



# **Use of Subsidy in Social Investment:**

## **Observations on Blending Debt and Grant Through the Growth Fund - Establishing the Portfolio and Early Activity**

*Summary data and analysis from the 16 Growth Fund funds at the time of each fund's initial establishment, a summary of our process for establishing the funds and an overview of the portfolio's early activity*

**A short visual summary of the full report**

By Helena Tuxworth

Access – The Foundation for Social Investment

June 2019



Delivered by

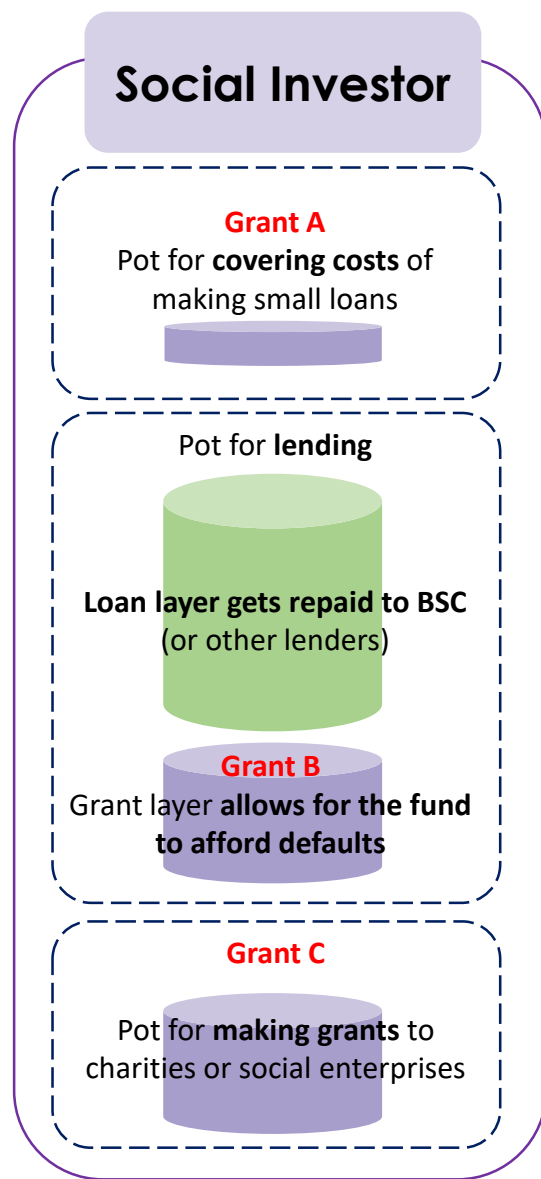


# Summary/ Overview

Loan  
from  
BSC/ co-  
investor



Grant  
from NCLF  
in three  
parts: A, B  
& C



**x16  
funds**

- Funds established over a period of 3 years & 8 months
- Wide range of investors, fund sizes, sectors, geographies and expected loan compositions
- It took on average 17.5 months to establish a fund then a further 5.9 months to their first investment
- Growth Fund fully committed, with small amount of grant left over for top-ups, restructuring or to address any gaps in provision. Small amount of restructuring already taken place, but report compares all funds at point of establishment.
- Funds collectively expected to reach peak-lending in 2019/20 – post-Growth Fund planning needed to ensure continued availability of capital and subsidy after this period



## Subsidy for investor's operating costs

- £1.9m total Grant A
- Av. £120k per fund
- Av. 3.9% of total fund size
- 9% of overall grant in GF
- Op costs predominantly funded by interest and fees

- Capped at 10% of each fund's grant. Unclear at this stage whether this is sufficient.
- Slightly higher allocations provided to non-specialist social investors to reflect higher set-up costs, lower fund sizes and the funds' work reaching new organisations or sectors. Represents good value for money.



## Loans to charities & social enterprises

- £30m total debt (of which £28.2m BSC)
- Av. £1.9m per fund
- Av. 71% per lending pot
- £13m total Grant B
- Av. £811k per fund
- Av. 29% per lending pot (range 10-36%)
- 61% of overall grant in GF

- Grant B proportions driven by default assumptions
- Amount of Grant B related to a number of other factors, although not closely correlated with any one in particular
- Covers assumed defaults to enable social investors to repay BSC/ co-investors



## Optional grant-making alongside loans

- £6.4m total Grant C
- Av. £403k per fund
- 30% of overall grant in GF
- Used in a range of different ways and given for a range of different purposes

