to be fully repaid until December 2029.

In this section we focus on the experience of the social investors who manage the social investment funds within the Growth Fund.

As the social investors of the remaining active funds[4] get further into their respective repayment periods, they are seeing both early repayment of some loans and requests for further flexibility such as capital repayment breaks on others. As can be expected, there have been further provisions and write-offs[5] and, as noted in previous reports, the experience across the social investors has varied. Several social investors reported that previously provided-for loans (i.e. deemed at risk of not repaying) had re-started repayments after all, which came as a pleasant surprise. These cases are, perhaps, one indication of the benefit that the respective Growth Funds' flexible and supportive approach brings to both borrowers and lenders. Social lenders believed that the flexibility gives borrowers the time to work through particular challenges which, in turn, increases the chances of repayment. It also chimes with our separate research into VCSE resilience[6] which showed how personally committed and determined many VCSE leadership teams are to repay their loans and not let down their beneficiaries, lenders or other stakeholders. The final percentage level of write-offs across the social investors' respective funds will be one of the most informative findings of this evaluation for the design of any future fund and the level of subsidy needed to entice social investors and funders to participate.

The Growth Fund was established with a first loss insurance grant (Grant B) which provided a buffer of between 10% and 30% across each social investor.[7] If Grant B does not end up being lost through write-offs, social investors can apply at the end of the programme to retain this residual value and deploy it further in support of VCSEs. In other words, any write-off percentages below the respective insurance levels of between 10% and 30% means a residual value will accrue at the close of a fund. The potential to retain some residual value was a design feature of Growth Fund that acted as an incentive for social investors to become involved with its delivery. At the time of the interviews in November 2024, the estimated total Growth Fund residual value was in the region of £2m. The £2m or so of residual value will remain with seven social investors at a value of several hundred thousand each. However, as there is still some time to go yet and capital repayments are weighted towards the end of a loan period, the forecasts of potential residual amounts will continue to vary.

One issue that may arise as funds approach the end of their timeline is that they will no longer be able to offer the kind of repayment flexibility in response to a crisis that they could if there was no time limit. A separate issue

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[4] Three under-performing Growth Funds have now been closed by their social investors over the life of the programme. Shortly after the 2024 social investor interviews took place, one of the social investors itself went into administration for reasons unrelated to its Growth Fund, which was performing well. How the Growth Fund partnership managed this situation will be covered in the next (and final) evaluation report.

[5] Provisions are made by lenders when there is an expectation that some and potentially all of an outstanding loan balance may not be repaid (sometimes also known as write-downs). Write-offs are made when there is no expectation that an outstanding loan balance will be repaid.

[6] Available here: Growth-Fund-Financial-Resilience-Research.pptx

[7] In the Growth Fund, Grant B was designed to insure the social investors from losses due to provisions and write-offs; by blending grant and debt in the fund the social investor can afford for the portfolio as a whole not to break even and therefore will be willing to take greater risk on the loans that they make.

related to this uncertainty is how far ahead of each fund's final closing date will social investors be given permission to deploy residual funds, to support VCSEs flexibly. Discussions about these issues are underway between the individual social investors and the Programme Partnership but one principle established is that residual funds need to be deployed in line with the original aims of each fund.[8]

[8] Outlined here, p.9.

4.0 Experience of VCSEs involved in the Growth Fund

VCSEs continue to be generally satisfied with their overall experience of the Growth Fund and with the support received throughout the lifetime of the loans.

Relationships with social investors

Both survey (see Figure 2) and interview data from 2024 confirms that VCSEs generally maintain a **positive relationship** with their social investors. However, the longitudinal design of the study highlights how the intensity of this relationship evolves over time. The latest findings suggest that engagement is strongest at the start of the loan, with frequent interactions between VCSEs and their social lenders as trust is established. As the relationship matures, contact becomes more light touch. Contact intensifies once again as VCSEs approach loan completion, primarily due to end-of-loan administrative processes, or discussing next steps for the relationship beyond loan repayment (for example, whether the investor will offer more loans or grant programmes).

