Spending Review 2015 Representation CDFA

4th September 2015

About the CDFA

The CDFA is the trade body for Community Development Finance Institutions (CDFIs). CDFIs provide loans and technical assistance to businesses, social enterprises, and individuals that cannot access finance from commercial banks. The CDFA's mission is to support the development of a thriving and sustainable community development finance sector that provides finance for underserved communities and, as a result, contributes to the economic growth and prosperity of these communities.

1. Summary of the CDFA's submission

The CDFA welcomes the government's transparent policymaking process through its call for representation in the Spending Review from a range of stakeholders.

1.1 Access to finance

Access to finance and financial exclusion continue to be significant barriers to growth and long-term prosperity in local economies across the UK, at the individual, household, and business levels. The gap in access to appropriate credit and financial services has been driven by a lack of competition and transparency in the financial services sector, along with credit tightening policies, low levels of financial literacy and awareness of alternatives to bank finance. The inability to access appropriate financial services has created a drag on the economy and has led to financial instability, problem debt, and decreased productivity. This not only erodes society but also limits people and firms' participation in the economy.

1.2 Government commitment to access to finance

This government has demonstrated a strong commitment to tackling these challenges through measures such as the price cap on high cost lenders, the launch of the British Business Bank to increase access to finance for businesses, and innovative tools to develop the social investment market. Backing businesses and helping vulnerable people access finance remain priorities, recognising the contribution to economic growth that financial stability has.

This government's manifesto reiterates this commitment; that making financial services more accessible allows businesses to secure the finance they need to grow and create jobs and for people to take control of their financial wellbeing to improve their lives. The access to affordable finance that CDFIs provide to those who cannot otherwise access it, is strongly aligned with the government's priority of growing the economy, and making it more productive and resilient.

1.3 The role of CDFIs

In FY 2014/15, CDFIs lent £250 million to those individuals, businesses, and social enterprises that find it hardest to access mainstream finance; this is an increase of over 45% since the previous year, and a record level of disbursement. The table below shows the economic and social benefits that this lending stimulated, that would otherwise have not been possible.

Table 1: CDFI lending outcomes in FY14/15

In 2015 51 CDFIs lent **£252 million** to:			
11,500 For-profit micro-enterprises and SMEs	500 social enterprises	45,000 Individuals and households	And provided financial literacy and technical assistance to over 58,000 customers
Adding to the economy[1]:			
£613 million from businesses and jobs created and saved	**£12 million** from social enterprises and jobs created and saved	**£4 million** from savings	**£17 million** from increased financial capability and skills upgraded

New funding streams, such as the Regional Growth Fund, a public-private match fund, and the private sector investment leveraged through the Community Investment Tax Relief (CITR) have been critical factors to enabling CDFIs to scale up to address the unmet demand for finance, and therefore stimulating significant economic growth that otherwise would not have been possible.

The CDFA submits the following proposals for this government's Spending Review; tools that together, **will improve efficiency and competitiveness in the community finance sector, and attract new commercial investment, enabling CDFIs to continue growing and stimulating the economy:**

- **Temporary Wholesale Fund:** Following the highly successful delivery of the CDFA's £60 million Regional Growth Fund programme, which achieved £420 million of economic impact, the CDFI sector faces a funding cliff edge that could potentially disrupt thousands of businesses accessing the finance needed to grow and create jobs over the next 9 months, before a longer term facility is established. A government contribution into a temporary wholesale fund would leverage at least a 150% match from the private sector for CDFIs to access to on-lend to new and growing SMEs that otherwise cannot access finance.

- **CITR**: To attract private investment into both the wholesale fund above and the Affordable Lending Fund (mentioned below), a more competitive Community Investment Tax Relief (CITR) is crucial. This includes reviewing and updated aspects of the scheme, and making a marketing push about the availability of CITR to investors.

