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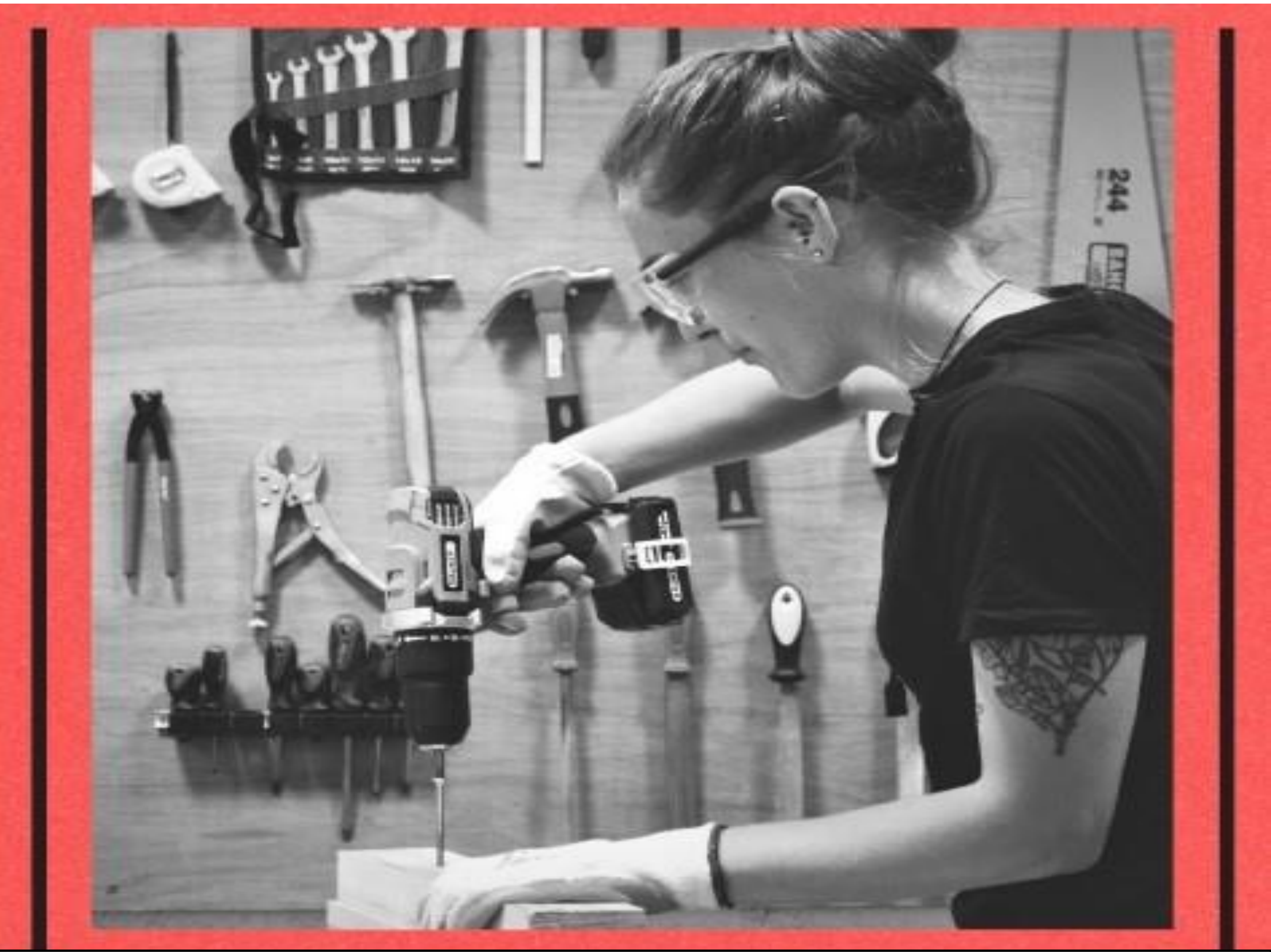

Summary update on the independent Growth Fund evaluation

March 2023

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1.0 The Growth Fund evaluation

In this report we provide a short update of the Growth Fund evaluation. It 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 Big 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 Big Society Capital and other co-investors, to address specific gaps in the social investment market.