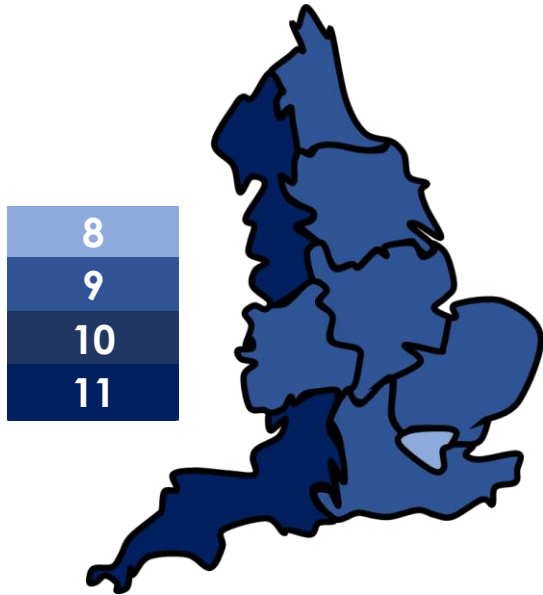
- Data suggests some weak correlation with investment size and use of Grant B, however difficult to distinguish between interplaying factors at this early stage



## Charity or Social Enterprise

- Loan or loan + grant blend of under £150k. Current average less than half this.
- Unsecured
- For growth, to help with cash flow, to stimulate income generating activities
- Typically 3-6 year repayment
- Interest of 5-12% on the loan
- Largely to organisations with low turnover and FTE staff
- A number of investments to date made within more deprived areas of England by IMD decile data

# The Growth Fund Portfolio

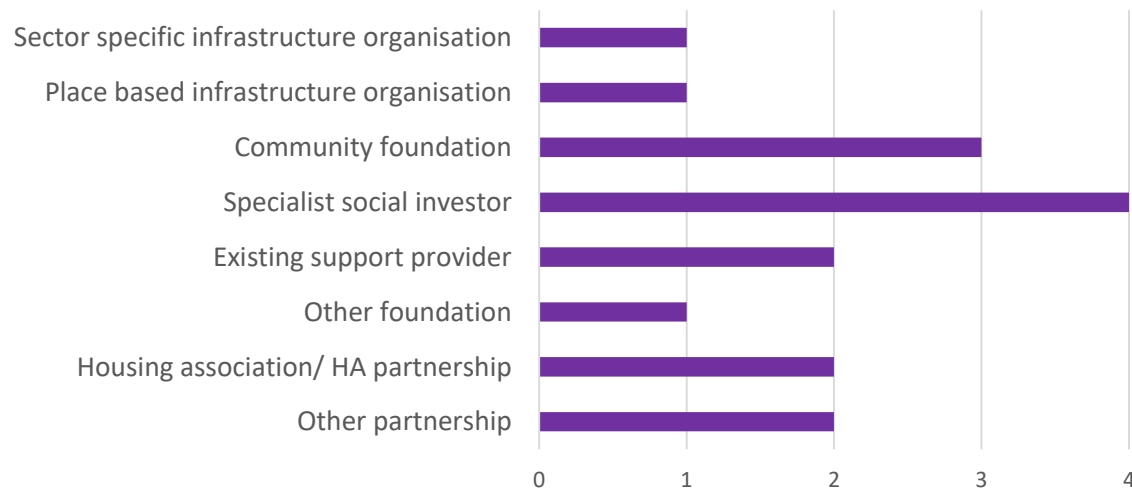


**Left:** The 16 funds achieve good coverage across England, with several operating in each region and;

**Below left:** are operated by a range of organisations.

**Far right:** More than £50m in total was originally committed across the 16 funds. Proportions of loan and grant types varies between individual funds, but the proportions shown here are for the aggregate portfolio.

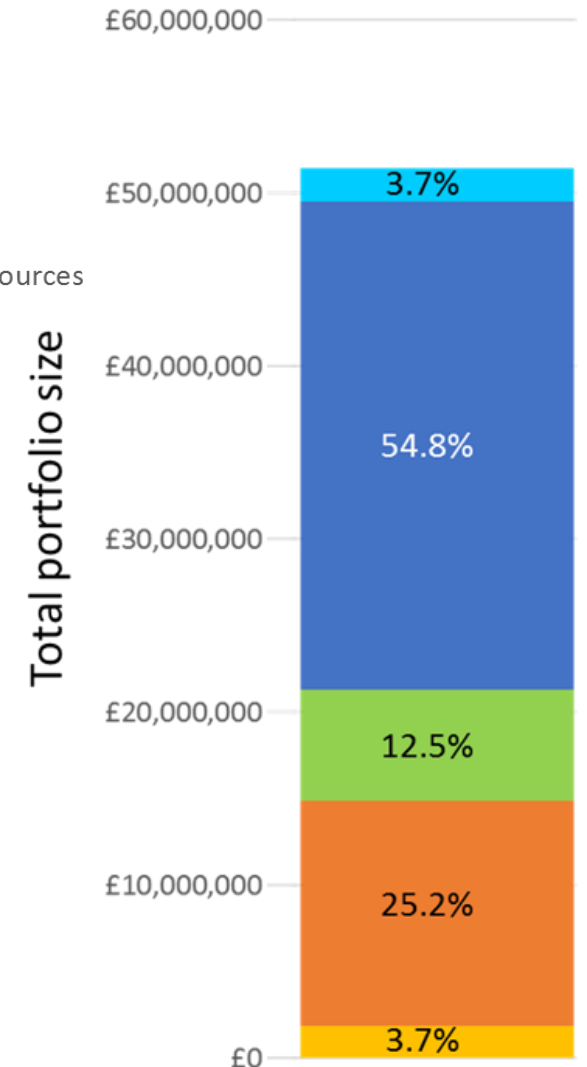
## Funds by type of delivery organisation



