

# Delegated Decision Report

29 February 2024

**Subject:** Social Finance Fund – Flexible Social Finance Phase 1  
**Report of:** Project Manager Social Economy  
**Portfolio:** Investment and Resources and Social Economy and Communities

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## Report Summary

The purpose of this report is to approve funding and next steps relating to the Business Case submitted by North of Tyne Combined Authority (NTCA) in partnership with Big Issue Invest (BII) and Power to Change (P2C) to establish a pilot phase of a fund offering flexible Social Finance to social enterprises and businesses trading to deliver social and community benefit, referred to as Socially Trading Organisations (STOs).

In September 2021, NTCA Cabinet agreed priorities and funding to support access to finance for SME's and social enterprises in the region, including objectives to build confidence within and improve funding available to STO's to support their sustainability and growth in both turnover and social impact terms. In line with these priorities, Cabinet approved an allocation of £4m to establish a Social Finance Fund, with the aim of filling gaps in the finance market, including loan and equity, for socially trading and or employee-owned businesses operating in our communities and key sectors and authorised the Managing Director (chief executive) in consultation with Investment Panel, the Mayor and Cabinet Member for Investment and Resources to consider proposals and award funding to deliver activity.

This report outlines the subsequent development work which has been undertaken collaboratively with communities, the sector itself and key strategic actors in the sector nationally. The resulting investment set out in this report will address the requirement from organisations operating within the regional Voluntary, Community & Social Enterprise sector for flexible, patient finance for organisations with potential to grow their trading activity or otherwise improve sustainable diversification of income. The report highlights the proposed delivery model, administration of the fund and financial implications for NTCA.

## Recommendations

The Chief Executive, in consultation with the Director of Finance, the Mayor and relevant Cabinet Member and in accordance with the scheme of delegation, is recommended to:

- a) Approve funding to the value of £1.5m to establish the Social Finance Fund as set out in the report.
- b) Approve the award of a grant of £150,000, inclusive within the overall funding above, to Big Issue Invest to undertake activity as set out in the report.
- c) Note the intention for the remaining £2.5m of the financial allocation approved by Cabinet to support future phases of the fund, subject to interim evaluation and further proposals to be considered by Investment Panel at the appropriate point.

## 1. Background Information, Proposals and Timetable for Implementation

### 1.1 Background Information

The social economy makes a significant contribution to the local economy, there are 3,566 socially trading organisations in the North of Tyne and 5,400 across the wider North East region employing 29,000 local people.

Socially Trading Organisations (STOs) are typically social enterprises such as Community Interest Companies, mutual societies, co-operatives, community businesses and charities which undertake

some form of trading activity. They cover a wide range of sectors and organisations of different sizes, both in terms of their turnover as well as workforce and generate most or all their income through trading activities; in addition, they have a clear commitment to delivering positive social impact – this includes recycling of surpluses back into the local economy. Power to Change research shows that 56p of every £1 spent by a community-owned organisation stays in the local economy, compared with just 40p for large private sector firms.

NTCA and Power to Change (P2C), the community business champions, established a strategic partnership in 2022 to better understand what the social economy sector needs to grow. Together, NTCA and P2C conducted a call for evidence in spring 2022 to gain a better understanding of the state of the sector and understand the sector's appetite for innovative financial products including loan and equity. Evidence demonstrated a demand for a patient and flexible fund not available elsewhere on the market.

NTCA launched a call for partners in March 2023 to identify organisations willing to co-design and co-invest in a new social finance product which meets the needs of the sector and is developed in a collaborative way informed by the sector. The Partners taken forward as potential co-investors through this process were:

- Big Issue Invest
- Esmée Fairbairn Trust

In addition to co-investing partners – other organisations who expressed an interest in supporting the development of the approach, without the offer of co-investment and who have been subsequently engaged as a stakeholder include Voluntary Organisations Network North East (VONNE) & Partners and Northumbria University.

To gain further insights into the requirements of the sector and provide an inclusive opportunity to support the design process, VONNE coordinated several roundtable sessions in November 2023 which brought together strategic partners from the social economy sector and socially trading organisations.

