



## Summary update on the independent Growth Fund evaluation

April 2024

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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 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 a [shorter update](#) on findings as of March 2023. 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. The next full report is planned for December 2025.

In addition to this, we are exploring the financial resilience of VCSEs in further depth and have visited an additional 20 VCSEs to understand this further. The first output of this research was a [Rapid Evidence Assessment, which drew together what resilience looks like in the VCSE sector and any gaps in evidence](#). The expected publication date for the next report setting out findings from the VCSE case studies is Spring 2024.

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 activity:

- ▶ 20 longitudinal case studies with VCSEs that received social investment through the Growth Fund. 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.<sup>1</sup> At the time of writing this report, 5 VCSEs had been tracked through to a final visit.
- ▶ Analysis of the Growth Fund Management Information up to September 2023. This contained information on 725 loans and grant applications from VCSEs.
- ▶ VCSE surveys: a baseline survey sent to VCSEs when they first take on a loan (n=167); and a follow-up survey sent to VCSEs every year. The annual survey has been sent out five times (2019-2023). The annual survey has had 200 unique respondents; on average 58 VCSEs have completed each of the annual survey waves.

Annual interviews with the Growth Fund social investors. 11 social investors were interviewed between October-November 2023.

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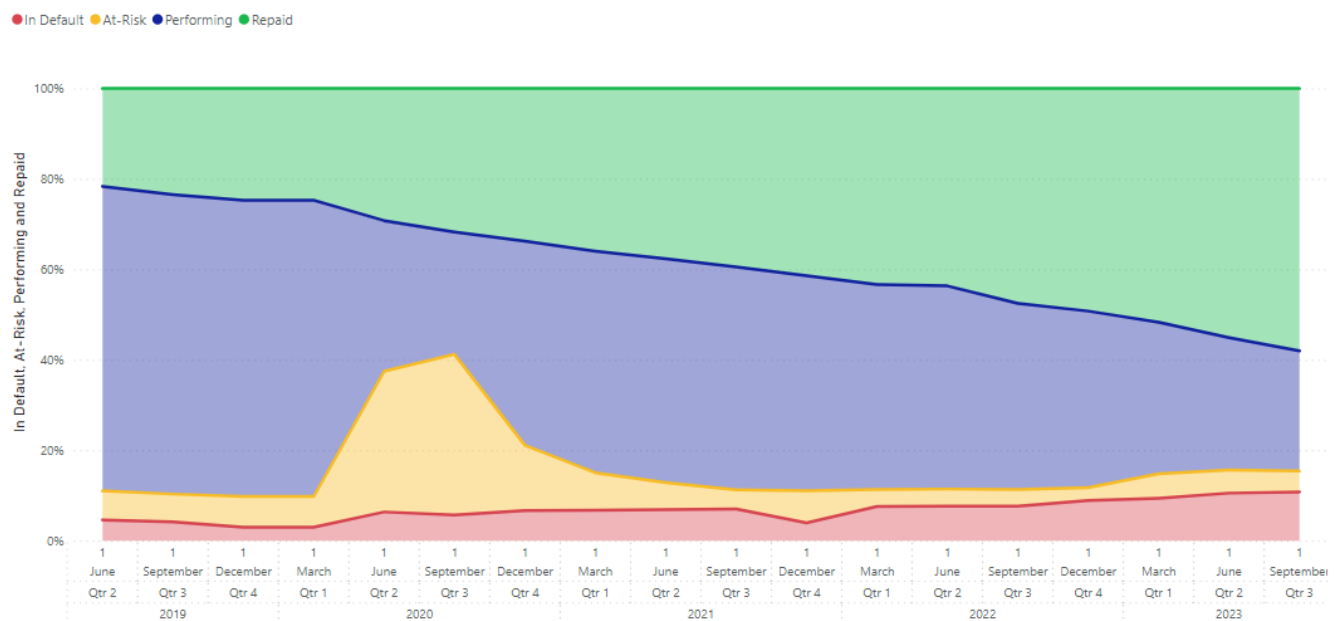
<sup>1</sup> Or to the loan no longer being repaid (i.e., written off or VCSE closure), or the end of the evaluation, if sooner.

