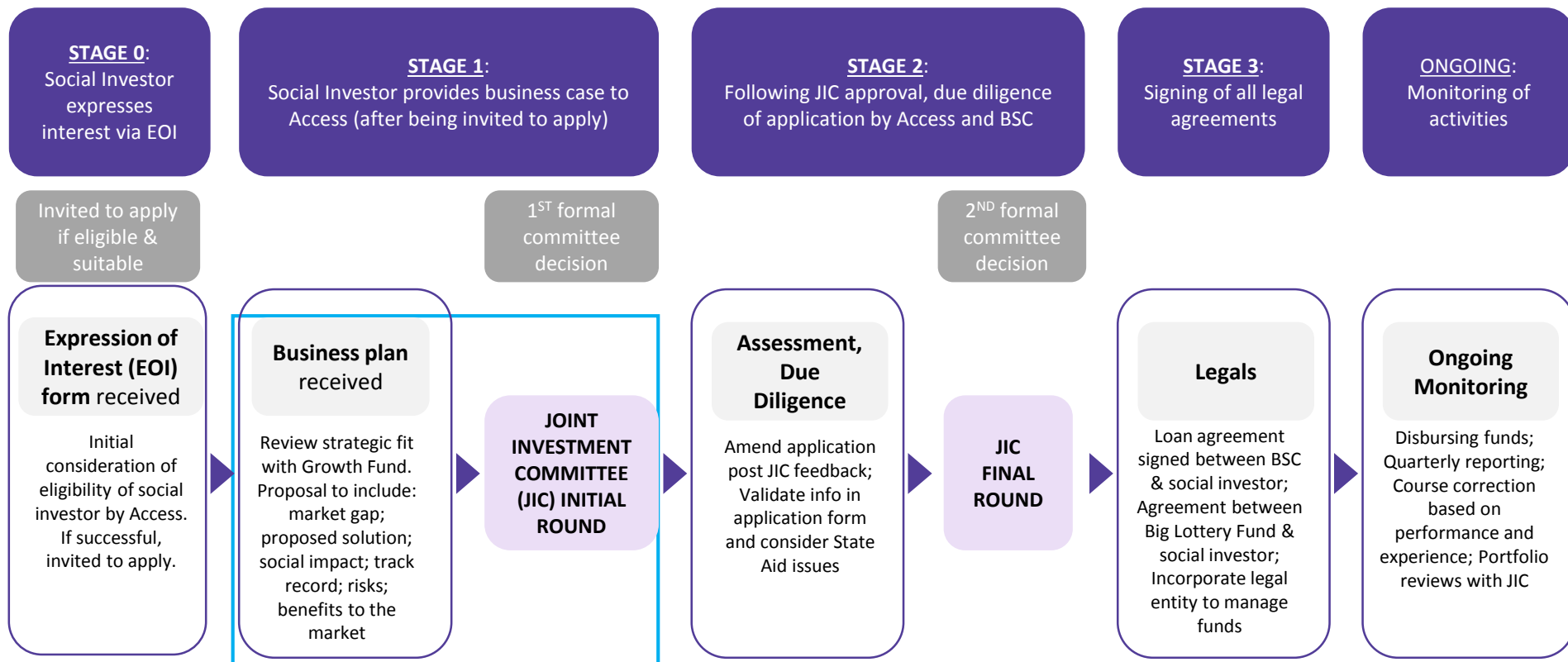




# The Growth Fund – The Business Plan

Guidance on the Business Plan, how to complete and what happens next

# What is the purpose of the Business Plan?



Following a successful EOI, applicants will be invited to complete a Business Plan. This will then be considered by the Joint Investment Committee (JIC) as a Round 1 application which precedes the decision to progress to due diligence. The JIC asks that organisations submit a Business Plan within 3 months of being invited to apply.

**IMPORTANT: The EOI is a pre-cursor to a formal application and should be treated as such in terms of the detail provided and time spent in completing the form. The Business Plan is where applicants should ensure they take the time to provide a thorough plan of how they propose to deliver their solution under the Growth Fund.**

The Business Plan will be sent to those invited to apply following a successful EOI. The remainder of this guidance details how to complete the Business Plan, and what to consider in so doing.

# What does the Business Plan involve?

▶ The Business Plan is divided into **6 sections**.

