Use of Subsidy in Social Investment

Blending grant and co-investment through the **Flexible Finance** programme

Report 1: **Set up and Fund Approvals**

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Access – The Foundation for Social Investment

March 2024

Introduction & overview

Flexible Finance for the Recovery ("**Flexible Finance**") is a social investment programme which was set up in 2020 to provide access to a different type of finance for charities and social enterprises in England.

It was part of Access' overall response to the pandemic, and was designed to create **patient capital** options, investment which is more flexible and adaptable to the changing nature of the finances of an organisation, accepting that it often takes a long time for charities and social enterprises to be in a position to start to repay investment, and even then their ability to repay may remain unpredictable for some time, as profitability fluctuates due to seasonality or the general fragility of income streams.

It had long been identified that this type of finance was needed to meet the specific needs of many charities and social enterprises, but was felt to be particularly necessary beyond 2020 as Covid struck.

Flexible Finance was the principal intended use of a £30m release of dormant asset funding, finalised in July 2020 following discussions between Access and the Department for Culture Media and Sport (DCMS). The exact amount of subsidy to be available to put into Flexible Finance was not set at outset, but a minimum of £20m was ringfenced. In the end **£23m** was available, following £7m of emergency finance disbursements between summer 2020 and autumn 2021.

The development of Flexible Finance also coincided with a significant scaling up of debate within the social investment market of its historically poor performance on issues of equity, diversity & inclusion (EDI), manifested both in terms of the lack of diversity within many organisations in leadership and investment decision making positions, and in terms of the flow of money to diverse-led organisations.

Access therefore felt that the fund needed to deliver on more than just one ambitious objective, and felt that a programme designed to deliver new types of products, in order to reach organisations that might not have benefitted from social investment previously, was an ideal opportunity to ensure that design features of the programme and all funds considered wider issues related to underserved markets and previous systemic failings.

Most blended finance programmes that Access launch incorporate a period of consultation with the social investment sector prior to launch, and in the case of Flexible Finance the consultation went further and wider than usual, incorporating these issues. The consultation period lasted from early July until late September, was largely managed on behalf of Access by the Connect Fund (delivered by Barrow Cadbury Trust) and incorporated:

- A "call for ideas" where interested parties could submit short-form concepts, issues or solutions that they felt Access should consider in the design of the programme. 25 submissions were received
- A budget within Connect Fund for the provision of small Development Grants where submitted ideas had potential but needed research or further working up. Four such grants were awarded
- Individual 121 meetings between Access and organisations interested in the programme. Some of these were follow up meetings to "call for ideas" submissions. 10 such meetings were held
- Three well attended roundtable discussion meetings, one of which focused exclusively on EDI considerations

Following the consultation Access finalised the plans for Flexible Finance, establishing that it would revolve around three pillars:

1. **Delivering sources of finance to the market which are patient and/or flexible, and different to what is currently available**
2. **Effectively facilitating the flow of capital, demonstrating efficient use of subsidy to ensure capital can flow from different sources or in a different way**
3. **Reaching parts of the market still underserved, usually including diverse-led organisations, and committing to strong equalities practices within both the blended fund and the investor/partnership as a whole**

It was determined that each of these three pillars would be considered of equal importance, and that for any social investment to be successful in applying for funds to disburse, an acceptable contribution to each and every pillar would need to be in place. The process of applying to the fund, and how decisions were made, is set out later in Section One.

As at the beginning of 2024 there are **nine** established Flexible Finance funds with a collective **£19.17m** of subsidy committed (£0.5m of which is still conditional). Two further funds are still in the process of trying to launch, which if successful would take the final commitment to **£21.06m**

This report has been designed with the following audiences in mind:

- *social investors who are delivering, or who are thinking about delivering, a blended finance fund*
- *funders who are considering supporting a blended finance fund*

Contents

This report is in three sections:

Further information & contact details can be found on the final page.

About this Report

This report is one of a series that Access has published and will continue to publish on the different ways in which we have applied subsidy into blended finance funds in different programmes we have run.

The report gives detail in a variety of different ways of how subsidy has helped to establish different funds, and what specific problems the subsidy has been designed to solve. It is quite technical in nature and it is assumed that readers will have some background in finance and investment, and an interest in how blended funds are constructed.

This particular report covers the **design** of funds in the Flexible Finance programme, and throughout the report data is presented which outlines the **intentions** and **predicted** deployment of the funds and the associated use of subsidy. Although some deployment has commenced at the time of writing (with some emerging data very briefly outlined in Section 3), the bulk of report does not reflect the reality of the delivery of funds as they have started to happen, just the nature of the predictive modelling.

The two substantive sections of the report cover the construction of the capital in the funds and the nature of the product types they will deliver (Section 1), and how Access subsidy has been applied to make those funds financially viable (Section 2).

The report does **not** give commentary on the specific markets, geographies or impacts that funds intend to address, nor any assessment of relative strengths, weaknesses, or perceived value for money of different funds.

SECTION ONE:

The Flexible Finance Portfolio

Developing the Portfolio

ACCESS The Foundation for Social Investment

Agreeing allocation with DCMS
April– June 2020

Set up and Consultation Phase
42 organisations involved
July – September 2020

EOI submission phase
18 submissions
October - November 2020

6 EOIs rejected

4 EOIs deferred for development

8 EOIs taken into first Application Cohort

Application Cohort workshops
3 workshops, 6 external speakers
January – March 2021

First full applications received
February 2021

First application approved
Resonance Community Developers
March 2021

First fund launched
Social Inequality Facility
May 2021

First investment
Social Inequality Facility
February 2022

Latest application approved
Resonance Enterprise Investment
September 2022

Summary of Approved Funds

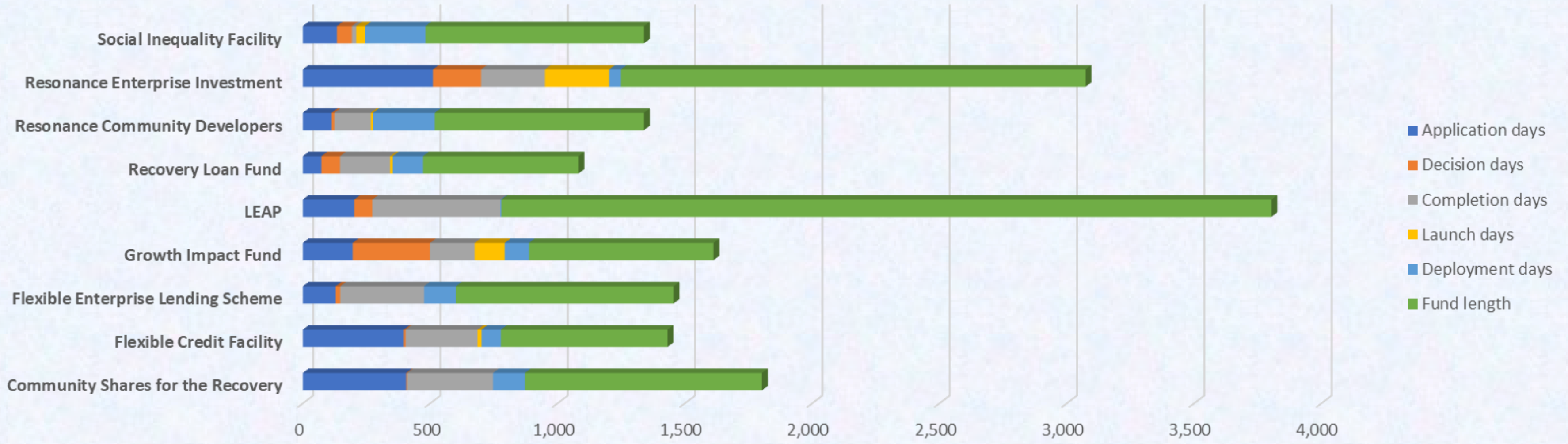
Fund name	Social investor(s)	FF Grant awarded (£)	Deployment expected (£)	Deals expected (#)	Equity	Quasi Equity	Debt	Deployment start	Deployment end
Community Shares for the Recovery	Cooperative & Community Finance Cooperatives UK	£2,262,542	£5,260,000	24				2023	2025
Flexible Credit Facility	Key Fund	£1,800,000	£3,000,000	24				2022	2024
Flexible Enterprise Lending Scheme	Big Issue Invest	£1,150,000	£3,000,000	41				2023	2025
Growth Impact Fund	Big Issue Invest UnLtd	£2,500,000	£5,860,288	19				2023	2025
LEAP	Charity Bank	£2,775,000	£11,000,000	87				2022	2031
Recovery Loan Fund	Social Investment Business	£2,519,693	£3,800,000	20				2022	2024
Resonance Community Developers	Resonance	£3,500,000	£8,604,150	10				2022	2024
Resonance Enterprise Investment	Resonance	£1,467,700	£2,020,000	27				2024	2029
Social Inequality Facility	Sumerian Foundation	£700,000	£2,400,000	20				2022	2024
		£18,674,935	£44,944,438	272					

Establishing the Portfolio

ACCESS The Foundation for Social Investment

This slide provides detail of the length of time each fund took to be established, from the point of an application being invited through to launch, and then setting out the expected length of deployment after that (green bars).

Stage	Description	**Median** (months)	**Lowest** (months)	**Highest** (months)
Application	The period from initial expression of interest through to submission of a full application. For some funds this is where the raising of matching capital occurred. Some funds had pre-conditions to be met before a full application could be considered	**6.4**	2.4	16.8
Decision	The period from receipt of full application to approval by Access' Investment Committee. In some cases this involved the submission of further information or the attendance of a fund team at a subsequent meeting for discussion	**1.9**	0.1	10.0
Completion	The period from approval of an application to the agreement and signing of a Grant Agreement. For some funds this is where the raising of matching capital occurred	**8.3**	0.6	16.5
Launch	The period from signing of a Grant Agreement to the full launch of a fund. For one fund this is where the raising of matching capital is occurring (not launched at time of writing)	**0.3**	0.0	8.3
First Investment	The period from the launch of a fund to the first investment to be executed. For one fund yet to launch this is an estimation per the modelling of the fund	**3.9**	0.1	8.0
Deployment period	The expected period of deployment of investments from the first to the last within a fund	**28.1**	23.8	99.4



25.5

median **total period** from application to first investment (months)

28.1

median **deployment period** (months)

Fund constructions and their effect on this data

Much of the data in this report is affected by a diversity in the types of fund approaches adopted. This slide groups the nine funds into four broad categories to describe the ways in which funds are constructed and how that has affected the treatment and assumptions behind the data presented, although it should be stressed that this categorisation is in itself an over-simplification. Across all the decisions about what financial and deployment data to incorporate, the aim has been to create as much consistency of method as possible, in order to aid fund comparisons, but all data should be read on the understanding that due to different approaches to fund structuring and modelling, some effective inconsistency of interpretation inevitably remains.

Fund Type 1

Time limited, residual funds not anticipated

Some funds have been modelled as standalone and time limited. Either because they are effectively a pilot fund, or because they are a carve-out embedded within a separate structure, the activity is expected to be delivered, accounted for and either closed or replicated/repeated (if successful) as appropriate. Although there is potential in one of these funds for some residual funds to accrue, leading to a potential extension and higher deployment, no recycling has been modelled or included in the data even in this case.

Funds in this type:
Flexible Credit Facility, Recovery Loan Fund, Social Inequality Facility

Fund Type 2

Time limited, residual funds and extension anticipated

One fund is modelled similarly to Type A, but with a more deliberate layer of anticipated residual subsidy built in. Whilst this is likely to seed further fundraising and continued lending, the additional layer is primarily modelled in order to provide further loss protection to investors over and above modelled defaults, therefore any potential recycling/extension that may occur is similarly treated as incidental in the modelling. Therefore for the purposes of the data in this document this fund is effectively treated in the same way as those in Type A and leverage and deployment data is restricted to the initial fund phase.

Funds in this type:
Flexible Enterprise Lending Scheme

Fund Type 3

Time limited, recycling expected both within fund life and through extension

Funds in this category are where anticipated recycling is fully anticipated and was modelled within the Fund Proposal. Although this recycling is contingent on performance of funds, and may or may not happen, the data in this report assumes that it will happen as modelled. This results in deployment data assumptions diverging and effectively being elevated above those in other categories and shown to continue for a longer period, particularly those in Types B and D, where recycling is anticipated but is not included.

Funds in this type:
Community Shares for the Recovery, LEAP

Fund Type 4

Evergreen, funds expected to recycle and mingle with new fundraising in perpetuity

Recycling in all of these funds is fully expected and in two of the three cases has been fully modelled from outset. However the added uncertainty of further fundraising combined with the mixing of potential returns with further incoming investment makes it difficult if not impossible to accurately calculate an anticipated amount of recycling or determine the extended time period over which to calculate or claim deployment data related to Access subsidy, even if the decision to award subsidy to the level requested was made on the understanding that it aimed to seed a longer term and larger fund. In these cases therefore the data is all limited to the “first close” investment position of each fund.

Funds in this type:
Growth Impact Fund, Resonance Community Developers, Resonance Enterprise Investment

Additional Fund-data decisions

In addition to the four different Fund "types" outlined on the previous slide, there are additional nuances in some funds that required decisions about how to treat the modelling of leverage and deployment data. For completeness, the key factors affecting the treatment of data are listed below, wherever relevant for a fund:

Fund name	Treatment
Community Shares for the Recovery	• A small element of grant is held as "contingency" to apply where needed in the fund. This may facilitate extra investments but only core modelled deals are included • Leverage will happen at "deal level". Various predictive assumptions have been made about the likely sources (eg private vs philanthropic) of matching capital • Investments are predominantly equity and are therefore data is categorised as such, although some deals will have matching debt offered alongside
Growth Impact Fund	• Fund launched with some intended first-close investment still to be raised. All data is modelled on the eventual/intended figure, not the actual launch figure • Predictive assumptions have been made on sources of matching capital in the eventual/intended first-close fund size, based on split achieved at point of launch • All data (including matching capital) is on the basis of a proportion (57%) of the overall fund size, as the Fund will make other investments that are not Access-eligible • Access grant investment attracts fund management costs alongside and on the same terms as other investors. This is not separated and considered Grant A as Access is not providing a cost subsidy per se, resulting in the full amount of the grant being considered Grant B even though it does directly contribute to costs
Resonance Community Developers	• Access grant investment attracts fund management costs alongside and on the same terms as other investors. This is not separated and considered Grant A as Access is not providing a cost subsidy per se, resulting in the full amount of the grant being considered Grant B even though it does directly contribute to costs
Resonance Enterprise Investment	• Fund is supported by Access both through the Flexible Finance programme (25%) and the separate Enterprise Growth for Communities programme (75%), as the fund will deliver a range of product types, and the respective contributions reflect the expected split of products appropriate to each programme respectively. Data presented here is therefore that relating to the 25% Flexible Finance contribution only. • However due to the complexity and additional work involved for the quasi-equity products in the Flexible Finance element of the fund, the contribution of Grant A into Flexible Finance was calculated as 50% of that amount, rather than 25%. This has something of a skewing effect on Grant A presentation for data on this fund. • Matching capital is to be raised on an ongoing basis from a range of investors using the Community Investment Tax Relief (CITR) scheme. Data presented represents the sources of matching capital are based on the assumptions in the proposal but may ultimately differ in reality
Social Inequality Facility	• Fund launched with some intended first-close investment still to be raised. All data is modelled on the eventual/intended figure, not the actual launch figure

Product Features – Size of Investments

Many Access programmes target small scale (under c. £200k) investments as this is an area of high demand but one where subsidy is required to address sub-scale fund issues. However the Flexible Finance programme aimed to address slightly different barriers, relating to the patience and flexibility of repayment terms. We therefore didn't set out particular parameters or expectations on investment size, although the Investment Policy for the programme did say the following:

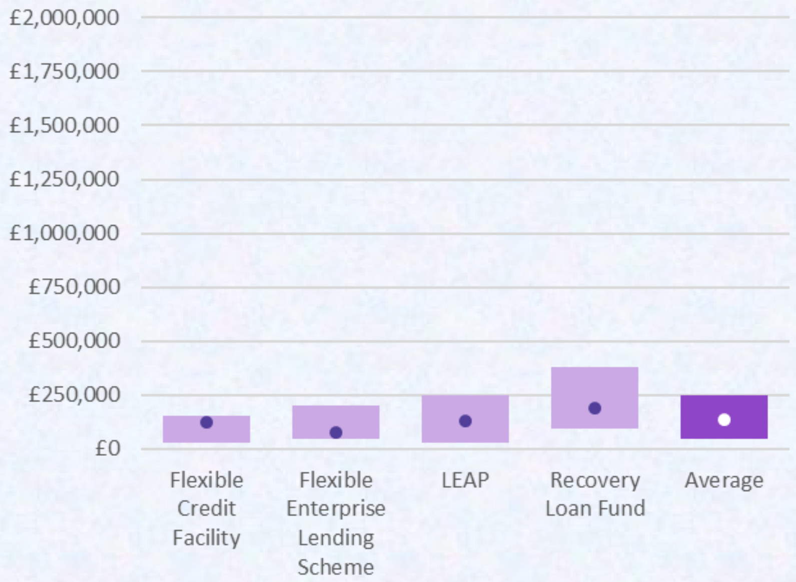
> *"….fund managers need to demonstrate the need for subsidy at all of the deal sizes they plan to make and demonstrate a robust process for assessing the need for subsidy on a case by case basis. In general the larger the deal size the higher the bar will be on the evidence they need to provide."*

As a result of this flexibility the range of investment sizes are quite broad within this programme, although many funds are still targeting smaller ticket sizes, partly due to the programme's layered aim of meeting the needs of underserved organisations, who by their nature are often smaller. On average investments are therefore expected to still be at the lower end of the social investment market.