The National Lottery Community Fund commissioned Ecorys UK, in partnership with ATQ Consultants, to evaluate the Growth Fund. The evaluation runs until 2025 and aims to assess and track the effectiveness of the Growth Fund in enabling a wider group of charities and social enterprises 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. Here we provide a short update on the latest findings. It 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 activity, which took place up to November 2022:

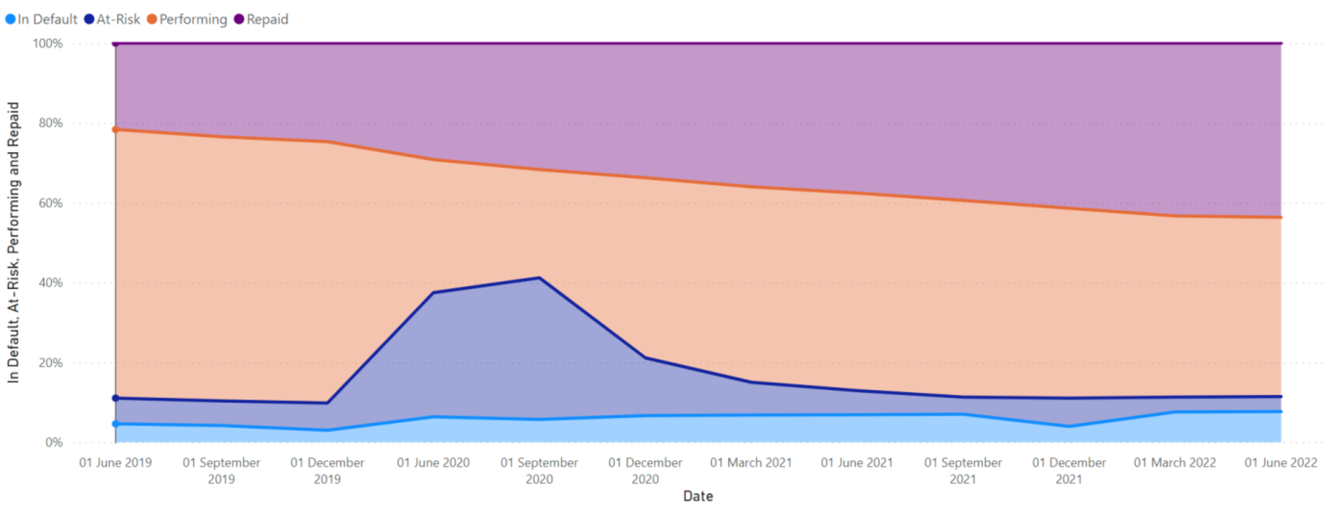
- Case study visits to 19 voluntary, community and social enterprise organisations (VCSEs) that received social investment (eight visited twice)
- Analysis of the Growth Fund Management Information up to June 2022. This contained information on 669 loans and grant applications from VCSEs
- VCSE surveys: baseline n= 161; three annual surveys (2019, n=46; 2020, n=45; 2021, n=53; with a total of n=121 unique respondents). The latest Annual Survey was completed in early 2022, and therefore refers to 2021 activity
- Annual interviews with 13 social investors.

2.0 Progress in delivering the Growth Fund

Up to September 2022 the Growth Fund social investors had deployed 687 loans and grants to 562 VCSEs. The total amount deployed to VCSEs was £46,120,759[1].

Data submitted by investors also show that £16M (43.7%) of the loan capital deployed had been repaid (see Figure 1), and that repayments on £17M (44.9%) of the total distributed loans were on track. £1M (3.8%) was at risk, and £3M (7.7%) was in default. Looking at trends over time, data shows that VCSEs were progressively repaying loans back to social investors. After the sudden increase during 2020 due to insecurity linked to the COVID-19 pandemic, the capital at risk had progressively decreased in 2021, and remained stable in the following year. The proportion of capital in default remained stable under 8%.

Figure 1: Aggregate Growth Fund portfolio



Source: Access, 2019-2022. 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.

[1] More specifically, £38,846,222 was deployed in VCSE loans plus £7,274,538 in grants (grant C)'

3.0 Latest findings in relation to Growth Fund social investors

The overall story of Growth Fund deployment, and the experience of provisions and write-offs suggests that the social investors and their respective investment committees (ICs) have largely been operating successfully.