Participants came from a wide range of sectors and over half (58.3%) described themselves as 'Established' whilst 27% categorised themselves as 'Scale-up' with the remaining 14.7% Start-ups.

Respondents told us they were seeking patient, flexible funding which does not jeopardise the financial health or reputation of their organisation and which is based on a clear, understood business case to help boost growth or for invest-to-save initiatives. This has informed the development of the proposition as set out and the flexibilities inherent within it.

The key barriers to accessing social investment emerged as:

- An aversion to the perceived risk associated with loan finance and its cost.
- A lack of skills, time, and capacity within potential investee organisations.
- The perceived lack of tailored advice which recognises the specific legal structures used predominantly within the sector.
- Affordability – it's not a sensible decision to provide finance and/or encourage the organisation to continue with their proposition.
- It's too late – the organisation has approached the funder at the last minute, and they won't be able to process in time or the org is in too much financial difficulty.
- Mindset of the organisation – they need support to understand their financial needs (e.g. larger scale projects needed).
- Ethical Framework – it's simply not the right fit.
- Required value – too high or low for the funder (so they signpost to other funders).
- The organisation can't evidence the requirement and or suitability for a loan.

## **Strategic fit**

There are a range of funding options available within the North East delivered by both local and national organisations, specifically aimed at STO’s. Through consultation, we have learned that the main reasons why current financial support is not utilised is mainly due to the characteristics of the funding itself which, when viewed against the characteristics of the sector, the main issue is flexibility, affordability and terms (e.g. guarantees or security required, etc).

When considering terms offered by existing products in the market, they are often dictated by the liabilities and debt structure of the source capital used or, that there is a need to cover management costs which are often higher as a proportion of the funds under management due to relatively small fund size.

Building on this research and feedback, alongside P2C, Big Issue Invest and Esmee Fairburn Trust, NTCA has designed a proposed Flexible Social Finance model which addresses the requirements of the sector and provides flexibility to adapt and scale this in future phases. Therefore, the main objectives of the proposed fund are to:

- Stimulate growth in the sector.
- Increase investment and economic impact derived from the sector.
- Promote the sector and its socio-economic importance.
- Ensure the sector has access to repayable finance on a basis that is suitable and sustainable, and levels up the ability to compete with operators able to access more mainstream finance offerings.
- Provide a source of patient and flexible funding which can offer tailored investment either wholly, or alongside existing financial products which results into overall improvement of the viability and operation of the social finance market in the area;
- To explore the nature of uptake and subsequent performance of investee organisations where flexibility in terms is introduced. This in turn, explores the case for public sector subsidy of these models, the social and economic value that accrues from deals which would have not occurred without public sector support.
- To unlock external forms of capital into phase 2 of the fund, underpinned by learning from phase investors currently operating across the North East.

The key beneficiaries of the fund are intended to be social enterprises, charities, and community businesses across the North of Tyne initially, and across the NEMCA region subject to a wider consultation with NEMCA partners once established. Beneficiaries will have capacity to scale, delivering more social impact and securing new and existing jobs, traded activity and social impact as a result of investment secured.

**2. Project Outline**

<b>Project Outline</b>	
<b>Applicant</b>	NTCA
<b>Project location</b>	North of Tyne
<b>Start Date</b>	1 <sup>st</sup> April 2024
<b>Financial End Date</b>	31 <sup>st</sup> March 2027 (Phase 1)
<b>Practical completion date (date by which all</b>	31 <sup>st</sup> June 2027 (Phase 1)

<b>outputs will be achieved)</b>	
<b>Total Project Value</b>	£1.6m
<b>NTCA Grant Requested</b>	£1.5m
<b>Financial Implications</b>	£1.5m from £4m of Investment Fund resources allocated by Cabinet; £2.5m of allocation remains to support future phases subject to future decision making.