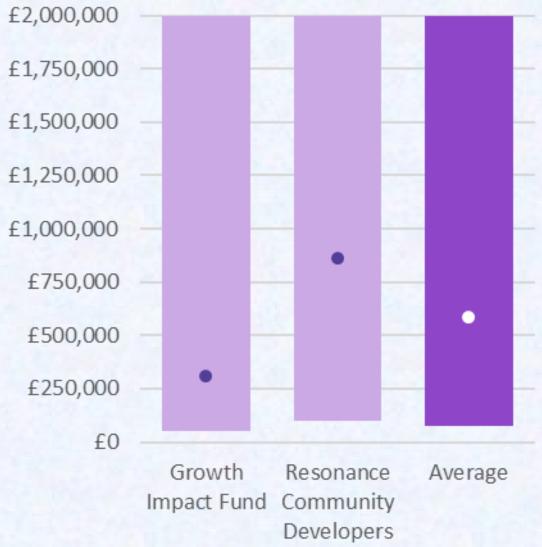
Seven funds are targeting these smaller investments (collective range being from £25k to £394k, with an expected average investment size of £133k. Two funds, those offering a choice of equity or debt, are targeting a wider range of deals, both up to £2m in total. The overall expected average investment size for the Flexible Finance programme as a whole is **£233k.**

Equity-based funds - 3 funds

Debt-based - 4 funds



Mixed (debt or equity) – 2 funds



In the graphs above, the bars represent the range, and the dots the expected average. Within each graph the overall average (dark bar/white dot) are the average values by fund model (ie the average is not weighted by the size of fund).

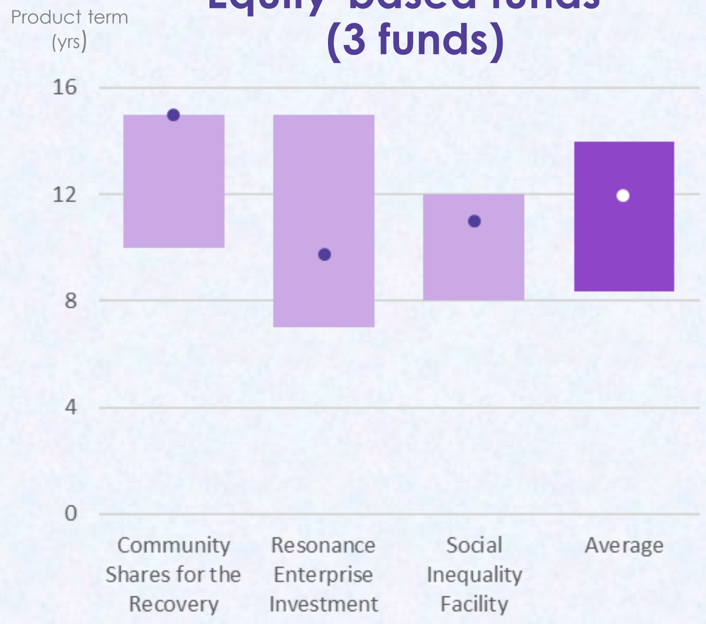
Product Features – Length (term) of Investments

The Flexible Finance programme encouraged social investors to design products which were in nature "patient", "flexible" or both. In many cases this led to applications proposing equity or equity-like products, with returns and exit sought over a longer time frame than many other products in the social investment market, especially those offered through other Access programmes of unsecured debt, such as Growth Fund and the newer Enterprise Growth for Communities programme.

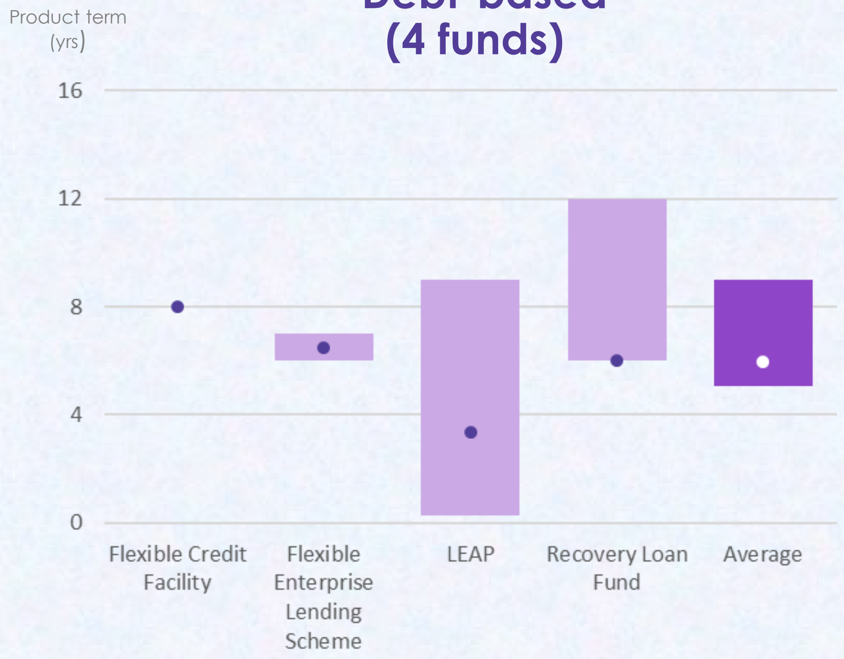
Compared to a typical unsecured debt term of (perhaps) around 5 years, the median expected investment term in the overall Flexible Finance programme is **7.8 years**. The average term proposed does vary significantly between funds however, and when grouped as per the graphs below we can see that whilst the median expected term within equity-only funds is 11.0 years, the figure drops to 6.3 years in funds where debt is offered, either exclusively or in a mixed-product offering.

Some funds are notable because of the range of different possible terms that can be offered, represented by the size of the bars in the graphs below, with two funds having a difference of fully 8 years between the shortest and longest terms they are prepared to consider. This in itself represents an element of flexibility of product that might not be expected in a typical social investment fund. As with the sets of graphs in the previous slide, the overall averages (dark bar/white dot) are the average values by fund model (ie the average is not weighted by the size of fund).

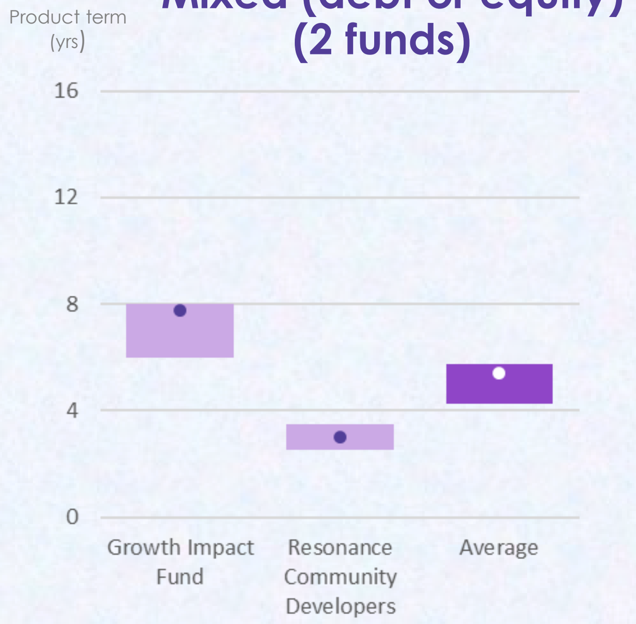
Equity-based funds (3 funds)



Debt-based (4 funds)



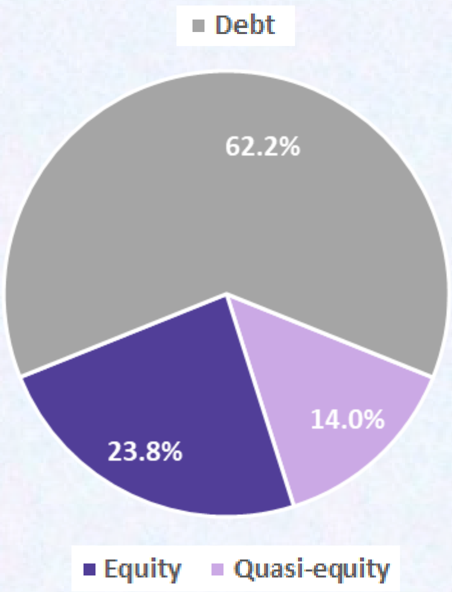
Mixed (debt or equity) (2 funds)



Product Features – Return expectations

Debt products

62.2% of Flexible Finance by anticipated deployment volume



Equity products

37.8% of Flexible Finance by anticipated deployment volume

Fund name	Interest Rate charged (range and average, %)	Term length (range and average, yrs)	Key features
Flexible Credit Facility	4.0-4.0 (4.0)	8.0-8.0 (8.0)	2% charged on undrawn amounts. Facility has 5 year term, any balance then converts to 3 year loan
Flexible Enterprise Lending Scheme	5.5-7.5 (6.5)	6.0-7.0 (6.5)	Some loans will have long (3-year) interest only periods, in line with seasonal income profile
Growth Impact Fund	8.7-8.7 (8.7)	7.0-7.0 (7.0)	Expected patience on repayment of capital, payment or refinancing via bullet at end of term
LEAP	6.5-7.7 (7.5)	0.3-9.0 (3.3)	Interest-only elements, either at outset or on portion of loan for entire term, with final bullet repayment
Recovery Loan Fund	7.7-7.7 (7.7)	6.0-12.0 (6.0)	Grant to accompany loan is primary feature, however other flexibilities and variations/refinancing expected
Resonance Community Developers	8.0-8.0 (8.0)	3.0-3.0 (3.0)	Investee have a choice of equity or preference share, or debt. Debt expected to be refinanced after 3 years

Fund name	Money Multiplier expected (range and average)	Key features
Community Shares for the Recovery	1.20-1.50 (1.30)	Equity in the form of community shares, expected withdrawal at some point after 10 years, average interest (dividend) 2.0%
Growth Impact Fund	0.00-5.00 (2.50)	Convertible loan note (return on exit) or revenue participation agreements (3.5% of turnover). Wide range of outcomes expected
Resonance Community Developers	1.20-1.20 (1.20)	Investee have a choice of equity or preference share, or debt. Equity expected to be redeemed rapidly on completion (after 2 years)
Resonance Enterprise Investment	2.00-2.00 (2.00)	Equity and quasi-equity (revenue participation @ 3-5% of turnover) offered, terms of 10 years+ to achieve target 2.0x return
Social Inequality Facility	1.05-1.20 (1.15)	Range of equity or quasi-equity products can be structured, including eg preference shares, revenue share or profit share agreements

Product Features – size and term in numbers

Fund Name	Debt, Equity or Mixed	Investment size: Min	Investment size: Max	Investment size: Ave	Term (months): Min	Term (months): Max	Term (months): Ave	Average investment size: Debt	Average investment size: Equity	Average investment size: Quasi-equity
Community Shares for the Recovery	Equity	£80,000	£393,750	£219,167	120	180	180		£219,167	
Flexible Credit Facility	Debt	£25,000	£150,000	£125,000	96	96	96	£125,000		
Flexible Enterprise Lending Scheme	Debt	£45,000	£200,000	£73,171	72	84	78	£75,000		
Growth Impact Fund	Mixed	£50,000	£2,000,000	£308,436	72	96	93	£750,000	£151,286	£300,000
LEAP	Debt	£25,000	£250,000	£126,437	48	108	40	£126,437		
Recovery Loan Fund	Debt	£95,000	£380,000	£190,000	72	144	72	£190,000		
Resonance Community Developers	Mixed	£100,000	£2,000,000	£860,415	30	42	36	£950,519	£800,346	
Resonance Enterprise Investment	Equity	£50,000	£100,000	£74,815	84	180	117		£74,815	£74,815
Social Inequality Facility	Equity	£70,000	£200,000	£120,000	96	144	132			£120,000
	AVERAGE	£60,000	£630,417	£233,049	77	119	94	£369,493	£311,404	£164,938
	MEDIAN	£50,000	£250,000	£126,437	72	108	93	£158,219	£185,227	£120,000

Range of fund sizes (anticipated deployment)

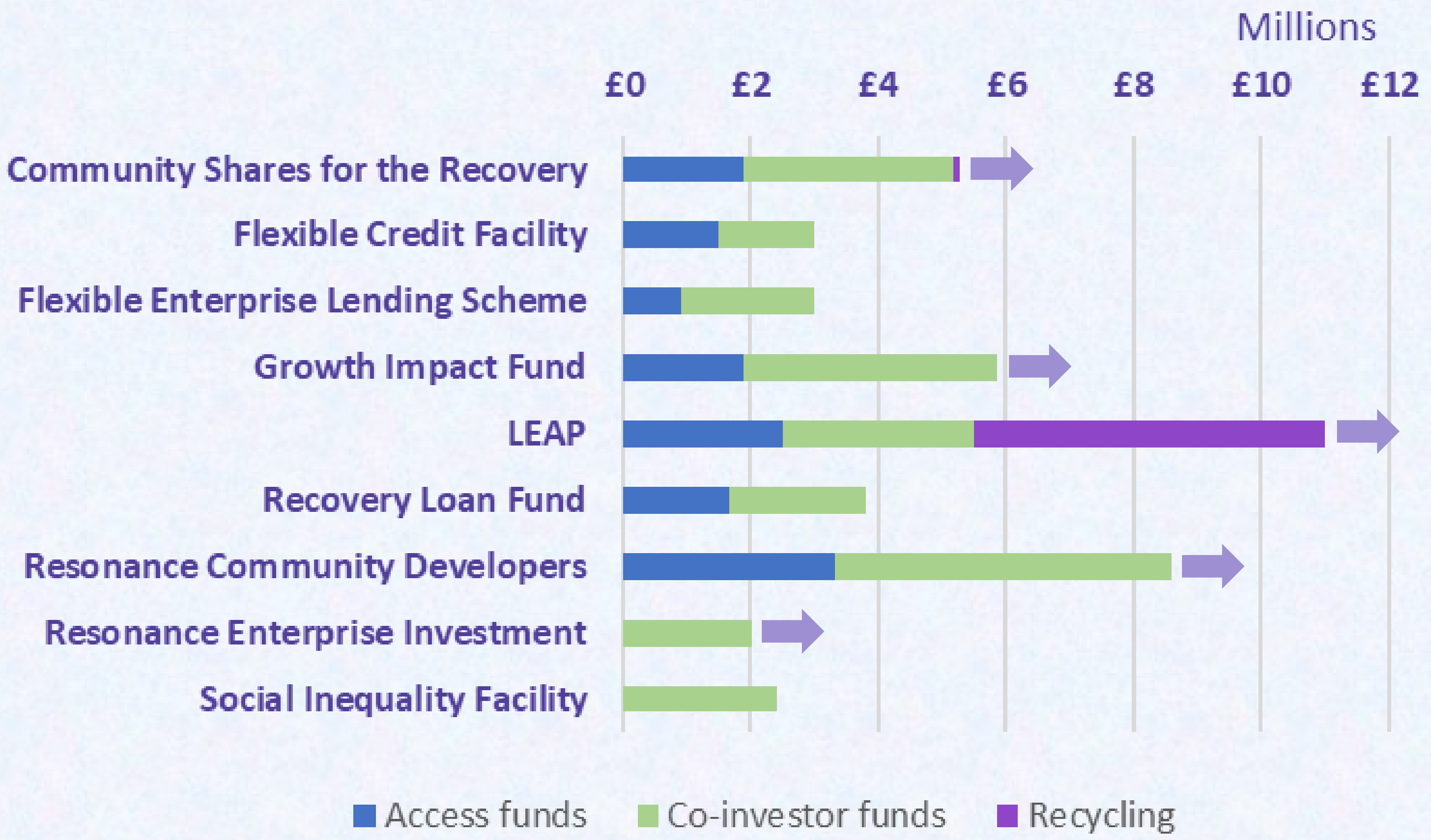
This graph shows the total deployment expected to be delivered over the modelled utilisation of Access grant.

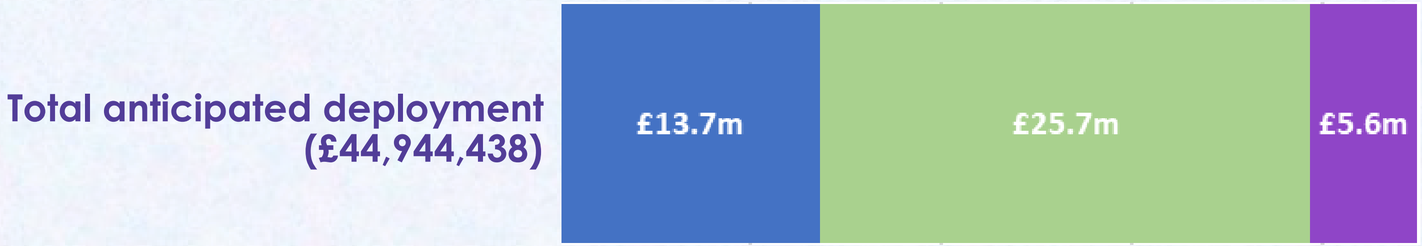
Overall the funds launched are anticipating deploying or facilitating just under £45m of finance to charities and social enterprises. This finance includes equity/equity-like investments, loans and any grant provision blended in. It is modelled that this £45m of frontline finance will be provided by the following sources:

- 30.4% from Access funds
- 57.2% from co-investor funds
- 12.4% from recycled repayments from earlier blended investments

Only two funds are modelling some recycling of finance within the initial modelled fund life (Community Shares for the Recovery, and Charity Bank's LEAP fund).