In this section we focus on the experience of the social investors who manage the social investment funds within the Growth Fund. In the next two sections we focus on the VCSEs who received loans and grants from these investors.

Some social investors had achieved more deployment than originally planned and others less. Similarly, provision and write-off[2] experiences also varied but, as at late 2022, the full Growth Fund picture was positive.

In some ways, this could be seen as surprising given the impact of the pandemic on the UK economy in 2020 and 2021. However, there was considerable support available to organisations both through central and local government funded programmes. The Growth Fund also very quickly offered reliefs to social investors to pass on to investees – The National Lottery Community Fund released further grant monies and Big Society Capital reduced its interest rate. Looking to the future, there are clear economic headwinds, and the provisions and write-offs situation may well change during the repayment period, but this remains to be seen.

Evolution of Investment Committees

One interesting recent finding from the Growth Fund evaluation is in relation to the evolution of Investment Committees (ICs). The ICs in the Growth Fund have evolved and have learnt more about how to be comfortable with using grants to offset risks in loan decisions, and to balance both the financial and social risks of investments. This is useful learning for future organisations contemplating establishing a social investment fund, and so we describe some of the learning here.

The Growth Fund social investors all have well-established processes for approving loans and grants through an Investment Committee (IC). ICs, sometimes also referred to as panels, are usually made up of both internal and external members recruited to bring a range of perspectives to the task of assessing investment opportunities – in the Growth Fund's case applications for blended loans and grants.

Our interviews with the Growth Fund social investors have found that there has been a subtle evolution in how ICs worked and arrived at approval decisions. The nuance is in how social impact was taken into consideration as the deployment phase progressed. At the beginning of the Growth Fund deployment periods, ICs were naturally concerned about the reputational impact of any bad investments but, by the end, were more worried about the reputational impact of not deploying the available monies.

Early investment approvals were the ones that set a standard or 'tone' for the respective funds. Thereafter, ICs evolved based on their respective experiences of making investments and on-going updates of how the portfolio of loans was performing. For a small minority, provisions and write -offs early in their deployment had a significant effect on their respective ICs' appetite for any riskier applications. However, for the majority, the IC evolution

[2] 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 any of an outstanding loan balance will be repaid. In the Growth Fund, Grant B was designed to insure the social investors from losses due to provisions and write-offs.

followed a learning curve as a more positive experience accrued with lessons learnt through reviewing any provisions or write downs in order to understand what had gone wrong.

“We are everyone’s worst last choice.” – Social investor

ICs never make a loan approval decision expecting a loss on that actual deal and approval is always within criteria of loan repayment and interest cost affordability. However, beyond affordability there is a trade-off between risk and social impact and the subtle evolution of ICs was towards allowing for greater consideration of social impact later in funds’ respective deployment periods.

“Affordability has to be there, but we might take a view on, for example, the forecast robustness if we thought that social impact was high and worth seeking.” – Social investor

“We lent money to an extremely risky venture as the social impact was so high and we could see how it could work but we would not have done this deal earlier on.” – Social investor

“Higher social value can drive the decisions and, if high, we will try and find ways to make it work that’s fair to everyone. [Our IC] enjoys the challenge, enjoys the discomfort. – Social investor

As stated before, those few funds that experienced early write downs, or where the portfolio was not working well, were not in as strong a position for the IC to take such additional risk views.

The way that ICs have evolved reflects the way that individuals on ICs have made the journey to accepting different risk levels. It was reported by one social investor that anyone with prior commercial bank lending experience on ICs had to go through *“stages of grief”* before they arrived at acceptance of the kinds of risks being proposed in the applications. Another social investor had to change the membership of its IC before it could start fulfilling its Growth Fund mission as some, being used to commercial banking, were not able to accept the levels of financial risk being taken. In a third case, the IC found itself restating that it was there to take some risks on occasion. It is also fair to add that investment managers got more used to their respective IC’s due diligence questions and so would answer them up front which increased mutual confidence in the processes.

In many ways, the evolution of ICs should not come as a surprise as their development reflects the cumulative experience of their members and how each fund’s portfolio has performed. Nevertheless, it is good to see that social impact and social outcomes grew in relative importance in the deployment approval decisions over the life of the Growth Fund.