- **Affordable Lending Portal National Roll Out:** The Affordable Lending Portal – a public-private partnership launched with the support of the Cabinet Office, will begin piloting in select regions in January. Strategic government support into a fund to on-lend will be critical for the national roll out following the pilot, enabling the programme to become self-sufficient, and be a sustainable way of tackling financial exclusion. A successful national roll out will be the blueprint for an infrastructure and technology platform introduced across the sector, ultimately making it more efficient.

[1] Economic impact based on the CDFA's Economic Impact Tool (EIT)

2. CDFI Access to Wholesale Funds in 2016

2.1 Summary

- Current CDFI lending through the CDFA £60 million RGF 1 Wholesale Fund is ahead of schedule and is estimated to end in December 2015. This source of funding accounts for 30% of CDFI lending to SMEs.

- The BBB's current research into the sustainability of the CDFI sector is due to report imminently. Whilst we are hopeful this might frame a new, blended CDFI fund, given known timing of establishing a new wholesale facility, this would not launch until the end of 2016, leaving a 9-12 month gap. **Based on current CDFI lending and known demand, this will create a funding gap of £30 million.**

- Using the existing RGF 1 model as a base, a **£12 million catalytic government grant would lever in an additional £18 million private sector match** in order to fill the **£30 million gap.** This would ensure the sector can meet market demand, maintain delivery, and continue the growth trajectory evidenced through the CDFA RGF 1 Wholesale scheme and other growth projections.

- **Given strong demand and a proven delivery system, this model is feasible** and will expand and further scale the CDFI sector, and thus avoid both disruption in access to finance for SMEs and damage to CDFI infrastructure.

- Through this facility, over 1,000 businesses will be backed, creating and saving thousands of jobs, and contributing nearly £0.2 billion to the economy, a firm driver of economic growth, thus supporting the government's commitment to growing the economy through business growth.

2.2 About the CDFA RGF 1 Wholesale Fund Model

Under RGF1, CDFA in partnership with Co-operative Bank and Unity Trust Bank was awarded £30 million of match funds to create a nationwide £60 million SME wholesale loan fund. The fund is accessed by SMEs through a set of CDFI delivery partners, who draw down the funding jointly from the CDFA (RGF) and private sector banks (match), following application and passing of detailed due diligence processes. As of June 2015, the RGF1 programme has:

- Approved and allocated the full £60m wholesale fund across 17 CDFI Delivery Partners. To do so, each CDFI passed detailed due diligence for joint delivery of RGF, Co-operative and Unity Trust loan funds to SMEs;

- Lent **£43.4 million of capital (117% ahead of delivery projections) to 1,520 SMEs** who have been unable to raise their finance requirements from banks;

- Created and safeguarded **6,940 jobs – at a gross cost of only £3,128 per job for RGF**;

- Of these jobs, 87% are outside of London and the South East with the largest numbers delivered in the West Midlands, North West and East Midlands; **fuelling the development of the Northern Powerhouse**.

- Full disbursement of RGF1 funds to SMEs is profiled to be completed by the contract end date of March 2016, although current delivery profiles indicate this is now likely to be achieved by December 2015.