However it is important to note that some other funds do anticipate an element of recycling of their finance, but where this is either uncertain at outset, or is combined with further anticipated fundraising in an evergreen structure, the appropriate level to include is not readily identifiable therefore has been omitted. The same is actually also true of the two funds that do show some recycling, with further recycling beyond that shown being possible and indeed expected. These are all marked



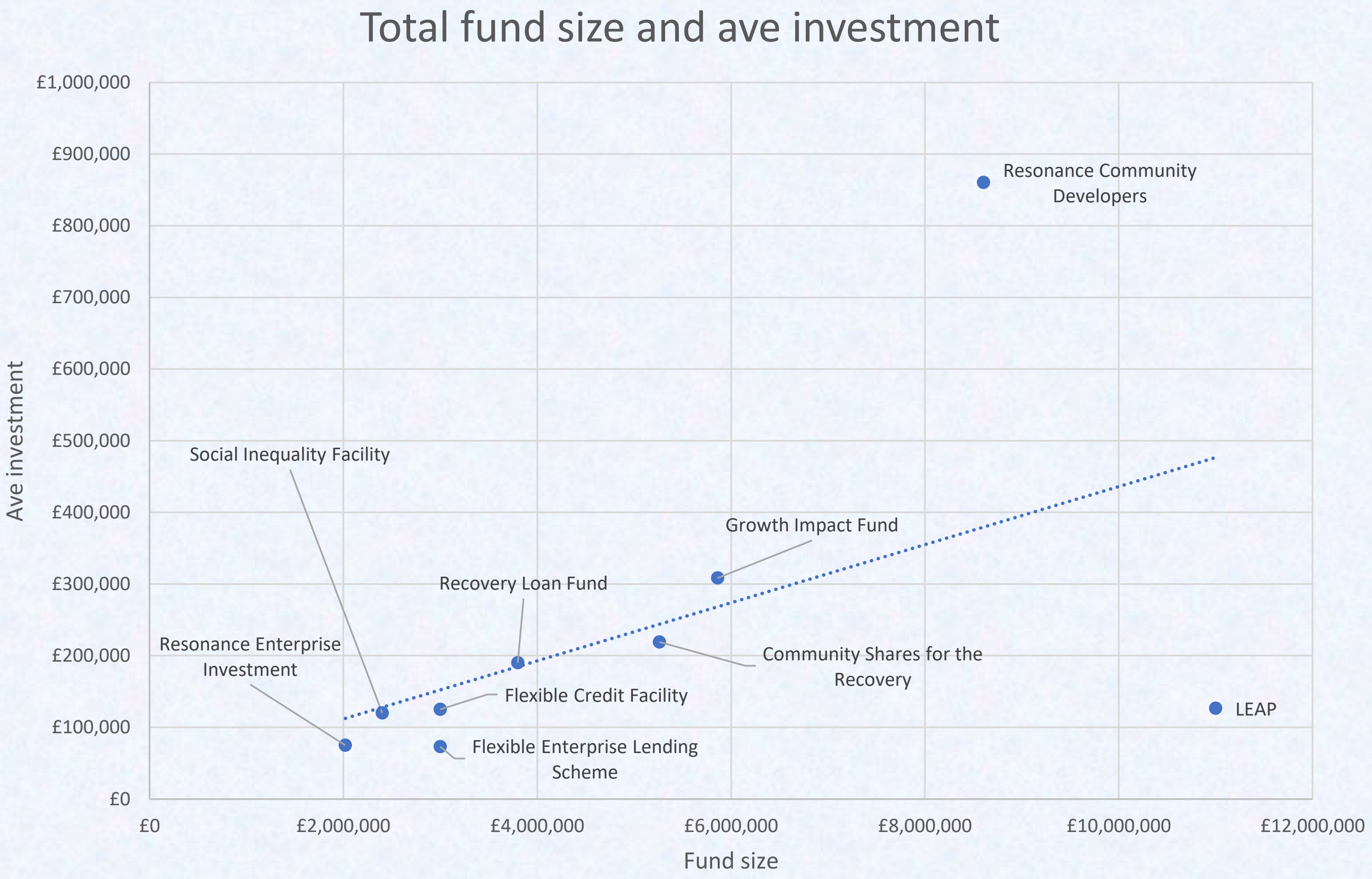


Range of fund sizes (anticipated deployment)

On this graph we can see the range of overall fund sizes plotted in a different way. From left to right it shows the total amount of deployment forecast, from the equity elements of Resonance Enterprise Investment on the left (£2.0m) to the debt products of LEAP involving recycling over many years on the right (£11.0m).

It also shows a fairly strong correlation between the overall amount of deployment forecast and the average investment size. This shows for most funds the main driver of the overall size of the fund is the average size of investment, rather than the number of deals forecast to be done. Indeed other than the two outliers on the right, the other seven funds have a relatively narrow range of number of investments forecast (from 19 at the lower end for the Access-eligible investments of the Growth Impact Fund, to 41 in the Flexible Enterprise Lending scheme at the upper end).

The two outliers are in the larger funds overall, with Resonance Community Developers forecasting a small number of larger deals (10 @ ave. £860k), and LEAP forecasting a large number of smaller deals (87 @ ave. £126k)



Fund timelines

This graph shows the modelled periods of deployment and then repayment of investments.

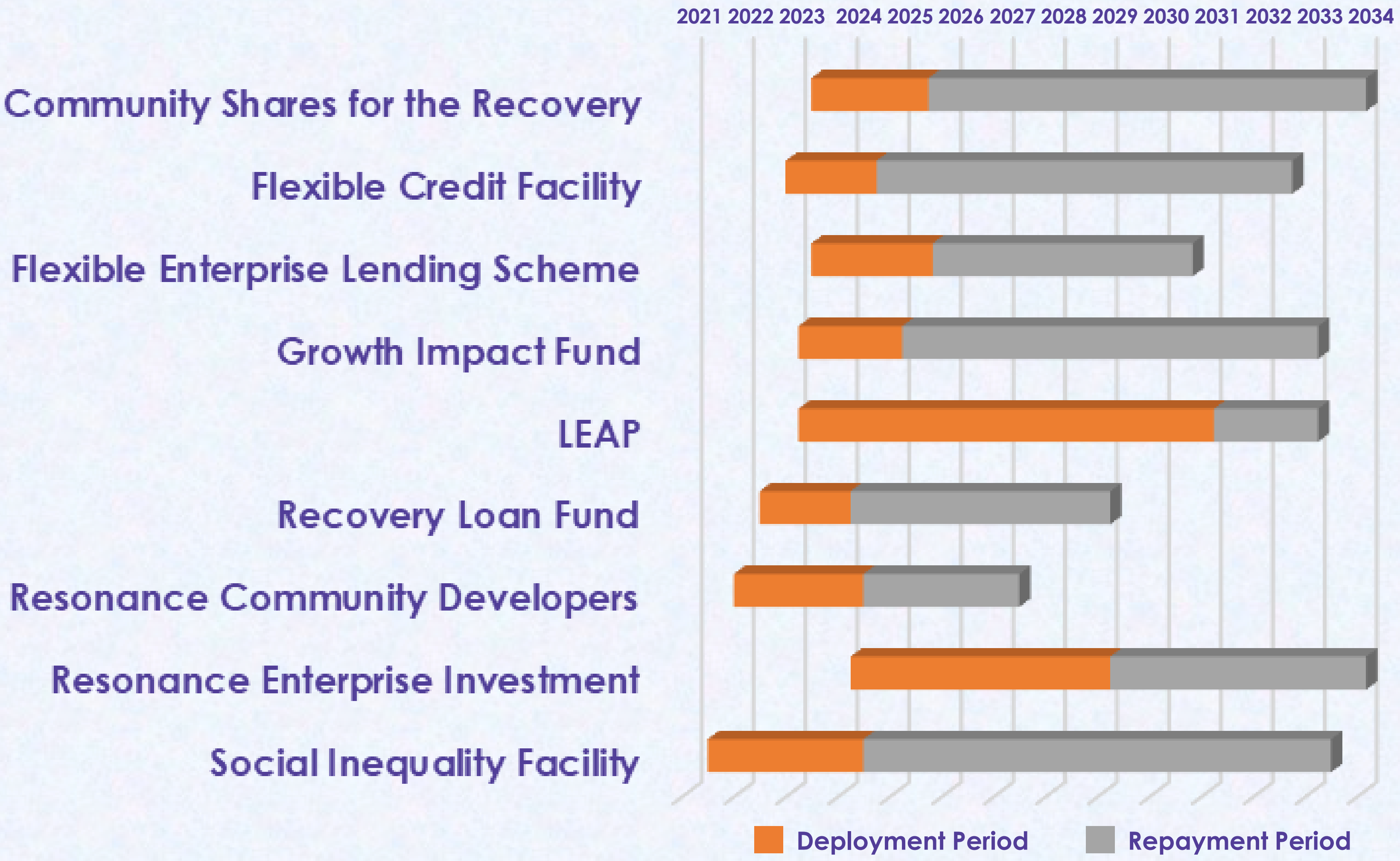
The start point for fund deployments varied according to the length of time of fund set-up. The first deployment was the Social Inequality Facility of Sumerian, in July 2021.

The shortest deployment period is for the investments supported within SIB's Recovery Loan Fund, at just under two years. The longest deployment period is Charity Bank's LEAP fund at eight years, this being the result of modelled recycling over time within that fund.

The shortest repayment period is on the Resonance Community Developers fund, where new asset investments are invested in with an aim for them to be refinanced on more patient terms once fully operational (within around three years). The longest repayment period is on the Community Shares for the Recovery Fund, with some investments of community shares only expected to be withdrawn up to ten years after investment

2.3 median **deployment** period length (years)

5.0 median **repayment** period length (years)



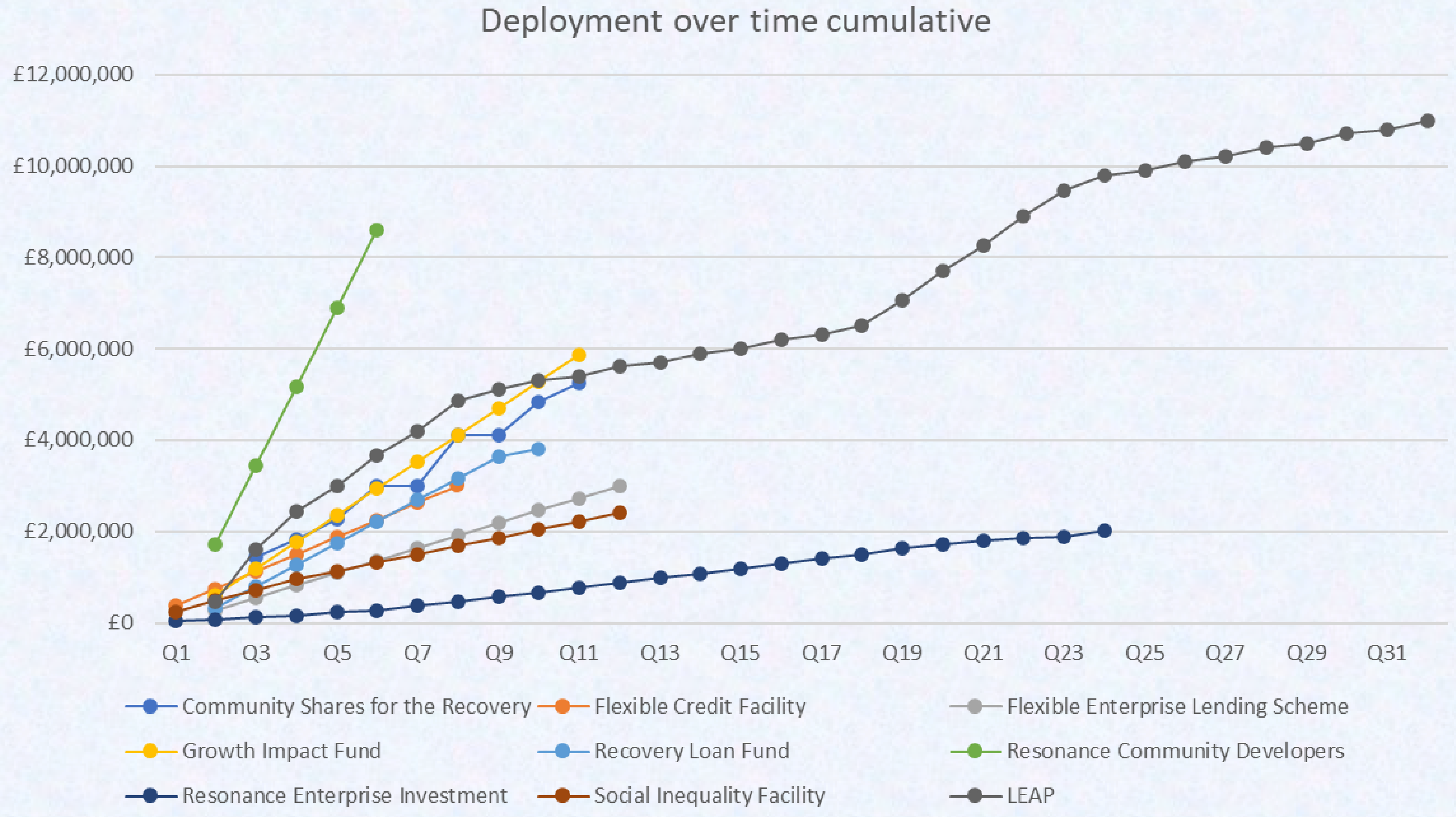
Forecast deployment over time

This graph shows the pattern of forecast deployment for each fund over time. The graph does not show actual dates of deployment, so does not reflect in what year and month each fund was launched, but is rather the pattern of deployment starting from the quarter following launch.

It shows that the profile of deployment for most funds is expected to be quite linear over time, with only two funds (LEAP and Community Shares for the Recovery) expecting more fluctuating patterns.

In terms of rate of deployment there are some differences, although the bottom line (Resonance Enterprise Investment) is an anomaly as recorded here is only the equity elements of that fund – the overall fund (including debt products) is expected to deliver £10m over the period shown so is a similar run rate to the main cluster.

This leaves two funds deploying at a slightly slower rate (Flexible Enterprise Lending Scheme and Social Inequality Facility), and one at a much faster anticipated rate (Resonance Community Developers) due to the relatively large size of individual investment values. It may be noted that in this latter case that fast rate of deployment did not actually materialise.



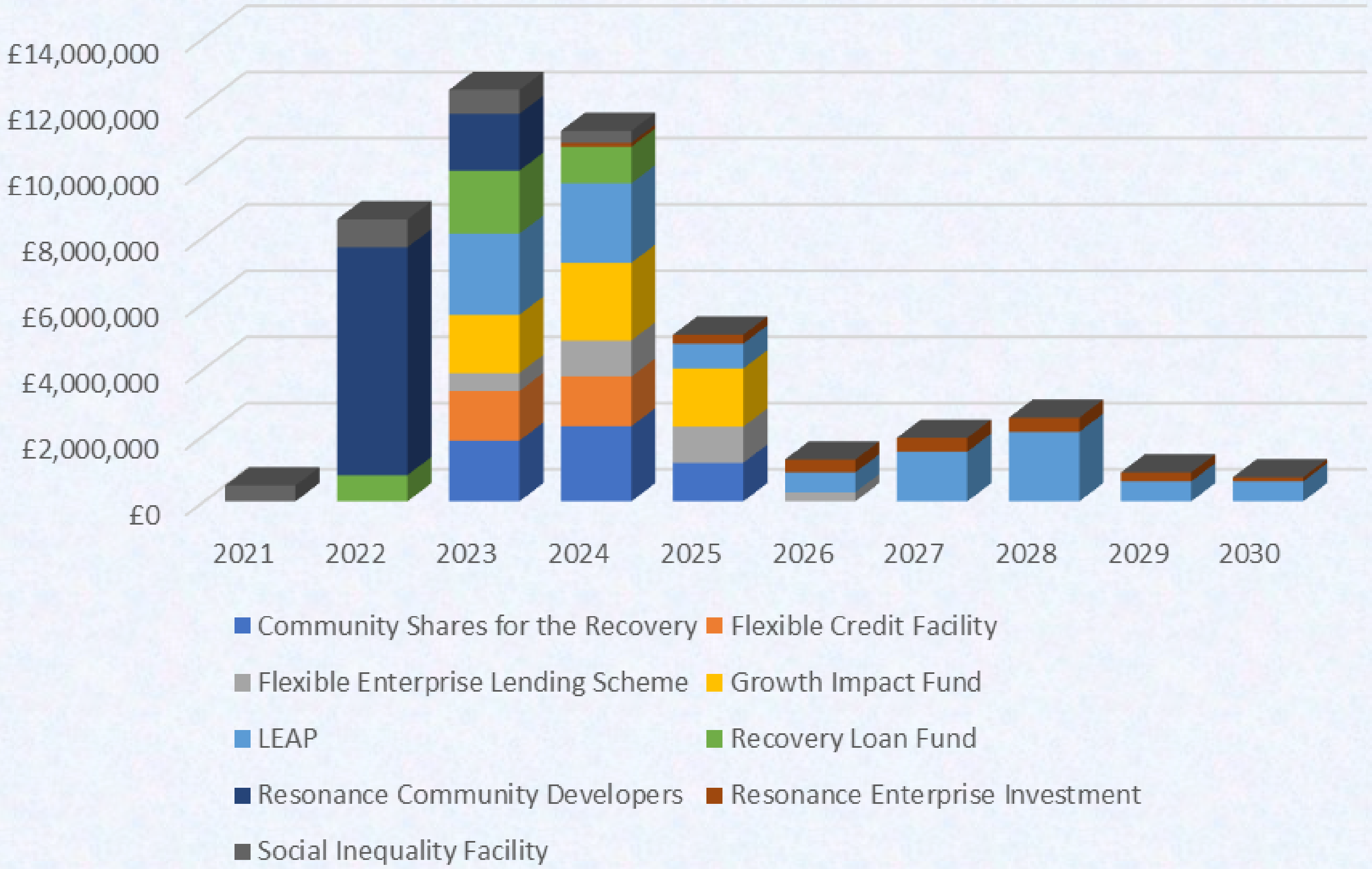
Forecast deployment over time

This graph shows the overall projected deployment according to the models of individual funds and the date on which they were launched (or in the case of one fund, are due to launch).