- Grant A: Operating cost subsidy
- Grant B: Grant for Loans to VCSE
- Grant C: Grant passed on as grant
- Loan component from Big Society Capital
- Co-investment/ loan component from other sources

### The social investors delivering funds:

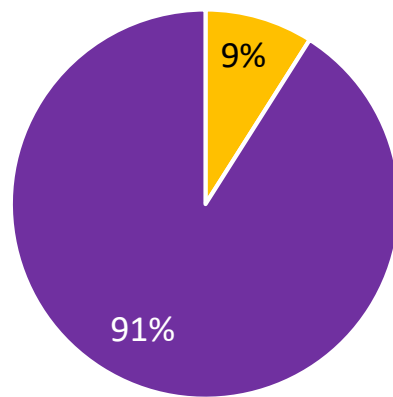
- Homeless Link
- Greater Manchester Centre for Voluntary Organisation
- Devon CF
- Somerset CF
- Kent CF
- Resonance
- Key Fund
- Big Issue Invest (two funds)
- Sporting Assets
- UnLtd
- NESTA
- First Ark
- Orbit & partners
- Social Investment Business & Forward Trust
- Environmental Finance (& National Trust)



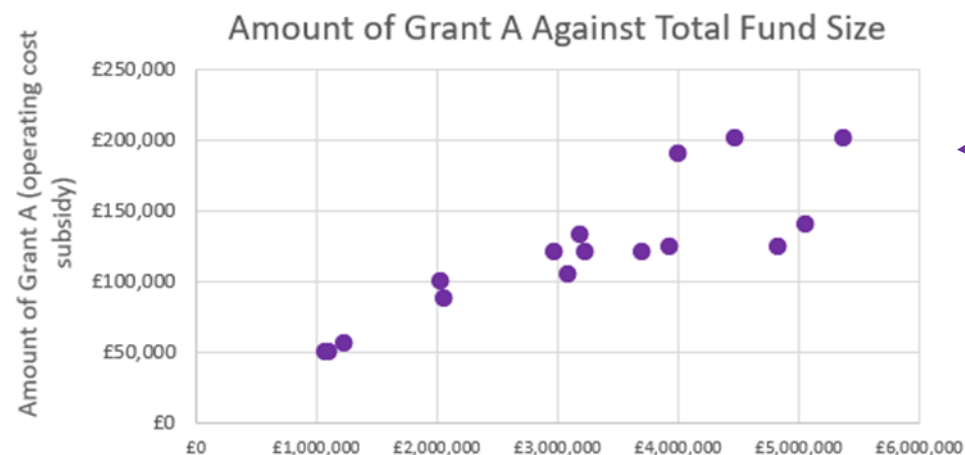
# Operating costs & grant subsidy (Grant A)

**GROWTH FUND HYPOTHESIS:** Providing social investors with a small level of operating cost subsidy will enable them to invest at the sub-£150k level.

■ Grant A  
■ Rest of  
Growth Fund  
grant (B&C)



**Above:** Of the £21.3m allocated in grant across the Growth Fund, just 9% has been given to social investors to subsidise their operating costs. The vast majority (91%) of grant subsidy is passed on to charities and social enterprises as loans and grants.