As in the previous round of data collection, VCSEs visited this year reported that a strong relationship with their investor enabled them to access additional funding opportunities (as noted in Figure 4). For example, VCSEs noted that their positive collaboration with the investor allowed them to secure funding from another product offered by the investor.

The VCSEs interviewed praised investors' ability to strike the right balance between independence and support: *"They've been just the right level of support, very hands off but involved when needed"* (Growth Fund VCSE).

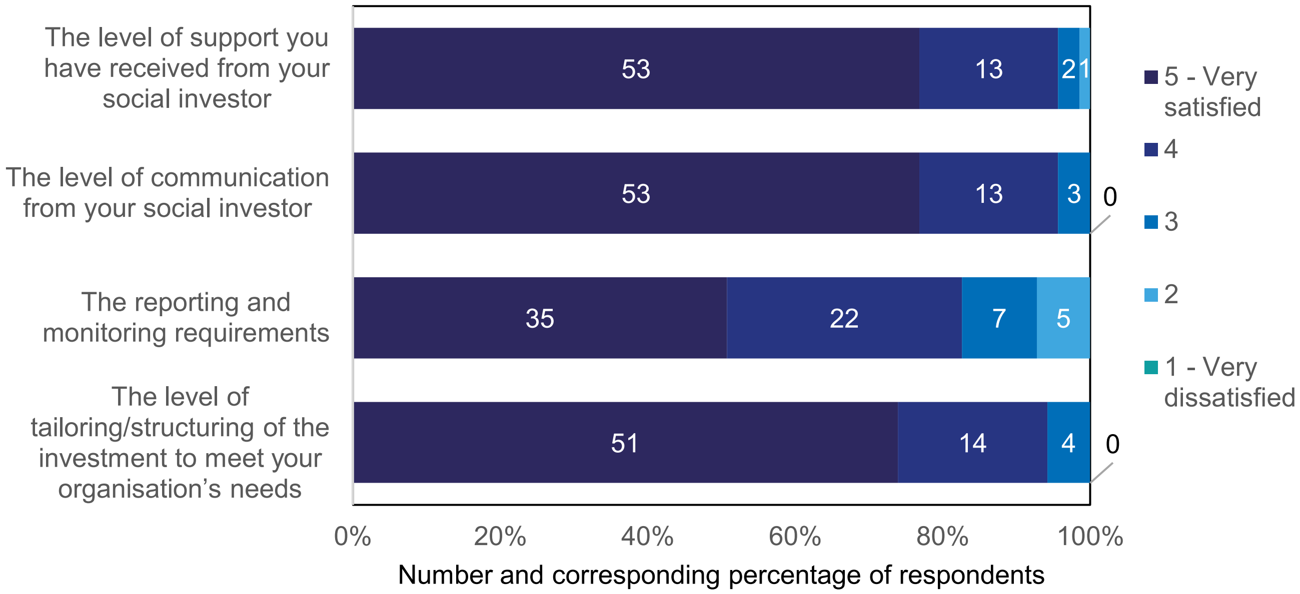
VCSE interviewees valued their relationship with their social investor because they felt they could have an open dialogue with investors that understand the specificity of the sector they operated in. One VCSE manager particularly appreciated *"the fact that [the social investor] is actually a social enterprise themselves and the CEO there fully understands the system and is always thinking ahead as to what the new problems that could be facing a social enterprise"*.

Views on the loans

Evidence from the VCSEs responding to the 2024 Annual Survey suggests that, generally, the **loans** offered through the Growth Fund met VCSEs' needs. Almost all (67 out of 69, 97%) survey respondents reported being 'satisfied' or 'very satisfied' with their investment. Additionally, all VCSE survey respondents (69 out of 69, 100%) said that they would 'definitely recommend' or 'probably recommend' other organisations in a similar situation take up social investment. This was echoed by interviewees - for example, one case study VCSE interviewee was so enthusiastic about the process, they became an advocate for social investment, participating in the investor's promotional efforts by speaking to other VCSEs considering this funding option.