It shows a clear peak of deployment overall due in 2023 and 2024, followed by a long tail represented by the longer term investments expected to be made by the LEAP fund and Resonance Enterprise Investment.

This report being published early in 2024 with the full launch of the first nine funds, we can report that deployment in 2022 was actually much slower than expected, and although deployment picked up strongly in 2023 it did so gradually throughout the year and did not quite achieve the amounts modelled, being just over £9m in the year rather than the £12m forecast.

As a result we might expect 2024 to surpass this and be the peak year of Flexible Finance spend, also with a slightly less sharp tail off thereafter.



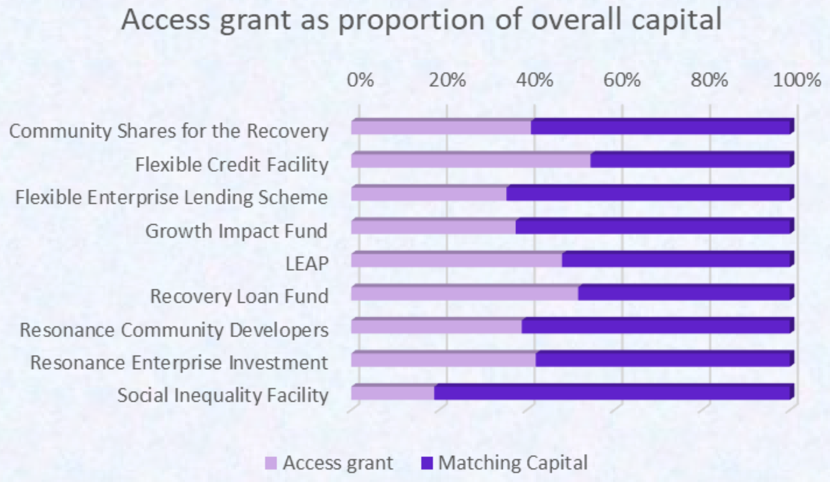
Matching Capital

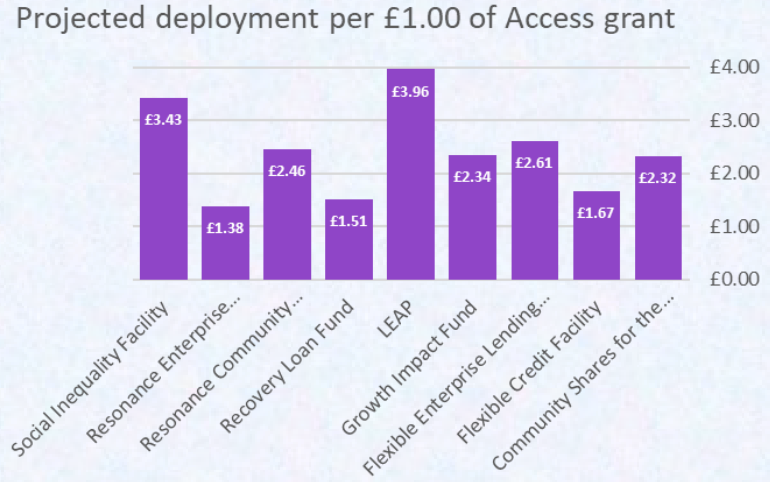
These graphs show at a headline level how Access grant is interacting with other forms of capital in order to create the funds.

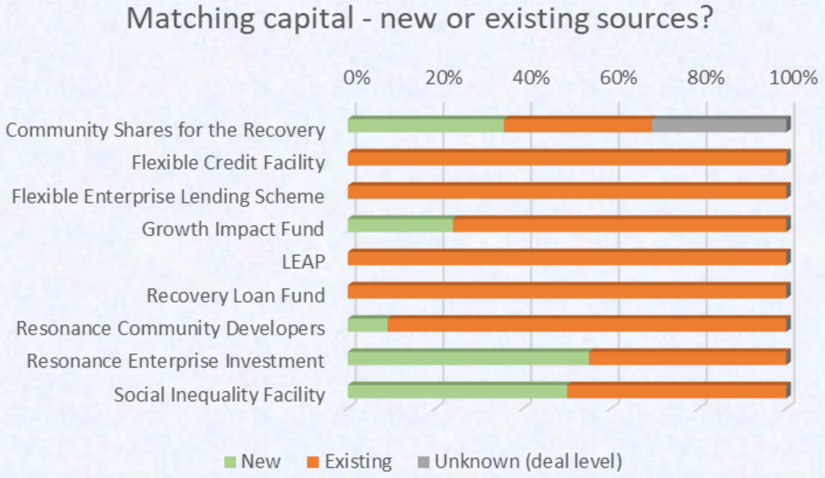
They show the significant differences in how Access grant needs to be applied to address specific gaps and barriers. Section Two later goes into more detail on precisely what problems the grant is solving for.

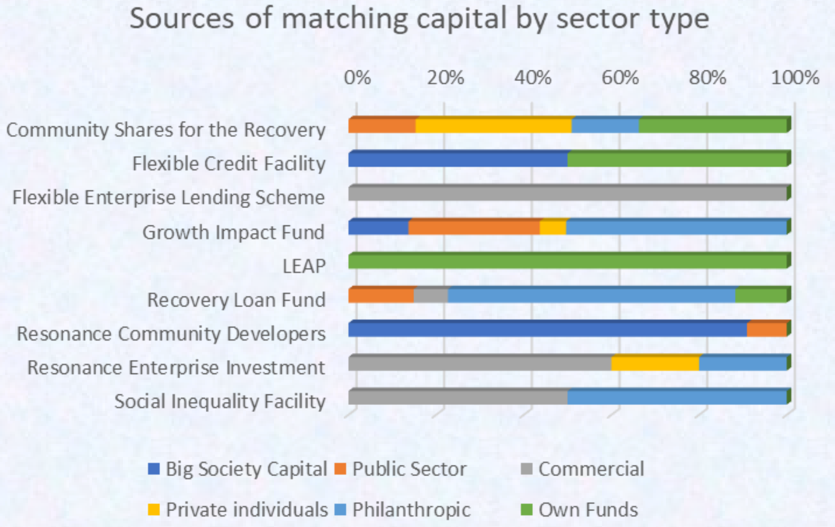
The top two graphs show what proportion of a fund's capital and its deployment is being covered by Access grant. These two graphs largely correlate but some differences occur due to level of fund costs and also any recycling that happens over time. In the case of three funds, Access grant is around 50% of the stack. In a further five cases it is around 40%, and in the final case is less than 20%.

The bottom two graphs show where the matching capital comes from. The left graph shows that five of the nine funds are attracting capital from investors new to social investment, but overall the majority of co-investment in Flexible Finance is from those with prior investments. The graph on the right shows that the significant variety of sources used, with three funds securing high levels of commercial capital, four funds with high levels of philanthropic capital, and three funds providing high proportions from their own balance sheet.









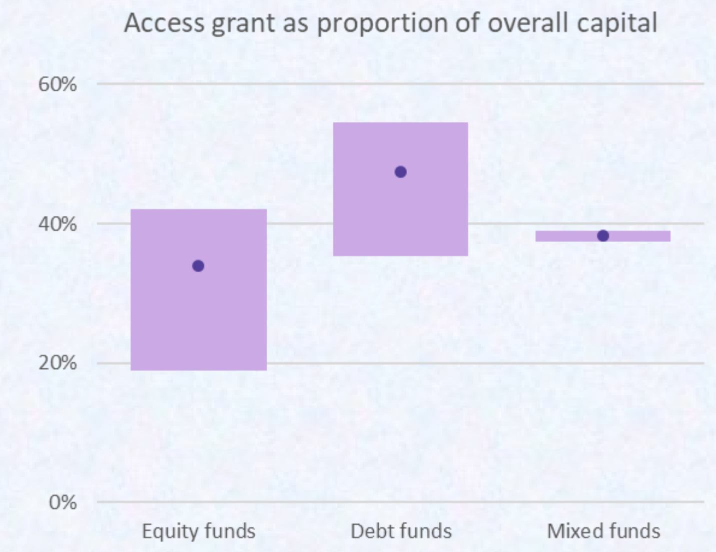
Matching Capital

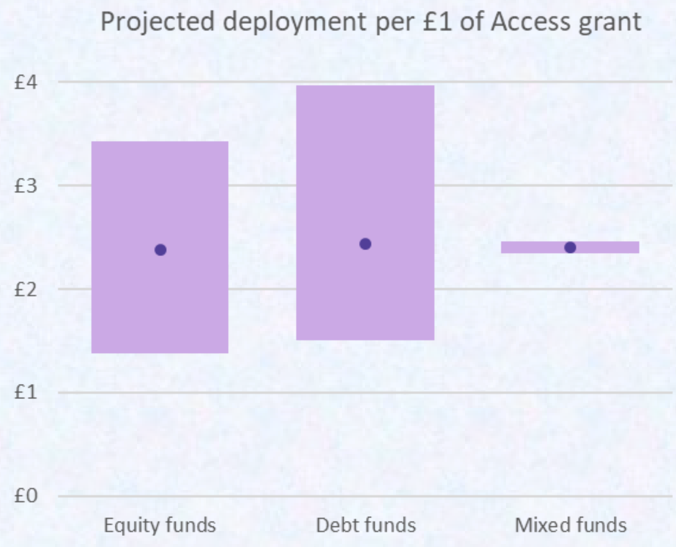
If the patterns of matching capital are analysed by the different types of fund by product type, some differences emerge, although as ever, the small sample sizes (three equity, four debt, two mixed) should be borne in mind.

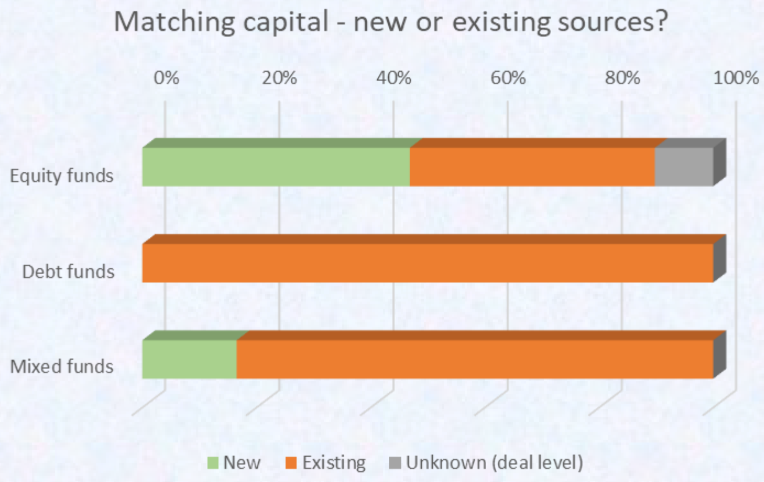
Access grant was needed at a higher proportion in the overall capital stack for debt funds (top left graph), although the large amount of planned recycling in one of these funds means that the eventual deployment that Access grant will leverage ultimately becomes very similar across all fund types (top right).

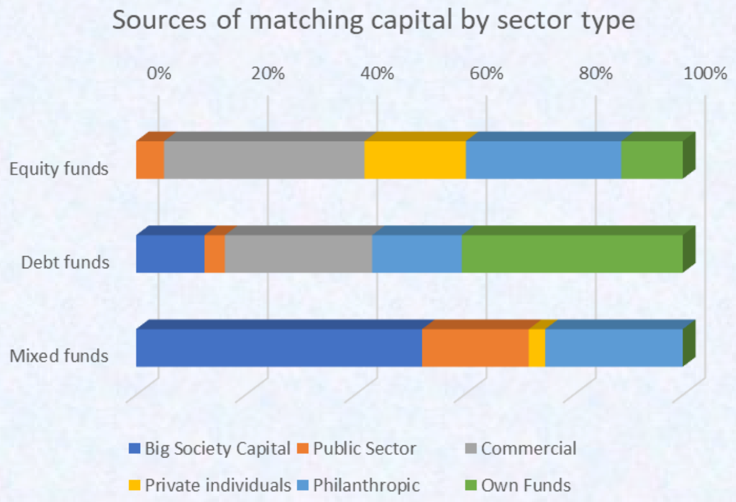
The debt funds are comprised of capital sourced entirely from investors who have prior experience of investing into social investment funds; it is the equity and mixed funds exclusively which have managed to bring in first-time social investment capital providers (bottom left).

By sector source (bottom right) there are a few differences too, with Big Society Capital involved mainly in the two mixed (equity or debt) funds, private individuals exclusively into funds with at least some element of equity investing, and social investors providing capital from their balance sheet into their own funds mostly where delivering debt funds.









Equity, Diversity and Inclusion

ACCESS The Foundation for Social Investment

Access made the achievement of better equity, diversity and inclusion outcomes integral to the Flexible Finance programme. All applicants were asked to indicate how they would contribute to this aim, using the codification of equalities impact that at that time had recently been promoted by the Equality Impact Investing Project:

EII 1 - Supporting entrepreneurs facing exclusion, often from underrepresented groups or those encountering barriers in accessing traditional financial support

EII 2 - Investment to organisations with diverse leadership and/or strong equality impact

EII 3 - Investment to organisations dedicated to addressing structural inequality and human rights concerns, fostering systemic change

Investor	Approach	EII 1	EII 2	EII 3
Community Shares for the Recovery	Prioritizes geographic areas of economic disadvantage and representative leadership			
Flexible Credit Facility	Allocates 80%+ funds to bottom 30% IMD regions. Targets investments to tackle socio-economic disparities. Mandates 35%+ investments meeting EII-1 and EII-2 criteria			
Flexible Enterprise Lending Scheme	Targets 80%+ investments in IMD 1-4 regions. Targets exceeding the previous (2021) baseline for proportion of Big Issue Invest investments into organisations led by people with protected characteristics			
Growth Impact Fund	Targets at least 50% (with an aspiration of a much higher figure) of investments into organisations with diverse leadership (including women-led). Adopts a stricter definition of diverse-led (70%+ board diversity, not >50%)			
LEAP	Aims for over 30% of investments going to black and minoritised-led organisations, with over 50% meeting EII-3 criteria. Challenges investees on diversity practices, aspiring for over 50% applications demonstrating good equalities practice.			
Recovery Loan Fund	Access-supported products are exclusively available to organisations with black and ethnically-minoritised leadership. With this intervention, target is to achieve at least 14% on the Recovery Loan Fund as a whole			
Resonance Community Developers	Requires all investees to justify their leadership diversity with reference to their local community demographics. 10% of investments targeted into areas with black and minoritised populations exceeding 30%			
Resonance Enterprise Investment	Aspiring for 13% black and minoritised-led, 19% disability-led, and over 50% women-led investments. Intention to challenge all investees on EDI practices			
Social Inequality Facility	Minimum target of 35% investments into black and minoritised-led organisations (stretch target 50%), and over 50% of investments into women-led organisations			

Technical Assistance

Traditionally, Access subsidy has not specifically funded the provision of "Technical Assistance" (pre-investment and post-investment capacity building support to investees). Although fund managers will often provide some support via their outreach and investment staff in the natural course of their work, and thus will be included in the overall cost base of their proposal, such costs are usually quite limited, even though the benefit to investees and potential investees can be significant, as demonstrated by the Beyond the Cheque Initiative of Big Issue Invest.

In the case of the Flexible Finance programme however we received multiple proposals which included in some form a request for grant support towards more extended Technical Assistance provision (sometimes in-house, something outsourced). This largely occurred as applicants considered how they would go about meeting one or both of two of the design features of the programme (see page 2):

Delivering sources of finance to the market which are patient and/or flexible….

Some fund managers proposing equity or equity-like products saw the need to mirror the kind of intensive long term backing of investees that typically accompanies angel or venture capital-style investing, acknowledging, that unlike in those models, such costs would not be offset by high equity returns.

