ACCESS
The Foundation for Social Investment

Enterprise Growth for Communities

A Summary of the consultation feedback that we received & the ways in which this influenced our decisions on programme design

April 2022

We are grateful to all of the organisations who participated in the consultation around programme design during February/ March 2022. These were mainly potential fund managers but also included a few potential co-investors. The feedback that we received from both groups was extremely helpful. Here we share a summary of the views that participants provided and the decisions that this led us to around the design of the programme and the parameters of the products that it can offer. We published this blog which provides a broader overview, whereas this report goes into more detail on some of the specific elements. The Investment Policy for the programme, which was informed by the consultation, can be found here.

Part 1: Programme design

Co-investment

Most respondents welcomed the proposed approach of social investors applying to Access for grant and fundraising for their own co-investment separately. However several said that they would welcome Access's support with fundraising and some made specific suggestions as to how we might do so. As requested by respondents, we will offer support in the following ways:

- Following the approval of your Expression of Interest, we will be happy to provide (on request) pre-commitment letters of support for social investors to share with potential co-investors in order to help facilitate conversations
- We will liaise with BSC and provide more details about their potential involvement in the programme
- We already have a small number of other interested investors who have approached us and said that they would be open to receiving details of any fund managers that are seeking investment so that they may select one or more fund managers to speak to. We will invite fund manager applicants to opt-in to having their details shared with investors for this purpose.
- We will continue to promote the programme and to work with BSC and other relevant partners on engaging other potential co-investors.
- We will engage with applicants to understand individual support needs and will help where we can.

In terms of the volume of co-investment to be leveraged, some respondents felt that a 2:1 programme-level leverage ratio target would be achievable whilst others cautioned that this could make it more difficult for them to do the type of smaller and riskier frontline deals that the programme aims to

achieve. As such, we have decided to set a slightly different target, which is that our £20m of grant results in £60m+ of investment flowing to charities and social enterprises – which can be achieved through a combination of leverage ratios and capital recycling. One of the criteria that we will assess applications on is how they will contribute to this programme level goal of delivering £60m+ of investment. However there will be no minimum leverage ratio or grant to frontline investment ratio for individual proposals. This is in recognition that some applications will be able to deliver more strongly on some programme goals whilst others will deliver more strongly on others.

Use of grant & supporting fund managers' sustainability

There was broadly agreement from social investor respondents that operating cost subsidy (which we sometimes refer to as "Grant A"), first-loss protection ("Grant B") and direct grant to investees ("Grant C") are the purposes for which grant is required. However, there were several calls for greater flexibility between pots, particularly Grants A and B, to enable fund managers to vary the proportion of grant used for each purpose over time according to need. As such, we have agreed that if we are putting grant onto balance sheets we will not necessarily require separate ringfencing of operating cost subsidy and loss-layer. However we will generally still require ringfencing of any grant that is intended to be provided directly to investees. This direct grant to investees is also covered in Part 2 below.

Perhaps unsurprisingly, when asked which is most important: the way in which operating costs are paid/ structured or the potential to build residual capital/ balance sheet strength, fund managers almost unanimously said both. Suggestions for how we could support fund managers' resilience included:

- Flexibility between the different grant pots (see above)
- Sufficient operating costs including set-up costs, the ability to build in costs for work such as strengthening EDI practices, and sufficient portfolio management costs to enable fund managers to provide post-investment support
- Ability to build residual balances for programme legacy
- Longer-term support/ funding and clarity about what comes next for Access/ the sector

The first three are all elements which we are supportive of and have tried to build into the Investment Policy (although will still all need to demonstrate value for money). The latter bullet point is not something that we have any more sight of currently than our partners do. Access will continue to advocate for ongoing subsidy for the sector, but the funding that we have been given for this programme has been provided to us for the purpose of supporting the sector over the next 3-4 years. However, we recognise fund managers' desire to establish longer term funds and want to support this as much as we can. As such, whilst this programme's grant should be initially spent by the end of 2026, we are happy for fund managers to structure funds in such a way as to enable them to continue – perhaps through a combination of ongoing recycling, residual grant and leveraging in more co-investment – beyond 2026. Whilst our assessment of proposals' contribution to programme goals will focus primarily on activities up to the end of 2026 (or the end of the deployment period, whichever is sooner), any additional planned activity beyond this point will be a welcome element of the proposal in light of its contribution to our objectives around programme legacy and fund manager resilience.