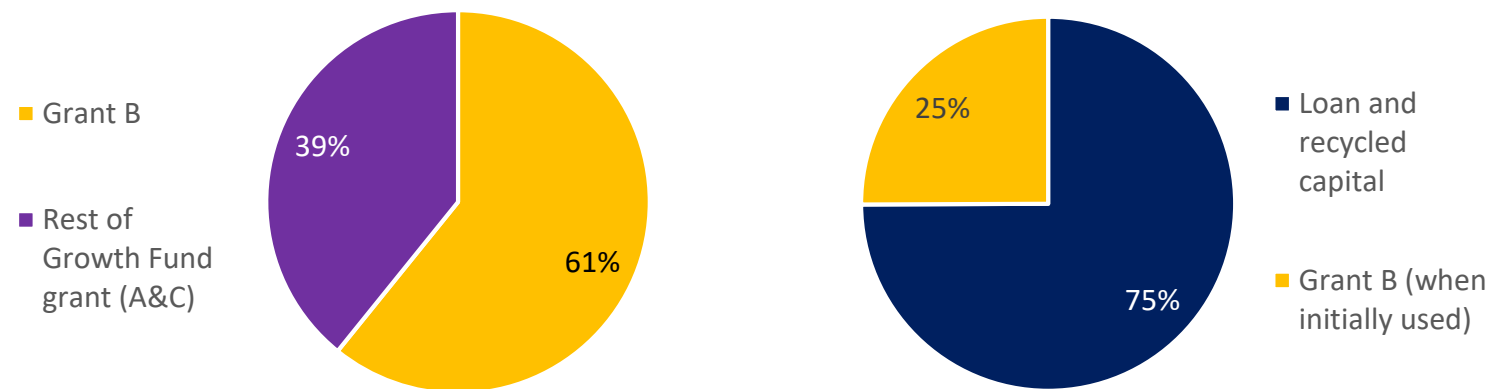
There is a clear correlation between total fund size and the amount of Grant A. This is not unexpected since Grant A is capped at 10% of total grant, which in turn is capped at 50% of overall fund size.

**Below:** There are some small differences between specialist and non-specialist social investors when both operating costs and, more significantly, Grant A, are shown as a proportion of total operating costs. This additional subsidy is a good use of money to enable new social investors to enter the market and utilise their specialist reach into the sector.

Average of...	Total fund size	Operating costs			Grant A operating cost subsidy		
	Total fund size	Expected total op costs	Expected average annual op costs...	...as a % of total fund size	Amount of Grant A provided...	...as a % of total fund size	...as a % of maximum allowed (threshold is 10% of each funds' total grant)
Funds run by a specialist investor (4)	£4,797,571	£911,993	£114,889	2.4%	£147,500	3.1%	80.5%
Funds not run by a specialist investor (12)	£2,686,830	£577,678	£72,483	2.8%	£110,846	4.2%	96.3%
All funds (16)	<b>£3,214,515</b>	<b>£661,257</b>	<b>£83,085</b>	<b>2.7%</b>	<b>£120,010</b>	<b>3.9%</b>	<b>92.4%</b>

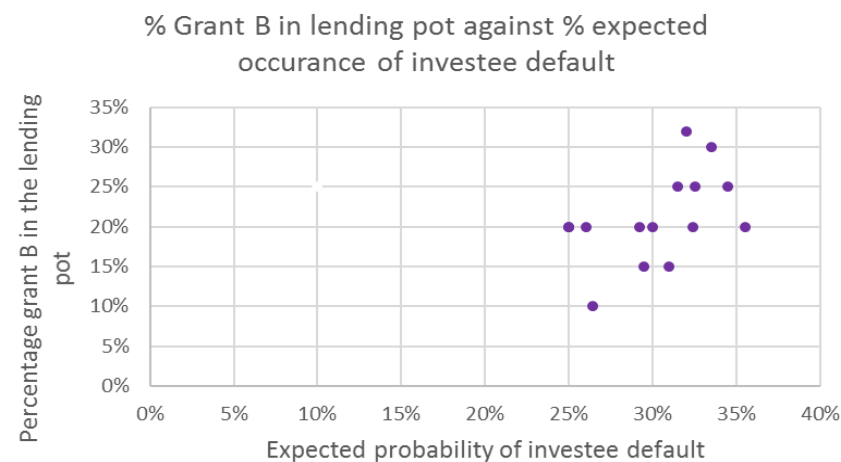
# Role of grant in blending with debt in the fund (Grant B)

**GROWTH FUND HYPOTHESIS:** To be able to make loans to charities and social enterprises which can benefit from taking on social investment but which lack security or a track record, the social investor needs to have the capacity to bear losses.