Others saw the need for technical advice or activity that might not otherwise be suitable for an application to the Reach Fund (investment readiness grants)

Reaching parts of the market still underserved, usually including diverse-led organisations….

In order to support organisations further away from the social investment market, some fund managers saw the need for both pre- and post- investment support for (potential) applicants.

Fund	Technical assistance approach
Community Shares for the Recovery	Fund can provide development grants to assist with early stage development and execution, the creation of share offers, and post-grant reporting. Grants can support inclusivity and accessibility for individuals from disadvantaged communities without investment experience Fund managers assist investees in scoping their needs and connect them to independent support providers as necessary
Growth Impact Fund	UnLtd leads the design and delivery of pre- and post-investment support, funded by a large Technical Assistance Facility. This includes: • Bespoke support responsive to individual SPOs' needs. • Financial assistance grants of up to £15,000 for pre-investment and £20,000 for post-investment support to help overcome barriers, including non-traditional expenses like childcare and translation support. • Specialist expertise, mentorship and peer support
Recovery Loan Fund	Delivery partners receive a 5% referral fee for identifying and supporting black and minoritised-led organisations to apply, with further funds for other partner fees and activities, including remuneration for diverse representatives in decision-making processes
Resonance Community Developers	Local "Community Coordinators" funded through early stage development investments actively engage with and support projects with all aspects of project development, empowering those communities and navigating potential risks
Social Inequality Facility	Tailored pre-investment support to organisations, focusing on understanding their financial landscapes and financing needs. Sumerian Foundation aims for open, collaborative and plain english partnerships, which last between six to twelve months, and lead to collaboratively structured investments.

SECTION TWO:

Use of Subsidy

Typology of Subsidy

This section provides detail of the rationale for subsidy being provided from Dormant Assets in order to make each fund viable or to otherwise achieve particular impact objectives.

Mirroring other programmes (particularly the Growth Fund – see elsewhere for a similar Use of Subsidy report for that programme), the Flexible Finance programme uses letters from A-D to categorise different types of grant awards, relating to the specific issues or barriers the grant is trying to address in any instance.

It could be argued that there is a degree of fungibility or equivalence between each of the types of grant awards. This argument would say that wherever a fund model is modelled to be in deficit, it will be the structure of the modelling which will project what is deficient, whether that relates to coverage of fund costs, fund losses due to projected defaults, insufficient protection of investor returns, or ongoing cashflow or balance sheet issues (or a combination of any of these things). It would therefore follow that any grant, however categorised, is simply covering the overall level of deficit. However Access has found that identifying the principal driver of a deficit, and categorising grant according to that issue, is helpful to understanding the justification for the subsidy. Also in some cases, particularly in relation to Grant C, it may be appropriate to put restrictions on the limits and uses of grant for these specific purposes.

Grant A
Operating Cost subsidy

Where a model projects that insufficient fund income will be generated to cover the reasonable costs of fund delivery, this type of grant can be used to **cover or contribute to the difference**. To be eligible for this use of subsidy the proposed operating costs recovered by fund managers will have been assessed as benchmarking as at a comparable and reasonable market rate, and the Grant Agreement between Access and the fund manager will be restricted to ensure that the proposed overall cost recovery limit is not exceeded during the life of the fund.

Grant B
Investment and First Loss Protection capital

This type of grant **ensures the flow of investment to frontline charities and social enterprises** by building a viable capital stack for a fund. As a general rule it should not simply be a contribution to fundraising, and substitute for other forms of available capital that could be raised, but rather is to build a level of concessional (patient and/or risk tolerant) capital that enables other capital providers to invest in a fund in accordance with their own risk/return parameters, and often simultaneously to ensure that products stay affordable. Precisely how this type of grant is drawn and held or deployed can vary between funds.

Grant C
Grants for investees alongside investments

This type of grant is used to change the nature of a product that can be offered to charities and social enterprises, by building in a discrete **non-repayable grant element within the package alongside an investment** which is expected to be repaid.

The grant element in a package may either serve to make the overall profile of repayments more viable and affordable, or will be used to cover those elements of a required investment which will not generate any (or sufficient) income to cover repayments.

Grant D
Other uses of subsidy

This **miscellaneous** type of grant covers two uses of subsidy (across three funds), which do not adequately fit into types A-C, even though those are fairly broad in definition. The miscellaneous uses in the Flexible Finance programme are:

- Pre- and post-investment support for investees. This covers additional time needed for outreach, capacity building and guidance, particularly for traditionally underserved groups
- A contingency element, ringfencing a small amount of top-up funding that can be applied into other A-C buckets as needed.

It is worth noting that categorisations of certain types of grant are slightly looser than the definitions used in Growth Fund:

Grant A
No specific cap and can be profiled wherever required in the model, whereas Growth Fund Grant A was limited to 10% of the overall Grant, and could only be profiled at the beginning of fund life

Grant B
Any grant that is drawn and either utilised directly as repayable capital or held as a guarantee to cover the risk of deploying repayable capital from other sources. In the Growth Fund structure Grant B was explicitly used as first loss loan capital.

Grant D
Growth Fund incorporated three types of grant only (A-C). The inclusion of a fourth type under Flexible Finance reflects the need to categorise a small number of uses of subsidy which do not fit neatly into any of the other types

Grant A: Operating Cost subsidy

Where a model projects that insufficient fund income will be generated to cover the reasonable costs of fund delivery, this type of grant can be used to cover or contribute to the difference.

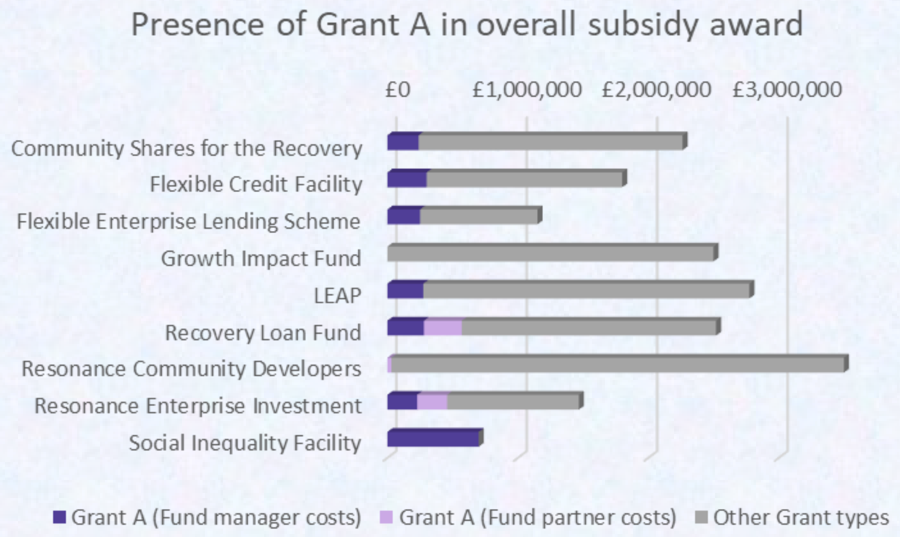
Analysis of amounts and proportions of Grant A and cost recovery in fund structures is one of the most difficult to represent fairly and accurately due to the multitude of factors that affect calculations, and the fact that different funds have a different tolerance for whether costs (and possibly a margin) are fully recovered or not.

Costs can be affected by the type of product delivered and the term of the investment (with longer term repayments potentially resulting in higher portfolio management costs). Data comparisons become difficult to make in a consistent way, as they depend on assumptions on the length of time during which costs will be counted, which is tricky when some funds are expecting to further fundraise and deploy beyond the life of our initial subsidy.

In general we found that costs were often slightly higher than usual under the Flexible Finance programme, partly as a result of our encouragement to applicants to address product innovation and strong approaches to reaching underserved markets.

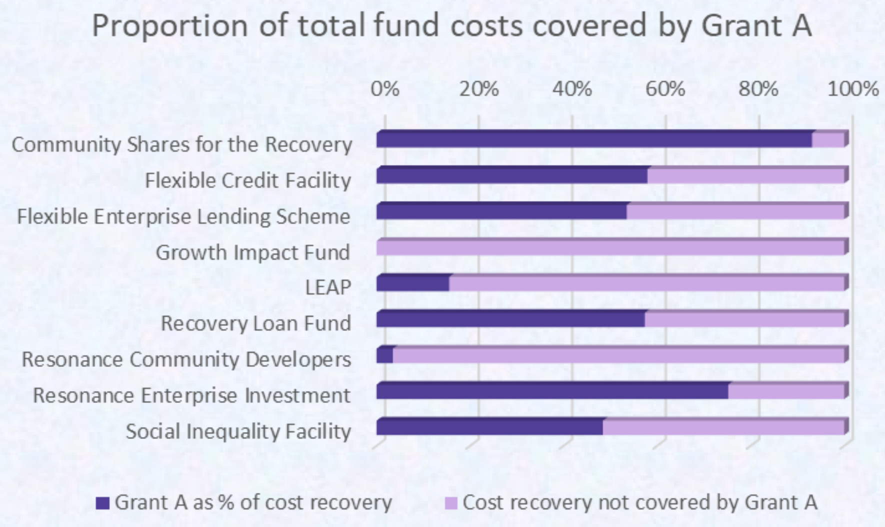
Beyond this, the amount of Grant A that is required to address any gap between costs and projected fund income can vary very significantly, affected for example by both the number of investments and the size of those investments, as small scale in either or both can grow the size of a cost shortfall, as well as assumptions around defaults and repayments.

These graphs should therefore be read with these significant caveats, as well as some of the further fund by fund explanations (right) and data assumptions (Section One) in mind.



The proportion of Grant A within overall packages of subsidy range from 0% or close to 0% (Growth Impact Fund and Resonance Community Developers) at one end, to 100% (Social Inequality Facility) at the other. These extremes are due to the fund constructs, where in the former cases Access capital is contributing to costs, but on the same basis as all other investors in the fund, and in the latter case where capital providers are providing all of the required funding for investments (with no required loss coverage alongside) but a limited and insufficient contribution to costs.

Taking these two specific cases aside, in the remainder of funds Grant A as a proportion of overall award still covers a fairly broad range (9.9% to 31.2%)



The proportion of overall fund costs which need subsidy to ensure they can be covered also shows variations. The two outliers at the lower end (no or little Grant A) are the same as above and explained by the same rationale.

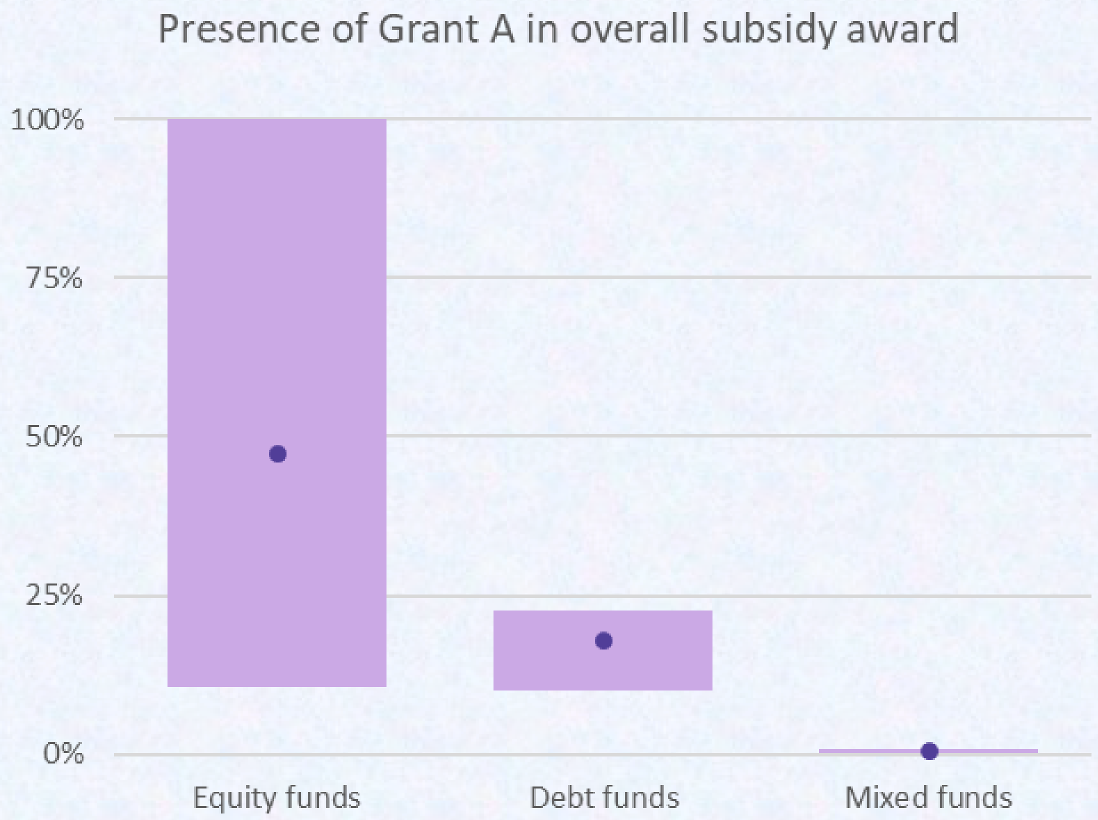
Community Shares for the Recovery and Resonance Enterprise Investment require higher levels of subsidy into cost. This is respectively due to the long-term length of equity products (delaying fund income) and the treatment of Grant A in our data.

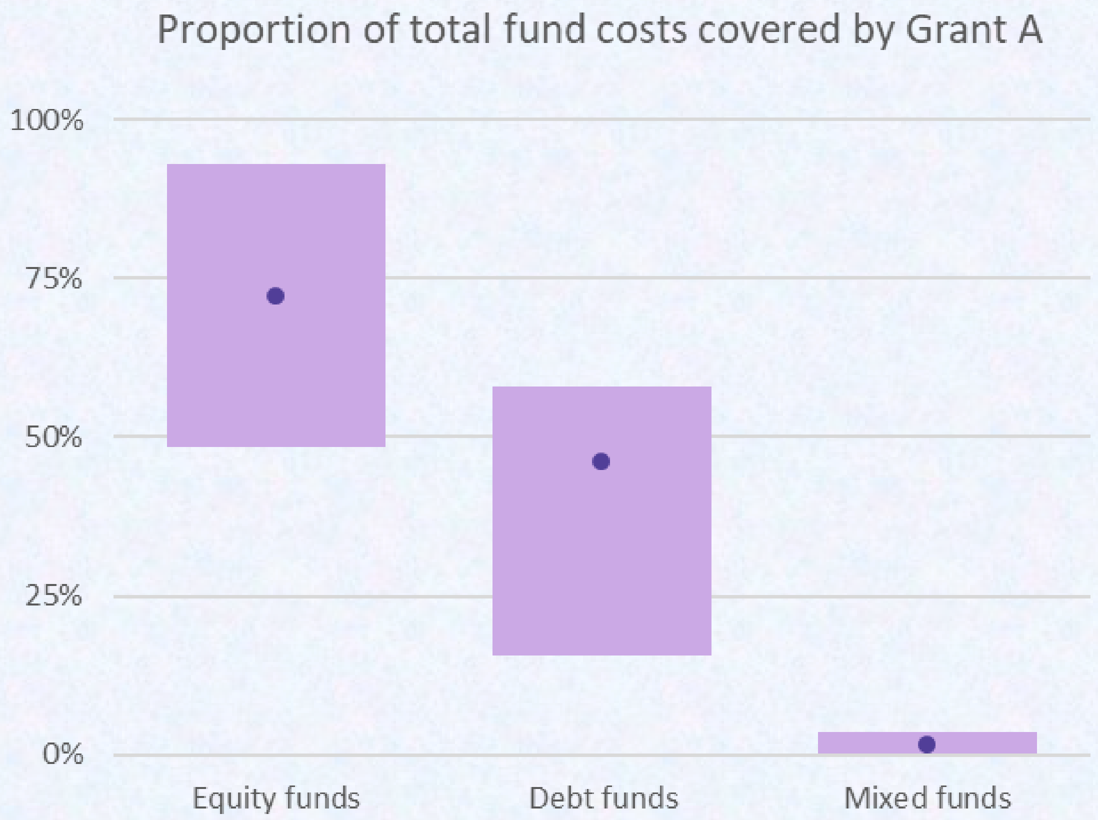
The LEAP fund has a low level of cost subsidy, with most costs projected to be recoverable from fund income.

The remaining four funds have around half of cost coverage requiring subsidy (range: 48.4% - 57.9%)

Grant A: Operating Cost subsidy

Analysing the same data as on the previous slide but separating out into the product offering of different funds show an interesting divergence. Discounting the two funds which have a mixed product offering (as these happen to be the two with fund costs covered from all capital equally rather than identifying separate and discrete costs chargeable to Access grant) we can see that while there is an overlap in the potential Grant A requirement across different fund types, there is a general divergence in the ranges and averages, with equity funds more likely to need a greater level of Grant A to address cost shortfalls than funds offering debt only. This may be attributed principally to the length of time that equity-like products will take to generate an equivalent return, alongside likely additional costs and complexity in developing and delivering such products, compared to debt products.