Interviews with case study VCSEs commonly highlighted the flexibility of the investment terms, particularly the option to temporarily make interest-only payments to aid the financial pressures they faced whilst navigating challenges. Many compared social investment loans to commercial bank loans, noting that social investment was better suited to their needs - for example, due to fixed interest rates and flexible repayment terms.

Figure 2 Answers to the question: 'How satisfied have you been with the following aspects of your investment, where 1 is very dissatisfied and 5 is very satisfied?'



Source: Ecorys, Annual Survey of the Growth Fund targeting all investees (n=69), 2024

Loan repayment

Similarly to last year, most VCSE case studies visited over the past year reported **being on track with their repayments**, largely due to the flexible terms and supportive approach of their social investor. While COVID-19 was mentioned less frequently than in past editions of this update, VCSEs continued to highlight this as a key factor that affected repayments over the history of their loans - either by disrupting VCSEs' operations or by providing access to COVID-related financial support, which helped them meet their repayment obligations. For some VCSEs, the impact was positive. For example, one VCSE benefited from pandemic-related financial relief, which helped them avoid taking a six-month rent holiday. The pandemic also drove higher demand for their services, boosting their numbers and turnover. However, for other VCSEs, pandemic-related disruptions negatively impacted their operations, leading to delays in repaying the Growth Fund loan. Moreover, as last time, a few VCSEs and social investors briefly mentioned the cost-of-living crisis as a factor affecting both their current operations and future plans. Wider government initiatives had also increased costs - for example, one case study VCSE highlighted additional expenses linked to operating within a clean air zone, which increased the cost of local car travel.

In the next section we describe how the Growth Fund loans and grants have impacted on the financial resilience of the VCSEs, and their ability to achieve social impact.

5.0 Impact of the Growth Fund on VCSEs

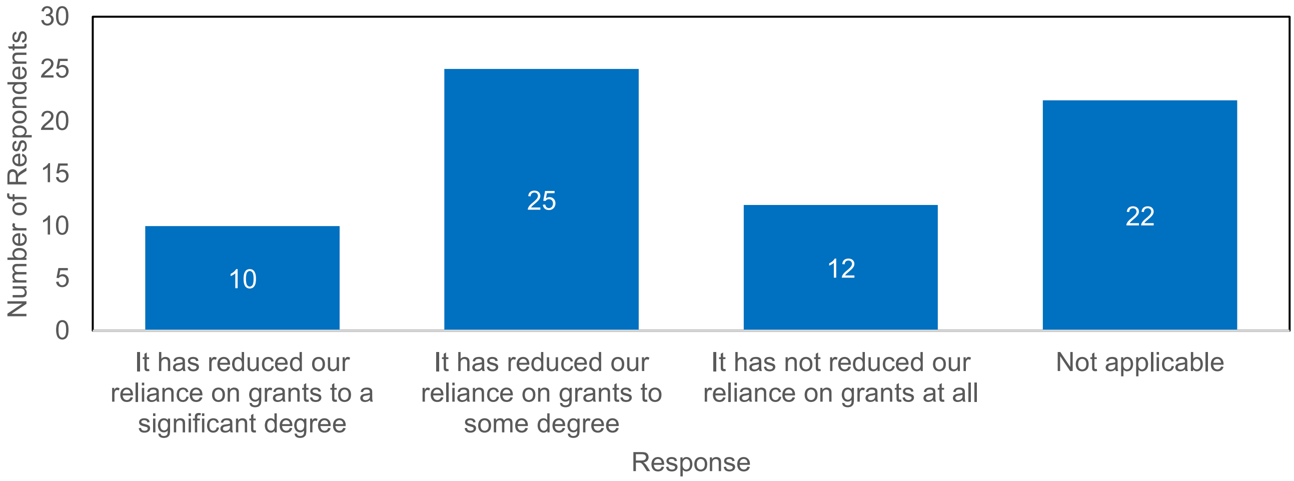
VCSEs continue to report positive impacts of the investment on their financial outlook, organisational confidence, and in relation to their social impact.