In the following section we discuss the experiences of VCSEs involved in the Growth Fund.

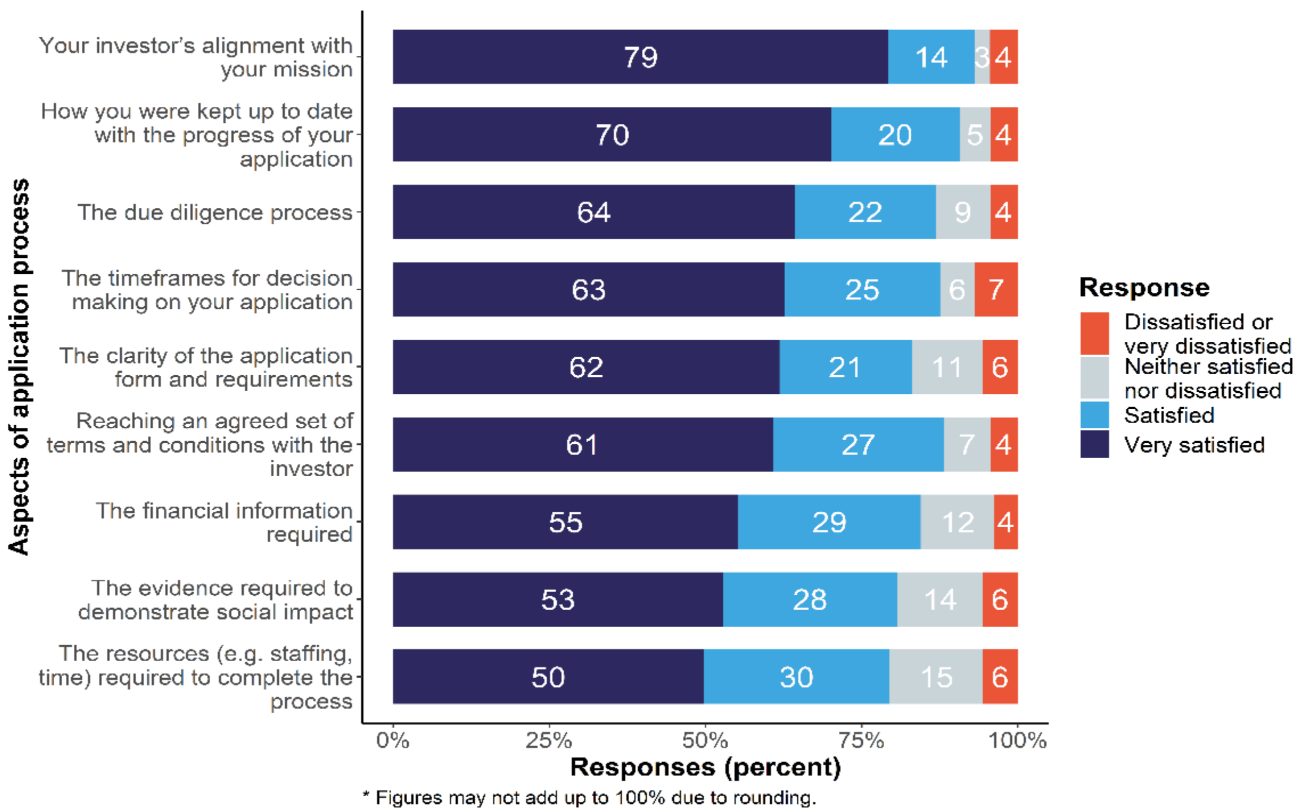
4.0 Experience of VCSEs involved in the Growth Fund

VCSEs continue to be generally satisfied with their experience of the Growth Fund, across all the stages of application, performance, and repayment.

With regards to the **application process**, VCSEs who responded to the Baseline Survey across the years were particularly satisfied with the investors' alignment with the VCSEs mission and the timeframes for application decision-making (93% and 90% respectively said they were either satisfied or very satisfied with these elements). VCSEs reported a slightly lower rate of satisfaction on the level of resource required to complete the application process, and on the level of evidence required to demonstrate social impact. Case study interviews confirmed that VCSEs especially appreciated the support received from the investor, and described it as "*supportive", "straightforward and clear".*

> *"I can't emphasise enough for us it is not just the funding it's the support from [investor]. Almost an invisible consultancy support." – VCSE*

Figure 2: Answers to the question: 'How satisfied was your organisation with the following aspects of the application process where 1 is very dissatisfied and 5 is very satisfied?'