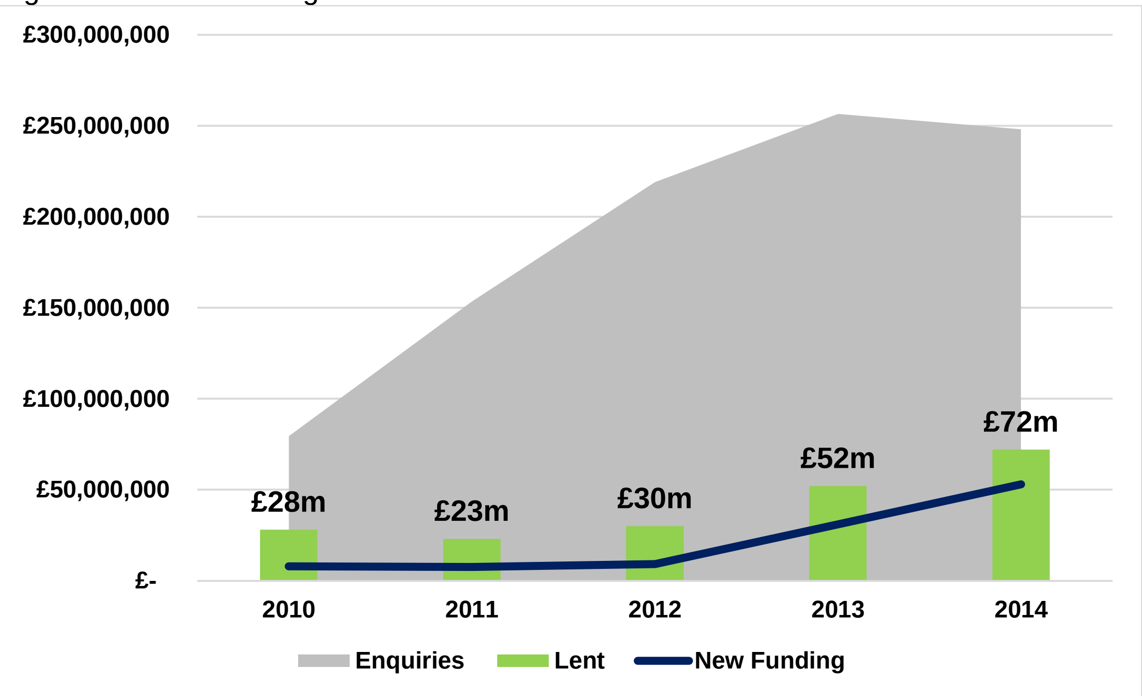
2.3 RGF Impact on CDFIs

- In 2014 the CDFA RGF 1 Wholesale Fund accounted for **21% of all new funding** for CDFIs lending to SMEs. As some of the other funding into the sector was managed funds such as Start Up Loans, RGF actually accounted for **53% of CDFIs own funds**.

- The income generated from interest and fees from lending through the RGF programme accounted for about **23% of CDFIs' total income** in 2014, the bulk of which is allocated to staff costs.

- The CDFA RGF 1 Wholesale Fund has had a catalytic effect on the sector, and through the due diligence and success of delivery enabled CDFIs to secure additional funding on the back of RGF. Since the launch of the RGF Fund, CDFI lending to enterprises has grown 140% (see Figure 2.1). Please also refer to the Appx 1 CDFA Quarterly Capital Delivery and Demand Summary Dec 2012 to March 2017.

Figure 2.1: CDFI lending to SMEs 2010 – 2014



2.4 Post RGF 1

The CDFA's RGF 1 Wholesale Fund is projected to end in December 2015, at which point £60 million will have been lent, nearly 2,500 micro businesses and SMEs will have been assisted, at least 7,500 jobs will have been created or safeguarded over the course of the programme, and a £30 million commercial match will have leveraged. It will have contributed a net £420 million of economic value to some of the most underdeveloped and underinvested economies across England.

On current performance, CDFIs face a funding 'cliff' when RGF ends in December 2015, with some exhausting their funds even sooner due to ever increasing demand and resultant strong delivery.

CDFA welcomes the British Business Bank's research into the sustainability of the CDFI sector as a step towards the development of a sustainable funding source for the sector, that will attract higher levels of commercial investment. However, considering the time required to structure and launch a new fund we estimate that it will be at least 12 months before CDFIs are actually able to access this new source of capital to on-lend to SMEs. Whilst CDFIs can recycle RGF capital once it is repaid, this will take time to re-circulate and will have a very minimal impact on the identified gap period.