- 1 The problem the proposal seeks to address
- 2 The proposed solution
- 3 The applicant's approach to social impact
- 4 The applicant's profile and technical ability
- 5 The operations and processes of the proposed solution
- 6 Risk analysis

## Note:

- Each section sets out an explanation of the information to be included. There is also an approximate word count given which should be used as a guide and provides an indication of the level of detail Access are looking for.
- Applicants are encouraged to use schematics, illustrations or diagrams as part of the Business Plan if this helps to better portray the information required.
- Once completed, the Business Plan should provide a comprehensive and thorough proposal as to how the applicant plans to utilise Growth Fund finance and achieve social impact.

## IMPORTANT CONSIDERATIONS AND OTHER SOURCES OF GUIDANCE

▶ In completing the Business Plan, it is important that applicants have an understanding of the Growth Fund, its aims, objectives, the principle of blended financing and how their solution will contribute to those aims and objectives. It is crucial that applicants review **Growth Fund – The Basics** guidance, available on the Access website prior to completing the Business Plan.

▶ As part of completing the Business Plan, applicants are required to complete a **Financial Model** (also provided by Access following a successful EOI).

- The financial model should be considered part of the Business Plan and separate guidance is provided on how to complete the model (this will be sent to applicants and is also available on the Access website)
- The financial model asks applicants to input a number of assumptions (e.g. default rate, number of loans made each year etc.). It is important that applicants include in Section 5 of the Business Plan the rationale for these assumptions and how they were arrived at.

▶ It is important to understand that as the sources of funds are public, the Growth Fund is subject to **State Aid**. Applicants should ensure that they have considered the State Aid considerations of their Business Plan and include their consideration of this in Section 4. Separate State Aid guidance will be sent to applicants and is available on the Access website.

# Important Growth Fund principles to consider

**Growth Fund – The Basics** guidance included the below diagram:

## APPLICATION CONSIDERATIONS

Social investors or partnerships can apply to Access in one application for a combination of loan finance and grant, up to a total of £10m (with a maximum of £3m as the grant element).

## LOAN FINANCING

BSC will provide the loan finance at an interest rate of 5% to successful applicants. The amount of loan applied for must always be greater than the total amount of grant.

## GRANT COMPONENT

Big Lottery Fund provides the grant for:

- To support the high transaction costs of the investor
- Blending with the BSC loan to offer charities & social enterprises loans < £150k and to allow loans to be made with greater risk
- To provide a grant component alongside the loan

- ▶ The Growth Fund provides blended Loan/Grant financing to applicants to enable the provision of unsecured sub £150k investments into charities and social enterprises.
- ▶ The loan financing is provided by Big Society Capital and the grant component by Big Lottery Fund.
- ▶ An applicant may source the Loan Financing from another source and still be eligible for the Grant component. It is important that the applicant prove the use of the grant will not create intentional private benefit to the source of that loan financing.
- ▶ The Financial Model (and section 5 of the Business Plan) asks applicants to provide details of how the Grant and Loan components of their solution were arrived at.

The Grant Component can be used for **3 different purposes**

## **A** To support **OPERATIONAL COSTS**

- The higher costs of writing and managing smaller deals of up to £150k means that applicants can apply for grant funding to support these deal costs which, when combined with fees and interest, should help to make the activity financially sustainable.
- Operating costs would include staff costs for origination of deals, due diligence and on-going management of the investments
- This grant should enable the social investor to:
  - extend their reach to charities and social enterprises which often require more time and resources
  - provide proportionate due diligence before, and monitoring during the lifetime of the investment
  - provide technical assistance and business support for organisations that have taken on investment.

Typically the Operating Cost grant (**Grant A**) will range between **3 – 10% of the total grant required**

The Grant Component can be used for **3 different purposes**

## **B** To mitigate Social Investor's RISK OF LENDING

- Grant B will help to cover the risk of making investments into charities and social enterprises with less of a track record and higher potential risk. The aim of this portion of grant funding is to widen the reach of current investment activity.
- The applicant needs to clearly justify what assumptions were used in determining the amount of grant needed to cover this additional risk. (e.g. expected financial default rates, the evidence behind those rates and the ways in which the applicant will balance the potential social impact created through the on-lending activity with the possible financial risks)
- The financial model will help to determine the level of grant needed based on the inputted assumptions.