Grant B: Investment and First Loss Protection capital

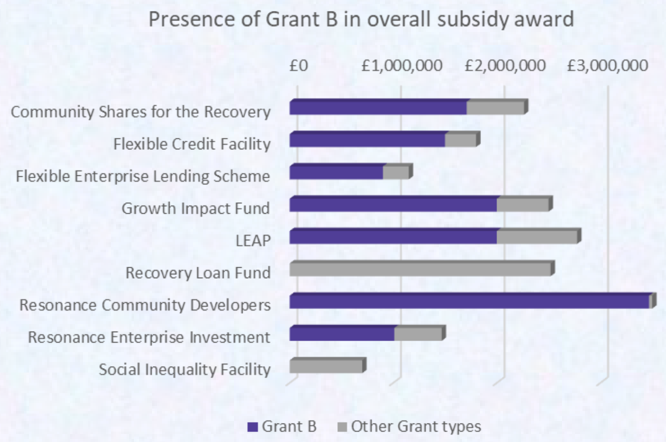
This type of grant ensures the flow of investment to frontline charities and social enterprises

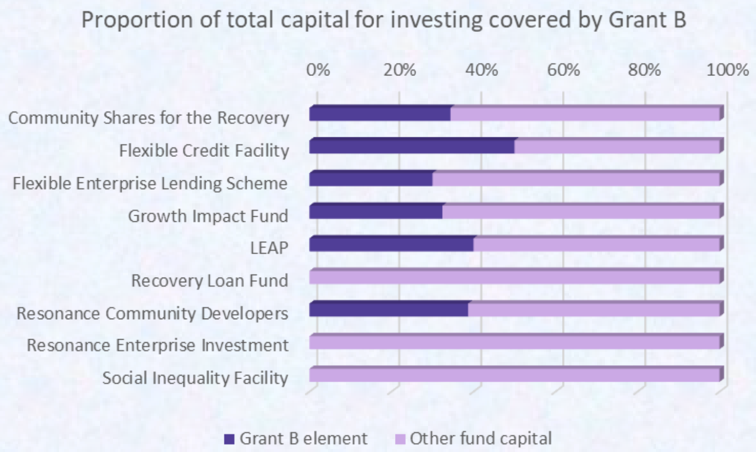
This is very often the bulk of an award of subsidy in Access Blended Finance programmes, and Flexible Finance is no exception (see graph to the left below). Although two funds have no Grant B at all in their award (due to having all investment capital in place but needing other types of subsidy to make the fund viable), the other seven do, and for these the Grant B element is very significant (range: 68.8% - 99.1%). For the programme as a whole Grant B average is 61.9% (median 75.5%), and excluding the two funds with no Grant B, the average becomes 79.6% (median 78.3%).

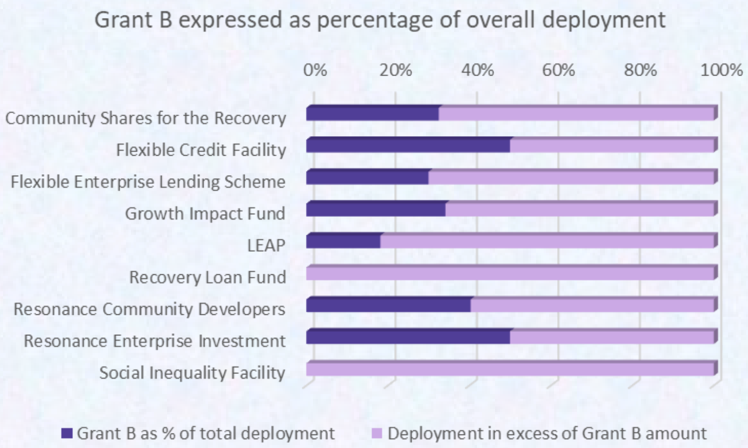
The most typical application of Grant B is to blend this subsidy in with other sources of matching investment capital, and using that total pot to make investments. However for the purposes of these reports Access are referring to two slightly different applications of investment capital as Grant B and including the data in the graphs below. These are Community Shares for the Recovery (where Grant B does not blend directly with capital fundraised at a fund level but is rather invested alongside matching capital raised by cooperatives from other sources), and Resonance Enterprise Investment (where Grant B is not blended and invested but rather held back as a guarantee to be drawn upon to cover defaulting investments – to an agreed level – whenever they occur).

The two related graphs on the right show how this Grant B then interacts with matching capital. The graph on the left shows how much Grant B is available in the fund capital (as a proportion of the whole) for investing, and the graph on the right shows the Grant B amount as a proportion of all investments that are to be made by the fund. These two things are usually closely related for obvious reasons, and indeed in seven of the funds the proportions are very closely aligned. The two funds where there is not close alignment are LEAP and Resonance Enterprise Investment. LEAP diverges because it is a fund with significant projected recycling of investment modelled, so although Grant B is 40.0% of the initial investments it ultimately becomes a value which is only 18.2% of the overall deployment that is forecast. Resonance Enterprise Investment diverges due to the structure set out above – the Grant B is held but not invested, so the Grant B is 0% of the initial capital physically invested, but represents a value of 50.0% of the overall anticipated deployment.

This final graph on the right (Grant B represented as a percentage of overall deployment forecast) can be taken to be a close proxy for the **level of risk** in the investments that are being made by a fund. The rationale for the presence of Access capital in a fund as Grant B is normally to provide comfort to other investors, as it will be provided on softer terms, usually being that capital which will be written off first in the event of defaults, or otherwise "concessional" in some other way, for example having a longer "lock up" period (as in the case of Growth Impact Fund). Further analysis of how this risk proxy varies according to different factors is set out on the next slide.





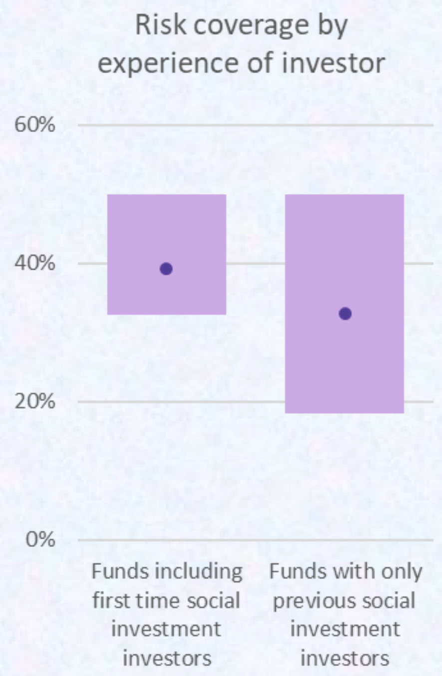


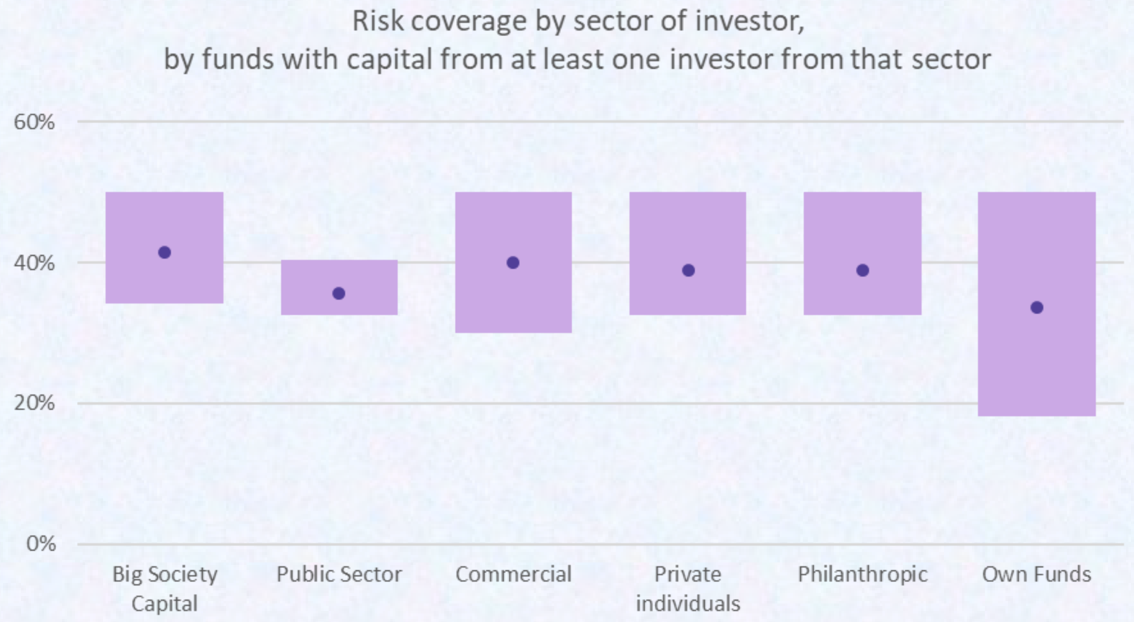
Grant B: Investment and First Loss Protection capital

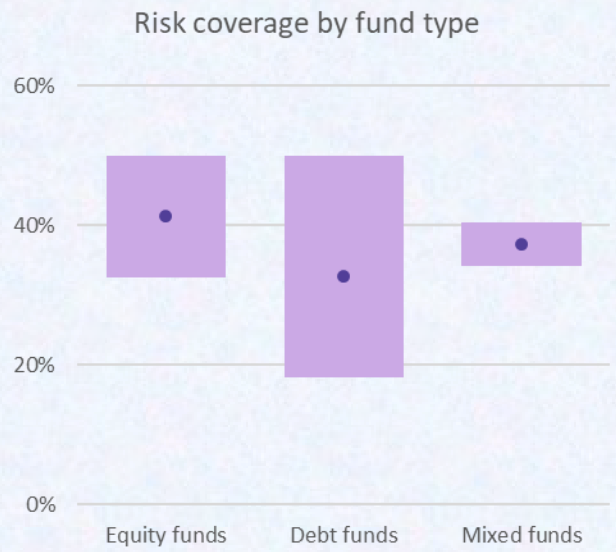
Analysing further the amount of deployment projected to be achieved over time per £ of Grant B further shows some modest differences when mapped against type of product and sources of matching capital. The principal differences show between the graphs furthest left and right respectively, and show that:

- **Higher bottom-of-range** and **higher average** Grant B risk coverage is present in funds delivering equity products (32.5%; 41.2%) and those involving some first time social investment investors (35.2%; 39.2%). As seen in the earlier slide on Matching Capital, these types funds are often correlated with each other.
- **Lower bottom-of-range** and **higher average** Grant B risk coverage is present in funds delivering debt products and those involving exclusively previous investors in social investment (both types 18.2%; 32.7%). Again there is a close correlation between these types of funds.

The spread of Grant B coverage analysed by the inclusion of different sector sources of capital (middle graph) shows more marginal differences, the only notable effect being that those funds incorporating an element of social investors own funds has a markedly **lower bottom-of range** (18.2%) and **lower average** (33.6%) than those without.







Grant C: Grants for investees alongside investments

This type of grant is used to change the nature of a product that can be offered to charities and social enterprises, by building in a discrete non-repayable grant element within the package alongside an investment which is expected to be repaid.

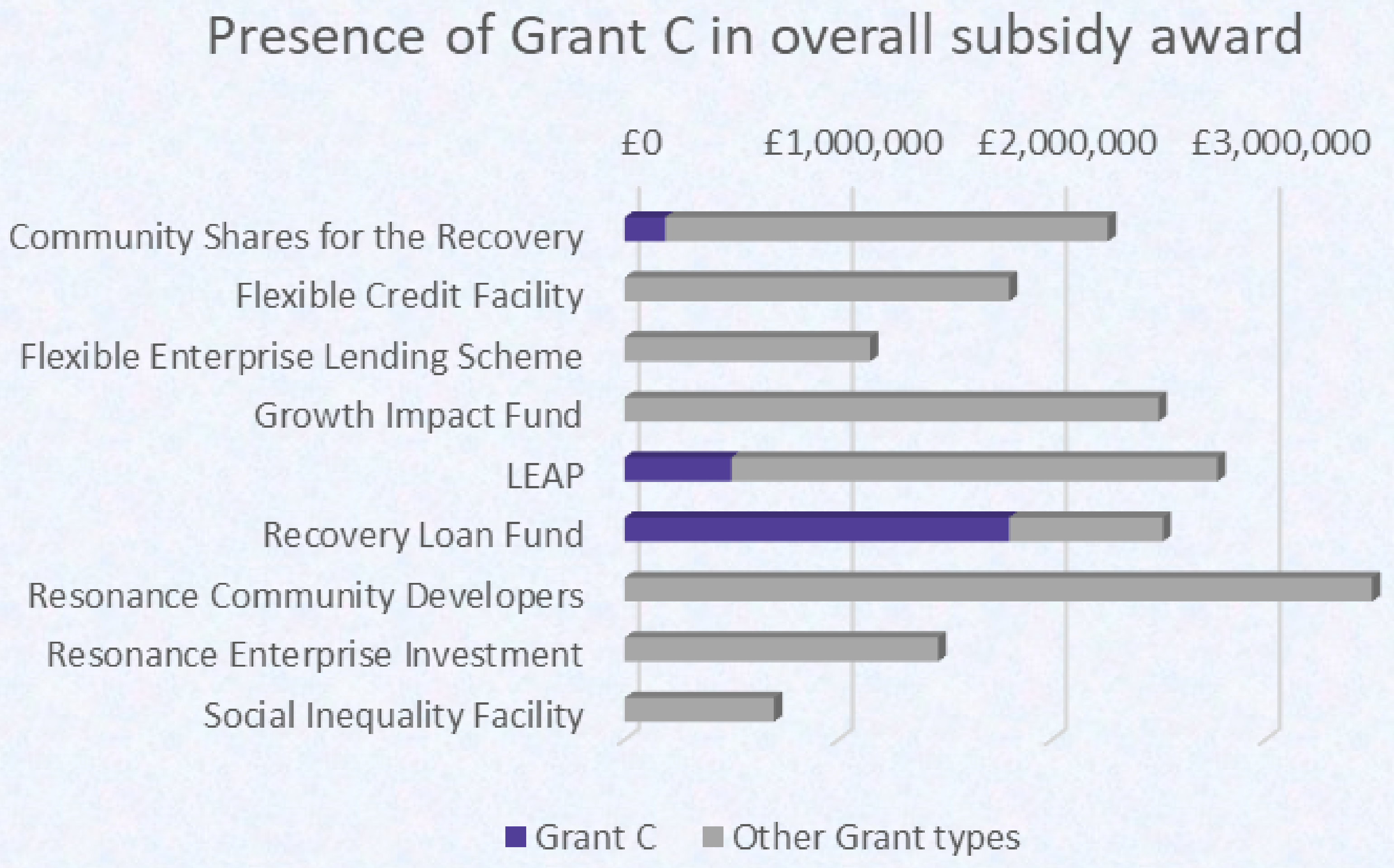
Flexible Finance is notable as an Access programme for its general lack of use of Grant C within fund structures. Only three of the nine funds feature the intention to award non-repayable grants alongside investment, and this may be due to the overall approach within the programme of targeting maximum patience and flexibility in product design, meaning that core products may be able to address issues of both short term and long term affordability.

Of the three funds with Grant C:

Recovery Loan fund uses Grant C to address issues of reach and to address underserved markets. The Grant C is targeted at specific groups who would otherwise (by nature of their background or due to issues of eligibility, such as turnover) be highly unlikely to benefit from the loan product of the wider fund, at the same time making that product more flexible and affordable. Access subsidy does not otherwise contribute to the core offer of the Recovery Loan Fund. Average Grant C per investment is expected to be £90k (20 investments)

LEAP intends to use Grant C in only a minority of the investments made, where it is needed to address specific capital requirements or affordability issues. Average Grant C per investment calculates at £6k (87 investments) but in reality a small number of investees will get a larger Grant C award.

Community Shares for the Recovery has a small Grant C pot to provide early stage development funding to Community Share projects, prior to completion and the delivery of investments.