Source: Ecorys, baseline survey of the Growth Fund targeting investees who have received investment up to 27 October 2022 (n=161).

Evidence from the VCSEs responding to the Annual Survey and the case study interviews suggests that, generally, the **products** offered through the Growth Fund met VCSEs' needs. 114 out of 121 survey respondents (94%) reported being 'satisfied' or 'very satisfied' with their investment, and equally 115 out of 121 (95%) said that they would 'definitely recommend' other organisations in a similar situation to take up a similar investment. Furthermore, 107 out of 121 respondents (88%) felt 'very satisfied' with the level of tailoring/structuring of the investment to meet their organisations' needs. Qualitative evidence broadly confirms these positive views: there is evidence that some VCSEs were offered terms of conditions particularly tailored to the social investment context. For example, one of the interviewed VCSEs was offered an interest rate that could be reduced if the VCSE reached previously agreed social impact outcomes. In another case, a VCSE and investor agreed that the repayment of the loan would only start after the VCSE reached a certain revenue threshold. Some VCSEs reported they felt interest rates were high, but at the same time understanding this being linked to the high level of risk.

VCSE managers are broadly **using the investment** as intended. There is evidence of at least one VCSE who had to change their offer and business plan as a consequence of the COVID-19 pandemic (since their product could not be delivered due to social distancing, and they needed to continue generating some form of income). In this case, the investor was involved throughout the process and both parties were satisfied with how this shift was managed.

Most VCSEs responding to the Annual Survey reported that they are **repaying their loan** as expected (83%), both in terms of timings and how they are repaying the loan – which for most meant revenue generated through trading. VCSEs also reported to be happy with the flexibility and support showed by their investors. This includes for example the high level of communication and support received from the investors, and the agreements in using repayment holidays or interest payment freezes during the COVID-19 pandemic.

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

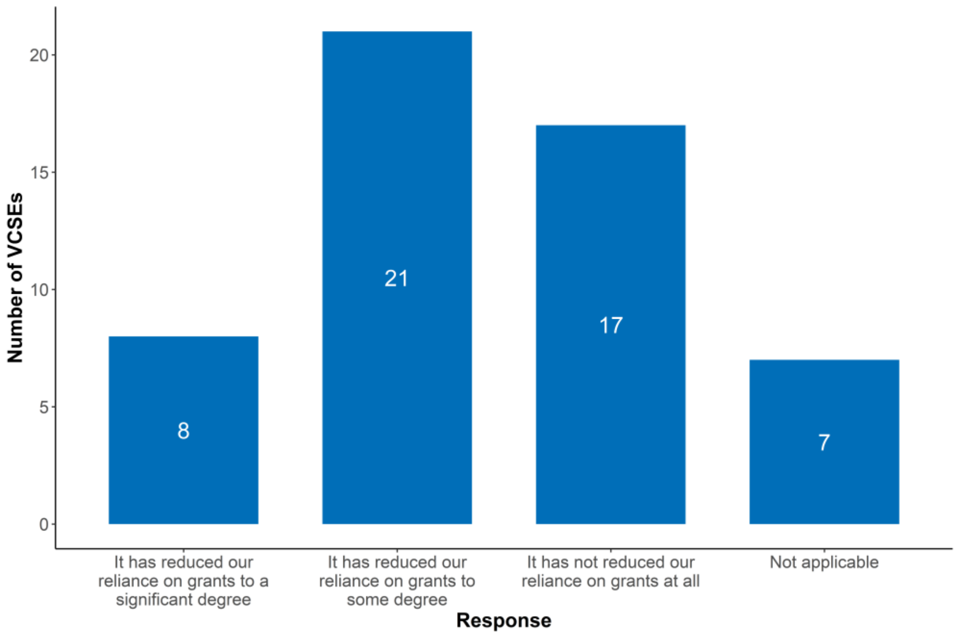
VCSEs continue to report positive impacts of the investment on their financial outlook, organisational confidence, and in relation to their social impact.