## 2.0 Progress in delivering the Growth Fund

Up to September 2023, the Growth Fund social investors had deployed 725 loans and grants to 580 VCSEs. The total amount deployed to VCSEs was £48.58M.<sup>2</sup>

Data submitted by investors also showed that £23.6M (58.0%) of the loan capital deployed had been repaid (see Figure 1), and that repayments on £10.8M (26.6%) of the total distributed loans were on track. £1.9M (4.6%) was at risk, and £4.4M (10.8%) 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. In 2023, the combination of capital in default and at-risk increased slightly from 11.8% in Q4 2022 to 15.4% in Q3 2023. It was always expected that defaults would increase over time, as more loans were disbursed (further discussed in the next section).

Figure 1: Aggregate Growth Fund portfolio



Source: Access, 2019-2023. 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.

<sup>2</sup> More specifically, £40.59M was deployed in VCSE loans plus £7.99M in grants.

## 3.0 Latest findings in relation to Growth Fund social investors

The overall Growth Fund picture remains positive and several of the social investors are now operating successor funds. The final Growth Fund loan was deployed in September 2023, which means that all social investors are now in their respective repayment periods.

In this section we focus on the experience of the social investors who manage the social investment funds within the Growth Fund. We interviewed 11 social investors responsible for all the Growth Funds that are still active.

In summary, social investors believed the VCSE sector has passed through managing the impact of the pandemic in 2020 and 2021 back to a form of 'business as usual' in 2022 and 2023. However, they said that 'business as usual' is still challenging for VCSEs as it has involved addressing the economic headwinds from the cost-of-living crisis without help from the considerable financial support that was available during the pandemic. The social investors expect this to have an impact on the levels of provisions and write-offs<sup>3</sup> and are seeing some early warning signs such as requests for capital repayment breaks.

The Growth Fund was established with a first loss insurance grant (Grant B<sup>4</sup>) of between 10% and 30% across each social investor and to date the experience of **provisions and write-offs against Grant B remains below expectations overall**. However, with the last repayment not due until 31st December 2029, it is still too early to predict the end outcome for each fund and it is a variable picture across each social investor. For example, two Growth Fund social investment funds had almost no write-downs<sup>5</sup> at the point of the latest interviews (late 2023). Two other funds experienced write-offs early in the deployment phase and before capital repayments had started; the way that Grant B was drawn down in line with loan deployment over the life of each fund meant that early losses had a substantial impact on the respective fund's projected ability to make a return which led to both social investors closing their Growth Fund investment funds early. Some other funds were also affected by the impact of early write downs and one had agreed a much lower Grant B allocation than the 25% average which, as it emerged, proved to be unrealistically low.

Another reason for write-offs in two funds was investments made in start-ups which subsequently failed. As a result, neither will be backing start-ups in their follow-on Enterprise Growth for Communities (EGC) funds. For most funds, write-offs were usually only occurring after at least some capital had been repaid and after all of Grant B had been drawn down, and so the impact on overall fund projections was relatively much lower. Access and the respective social investors actively monitor their portfolios and update forecasts of what level of residual Grant B might be left at the end of respective repayment periods.

Of the original 15 Growth Fund social investors, the last repayment dates for their fund will fall at the end of 2029.

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<sup>3</sup> 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.

<sup>4</sup> 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.

<sup>5</sup> A loan is written off when it is considered to be totally unrecoverable, while a loan is written *down* when it is considered to be partly unrecoverable. Source: [European Central Bank](#).

## Social investors' status and future social investment fund management plans

One of the core objectives of the Growth Fund was to widen the number of social investors in the market and 15 different organisations have been involved to varying degrees in delivering the Growth Fund.

The Growth Fund can be said to have succeeded in largely meeting this core objective. Of the original 15 social investors, nine are engaged or in partnerships with Access's Enterprise Growth for Communities fund (EGC)<sup>6</sup> successor fund as proposed or actual fund managers as detailed below:

- ▶ As might be expected, the three long-established social investors that anchored the Growth Fund are all involved in the running of or applications to run EGC funds.
- ▶ In terms of meeting its objective to create new social investors,, the Growth Fund can be said to have succeeded, with three of the new-to-social investment organisations now committed to managing further funds and having applied to become EGC fund managers. Additionally, one of the social investors which had expanded their prior activities into fund management is entering a consortium with another Growth Fund investor to run a large EGC fund that could reach £25m in scale.
- ▶ An established social investor which did not succeed with its Growth Fund deployment is nevertheless now an EGC fund manager. A new to social investment organisation which has made a strategic choice not to continue with fund management activities in-house is, however, also staying involved in social investment as a referral partner to this EGC fund.