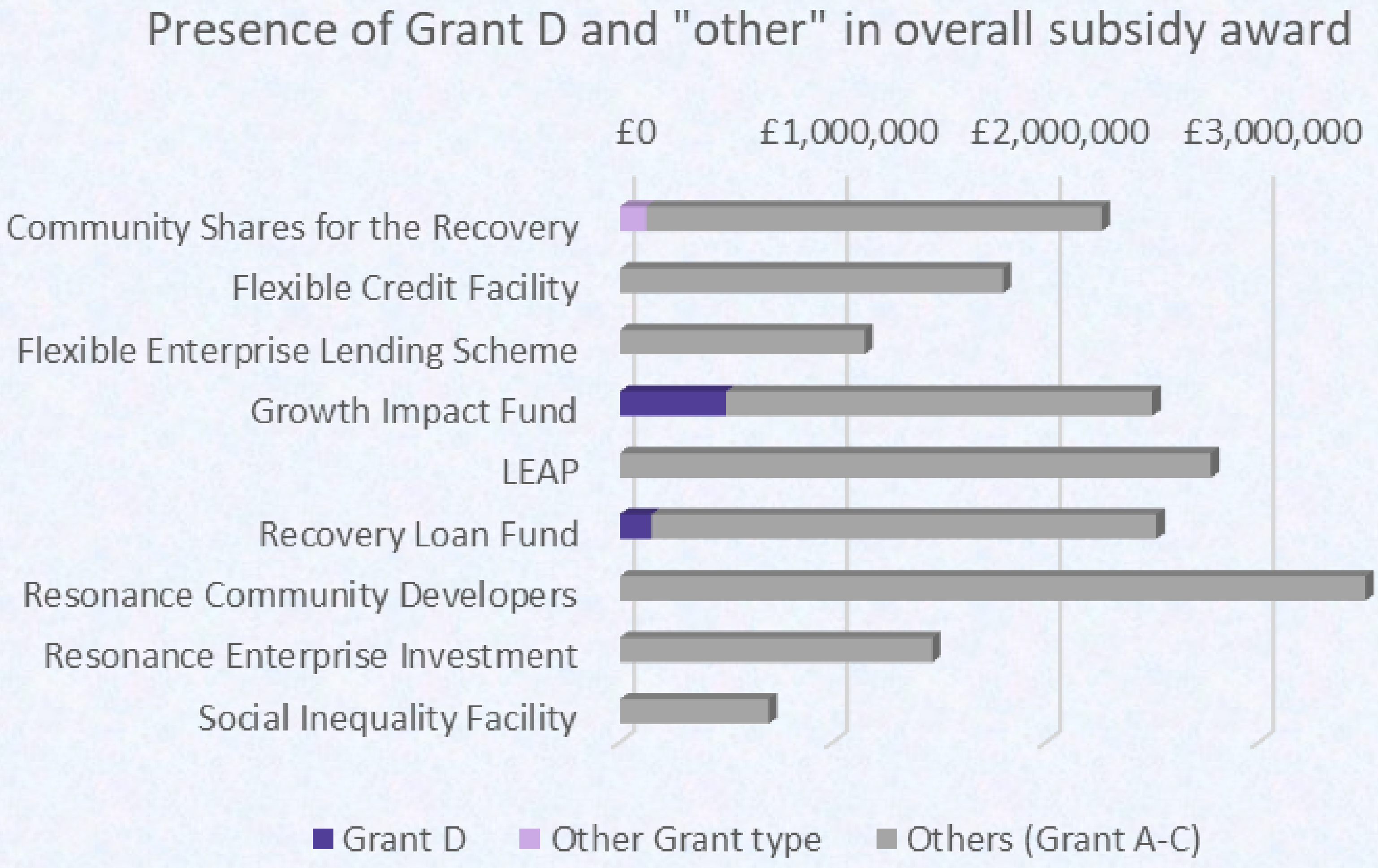
Grant D / Other: Technical Assistance and other uses of subsidy

The main standard grant types in use in most Access programmes of blended finance subsidy are those described in the previous slides covering Grant A-C types. However sometimes specific uses of subsidy are requested that do not neatly fit into those categories.

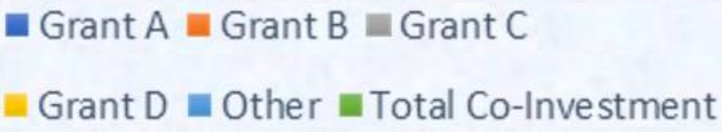
Here we are using the denomination "Grant D" to refer to where fund managers have asked for a specific, ringfenced pot of money to outsource programmes of Technical Assistance, and there is one further instance where we have categorised a further use of subsidy as "Other".

There are only two funds with ringfenced and outsourced Technical Assistance programmes: Growth Impact Fund (20% of overall award, programme delivered by fund partner UnLtd) and Recovery Loan Fund (6% of overall award, programme delivered by EDI-expert partners). However as outlined earlier in the description of products (page 22) there are three other funds delivering some (often substantial) Technical Assistance support. In these cases it is just that the Technical Assistance is covered in different ways other than a ringfenced programme of support, being funded various through Grant A for internal costs (Social Inequality Facility), through Grant B within direct investments (Resonance Community Developers), and Grant C for development grant provision (Community Shares for the Recovery).

The one fund with "Other" use of subsidy is Community Shares for the Recovery. This element of subsidy will actually translate into a standard use of grant (A, B or C) over time, but at outset it is not known which type of grant this may be, as the Fund Manager requested that a small amount (6% of overall award) be held as a flexible "contingency" to be applied wherever it was most needed as the fund evolved and other grant pots were exhausted.

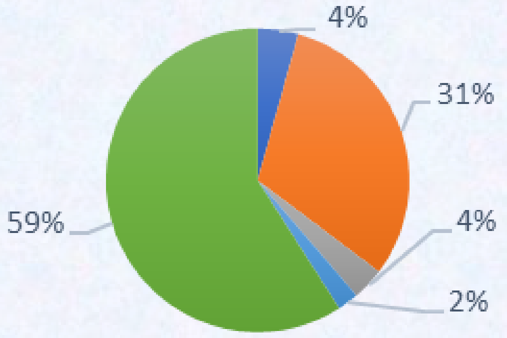


Subsidy Summary by Fund



ACCESS The Foundation for Social Investment

Community Shares for the Recovery

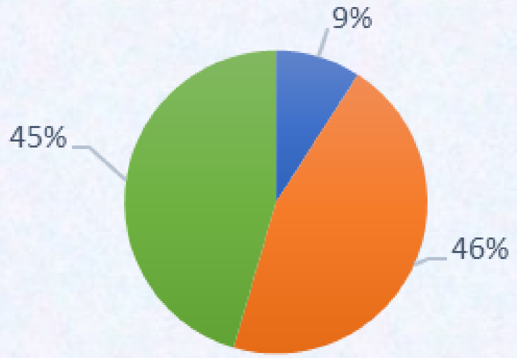


Co-investment is secured at a project level, with Community Share raises at a local level being matched by Shares bought by the fund partners - Cooperatives UK and Cooperative and Community Finance (CCF) - using Access Grant B, which makes up the vast majority of the subsidy. Additional investment is forecast to be secured at a project level in the form of capital grants and debt finance, the latter being offered by CCF but may be secured independently.

The theory of the use of subsidy is that Community Shares can be inhibited and under-utilised in certain communities for various reasons, predominantly related to a lack of disposable income. Shares bought with Access Grant B both incentivise local investing ("for every £ you invest, we will invest a further £") and help to make up shortfalls in the project financing.

The remainder of the subsidy comprises small amounts for cost coverage, pre-development project grants, and a contingency pot to be applied into the model according to demand and where deficits occur.

Flexible Credit Facility

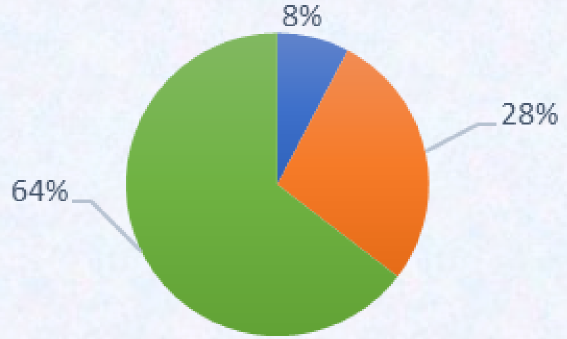


This fund delivered by Key Fund has the highest level of subsidy requirement overall (54.5%) of all of the nine Flexible Finance funds, reflecting the financial challenges of the fund model.

The product offered is an overdraft-type facility, where charities and social enterprises can have the reassurance of the availability of flexible borrowing to cover lumpy or unpredictable cashflows, with the facility being drawn, repaid, and drawn again, in cycles according to the needs of the business. A high proportion of Grant B (83.3% of subsid`y award, 45.5% of overall capital) is needed to make these products affordable, as the full interest is charged to the investee only when the facility is drawn, with a smaller facility interest charge when it is not drawn.

This relatively low income flow generated from the products also gives rise to a relatively high proportion of Grant A (9.1%) in the overall capital mix in order to ensure sufficient funds to cover costs.

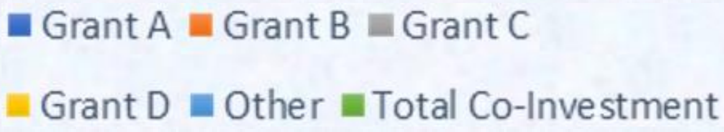
Flexible Enterprise Lending Scheme



This fund delivered by Big Issue Invest aims to address the seasonal fluctuations in income and unique financing needs that some charities and social enterprises have. Seasonal Loans accommodate varied repayment patterns throughout the year, while Development Loans provide bespoke solutions for specific financing requirements, generally over a longer than usual payment period, with features of patience.

Proportion of subsidy in the overall fund structure is relatively low at 36%, with co-investment coming from a social sector bank. The use of subsidy is split into two elements, with the majority (28% of overall fund) invested as first loss coverage, and the remainder contributing to the modelled operating cost deficit.

Subsidy Summary by Fund



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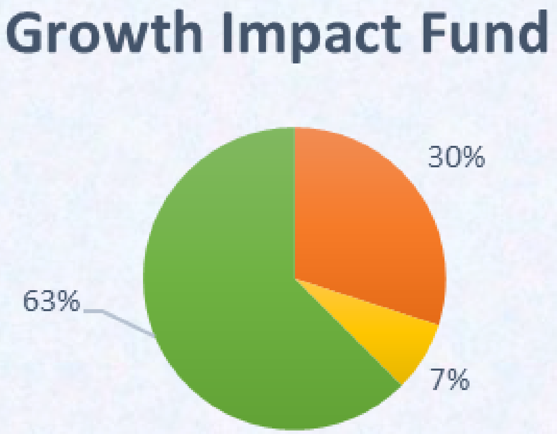
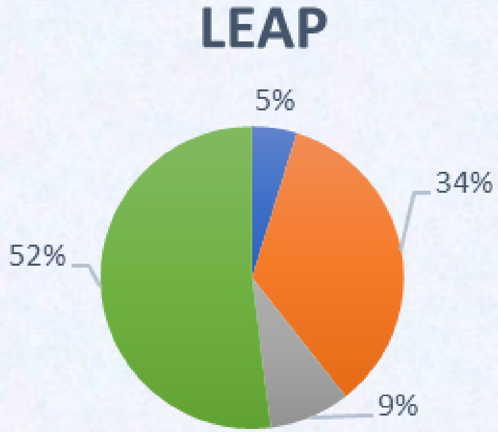
The Foundation for Social Investment



This is a large fund (£9m at launch, aspiration to grow further, which would reduce the proportion of Access subsidy involved) offering a mix of equity, quasi-equity and debt product options. It is a collaboration between Big Issue Invest Fund Management, UnLtd, and Shift Design. The fund capital comes from a wide variety of investors in a Limited Partner Agreement structure. Access subsidy is provided on similar terms to other investors, although Access is not a Limited Partner in its own right, rather providing the capital to Big Issue Invest Fund Management for it to invest into the fund in its position of General Partner.

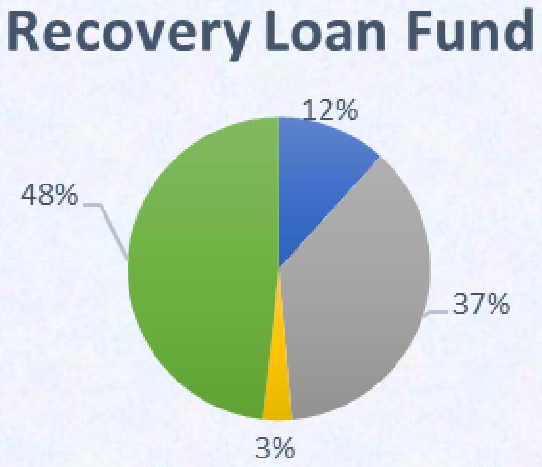
Fund management costs are drawn from all capital providers including Access equally, therefore all investment into the fund is considered Grant B, with no additional or ringfenced contribution to costs (Grant A). The majority of Access subsidy is therefore a contribution into the capital stack alongside other investors, but a portion (Grant D) is a grant contribution to the Technical Assistance Fund (pre and post investment support) run by UnLtd. If the fund size grows to more than £15m Access is committed to doubling the size of this element.



Delivered by Charity Bank, the LEAP fund aims to provide patient and flexible debt options, some with quasi-equity features. Products offered will be a mix of short term (up to 2 year) and longer term (up to 9 year) investments and each will be designed to take into account the challenges of unpredictable income streams and increased service demands post-Covid.

Co-investment comes from Charity Bank's own funds (bank deposits). As a regulated bank, amounts of depositors' funds can only be lent in proportion to the amount of regulated capital that the bank holds, therefore Access subsidy was required to make a contribution to this. The largest amount of subsidy (Grant B) is split, being partly invested as shares in the bank to provide that regulatory capital uplift, and partly for direct lending and providing loss coverage to enable the bank to do more risky, unsecured lending than it normally would.

Smaller amounts of subsidy towards operating costs and grants for frontline charities and social enterprises accompanying some of the loans, complete the package.



This is a very large (£25 million) fund led by the Social Investment Bank (SIB) offering debt products. Capital comes from a range of capital providers, mostly philanthropic, with SIB investing their own funds alongside.

Unusually for an Access fund, no subsidy is provided for lending directly. Capital is fully in place, and the usual requirement for an element of loss coverage is provided from the British Business Bank's loan guarantee scheme (Recovery Loan Scheme). This scheme started during the pandemic, when SIB became a registered user, and has continued since. Access subsidy is therefore not needed for either lending or risk coverage. Instead our funding is used in its entirety to ensure that the fund overall can achieve equitable deployment outcomes.

Subsidy is mainly split between Grant A (costs for partners to source and support diverse deals) and Grant C to change the nature of products, making them viable for targeted enterprises. Only organisations with black and ethnically minoritised leadership can benefit from these altered products.

Subsidy Summary by Fund

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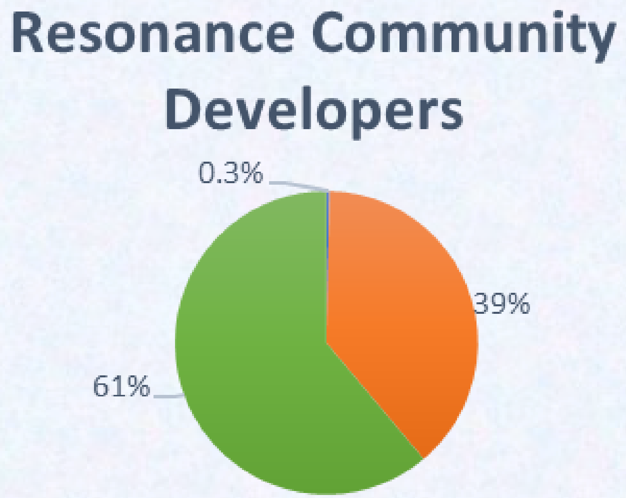
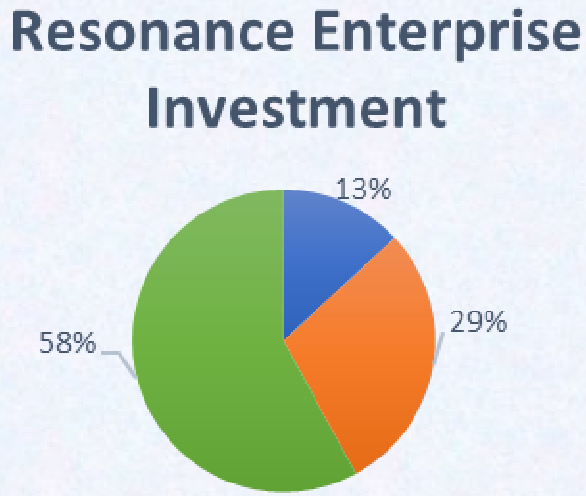


This fund sees Resonance invest in new community assets (housing/sports facilities). The grant flow involves Access (and other contributors) directing funds into a special purpose vehicle (Community Land and Finance CIC), where c.15% of the grant is invested as withdrawable community shares into individual Community Benefit Societies during the pre-construction phase.

The remaining portion of the grant will then be invested, alongside other equity co-investments, into the investment company (RCD Ltd), which in turn invests either community shares or debt finance into those Societies which progress to secure planning permission and move to construction. The intention is that the products will be rapidly refinanced out into longer term cheaper debt, once income streams are established.

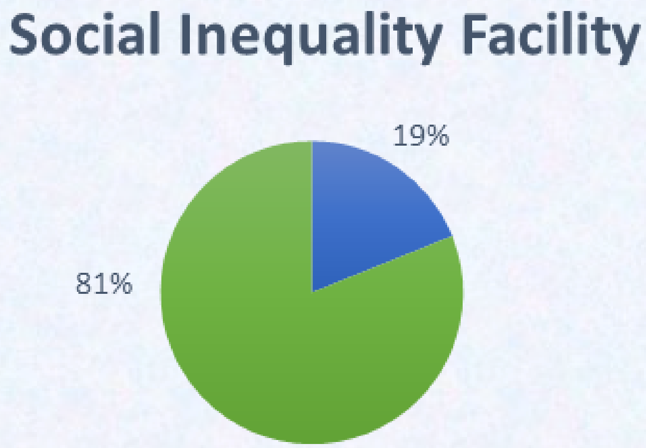
Almost all of the Access subsidy is considered Grant B, as it goes into the capital pot for direct investments. Although fund management costs are recovered from this pot, Access does not provide any specific cost coverage over and above any other investor, therefore this is not classified as Grant A.



This fund integrates quasi-equity and debt products, though Flexible Finance is only investing in the quasi-equity products, so all figures in this document relate only to that element of the fund (anticipated to be 20-25% of the total). A separate Access programme (Enterprise Growth for Communities) is providing the subsidy element for the debt portion of the fund.