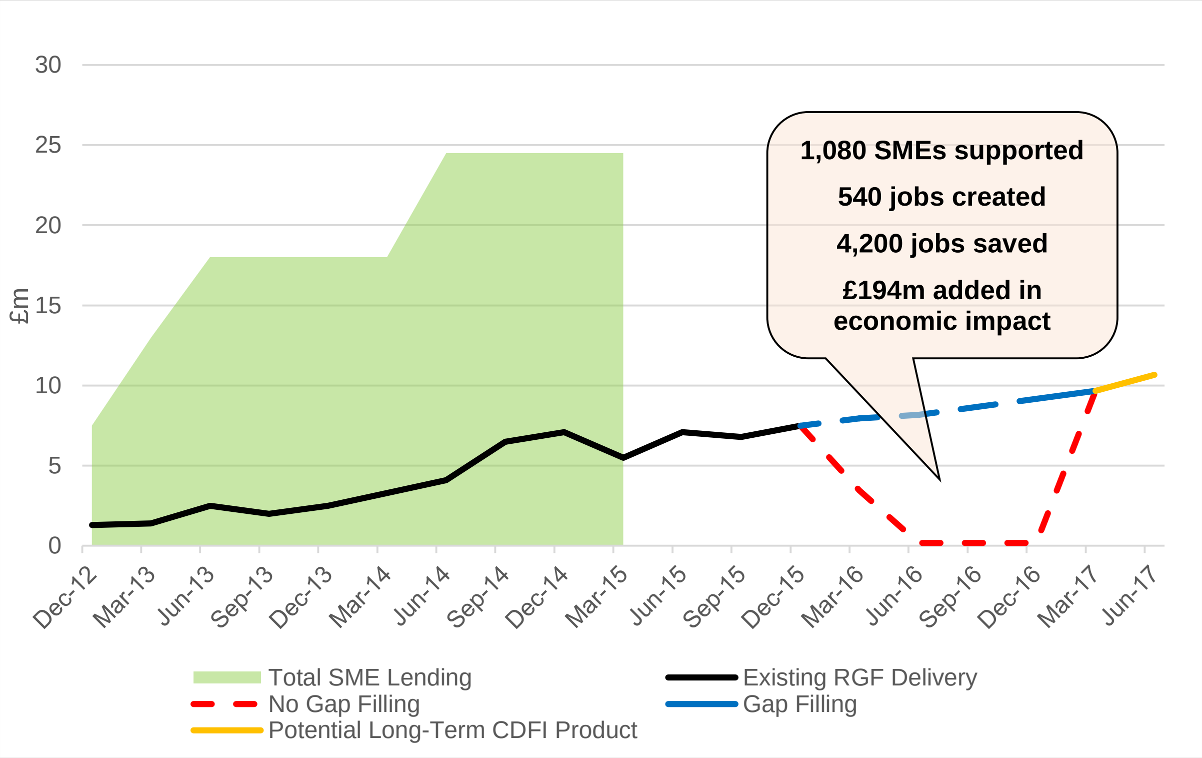
Existing EU funding such as ERDF, that CDFIs have been able to secure on the back of the RGF scheme, are also projected to finish at a similar time. Possible new EU funding streams remain very uncertain, and without a nationally coordinated approach will not provide a meaningful alternative source of funds.

The implications of this funding gap combined with the stop start nature of recent schemes, is ultimately a gap in access to finance for SMEs and a barrier to economic growth. It reduces start up and growth potential, as well as job creation and retention rates, and therefore productivity. For CDFIs, the loss of momentum and growth trajectory will prevent them from lending, and thus lose their pipeline of demand. It will require great effort and considerable investment to rebuild capacity, pipeline, and momentum again. For the sector there could be a loss of more than 50 jobs (2% of total sector workforce, and 21% of SME lenders' workforce) which would result in a significant loss of physical capacity, expertise and experience. Rebuilding this the sector specific skills, knowledge and talent base developed over the past 2 ½ years will require **additional** investment and take considerable time to build when funding becomes available again.