In the latest Annual Survey, most VCSEs continued to report that the loan from the social investor had **an impact on their total income**; 23 out of 53 (43%) said that the loan helped them significantly improve their income, and 14 out of 53 saying this helped them increase their income at least slightly (26%). These figures are similar to the VCSEs completing the 2019 and 2020 Annual Surveys. Similarly, the majority reported that the investment helped them to increase or **maintain current levels of net assets**, with only 5 out of 53 (9%) reporting that it had no overall impact. Qualitative data confirm this trend, with organisations reporting that the investment has helped them to grow their business, allowed them to deliver (more) services and/or at a greater scale, increased the number of employees, and allowed them to buy more stock, all ultimately paving their way to securing more income. At the end of this section we provide a case study that shows how the funding is supporting a VCSE in providing their services.

"Even though we applied for the loan for specific reasons in a pre-pandemic world, the investment ended up helping us to see through some very dark days which we were not anticipating and to an extent, helped us survive." – VCSE manager

Following similar results in 2019 and 2020, 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 (8 out of 53) or to at least some extent (21 out of 53) (see Figure 3).

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=53), early 2022

We asked VCSEs 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). In general, the majority of responding VCSEs viewed their future relatively positively, with 64% seeing it as 'strong' or 'very strong'. It is important to note, however, that more recent qualitative data (and especially for the interviewees engaged in the late summer and autumn 2022) highlighted that the cost-of-living crisis was causing them a certain level of concern. That said, there was no evidence of this impacting on their financial or organisational situation.

Organisations confirmed a strongly positive impact of the investment on their overall **social impact**, with 40 out of 53 organisations (75%) reporting it being 'strongly positive'. Similarly, 35 out of 53 responding VCSEs (66%) said that the investment had a strong positive impact on the number of beneficiaries they support. In addition, 30 out of 53 (57%) also report the outcomes (number and/or quality) achieved by beneficiaries were strongly positive. These responses are confirmed by the qualitative data gathered so far.

Case study: The role of the Growth Fund in scaling up activities to tackle homelessness

For a VCSE supporting homeless citizens, the Growth Fund has been an important source of financial support that allowed the organisation to grow its assets and to increase the amount of support available for those who need it.

Thanks to the investment and the support received from their investor, the VCSE has been able to acquire new houses to be used as support accommodation in their community, as well as to continue providing ancillary services such as training to cover costs and the repayment of the loan. Growing the property portfolio meant that the VCSE was able to generate more income, as well as reducing some running costs linked to leasing the property they previously used. It also helped them secure **further social investment** as it gave confidence to the investors that they can meet the repayments. The investment has fed into all five ways through which they are looking to empower vulnerable people: providing safe space to live; offering meaningful use of their time by providing training and skills development courses and volunteering opportunities; building supportive social networks; growing self-confidence; and helping them learn healthier coping strategies.

The **loan model** played an important role in enabling all this. The VCSE recognised the amount that they secured through this social investment vehicle is more than what they would ever get through a grant; securing this amount of liquidity was only possible when repayment was factored into the process. In addition, the VCSE also mentioned that the repayment process helped them to grow the *"discipline of the business planning"* and the due diligence work that goes into social investment. This overall helped to improve their governance and strategic planning as an organisation.

The **support received** from the social investor did not go unnoticed ("*They are going well above and beyond what you'd expect from a social investor"*) to the extent that their collaboration has since been extended to other aspects of their work. As the VCSE reported, *"It's now a more holistic relationship."*

6.0 Next steps

The Growth Fund evaluation continues until 2025. We will continue to survey the VCSEs that received loans and grants and revisit the 20 case study organisations. In addition to this, we are exploring the financial resilience of VSCEs in further depth and will be visiting an additional 20 VCSEs to understand this further.

Ecorys will prepare a similar light-touch update report in November 2023. At this time, we will also publish a 'thematic insight' summarising our initial findings from the financial resilience research.

The final evaluation report will be delivered in 2025. All these publications, as well as previous publications from the Growth Fund Evaluation, will be available on The National Lottery Community Fund website: https://www.tnlcommunityfund.org.uk/insights/social-investment-publications.