The bulk of the Flexible Finance subsidy is provided as Grant B, acting as a layer of guarantee for investors into the fund. A total of £10m (to cover both types of products) is aimed to be raised from a variety of individual and corporate investors, using the Community Investment Tax Relief structure, whereby investors will receive the majority of their return in the form of tax-deductions rather than cash. The Grant B is not itself invested, but is held back to cover anticipated losses, to ensure that there will be sufficient funds to return capital to investors.

As fundraising will take time (forecast to be up to five years to achieve £10m), a higher than usual allocation of Grant A is needed to help to cover costs in the early years.



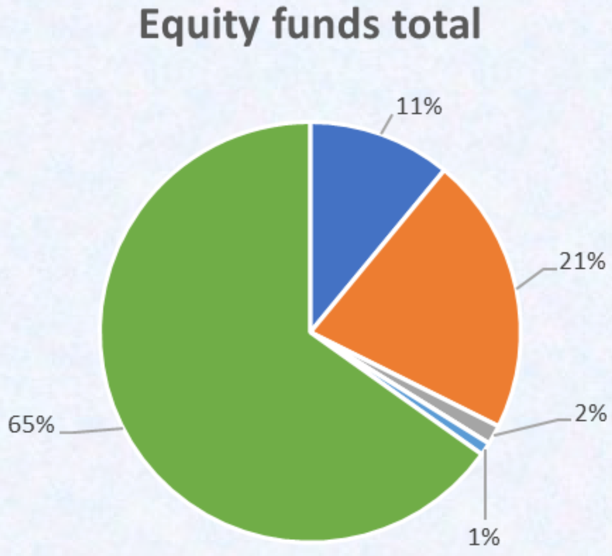
The use of Access subsidy in this fund delivered by Sumerian Foundation is to address the relatively high costs associated with pre and post-investment support. The products offered adopt the principle of "Venture Philanthropy", combining very intensive support with equity-like finance which is very long term (typically ten years) but not anticipated to deliver very strong returns.

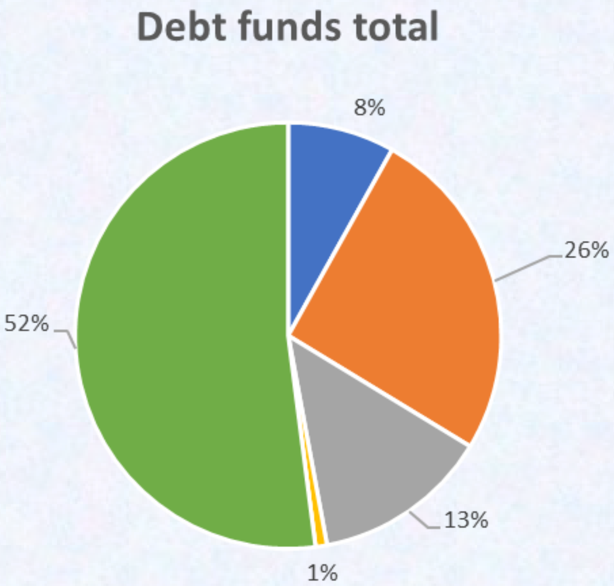
Capital secured from investors for the facility is in itself patient and risk-tolerant, therefore additional subsidy is not required to either built the pot for investments or contribute to loss coverage. However that capital provision does not adequately cover the costs of delivering the model, partly due to the relatively small size of the fund and small number of investees, but mainly due to the intensive support required in the model.

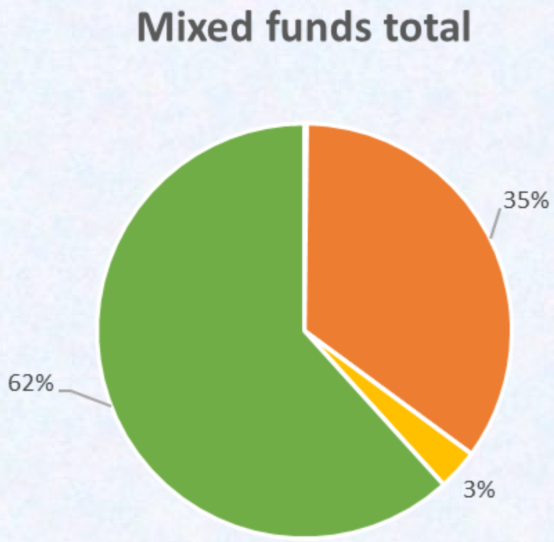
As a result, the entirety of the grant requirement of Access is in the form of cost coverage (Grant A) which makes this a unique subsidy requirement in funds we have supported to date.

Subsidy Summary by Fund

ACCESS The Foundation for Social Investment







Analysing the overall use of subsidy according to the different types of products offered show some modest differences. These are listed below, although it should be remembered that the total number of funds in each category (three equity, four debt, two mixed) mean that marginal differences in aggregate subsidy construction are as likely to be the result of the small sample sizes as any definitive differences in product type construction:

- **Equity funds appear to need less risk coverage**. Grant B is lower in purely equity funds (24% of capital available for investing) than either debt funds (33%) or mixed debt and equity funds (36%).

- Conversely **Equity funds appear to need more coverage of cost shortfalls**. Although lower risk coverage has been needed, the long term and patient nature of repayments can mean that fund income is slow to appear and then relatively low for a period, meaning that more Grant A is needed to help make a fund viable, particularly in the early years.

- **Debt funds are those which need significant Grant C amounts**. Products blended at the frontline level (mixed grant and repayable product) are prevalent when offering debt, but not when offering equity and equity-like options (either entirely, or as part of a mixed fund offering). Grant C in a blend can help with affordability, and the perception of affordability. With equity products generally being designed around the unpredictability of future income streams, and based on ability to repay over time, applicants into Flexible Finance saw less need for an element of the product being definitively non-repayable in the form of grant.

- **Mixed debt and equity funds appear to need no coverage of cost shortfalls**. This is actually as a result of the sources of investment into those two funds, where capital is raised from a wide variety of sources, and fund management costs are agreed to be drawable from the pool of capital from the start of a fund. Access subsidy makes a similar cost contribution, but is no more or less than any other provider of capital, therefore is not categorised as a Grant A subsidy.

SECTION THREE:

Early Activity

Deployment to Date

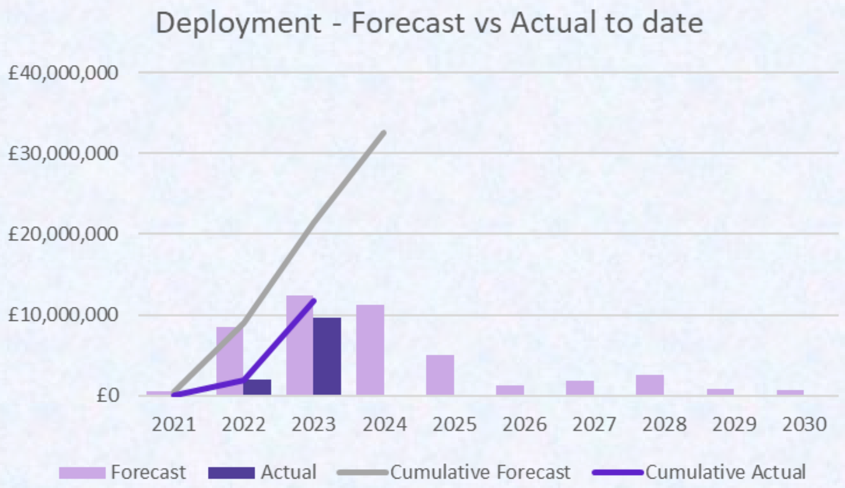
The Flexible Finance programme is still in its early stages of deployment at the time of writing this report, which is a report to describe how subsidy has been designed and awarded according to the theory of different fund models.

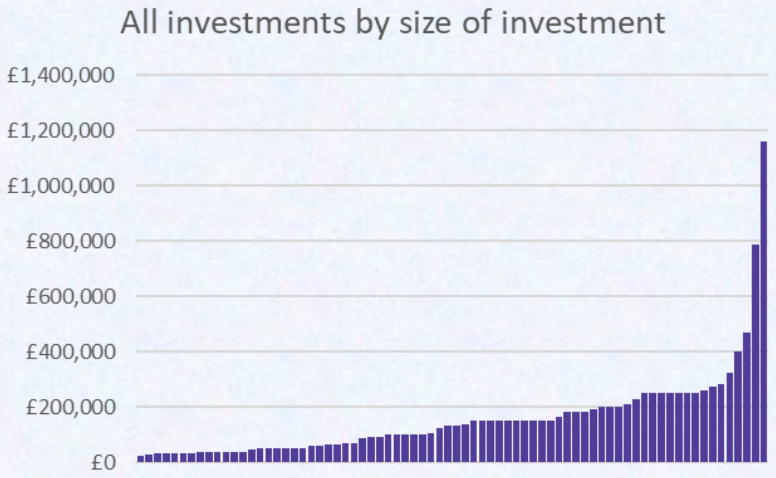
However some deployment has started to happen, with **26%** of the total forecast deployment now having happened, across **78 investments** (75 different organisations) therefore the report also here provides some early data points.

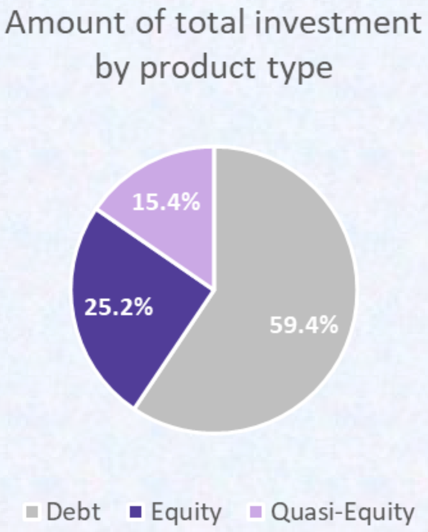
From a slow start deployment in 2023 caught up close to profile (top left). Investments are generally at a relatively small scale (top right), with the vast majority under £250k, and only two of the 74 being over £500k. Average investment size is **£158k** (median £130k) compared to an expected average of £165k.

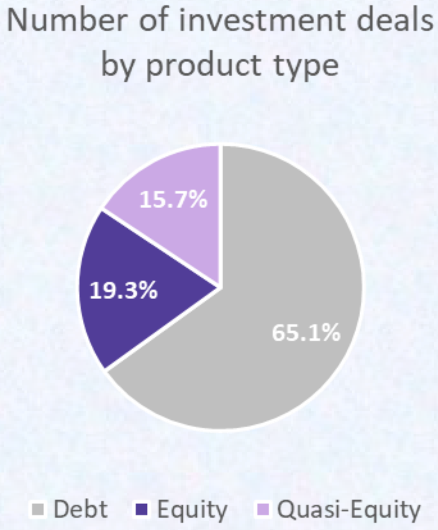
The spread of product type, whether by number of investments or total investment amount, are tracking similar to anticipated volume (forecast volumes overall are 62.2% debt, 23.8% equity, 14.0% quasi-equity).

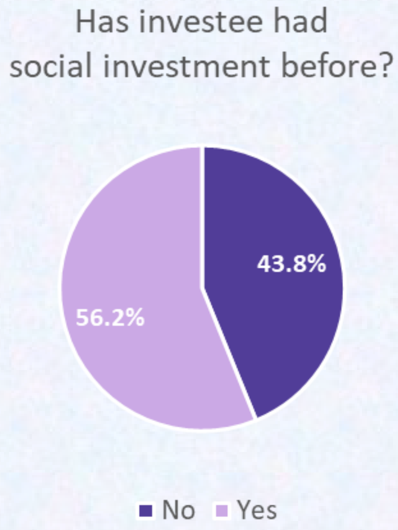
A majority of investees so far (56.2%) have had social investment in some form in the past. This is perhaps slightly higher than we might have imagined.











Early Data Dashboard

Access publishes new, updated data on all of its programmes every quarter. The data is interactive, meaning that users can filter data by clicking on any aspect of the dashboard, and the rest of the graphs and statistics will be amended accordingly.

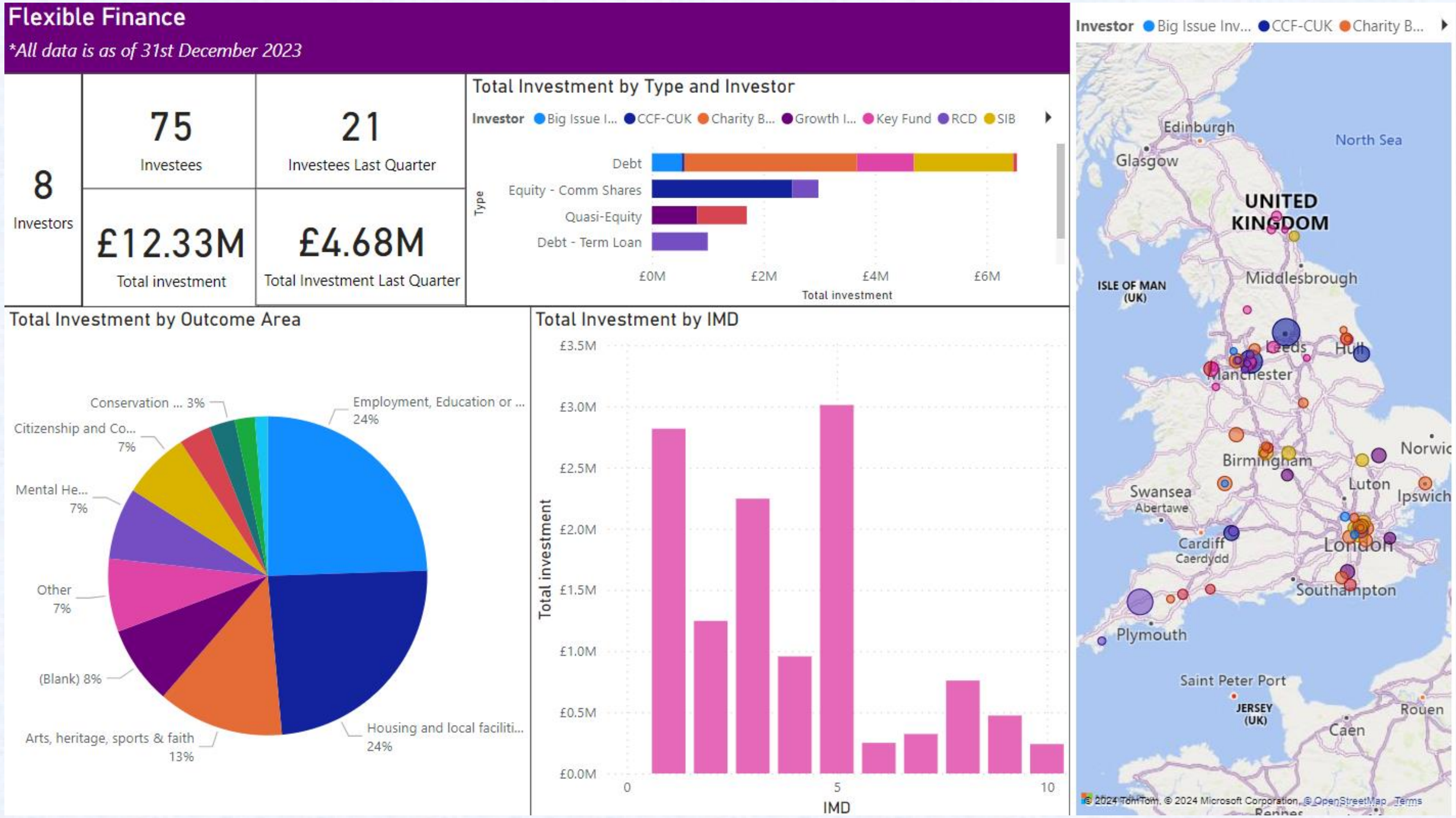
Visit this site to get access to deployment data on the Flexible Finance programme as it develops:
access-socialinvestment.org.uk/learning/quarterly-dashboard/

The snapshot on the right shows the latest quarterly dashboard at the time of writing, covering data up to and including the quarter Oct-Dec 2023. The dashboard is always published two months after the end of each quarter thanks to the efforts of our fund managers in providing data, so this was published at the end of February 2024.

Note that it quotes data for eight investors. This is because – as discussed in the report – one of the nine developed funds is still due to launch, hopefully shortly.

This data also shows a strong skew towards investment values in the bottom half of the Index of Multiple Deprivation (51% in IMD1-3 and 83% in IMD1-5) and that almost half of investments (48%) have supported either employment/education provision or housing/local facilities.

The map on the right shows a reasonable early spread of investment around the country. Note that the size of each point in the map reflects the size of investment.



Further information and Contact Details:

This report was produced by Access – the Foundation for Social Investment. Access helps charities and social enterprises get the finance they need to make a difference. Together with our partners, we ensure they have the means to sustain or scale their impact. We do this by building a social investment market fit for the future, as well as delivering finance for the sector. We target those most in need of patient and flexible investment through three levers:

1. **Funding** enterprise development and blended finance in England.
2. **Sharing** knowledge and data and translating it into practical insight that others can use.
3. **Mobilising** others who share our goal of making capital work for communities.

The **Flexible Finance** programme is funded from Dormant Assets.

Information on the Flexible Finance programme as a whole, and the partners who are delivering the funds on which this report is based, can be found here.

Access publishes up to date data on all of its programmes every quarter. This is published in an interactive format (Power BI) two months after the end of the quarter.
Flexible Finance data is housed within this report which we call our Quarterly Dashboard.

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