2.5. Gap Funding

Avoiding this significant disruption in access to finance for SMEs across the UK and resultant contraction in growth in the economy requires gap funding to bridge the end of the CDFA's RGF 1 Wholesale Fund programme and the launch of a longer-term product. Without this, an estimated 1,080 businesses would otherwise not be able to access finance, leading to the opportunity cost of 540 jobs created, a further 4,200 saved, and nearly £200 million added to the UK economy as a result (see Figure 2.2).

Figure 2.2: CDFI SME Lending



The opportunity to use the existing RGF 1 delivery mechanism ensures this proposed gap fund will benefit from:

- Pre-negotiated 60% commercial match;
- Established and proven CDFI delivery partners, who have been vetted and developed strong infrastructure for local reach;
- Investment panel governance, systems and procedures.

This approach is established and has already demonstrated success, and would enable CDFIs to hit the ground running so ensuring speed, efficiency and cost effectiveness.

The existing commercial partners from the RGF 1 fund (Unity and Co-op Bank) have already reconfirmed the in-principle support they provided for the CDFA's RGF 6 bid for the full amount of match (see attached Appx 2 CDFA RGF 6 proposal).

In line with the CDFA's RGF 6 proposal we would increase leverage by improving the split of match funding to 40/60 to reflect the progress that has been made by CDFIs since RGF 1 started, and the strong portfolio performance of the fund.

In additional this will enable the CDFA to explore bringing in additional banking partners and delivery partners to meet the continued increase in demand.

Further modelling of the gap and potential financing to cover it can be found in the Appx 1 Quarterly Capital Delivery Summary spreadsheet.

2.6 Conclusion

The success of the CDFA's RGF 1 Wholesale Fund has demonstrated that CDFIs are important delivery mechanisms in their local regions, reaching businesses and entrepreneurs who would otherwise not be able to access finance, and helping them to realise their growth potential. In 3 years, the RGF 1 programme will have added £420 million to the UK's GDP.

Despite this success, the sector is facing a funding cliff at the end of 2015. Without a gap filling product, over 1,000 small businesses will lose access to finance, which will stifle local economic growth and opportunity. Compounding this will be the additional SMEs that will be affected by the overall contraction and loss of capacity within the CDFI sector, which has taken time and investment to hone.

A **new, £30 million fund,** in part catalysed by a £12 million government grant, able to launch in January 2016, is estimated to return over 1,000 new loans to businesses, create 540 jobs, save a further 4,200 and stimulate an additional £194 million of economic value during the 12 month period. This fund would be able to launch immediately, and would help the government achieve its goals of increasing access to financial services, thus stimulating economic growth through business development.

Not only would this gap filling finance avoid a devastating contraction in the CDFI sector, but it would enable the sector to continue the strong growth trajectory it has been on since 2012, enabling any potential future long-term product to have an even larger impact when it is launched.

3. Community Investment Tax Relief (CITR)

3.1 Summary

- The Community Investment Tax Relief (CITR) is an important tool for CDFIs to attract new private investment for onward lending. **To date over £100 million has been raised through CITR, which has facilitated more than £100 million of onward lending.**

- CITR is over a decade old, and new reliefs have been launched in the meantime, so it is important the CITR remains appropriate and competitive as a key mechanism for growing investment into the sector, and therefore the sector's economic impact.

- We propose aligning the benefits of CITR with those of SITR, relaxing the requirements for accreditation so more CDFIs can access CITR, and make a marketing push for CITR and SITR together to develop the market for investors.

- The proposed changes would generate an **additional £140 million in economic benefit annually** through more businesses backed, and more social enterprises, entrepreneurs, and individuals helped to realise their economic opportunity.

3.2 About CITR

The Community Investment Tax Relief (CITR) is a tax relief launched in 2002 to encourage corporate and institutional investment into CDFIs for the purpose of on-lending to SMEs and social enterprises that are located in disadvantaged communities and are unable to access mainstream finance. The Social Investment Tax Relief (SITR), on the other hand, is designed as a relief to encourage individual investments into social enterprises to enable them to become sustainable. The two schemes differ in their structure, and target different groups of investors, but are complementary in their purpose to grow the social economy.