Survey respondents and case study VCSEs reported positive outcomes from their Growth Fund investment, in terms of their organisation's financial resilience and sustainability, and social impact. However, it is important to note that 12% of loans are in default, and because the annual survey sample is not representative, their views are not guaranteed to be represented in the findings presented here. All case study VCSEs consulted had a relatively smooth experience of their loans, however, at least two of the VCSEs had gone into administration and were not available for interview. Whilst the closed VCSEs' views are not included in the findings, interviews with their respective investors will be sought to understand the reasons for their closure.

Financial resilience

In the latest Annual Survey, most VCSEs (55 of 69, 80%) reported that the loan from the social investor had a **positive impact on their total income.** Consistent with findings from previous years, the latest data also shows that a good proportion of VCSEs responding to the survey are reducing their reliance on grants – either to a significant degree (10 out of 69) or to at least some extent (25 out of 69) (see Figure 3). The proportion of respondents stating that the investment had not reduced their reliance on grants at all dropped from 34% (29 out of 85) in 2023 to 17.4% (12 out of 69) in 2024.[9]

Figure 3 Answers to the question: 'To what extent has the investment helped you to reduce your reliance on grants?'



Source: Ecorys, Annual Survey of the Growth Fund targeting all investees (n=69), 2024

Case study interviewees provided several examples of how their investment enabled them to increase their capacity to deliver, diversify their income, and reduce reliance on grants. For example, the investment allowed one case study VCSE to lease additional properties across different geographies, which enabled them to welcome more beneficiaries and increase their sales of training courses. Another VCSE used the Growth Fund investment to acquire property and expand its capacity to support more beneficiaries. Previously, rental income made up a

[9] This finding should be treated with caution since the surveys were cross-sectional (and therefore the responses did not come from the same VCSEs in each year), and sample sizes are small.

negligible share of their total income however renting out the new property purchased with the Growth Fund loan increased their rental income to around 20%.

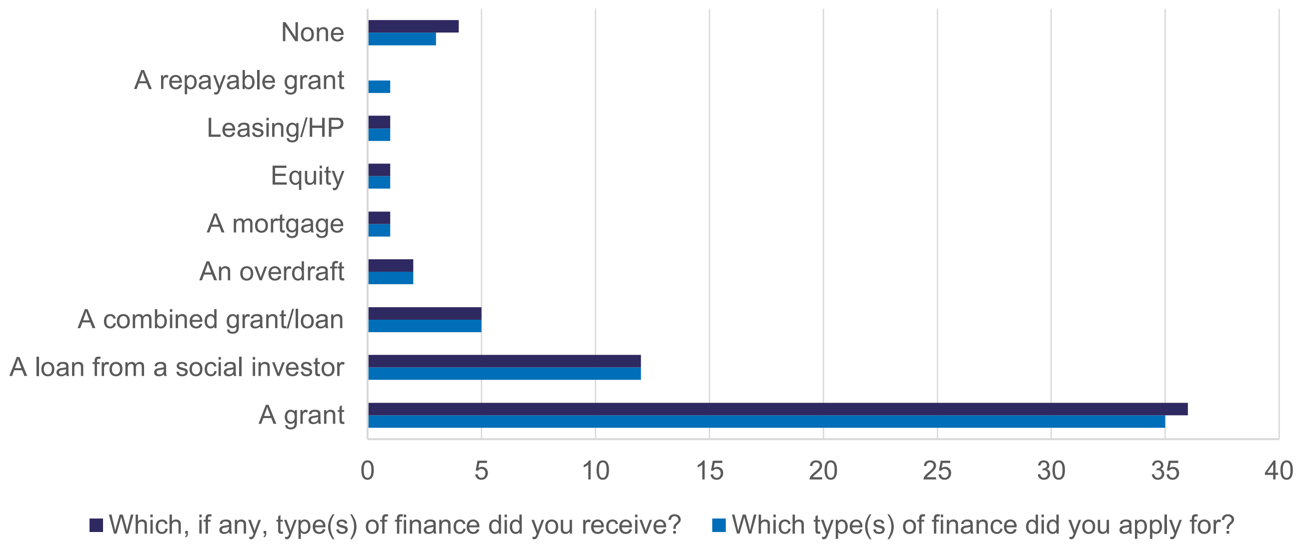
In 2024, case study VCSE managers continued to report their expectations for financial return from the investment had been exceeded. One VCSE manager shared that their organisation, which helps young people access hands-on vocational training and work experience, was £1 million ahead of its originally projected turnover at the time of the final case study interview. A social investor echoed this sentiment, stating: *"I think the skill level of the [VCSE] has been higher than I expected. This is likely a result of their ability to make good use of the investment, translating it into substantial new trading revenues, which has had a greater impact than I anticipated.".*