Three of the other social investors will continue with their involvement with social investment activities, although not with EGC.

Only three of the original 15 social investors are not taking their involvement with the Growth Fund on to any kind of next stage – one of which never got off the ground and so arguably, only 14 social investors were ever active with Growth Fund loan deployment.

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<sup>6</sup> EGC was launched in April 2022 with £20 million from the Dormant Assets scheme. On a similar basis to Growth Fund, EGC will combine grant funding with repayable finance to leverage over £60 million of social investment for charities and social enterprises that are looking to grow or diversify their business models.

## 4.0 Experience of VCSEs involved in the Growth Fund

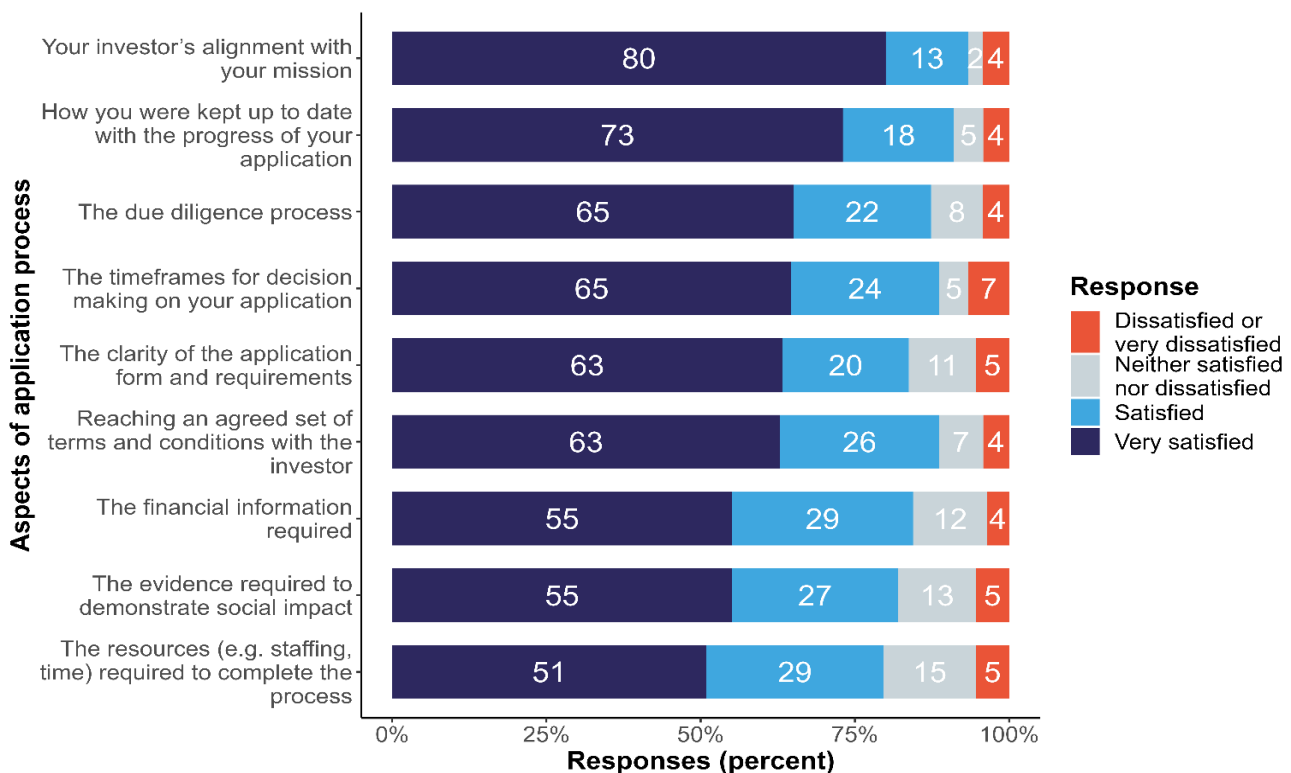
VCSEs continue to be generally satisfied with their experience of the Growth Fund, across all the stages of application, performance, and repayment.