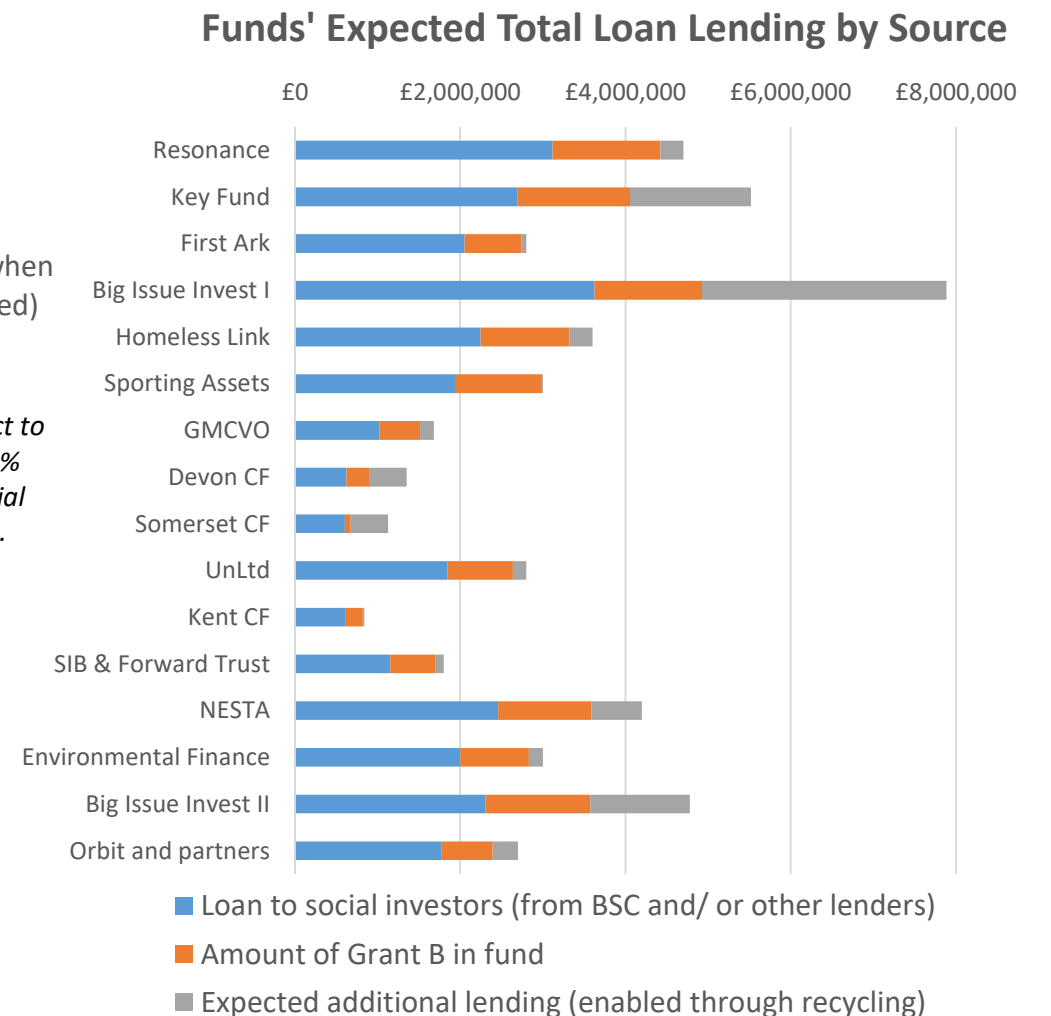


**Above:** Of the £21.3m allocated in grant to the 16 funds collectively, the majority of this (61%) will be used as Grant B.

**Above:** Of the approximately £51.8m that social investors expect to collectively deploy to charities and social enterprises as loan, 25% will be made up of Grant B and 75% of loan taken on by the social investors (inclusive of re-lending of some of this recycled capital).