Looking beyond Growth Fund

We asked VCSE survey respondents how confident they were that they would be **sustainable** in 12 months and 5 years' time from the point of answering the survey question (i.e., have financial security and organisational capacity to continue to trade and/or provide services). The majority of responding VCSEs viewed their future relatively positively, with most (53 of 69, 78%) seeing it as strong over the next 12 months and 54 out of 69 (78%) indicating it was strong over the next 5 years. Whilst survey sample sizes are small and individual respondents are not tracked over time, responses were more positive than the previous year when 68% of respondents (n=85) to last year's survey suggested their future was strong over the next 5 years.

Of the 69 organisations surveyed, just under two thirds (44 of 69, 64%) sought **new investment sources after receiving Growth Fund** investment. The most common finance received was grants (36, or 82%) and loans from social investors (12, or 27%). A complete breakdown of financing applied for and received is shown in Figure 4.

Figure 4 Additional funding applied to and received

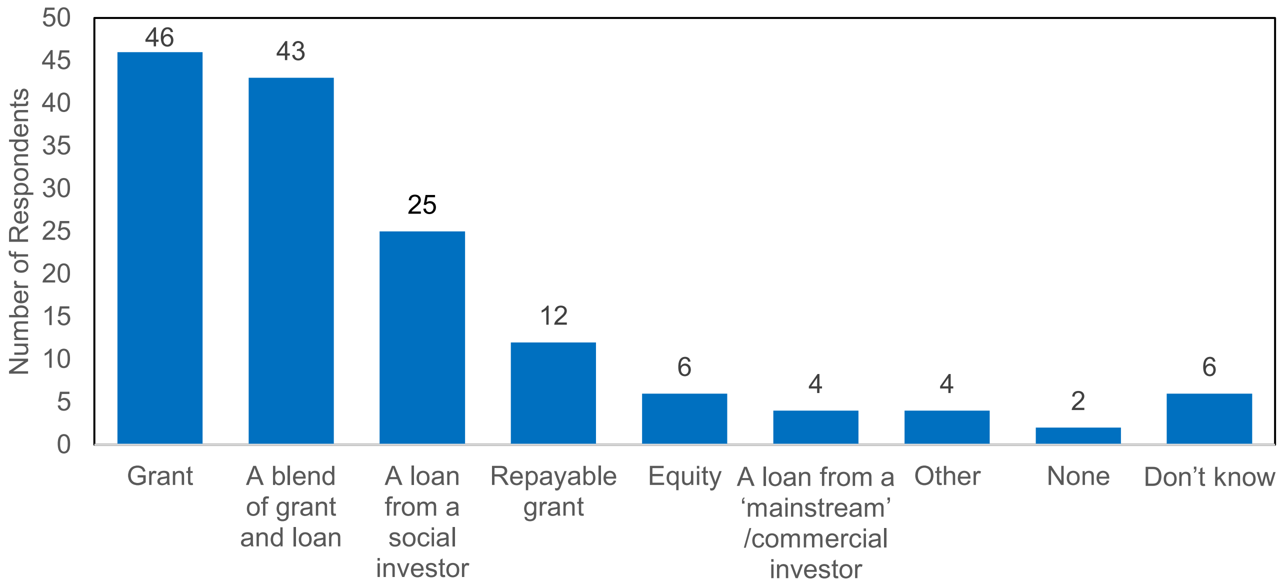


Source: Ecorys, Annual Survey of the Growth Fund, (asked only of respondents who indicated they had applied for further investment since their Growth Fund loan, n=44), 2024. Multiple responses were permitted, so the sum of responses may be greater than number of respondents.