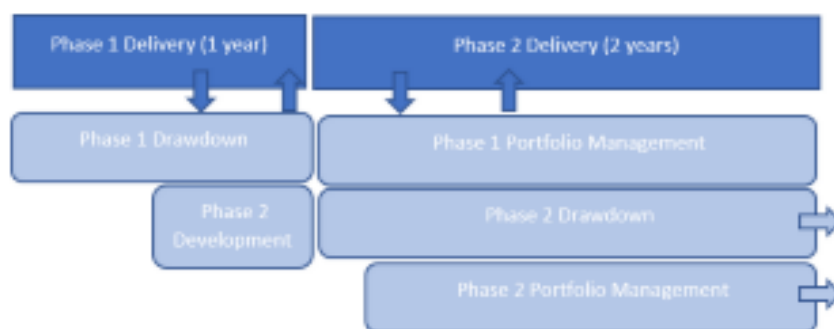
## 2.1 The Fund and how it will operate

The activity we have undertaken to unearth and understand the barriers to finance within the sector has shown that there is a strong need for a flexible offering which can be tailored to the dynamics of the local market as they become better understood. Therefore, the proposal is to deliver the fund on a phased basis with phase 1 being modelled on our current understanding of market needs – and with the objective of further refining the options for future interventions at greater scale and which leverage more significant external capital.

On this basis, Phase 1 will be used as a steppingstone which will prove concept and refine key assumptions leading to a Phase 2 fund which will be significantly greater scale and will offer a range of more defined products, market tested through Phase 1 – market testing will refine the commercial assumptions needed to give external co-investors confidence in the efficacy of the model.

Phase 1 requires initial funding of £1.5m, the remaining £2.5m of the total funding allocated by Cabinet will be utilised to support future phases of the fund and subject to decision making at the appropriate time. Phase 2 will be developed during Phase 1 delivery and will be based on the learnings of that (see Fig 1 below).

Fig. 1



The fund will be complemented by other UKSPF funded programmes which provide specific business support for socially trading organisations including:

- Pathways to Funding - a programme designed to support organisations to navigate the funding landscape providing an ecosystem of tailored support.
- Business with Purpose (Social Enterprise) – bespoke support for the establishment and growth of STO's with one to one and one to many workshops aimed at establishing a business plan. Grant support may then be available to help meet costs identified in the business plan.

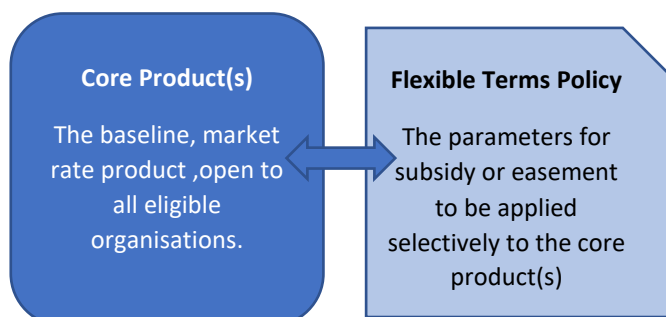
The funding to end recipients will be administered by Big Issue Invest (BII) who are appropriately regulated to undertake lending activity and will work with local partners to build a pipeline and ensure investment offered is in line with business needs. BII will administer the fund on a pilot basis and will do so off their own balance sheet (i.e. a specific legal vehicle will not be created for the first phase of this fund), they will recover actual costs only on a grant funded basis as a delivery partner in the project. BII have extensive experience of the development and administration of funding for the social economy sector and have committed to contribute additional investment in Phase 2 of the fund, subject to demand.

What we hope to learn from Phase 1:

- The overall demand in the market.
- The degree to which selective subsidy can correct market and institutional failures and enable investment into marginal propositions not served well by the mainstream market.
- The impact on overall fund viability and sustainability of the provision of a selective subsidy policy.
- The impact of such as fund on the perception of risk and financial decisions of target investees.
- The potential to scale the model and the subsidy that may be required (net of any returns into the model from successful investments) to reach sustainability and scale.

### Terms and Flexibility

In line with the sector’s requirements, the model offers a solution that is flexible, developed to suit the needs of organisations who are typically underserved in the market. It comprises a ‘core product’ and a Flexible Terms Policy which sets out parameters for flexibility to ensure the final offering meets the investees specific circumstances; this will include improving access (e.g., offering un-secured loans or repayment holidays) and affordability (e.g., reducing interest rate).