## **C** To PASS ON TO CHARITIES AND SOCIAL ENTERPRISES in the form of a GRANT

- Grant C can be passed directly to a charity or social enterprise in the form of a grant to blend with the loan. The aim of this is to encourage appropriate risk taking by management and trustees in taking on capital and also to strengthen their capacity to achieve sustained social impact.
- These products have been commonly used by organisations such as Key Fund and Social Investment Scotland to support charities at earlier stages of considering social investment.
- It is not mandatory for a Growth Fund application to include this product as part of their solution and applicants should consider the potential impact that the grant will have and the types of organisations that will most benefit from having a grant alongside a loan.

### In Summary:



- *Maximum £3m*
- *Big Lottery Fund funded*
- *Grant C is optional*
- *Grant A <10% of total grant amount*

- *Maximum £10m less Grant*
- *Big Society Capital funded*
- *Interest rate of 5%*

- *Maximum £10m*

# What to consider when designing a solution?

## WHAT ARE THE TYPES OF PRODUCTS SOCIAL INVESTORS MIGHT OFFER TO CHARITIES AND SOCIAL ENTERPRISES?

The aim of the Growth Fund is to enable social investors to provide simple and flexible products that meet the needs of charities and social enterprises. Products must have a value of less than £150k (including any grant element). Products could include:

- ▶ **Unsecured Loan**
  - Makes products more affordable
  - Simple loans, easy to understand
  - Less costly to design and structure

**Who?** May be suitable for charities and social enterprises undertaking riskier product or service innovation
- ▶ **Unsecured Loan + Grant**
  - Affordable
  - Provides “breathing space” for charities & social enterprises with less robust/immediate revenue streams

**Who?** May be suitable for charities and social enterprises with little or no trading history or those developing new revenue streams
- ▶ **Equity like risk capital**
  - Enables organisation & investor to share in the financial & social risk and reward at the earlier stages of an organisation’s development
  - May not burden early stage organisations with debt
  - Could help incentivise social impact creation

**Who?** May be suitable for developing high growth charities and social enterprises, those providing distinct & measurable social outcomes or those with more variable revenue streams (e.g. more dependent on external factors)

## WHAT IS THE INTEREST RATE SOCIAL INVESTORS MIGHT OFFER TO CHARITIES AND SOCIAL ENTERPRISES?

- The Growth Fund aims to provide finance to charities and social enterprises that would otherwise be unable to access it. Access therefore expects the interest rates offered by Growth Fund applicants to be in line with interest rates offered elsewhere in the social investment market – 6.5-12% inclusive of all fees.
- Keeping interest rates in line with these levels will enable the grant to be used to create maximum impact and so reach a larger number of charities and social enterprises. It will also ensure market sustainability is not undermined by charging significantly less than other social investors who are not able to benefit from the grant subsidy.

# What happens once the Business Plan is submitted?

- ▶ Following the submission of a Business Plan, it will be presented to the Joint Investment Committee for their consideration (Round 1 decision)
- ▶ If approved, and subject to any feedback from the JIC, the due diligence phase will then commence, following which the proposal will be bought back to the JIC for their approval (Round 2 decision) and final decision.
- ▶ From the submission of the EOI to Round 2 JIC approval, it is anticipated that the process takes approximately 3 months

## What makes for a compelling Business Plan which is likely to have a higher chance of success?

- 1 The most successful applications focus on the social impact the proposed solution and then work backwards from there. They answer the question, “how will the provision of finance to charities and social enterprises who may not previously have had access to capital, make the world a better place?” Business plans which keep this at the heart of the solution make for compelling proposals. Importantly, applicants should also ensure they pay attention to how they plan to measure this social impact.
- 2 The use of well thought through assumptions and the ability to justify and provide evidence behind the assumptions used is key. This adds credibility to the business plan. This is also true of how the applicant plans to tackle the complex legislation concerning State Aid.
- 3 Applicants should demonstrate compelling evidence of demand for their proposed solution, how they will work with charities and social enterprises, and how they would seek to stimulate this demand as well as build their pipeline of potential applicants.
- 4 Business plans should keep an eye on the learning aims of Access, and how they plan to contribute to the body of evidence being gathered on the use of blended finance, as well as how their proposal will seek to benefit the Growth Fund portfolio more broadly.
- 5 Finally, an applicant may apply in partnership with other organisations to achieve the aims of the Growth Fund. While no prior experience of acting as a social investor is required, the applicant should draw on whatever other experience is relevant, both in their own organisation or those of the partner organisation(s).