When asked about the kind of financial product VCSEs believed would best meet their needs in the future, survey respondents most commonly said a grant (46 out of 69, 67%), followed by 'a blend of grant and loan' (43 of 69, 63%). Just over a third (25 of 69, 36%) answered 'a loan from a social investor'. Interestingly, the next most common response survey respondents provided (12 of 69, 17%) was that a repayable grant would best meet future needs. This is the subject of inquiry for the repayable grants research due to be published in late Spring 2025. Figure 5 shows the types of financial products respondents anticipate will best suit their needs in the future.

Both of these findings suggest that VCSEs involved in the Growth Fund still think social investment is useful for their organisation but also that, despite being less reliant on grants overall, grants are still their main funding source.

Figure 5: Answers to the question: 'What kind of financial product do you anticipate will best meet your needs in the future?'

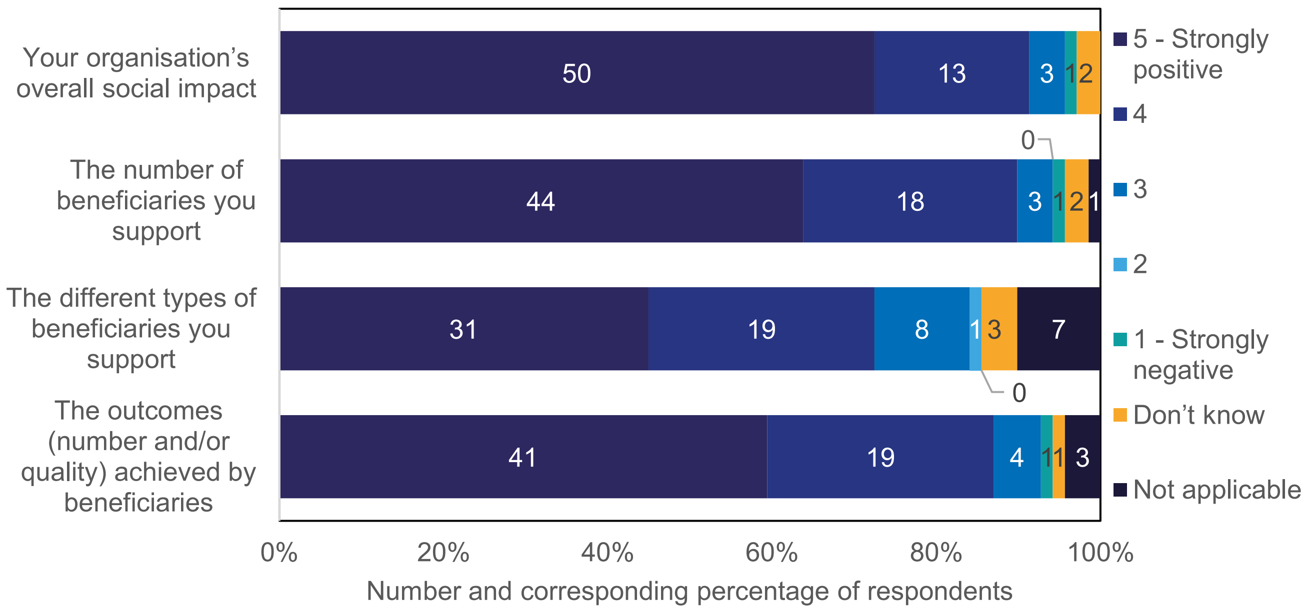


Source: Ecorys, Annual Survey of the Growth Fund targeting all investees (n=69), 2024. Multiple responses were permitted, so the sum of responses may be greater than number of respondents.