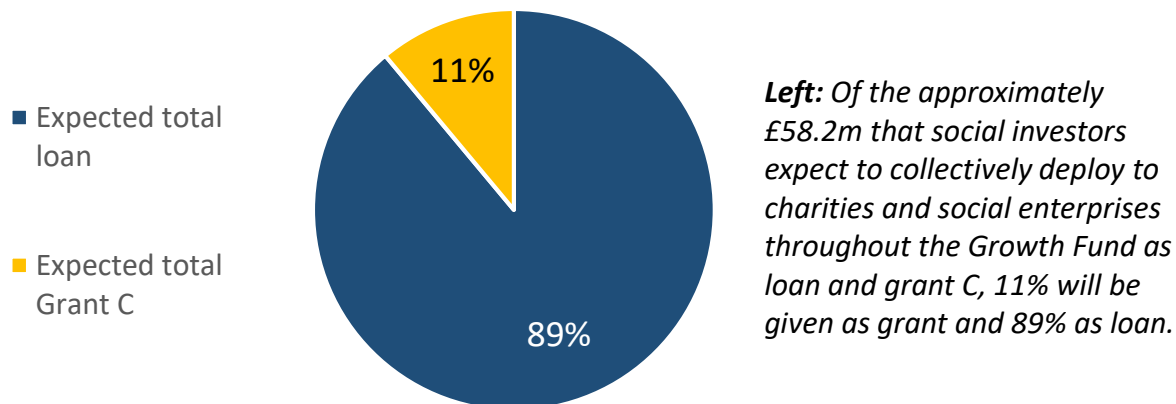
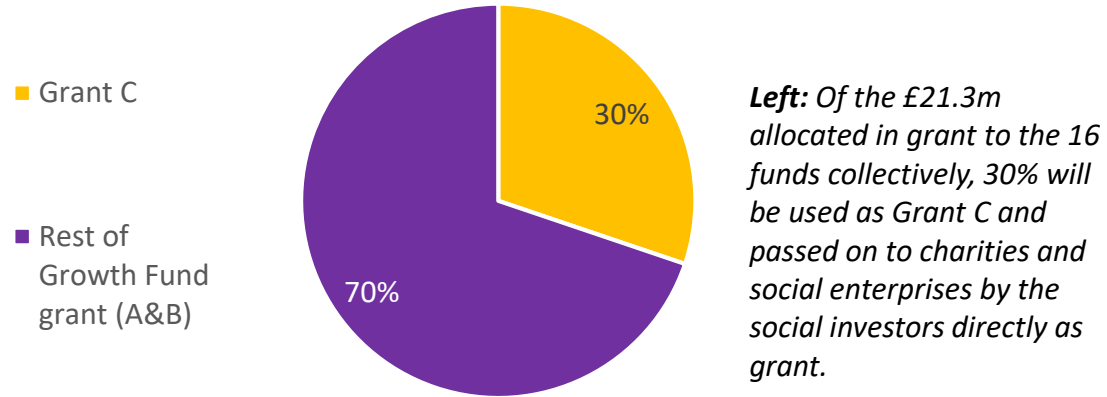


As would be expected, the data appears to show that social investors anticipating higher rates of default in their funds tend to be making loans that include a higher proportion of Grant B.



# Role of grant for investees alongside loans (Grant C)

**GROWTH FUND HYPOTHESIS:** Enabling social investors to provide charities and social enterprises with a small amount of grant alongside their loan will encourage these organisations to take on investment, will reduce the risk to the borrower and make the loans more affordable.



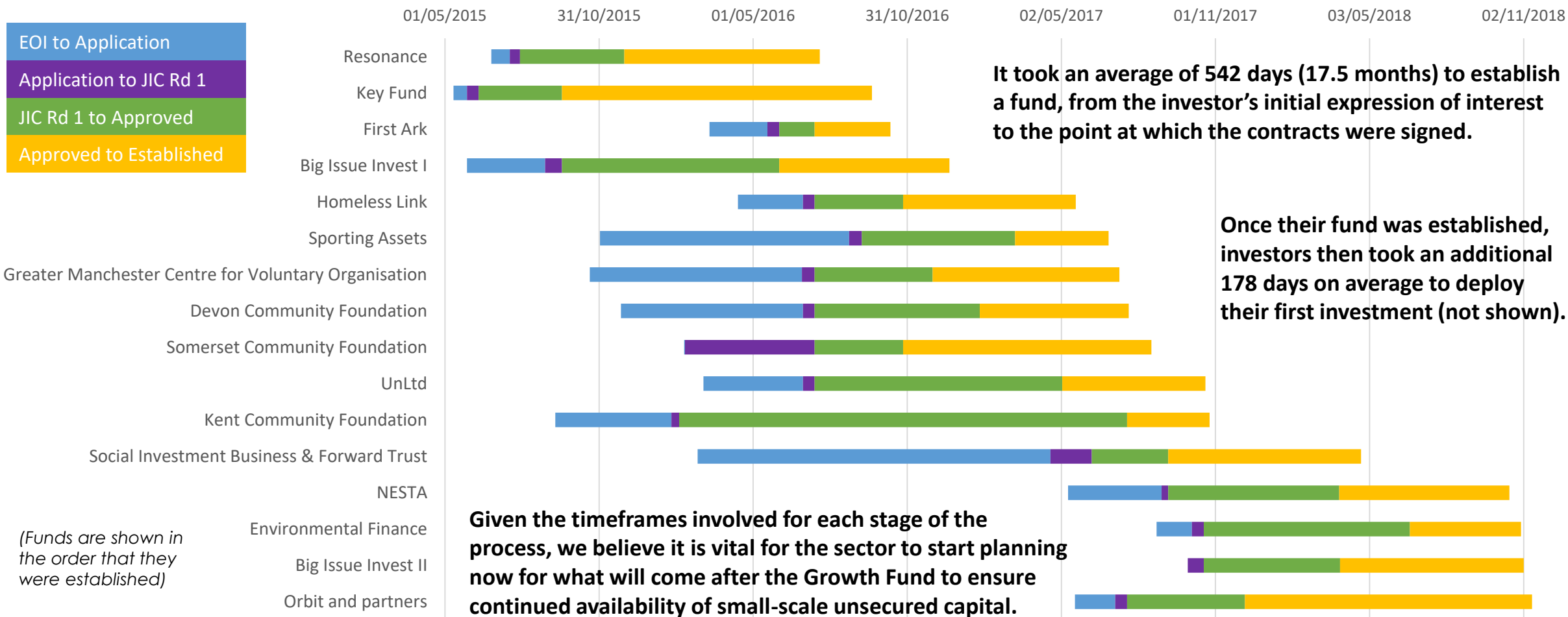
## Uses of Grant C:

Individual social investors' use of Grant C include one or multiple options from:

- A grant alongside every loan
- A discretionary grant alongside some loans
- A grant in a relatively fixed proportion to the loan size
- A grant in an entirely discretionary proportion to the loan size
- A grant for a specific purpose as distinct from the purpose of the loan
- A grant to make the loan offer more attractive
- As patient capital/ repayable grant
- To support the development of capacity within the investee organisation
- As a lifeboat grant (to assist if an investee gets into financial difficulty)

**Important context and background information relating to the graphs and information provided on each of the subsidy slides in particular can be found in the full report.**

# Setting up the funds



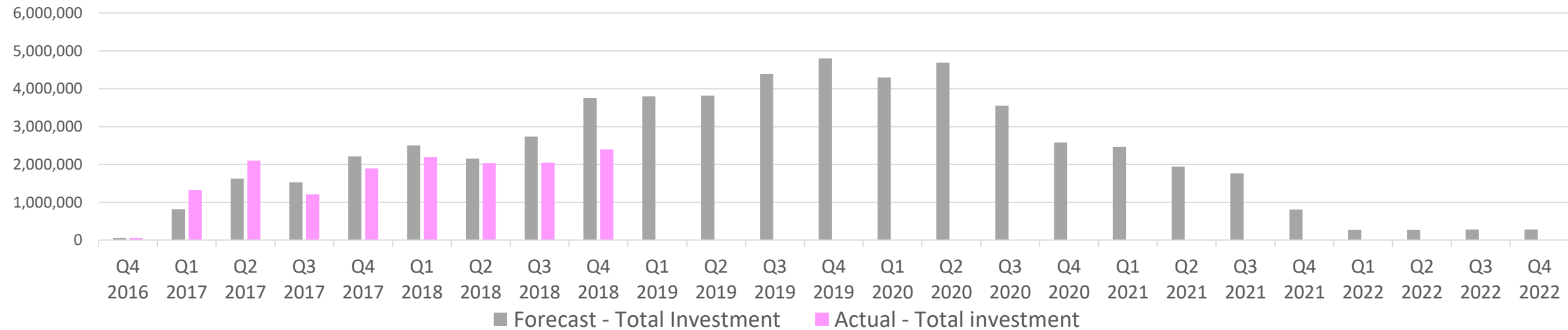
## Averages for the 16 successful funds:





# Early Portfolio Activity

Charity and Social Enterprise Investments Deployed - Forecast\* vs. Actual



- 1 - 1 (68)
- 2 - 2 (33)
- 3 - 3 (32)
- 4 - 4 (29)
- 5 - 5 (23)
- 6 - 6 (13)
- 7 - 7 (15)
- 8 - 8 (11)
- 9 - 9 (9)
- 10 - 10 (8)

**Above:** Funds’ aggregate forecasts and deployment to date. Peak deployment expected 2019/20, after which availability of Growth Fund capital will start to decrease.

**Left:** The Growth Fund is achieving good coverage across England

**Right:** When mapped against IMD decile data, a significant number of the Growth Fund’s investments have been made into charities and social enterprises based in the 10% most deprived areas in England.

Number of Growth Fund investments in each IMD decile category



[Click here for latest dashboard of investment data](#)

All data is as of 31 Dec 2018



Appendix:

# Fund Summary Data

- Social investors & their funds
- Summary data of the 16 funds: Composition and duration
- Summary data of the 16 funds: Expected lending