This approach is illustrated above and aims to ensure a flexible product can be offered on a case-by-case basis without the need to offer a heavily subsidised product to all; this significantly improves the sustainability of the fund and ensures focus on enabling activity that would not have happened without public sector investment.

### The proposed ‘product’ Parameters:

Fund Value	£1.3M
Phase 1 Duration	1 year
Interest Rate	0% to 9% (Core Product ~ 6%)
Security	No personal guarantees: other security may be sought.
No. of Deals	3 to 20

Average Value	£150k
Repayment term	1 year to 5 years
Min. value	£50k up to 3-year term
Max. value	£400k up to 5-year term
Max. Subsidy	20% of investment value

#### Investee Eligibility Criteria:

Who	Voluntary, Community and Social Enterprise Sector and private organisations with demonstrable social purpose and impact.
Where	Based within the North of Tyne Combined Authority area with potential to widen to NE Geography in Phase 2 subject to future decision making.
Status	Actively operating, post revenue.
Age of organisation	No set age, BUT must be able to evidence financial responsibility and evidence of demand
Target Market	May target specific sectors, e.g. green energy, organisations serving disadvantage communities, organisations led by women or by people from the global community – but wouldn't preclude others. In line with Impacts and Outputs
Exclusions	Sale or promotion of alcohol, tobacco, drugs, gambling Political groups/canvassing Legal Fees Unfair dismissal payments Wholly charitable activities

#### Financial Model

A financial model for the fund has been produced and appraised which sets out three main scenarios of fund performance. As a prudent financial assumption for Phase 1 of the fund and based on market intelligence to date, all scenarios assume that a significant amount of flexibility will be required above the core product offering – therefore on all scenarios there is a cost associated with offering this flexibility borne by the fund; however when the activity enabled through the fund is considered against this cost, even on the most prudent scenario the benefit-cost ratio remains positive and can be considered as a more sustainable approach to enabling this important part of the economy comparative to traditional grant funding mechanisms.

Loss Rate	New Loans	Repayments	Write Offs	Discounted cost	Discounted Benefit (GVA)	BCR
20	1,050,000	861,000	189,000	340,000	1,250,000	3.8
25	1,047,692	811,962	235,731	370,000	1,180,000	3.3
40	1,039,385	665,206	374,178	500,000	1,000,000	2.0

#### Flexible Terms Policy

Alongside the core product, the fund will operate a Flexible Terms Policy, which offers discretion to deviate away from the core product, giving the fund genuine flexibility. This enables a bespoke approach to each case presented for consideration, in line with current market needs.

The policy applies to interest rate reduction, risk reduction and enabling affordability.

With a basis to:

- Reduce interest rates / improve affordability/access (in line with principles)
- Application of payment holidays
- Accept higher risk profiles.
- Apply interest free periods.

### **Governance and Delivery**

BII are experienced in delivering investment funds and have demonstrated robust processes to administer the fund appropriately and efficiently.

An Investment Panel will be constituted, including representatives from NTCA, BII, co-design partners Power to Change and Esmée Fairbairn Trust, local representatives of small-business lending expertise and social sector expert representation. The Investment Panel will provide final decisions for all applications to the fund.

BII will issue loan documents using its own loan agreement suite. All agreements will clearly document any pre-conditions along with any fund or social objectives sought.

BII will action drawdown of Funds to the investee having provided all evidence to satisfy KYC/AML regulations and will monitor all ongoing agreements managing repayments with flow back into the social finance fund.

A Steering Group (maintaining independence of the investment panel) will be assembled and include representatives from NTCA, BII and P2C to monitor the risk register, performance and governance overall and to maintain the risk register.

## **2.2 Outputs and Outcomes (Phase 1 only)**

The following outputs and outcomes will be achieved:

<b>Outputs and Outcomes</b>	
<b>Outputs</b>	<b>Minimum Performance Level</b>
Socially Trading Organisations receiving investment	7
Socially Trading organisations receiving non-financial support	49
Direct Jobs safeguarded	4
Direct jobs created	10
Creation/safeguarding of space for shared community and business activities	2
<b>Outcomes</b>	<b>Total</b>
Social Impact Growth	See further detail below
Revenue Growth	To be monitored through impact evaluation

The job creation target has been calculated using assumptions appropriate to the social sector and acknowledging that many organisations are volunteer led, and while we expect organisations to be developing their traded activity as a result of this funding it is likely that direct employment will be supplemented by volunteer time. When viewed in the context of the funding offered being repayable, and significant wider social value benefit, it is deemed acceptable to apply more modest job creation targets.