Social impact

As shown in Figure 6, almost all respondents (63 of 69, 91%) confirmed a strong positive impact of the investment on their overall **social impact**.

Figure 6 Answers to the question: 'What overall effect do you think the investment has had on your organisation's social impact in terms of the following (where 1 is strongly negative and 5 is strongly positive)?'



Source: Ecorys, Annual Survey of the Growth Fund targeting all investees (n=69), 2024.

The survey findings have been echoed in the interviews. For example, the Growth Fund has given a VCSE specialising in counselling services the ability to expand its team, increase the number of counselling sessions delivered, and tailor their services to meet a range of service user needs (such as employing counsellors with similar backgrounds to the service-users they support, and translating materials into a range of languages). The case study below illustrates how the funding is helping another VCSE generate greater social impact.

Case study: The role of the Growth Fund in improving local community health and wellbeing

Thanks to several investments from the same social investor, a VCSE which provides community activities, local childcare, and healthy eating education was able to buy a new building with additional rooms including its own toilets and kitchen area. While they previously ran their activities from rented community spaces, having their own building allowed this VCSE to **considerably extend its capacity**: *"If you don't have a home, you're homeless and your quality of life wouldn't be the same. And it's the same for an organisation. You never like a homeless organisation. But the organisation with a proper home is just, like, a more thriving organisation." - VCSE manager*

The extra space also allowed the VCSE to **increase the amount of activity** they do. Because the VCSE now has a dedicated kitchen area, they reported **tripling the number of healthy eating courses** offered and subsequently reaching twice as many service-users.

Interviewees felt the new space was also better suited for hosting beneficiaries and has therefore **improved the quality of the activities** delivered: *"It's nice to have the general size of the space and the different sections in the various rooms. It's been really good because it's enabled us to establish better routines, split children into groups, and focus on smaller groups of children doing different activities." - Delivery staff*. One parent interviewed noted how much they liked accessing services in the new space: *"It's a lot easier; the facility is a lot better. Previous venues were quite run down, the heating wasn't great. But the venue they have bought was cleaner and feels more cosy. It looks great." - Beneficiary*

The **terms and conditions** of the loan have provided crucial support in managing financial pressures. With the interest rate on a separate bank loan rising to 9%, the VCSE manager valued being able to switch to interest-only payments for their Growth Fund loan for a few months. This break, offered by the social investor, temporarily eased the financial strain on the VCSE while they adjusted to the increased costs of their bank loan repayments.

The social investor also described outcomes for their own organisation. For them, working with this VCSE gave them the experience of delivering in more deprived areas and has allowed them to **rethink their investment strategy** going forward: *"We've been redesigning what we'll do going forward…the idea of investing in bricks and mortar in one of those neighbourhoods is quite an important priority for us, and so we can sell ourselves doing more of that." - Social investor*

6.0 Next steps

The evaluation evidence to date demonstrates that the delivery of the Growth Fund is on track overall. Both investors and VCSEs are generally satisfied with the investment, and with the relationships they have developed with each other. The Growth Fund's positive impact on both organisations and beneficiaries remains evident, despite the ongoing effects of the cost-of-living crisis and COVID-19 pandemic four years after the outbreak.

In this final year of the Growth Fund evaluation, we will continue to survey the VCSEs that received loans and grants, revisit the VCSE case studies, and interview social lenders. The valuation team will also interview members of the programme partnership to gain insights into their reflections on the overall Growth Fund programme delivery. The final evaluation report is planned for December 2025.

In addition to this, we have published a 'thematic insight' summarising our findings from the repayable grants research: www.tnlcommunityfund.org.uk/media/insights/documents/Repayable_grants_TI_v4f_clean.pdf.

All these publications, as well as previous publications from the Growth Fund Evaluation, will be available on The National Lottery Community Fund website: www.tnlcommunityfund.org.uk/insights/social-investment-publications.