Reach objectives

Respondents were supportive of our ambitions around achieving a strong reach throughout England, in areas of higher deprivation (by IMD) and to diverse groups. Respondents were keen for us to encourage target setting in both IMD and EDI which we have strengthened in the Investment Policy as a result.

Part 2: Product parameters

Investment size

The questions that we posed around product design received the greatest divergence of views from respondents. When it comes to investment sizes, whilst almost all felt that a clear, fixed upper investment limit is helpful and necessary there was a range of views on where that should be set.

Some advocated for a limit of £250k+. Arguments for this included a desire to support a wider range of organisations; a desire to ensure that organisations can still be supported through the programme if their perceived investment needs increase between initial application and deployment; alignment with the upper limit of CITR; the ability to use a few larger loans to offset some of the costs of providing mostly smaller loans; and a perceived gap in availability of £150k - £250k+ investment.

However, others felt that the limit should be set at £150k in line with the limit that the Growth Fund used, or simply saw no reason for it to be higher. Arguments put forward included disputing that there is a gap in availability of larger loans from elsewhere; risk management; concerns about potential mission-drift of the programme if a higher upper limit were to drag the average investment size upwards; or respondents acknowledging that there might also be a need for slightly larger loans but simply preferring not to offer those themselves.

Having carefully considered all of the views, **we decided to set the maximum upper investment limit at £200k at a programme level**. This is intended to provide a bit more flexibility for social investors to meet the needs of their investees whilst still ensuring that the programme retains its focus on small deals. Part of the rationale for this decision is also that the £150k investment limit that was set for the Growth Fund in 2015 will, by the time the new funds are deploying, be equivalent to nearer £200k in real terms once inflation is factored in.

During the application process we will ask social investors to propose an upper investment limit and a target average investment size for their own funds which, if approved, will then form part of their individual mandates. From the conversations that we have had with social investors to date we expect that some will want to set themselves limits of £150k or lower, which we will welcome. Those who wish to do so are welcome to propose upper limits of up to £200k. However all proposals will need to clearly justify their proposed investment range and state what average investment size they expect to achieve. For the overall programme we are targeting an average investment size of around £80k or lower, and one of the criteria that applicants will be assessed on is how their fund will contribute to this goal.

Security

The other question which split respondents was whether there is a need/ desire for social investors to be able to take security in exceptional circumstances.

Several social investors said that they would welcome the potential to take security in a minority of cases. Arguments in favour fell broadly into two buckets: potential advantages from a financial/ risk management perspective and potential advantages for protecting the social purpose of assets.

Whilst we understand the logic behind the former, we feel that on this programme the subsidy and not security should be playing the role of de-risking investments, which will be reflected in the guidance. However, we were persuaded by the second line of argument and the specific examples that social investors provided to illustrate this, so **we will provide the option for social investors to take security by exception when there is a particular concern about an asset falling into private hands/ not being retained for the community**.

Whilst, as other respondents correctly noted, the requirement for investees to be asset locked offers some protection, it does not ultimately protect any single asset. For example in the instance that an organisation becomes insolvent and has to sell their assets to satisfy other creditors. As one social investor put it, whilst it would 'never be about the money', having security in such a case would give them 'a seat at the table' and enable them to influence the process of any proposed sales if they felt that the social impact of the asset would be unnecessarily lost.

A couple of respondents did argue strongly against allowing security to be taken in any circumstances, raising a number of valid concerns. They noted that the provision of 'small -scale, unsecured investment' is the programme's main mandate and that it is vital to ensure that charities and social enterprises have access to unsecured investment, and they worried that relaxing this criteria risks creating the wrong incentives. We have heard these concerns and share the desire to ensure that the vast majority of investments made through this programme are unsecured. As such we have ensured that there is clear guidance in place in the Investment Policy to limit security-taking to this particular circumstance. We will also ensure that any social investors wishing to occasionally consider security have clear processes in place around how they will make those decisions, and will monitor the proportion of investments where security is taken to ensure that such cases do remain the exception. Social investors on this programme may of course still opt never to take security if they determine that that is the best approach for their fund/ investees.

Direct grant to investees

We received no objections to ruling out pre-investment support as a purpose of the grant, on the basis that social investors/ applicants will be able to access the Reach Fund for this purpose.

However there were requests for flexibility to deploy some direct grant to investees post-application (instead of restricting grant to being provided at the same time as the loan). Whilst we still envisage that the vast majority of grant will be provided at the same time as loans, we have built in the flexibility for fund managers to propose holding back some grant for post-investment support if they wish to do so.