The programme aims to grow the social economy and in line with that, wider impacts will include (but not be limited to) the following, linked to the applicant organisation’s social goals:

- Reduction of homelessness
- Increasing mental health and wellbeing
- Rehabilitation
- Poverty reduction
- Increase community cohesion.
- Community regeneration developments

### 2.3 Milestones

Project milestone	Delivery date
Mayoral Comms	March 24
Launch Fund	March 24
Recruit Investment Committee	April 24
First Investment Committee	May 24
First Deal	May 24
Full Phase 1 Drawdown Complete	September 25
Phase 1 Evaluation Complete	December 25

### 2.4 Appraisal

The external appraiser has rated the business case as green.

Overall RAG assessment	
The Economic Case	<b>GREEN</b>
The Strategic Case	<b>GREEN</b>
The Inclusive Economy Case	<b>GREEN</b>
The Commercial Case	<b>GREEN</b>
The Financial Case	<b>GREEN</b>
The Management Case	<b>GREEN</b>
<b>Overall Rating</b>	<b>GREEN</b>

### Proposed Funding Conditions

No.	Condition
1.	A decision to approve Phase 1 should be linked to a conditional allocation for future phases to ensure the longer-term strategic objective can be met, with



	the financial case and delivery approach for future phases refined to address the experiences in delivering phase 1.
2.	Mentoring support from Power to Change is linked to funds provided and is only maintained whilst funding repayments are being made in-line with the funding agreement.
3.	Subsidy Control advice is provided and the application process for applicants includes a requirement to certify the position of the applicant under Minimum Financial Assistance.
4.	A risk register is completed.

## 2.5 Next Steps

Funding agreements will be put in place and the project will commence delivery.

## 3. Potential Impact on Objectives

- 3.1 All activity outlined in the report will contribute to the mission, vision and values of NTCA in providing an inclusive economy and creating opportunities for our residents.
- 3.2 All activity outlined in the report will contribute to the delivery of the outcomes of NTCA Investment Plan which has been approved by Cabinet.

## 4. Key Risks

- 4.1 The risks associated with the delivery of the project outlined in the report are actively managed at several levels. Risks are managed by the project sponsor and as a part of the regular claims and monitoring activity undertaken by the Programme Management Office.
- 4.2 Specific risks identified as part of the appraisal are default rate and unsuitability of funds. Measurements for additional wraparound support to manage the default rate will be established and constant assessment of the model and its suitability will be ongoing during Phase 1 of the project.
- 4.3 In terms of risk management in project delivery, BII is an FCA regulated organisation therefore, risk management procedures and processes are in place to prevent any wrongdoing. For example, BII have a stringent appraisal and monitoring system to manage any risks associated with awarding funds to ineligible or inappropriate sectors or activity. BII will manage fraud risk through the appraisal and due diligence process and carry out checks using a credit check system. Processes to forecast and monitor repayments will be in place to ensure default is minimised and an independent Investment Committee will oversee all due diligence and make final awards.

## 5. Financial and Other Resources Implications

- 5.1 As a result of this funding, £4m of Investment Fund will be used to establish a Social Finance Fund with an initial amount of £1.5m being allocated to deliver the first phase of a Flexible Social Finance fund. Following an assessment of Phase 1, the balance of £2.5m will be used to either extend Phase 1 or develop and mobilise Phase 2. Funding will be defrayed against the following profile:

Cost Heading	Value
Phase 1 fund pot	£1,342,386.00
BII Staff Costs Yr1 Investment Phase	£69,872.00

BII Impact Monitoring in Yr1	£13,510.00
BII Travel, Accom & Subs in Yr1	£1,500.00
BII Marketing in Yr1	£5,000.00
BII Overheads in Yr 1 @ 15%	£13,482.00
BII Staff Costs - portfolio phase (3 yrs)	£36,644.00
BII Impact Monitoring	£10,530.00
BII overheads portfolio phase @15%	£7,076.00
<b>Phase 1 costs (NTCA)</b>	<b>£1,500,000</b>
Phase 2 fund pot (subject to future decision)	£2,263,000.00
Estimated BII Costs for phase 2 (subject to future decision)	£237,000.00
<b>Total Revenue</b>	<b>£4,000,000.00</b>

5.2 In line with our agreed claims process, grants will be paid at the agreed intervention rate quarterly in arrears and upon verification of costs.