# Social investors & their funds

Social Investor	Fund	Fund description/ remit	Date fund established
Resonance	Health and Wellbeing Challenge Fund	South West region and thematic focus on health and wellbeing	19/07/2016
Key Fund	Northern Impact Fund	North of England and Midlands regions with no thematic focus	19/09/2016
First Ark	Invest for Impact	North West region with no thematic focus.	11/10/2016
Big Issue Invest	Impact Loans England	England-wide remit with no thematic focus	20/12/2016
Homeless Link	Homeless Link Social Investment Fund	England-wide remit with thematic focus on addressing issues of homelessness	19/05/2017
Sporting Assets	Sporting Capital	National remit with thematic focus on sports organisations delivering social outcomes for communities	27/06/2017
Greater Manchester Centre for Voluntary Organisation (GMCVO)	GM Social Investment	Greater Manchester geographical area, no thematic focus	10/07/2017
Devon Community Foundation	Devon Social Investment Fund	Geographical focus on Devon, Plymouth and Torbay and all services except for health and wellbeing	21/07/2017
Somerset Community Foundation	Somerset Social Enterprise Fund	Somerset geographical area only with no thematic limit	17/08/2017
UnLtd	UnLtd Impact Fund	National remit with thematic focus on addressing barriers to employment and training	20/10/2017
Kent Community Foundation	Kent Social Enterprise Loan Fund	Geographical focus on Kent and Medway, no thematic focus	25/10/2017
Forward Trust & Social Investment Business	Forward Enterprise Fund	National remit with thematic focus on addressing issues of addiction recovery and/or supporting people who are ex-offenders with employment	23/04/2018
Nesta	Cultural Impact Development Fund	National remit with thematic focus on providing finance to socially-driven arts and cultural organisations	16/10/2018
Environmental Finance	Picnic	Nationwide remit with thematic focus on public parks, expected to focus on three city regions	30/10/2018
Big Issue Invest	Impact Loans England II	England wide remit and no thematic focus	02/11/2018
Orbit, Clarion Futures, L&Q and Peabody four-way partnership	Community Impact Partnership	England wide remit but targeted mainly on areas covered by the four partners (East Midlands, East, London and South East)	12/11/2018

# Summary data of the 16 funds: Composition and duration

	Average	Min.	Max.	Notes
Total fund size...	<b>£3,214,515</b>	£1,095,784	£5,359,489	
...of which Grant A (subsidy to help cover operating costs)	<b>£120,010</b>	£49,000	£200,000	
...of which Grant B (subsidy to blend with loan for lending, to cover losses in the fund)	<b>£811,045</b>	£67,178	£1,358,589	
...of which Grant C (grant made available to charities & social enterprises alongside loan)	<b>£402,625</b>	£0	£1,104,000	
...of which loan (for on-lending to charities and social enterprises)	<b>£1,880,836</b>	£604,606	£3,626,594	
Grant A as a % of total fund size	<b>3.9%</b>	2.6%	4.9%	Capped at 10% of total grant amount, which in turn is capped at 50% of total fund size.
Grant B % in lending pot	<b>29%</b>	10%	35.5%	
Expected total operating costs	<b>£653,988</b>	£134,800	£1,218,585	Expected to be funded through interest and fees generated by the fund. Some social investors are subsidising some related activity outside of this, through their wider organisation.
Expected average annual operating costs...	<b>£82,046</b>	£18,747	£163,030	Figures represent individual funds' averages across the investment and period and repayment period. Costs are generally forecast to be higher during the former and to decrease throughout the latter.
...as a % of total fund size	<b>2.7%</b>	1.2%	6.5%	
Funds' investment period (years)	<b>3.25</b>	3	5	
Funds' repayment period (years)	<b>4.75</b>	3	6	
Funds' total life (years)	<b>8</b>	6	10	

# Summary data of the 16 funds: Expected lending

	Average	Min.	Max.	Notes
Total value of loans expect to deploy	<b>£3,212,813</b>	£750,000	£7,885,000	Excluding Grant C. Includes expected re-deployment of recycled capital.
Number of loans expect to make	<b>48</b>	18	138	
Expected average loan size	<b>£69,813</b>	£28,000	£100,000	Excluding Grant C.
Proportion of investments expected to include a grant (C)	<b>62%</b>	0%	100%	Includes three funds which chose not to offer Grant C.
Proportion of grant (C) those investees are expected to receive	<b>21.1%</b>	9.1%	33.3%	Excludes the funds not offering Grant C.
Expected average interest rate	<b>7.8%</b>	5%	11.5%	Social investors are charged 5% interest on BSC loan. These figures include interest rates charged by two investors who have obtained their lending capital entirely from other sources. The lowest interest charged by a social investor on-lending BSC loan is 6.5%.
Expected arrangement fee	<b>2%</b>	0%	8%	
Expected probability to default	<b>21.4%</b>	10%	32%	Proportion of investment made expected to be lost through default.
Expected period to default (quarters)	<b>6.1</b>	1	12	
Expected loss on default	<b>94.9%</b>	75%	100%	

**NB:** All of the above figures on these two pages represent the average, minimum and maximum expected values **per individual social investor fund** (not per charity/ social enterprise loan across the Growth Fund as a whole). The number of loans made by each of the 16 funds will vary significantly, as shown above, and these averages have not been weighted to reflect that. This is because this data are provided to demonstrate the range of similarities and differences between individual funds operating under the Growth Fund.