Through CITR over £100 million has been raised since 2002 mainly though bank loans to CDFIs and deposits into CDFI banks. This has facilitated more than £100 million of onward lending. There are currently 26 accredited CDFIs. Despite the scheme falling somewhat short of its potential to date, the CITR scheme continues to be an essential tool for CDFIs to raise capital to on-lend, and will become even more critical now that CDFIs have scaled up and become more sustainable (through programmes such as RGF) and are attracting greater investment from more commercial sources. The proposed upgrades will position CITR as a **significant tool for local and regional investors wanting to back local businesses and invest in their local economy.**

As evidence of this potential, the take up of the scheme has proved popular in the past year since £60 million of capital to on-lend became available to the sector through a match fund between Unity Trust Bank, Cooperative Bank and BIS's Regional Growth Fund. The banks' private investment through CITR has been essential to ensuring CDFIs can access these funds at affordable rates, as banks offset the cost of their funding if they make a return on their investment.

3.3 Proposed Updates to CITR

CITR is an essential tool for the sector to attract private investment, and access funding at affordable rates, thus enabling CDFIs to become more sustainable themselves, and support more businesses and social enterprises that could otherwise not access finance, stimulating significant economic growth. The lack of parity with other tax relief schemes such as SITR and the Enterprise Investment Scheme (EIS) is resulting in less funding coming into the sector, as the incentives to invest in intermediaries such as CDFIs are currently less competitive, and the array of reliefs available is confusing.

Ultimately this is limiting potential future investment and therefore growth in local economies, as CDFIs invest in enterprises and communities that SITR and EIS would not reach. The expansion of SITR is an opportunity for CITR to be improved and simplified. CITR and SITR can be co-branded alongside each other as social economy tax reliefs, one for helping front-line social ventures and the other allowing intermediaries to provide access to finance that will enhance social and financial wellbeing in communities.

The CDFA proposes the following three improvements to CITR to integrate the incentives available to social investors in order to attract more private investment into the sector, enabling CDFIs to address the gap in access to finance that hinders the UK's economic growth potential:

1. In order to make these tax reliefs easier for investors to navigate, **the benefits of CITR should be aligned with those of SITR and EIS (30% over three years).** This level of benefit would make CITR more attractive and help to secure additional investment in CDFIs.

2. The following restrictions that CITR has in place should be reviewed and updated given the growth and changes in the sector since the launch of CITR:

   a) **Geographic limit:** Currently, CITR requires investments to be onward lent into the top 35% most disadvantaged areas. Whilst lending to underserved and underinvested communities is a key factor in how CDFIs operate, the geography of exclusion is not always concentrated in one area. Certainly many rural geographies do not qualify as the top 35% most disadvantaged, although access to finance is still a prevalent barrier to businesses and entrepreneurs in those areas; meaning that CDFIs who provide a solution in rural areas cannot access affordable funding to on-lend. We recommend that the existing geographic requirements are relaxed to enable CDFIs to reach more cities, towns, and communities unable to access the finance they need to prosper.

   b) **Borrowing limit:** Using CITR, CDFIs can currently raise a maximum of £10 million within three years. Given that several CITR accredited CDFIs have lent well over £10 million in the last three years, this limit is clearly no longer fit for purpose for this growing sector. For commercial investors as well, there is an increasing appetite to make larger scale investments into CDFIs. So, left as it is, the current structure will significantly limit the amount of new private investment into CDFIs, therefore also limiting the growth and productivity potential of SMEs around the country. **We propose implementing an annual borrowing limit of £10 million, or £30 million over three years.**

   c) **CDFI definition**: CITR eligibility is currently restricted to CDFIs lending to SMEs and social enterprises. This puts CDFIs lending to individuals at a disadvantage in terms of the tools and mechanisms available to attract commercial investment. Making CITR available for CDFIs that lend to individuals, in addition to those lending to for and non-profit enterprises, and would enable more CDFIs to become CITR accredited and attract investment through CITR.