5.3 The financial completion date for the project is 31<sup>st</sup> March 2027.

5.4 Below is an approximate forecast projected spend profile:

<b>Funding Profile (Phase 1)</b>					
	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>	<b>TOTAL</b>
<b>Revenue (BII costs)</b>	£103,365	£18,084	£18,083	<b>£18,083</b>	<b>£157,615</b>
<b>Capital (loan pot)</b>	£1,342,386				
<b>Match</b>	£0.1				
<b>Allocation to Future Phases</b>		£1m	1.4m		
<b>Total Phase 1</b>	<b>£1,545,751</b>	<b>£18,084</b>	<b>£18,083</b>	<b>£18,083</b>	<b>£1.6m</b>
<b>Total (phase 1 + remaining funding allocation)</b>	<b>£1,545,751</b>	<b>£1,018,084</b>	<b>£1,418,083</b>	<b>£18,083</b>	<b>£4m</b>

## 6. Legal Implications

6.1 There are legal implications associated with the administration of the fund being subject to regulatory requirements. The delivery partner, BII, will administer the fund and is FCA regulated therefore meeting the legal obligations.

There are no other legal implications at this stage and all other legal matters will be reviewed during the preparation of the Grant Funding Agreement.

6.2 The comments of the Monitoring Officer have been included in this report.

## 7. Equalities Implications

- 7.1 As required by Section 149 of the Equality Act 2010, the Combined Authority has considered its obligations regarding the Public Sector Equality Duty and there will be no anticipated negative impact on groups with protected characteristics from this proposal.

An Equalities Impact Assessment has been undertaken and the implications of this will be considered in the project mobilisation and delivery stage.

## **8. Inclusive Economy Implications**

- 8.1 The project contributes to the delivery of the inclusive economy objectives of the NTCA. The project applicant has submitted detailed responses to the Inclusive Economy case within its proposals and have been appraised.

## **9. Climate Change Implications**

- 9.1 The project detailed in this paper may indirectly contribute to the delivery of climate change and sustainability objectives through the organisations that it supports and the wider social impacts that are expected to be delivered as a result.

- 9.2 Overall, the project contributes to the delivery of the climate change objectives of the NTCA Projects have submitted information within their proposals and have been appraised.

## **10. Consultation and Engagement**

- 10.1 Throughout the process, extensive consultation has taken place; this has included discussion at Technical Officers Group meeting and Investment Panel. Regular briefings have been provided to the elected Mayor who is supportive of the investment.

- 10.2 In addition, significant consultation has been undertaken in the development of the Flexible Social Finance fund which included a call for evidence, several round table events with key stakeholders and the social sector. Further engagement will be undertaken with external stakeholders, local residents and businesses as the project moves into delivery.

## **11. Appendices**

- 11.1 None

## **12. Background Papers**

- 12.1 NTCA Cabinet 22nd September 2021, (DD to HoPS, with Mayor consultation and approval of £4m fund, Minute 39 page 4:

<https://www.northoftyne-ca.gov.uk/wp-content/uploads/2021/11/Approved-Minutes.pdf>

## **13. Contact Officers**

Zara Ford, Project Manager [zara.ford@northoftyne-ca.gov.uk](mailto:zara.ford@northoftyne-ca.gov.uk)

## **14. Glossary**

BII – Big Issue Invest  
FSF – Flexible Social Finance  
IF – Investment Fund  
NTCA – North of Tyne Combined Authority  
P2C – Power to Change

**15. Sign-off**

1) Portfolio holder: Yes	2) Director of P&P/Head of Service: Yes	3) Director of Finance: Yes	4) Monitoring Officer: Yes
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