The Growth Fund investees continue to show a high level of satisfaction with their investment. 95% of respondents reported to be either very satisfied (75%) or satisfied (20%) with their investment during the baseline survey which was asked shortly after the deployment of the loan. This high level of satisfaction was also present in the most recent annual survey during which 73% reported to be very satisfied and 21% to be satisfied.

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 (79% very satisfied, 13% satisfied) and the timeframes for application decision-making (65% very satisfied, 24% satisfied). Though satisfaction was overall still high, VCSEs reported a slightly lower rate of satisfaction on the level of resource required to complete the application process (51% very satisfied, 29% satisfied), and on the level of evidence required to demonstrate social impact (55% very satisfied, 27% satisfied).

*“It was a very personal procedure. [...] We were given all the information that we needed, the support that we needed and [investors] seemed really interested in the organisation, which made it less daunting to do the application” - 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 (May 2018 – June 2023) of all new Growth Fund investees (n=167).

VCSEs we spoke to as part of our case studies reported they had developed a **positive relationship** with social investors over time. For some VCSEs, the process of taking on a Growth Fund loan has been the start of a collaboration based on trust and similar values as investors are not merely interested in the loan's financial performance, but also in its social impact. Case study VCSEs reported this had opened up new funding opportunities for them (e.g., grants or further social investment) as VCSEs felt comfortable seeking financial advice from Growth Fund investors. A VCSE reported that charities appreciate receiving organisational development support from social investors and thought mutual learning could be maximised by offering support at a group level.

Evidence from the VCSEs responding to the five Annual Surveys suggests that, generally, the **loans** offered through the Growth Fund met VCSEs' needs. 189 out of 200 survey respondents (95%) reported being 'satisfied' or 'very satisfied' with their investment, and equally 193 out of 200 (97%) said that they would 'definitely recommend' or 'probably recommend' other organisations in a similar situation to take up a similar investment. Furthermore, 182 out of 200 respondents (91%) felt 'satisfied' or 'very satisfied' with the level of tailoring/structuring of the investment to meet their organisations' needs. The latest qualitative evidence confirms this positive view. For example, one of the VCSEs interviewed was able to make interest-only repayments before moving to capital repayment. This 'extra time' was deemed very useful to reduce the payment burden.

Qualitative data gathered in 2023 broadly suggests that case study VCSEs are on **track with their repayments**, and a few VCSEs had paid off their loans. As in the previous update, VCSE managers were generally happy with the terms of their repayments and the flexibility offered by their investors, including repayment holidays. Where VCSE managers did feel that interest rates were high, they also recognised that they would not have been able to get a loan with better terms. One case study VCSE experienced an increase in turnover which could have enabled them to repay the loan sooner, however, they instead chose to keep the surplus generated as reserves instead of changing repayment terms.

However, the rise in the cost of living has made it difficult for some VCSEs to meet repayments. Because inflation significantly impacted one of the case study VCSE's main source of income, they had needed to make staff redundant and were in the process of asking for a repayment holiday. Indeed, due to the cost-of-living crisis, customers of this VCSE reduced their expenditure on the VCSE's flagship services, resulting in reduced revenue: *"This month [September 2023] is the worse we've ever been".*

One of the case study VCSEs closed before a final visit could be arranged. For that VCSE, a short call with the social investor was carried out to understand what role, if any, the social investment played at this time. The investor shared that they offered no-fault extensions and flexible repayments to the VCSE when they had struggled financially in the aftermath of the pandemic. Despite this, the main reason the VCSE closed was due to changes to local authority funding, which made up the majority of their income. The investor explained they had not been able to support the VCSE further due to this external policy change, and because challenges had not been communicated to the investor by the VCSE until a late stage due to their focus being on trying to secure a viable merger before liquidating the organisation.

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

Despite the cost-of-living crisis, 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 (85%) reported that the loan from the social investor had a **positive impact on their total income**; 47 out of 85 (55%) said that the loan helped them significantly improve their income, and 25 out of 85 (29%) said it helped them increase their income at least slightly.

The latest qualitative data gathered confirms this trend. VCSE managers reported that the investment helped them develop their team, upscale their activity and diversify income streams. For example, through the investment, a VCSE was able to redesign its ground floor to host evening events (e.g., parties, weddings) that could be serviced from the café. This generated additional income and partnership opportunities. Another VCSE reported that by financing equipment such as a panini machine for their café, the investment allowed it to continue its operations.

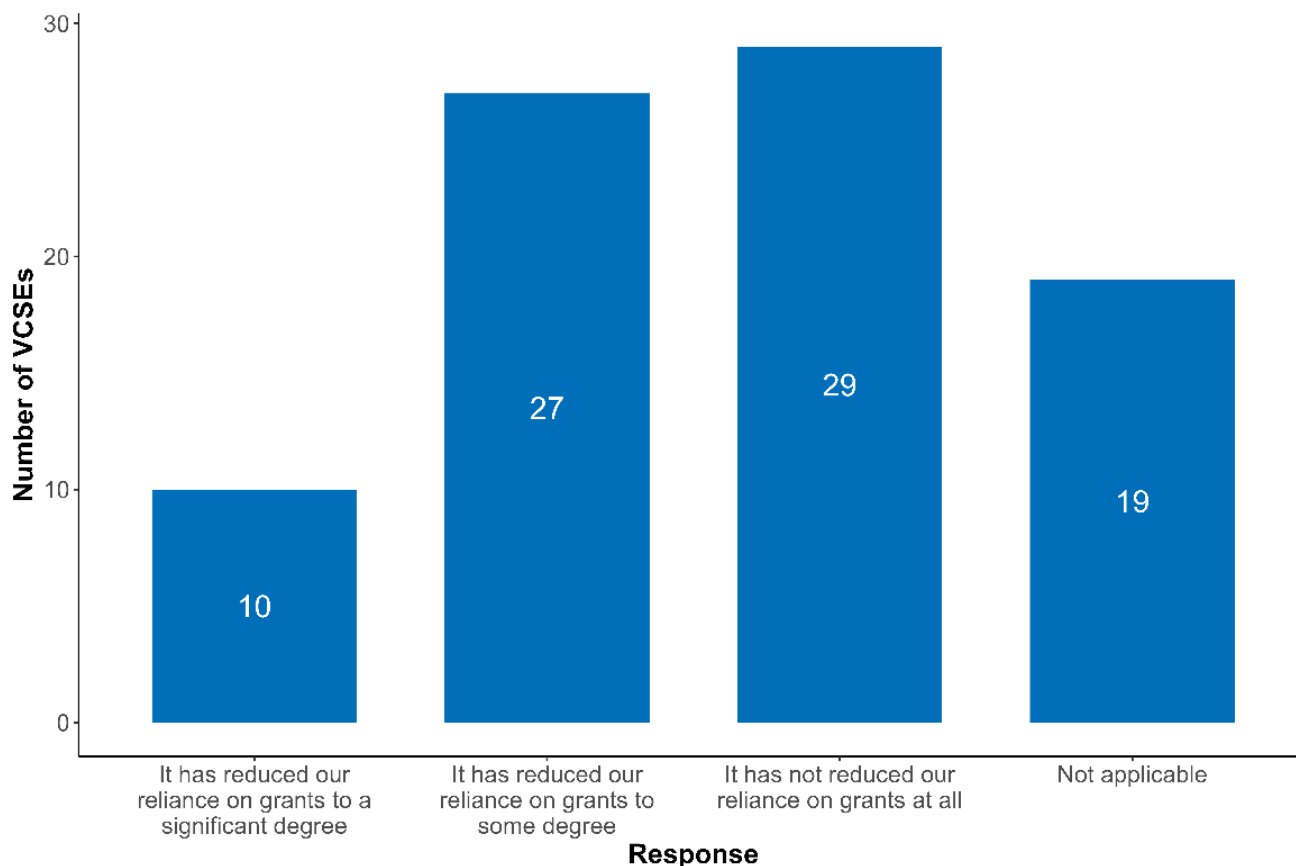
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*“The investment allowed us to function as a business and get things moving.” –  
VCSE manager*

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Additionally, case study VCSE managers' expectations for the investment were often exceeded; whilst the outcomes were anticipated, the scale and/or speed at which the change took place was unexpected. For example, a VCSE manager reported a four-fold increase in gross income since taking on the loan, which was substantially more than expected. Indeed, thanks to the investment, this VCSE could expand their property portfolio. This increased their capacity to deliver and as a result increased their 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 85) or to at least some extent (27 out of 85) (see Figure 3). This was echoed in the latest qualitative data gathered; a VCSE manager explained that before receiving social investment, they perceived that their VCSE would “*never be truly resilient*” due to its reliance on grants. This perception changed after receiving the social investment, as the VCSE used the loan to redevelop its café space, allowing it to build capacity and grow its revenue. Following this success, the VCSE secured a government contract to deliver work that was previously grant-funded.

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=85), 2023

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 68% seeing it as 'strong' or 'very strong' over the next 5 years.

The latest qualitative data available still broadly confirms the Growth Fund's role in making VCSEs more sustainable. For example, a VCSE manager explained that the investment was critical to taking on the additional staff and premises required to deliver in existing contracts, without which they believed their organisation may not have survived: "There is 100% no way that we would have survived. We needed that investment at that time, yeah". They believed this improved their sustainability, as they were able to sustain operations, pay off the loan in full, and continue to deliver social impact.

Organisations confirmed a strongly positive impact of the investment on their overall **social impact**, with 64 out of 85 organisations (75%) reporting it being 'strongly positive'. Similarly, 62 out of 85 responding VCSEs (73%) said that the investment had a strong positive impact on the number of beneficiaries they support and 45 of 85 (53%) said the investment had a strong positive impact on the types of beneficiaries they support. In addition, 50 out of 85 (59%) report that the investment had a strongly positive impact on the outcomes achieved by service users (the number and/or quality of outcomes). These responses are confirmed by the qualitative data gathered so far. For example, investments made into communal spaces (e.g., cafés) reinforced some VCSEs' place in the local community, which VCSE managers felt provided 'hubs' which played a valued role in the social lives of local residents. Below, we provide a case study that shows how the funding is helping a VCSE to generate greater social impact.

**Case study: The role of the Growth Fund in expanding relationship counselling services.**

The Growth Fund has enabled this VCSE, who provide relationship counselling, to grow its business development team and branch out to different counselling needs.

Thanks to the two investments they received over three years, the VCSE has been able to fund a marketing campaign, and recruit three more members of staff into its business development team. This has helped the VCSE expand its **geographical reach** and cater for a **wider variety of needs**. Whilst it was initially based in a single county, they now provide services in two other counties, with the ambition to cover the whole region they operate in. The VCSE believed that because the business development team brings more unrestricted income, this strengthens their organisational **sustainability**.

Because the VCSE now has a team dedicated to securing appropriate funding opportunities, the organisation has **increased capacity to work with different kinds of at-risk groups**, with new recruits dedicated to serving young people displaying harmful behaviour in addition to the service-user groups they have historically catered for.

*“My role wouldn't have existed without the funding to develop the development team's capacity and therefore, those young people wouldn't have accessed the support” (Delivery staff)*

A young person attending group sessions found the VCSE's activities 'unique' in terms of their diversity and specificity for different target groups.

Moreover, recruiting additional team members through the investment allowed for a better distribution of the workload. This in turn increased the quality of the service delivered as staff could focus on service delivery instead of juggling other aspects of the job. This increase in staff was also observed by a service user who valued being able to access different staff members who brought new approaches to supporting them.

*“It feels like a lot has happened in a short space of time. The new practitioners have come with different ideas that have been helpful” (Beneficiary)*

The **terms and conditions** of the loan played an important role in enabling this. The flexibility of the loan, both in terms of what to use it for and when to use it, was highlighted as a success factor.

Through taking on the Growth Fund loans, the VCSE's manager developed **a positive relationship** with their social investor. They valued being able to receive advice from the investor when developing other projects to grow the organisation.

*“The fact that I have got a relationship with somebody now to ask for advice and make sure I'm setting [the project] in a way that would appeal to a social investor feels really nice” (VCSE manager).*

## 6.0 Next steps

The evaluation evidence to date demonstrates that the delivery of the Growth Fund is on track. Both investors and VCSEs are generally satisfied with the investment, however the external funding environment continues to be insecure and some VCSEs are struggling with the cost-of-living crisis. Emerging evidence points to the positive impact of the Growth Fund on VCSEs and the social investment market.

The Growth Fund evaluation continues until 2025. We will continue to survey the VCSEs that received loans and grants, revisit the VCSE case studies, and interview social lenders towards the end of the evaluation. Ecorys will next prepare the evaluation's final report in December 2025.

In addition to this, we are in the process of publishing a ‘thematic insight’ summarising our initial findings from the financial resilience research, and finalising the approach for the next phase of the research.

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>.