3. The launch and expansion of SITR is also a good opportunity for BIS, Treasury, Cabinet Office, and the CDFA to make a **marketing push for SITR and CITR as a tax suite**

available to investors who want to make a social return. CITR has not received a strong marketing push since its launch over 10 years ago, so promoting it as an option for corporate and institutional investors would generate additional interest.

These improvements would mean that all CDFIs could become accredited and benefit from CITR, **doubling the number of CDFIs currently accredited**. These additional CDFIs would attract substantially more private investment, **doubling the rate of uptake of CITR**, and help to grow the social investment market, adding value back into the economy.

3.4 Effectiveness and value for money

Changing CITR benefits from 25% over five years to 30% over three years, and expanding the eligibility for accreditation will have a marginal cost for the government, but will double the rate of annual private investment into CDFIs. The table below compares the current scheme to the proposed changes.

Table 3.1: Current investment under CITR and potential investment through improved CITR

Conditions	**Current CITR (2014)**	**Potential through Refreshed CITR (annually)**
CDFIs accredited	26	52
Total raised through CITR (2014)	c£10 million	c£20 million
Cost to Exchequer	(£0.5 million)	(£2 million)
CDFI lending stimulated by CITR investment	c£20 million	c£40 million
Economic benefits generated in the year	**£140 million**	**£280 million +**

As can be seen from Table 3.1, improving CITR would attract catalytic funding into the CDFI sector, stimulating an additional £20 million in lending and adding over £0.28 billion to the GDP. This is done through the creation and retention of SMEs, interest repayment savings and increases in consumer surplus, the creation of jobs and the subsequent reductions in unemployment, and overall lower levels of debt and reliance on public benefits. **The feasibility of the proposed upgrades is very straightforward, given that CITR is already up and running and other reliefs already have these terms.**

As CDFIs serve consumers and enterprises excluded by mainstream finance, the lending and resulting economic benefits would otherwise not have occurred. The marginal increase in cost to the Exchequer from the proposed upgrades to CITR would generate significantly greater economic benefits, through investment into the CDFI model.

4. Affordable Lending Portal National Roll Out

4.1 Summary

- The Affordable Lending Portal is a partnership between community lenders (CDFIs and credit unions) and commercial partners to provide access to affordable credit to vulnerable and excluded consumers who would otherwise use high cost credit.

- It is an innovative and sustainable model to approach to the challenge of financial exclusion.

- A 6 month pilot is launching with 7 community lenders and 1 commercial partner – Asda, in 4 geographic regions (Glasgow, Newcastle, Manchester, and London).

- Following this the programme will roll out nationally. **For this stage we are proposing a catalytic £2.3 million grant from government, which will leverage a further £9.2 million from private investors** to structure an £11.5 million capital fund for the community lenders to access to meet the increase in demand for affordable credit.

- Community lenders would match this with their own funding, creating a pool of £23 million to on-lend in the first year of the programme.

- **In total 65,770 consumers are expected to access this product during the first year of national roll out. This will save consumers £6.2 million in interest payments to high cost credit providers, and generate £19.7 million in economic value, through financial literacy training during the year.**

4.2 About the Affordable Lending Portal

The Affordable Lending Portal aims to support CDFIs to scale up their lending operations by providing a marketing channel directly to vulnerable consumers - who may be unaware of CDFIs - seeking short-term loans to existing community lenders.

Access to affordable credit is essential to combat a series of personal financial problems, problem debt, and reliance on government support, particularly among vulnerable people. The FCA's new proactive regulatory environment for consumer credit, including the price cap on high cost lenders, is a welcomed development, but highlights the need for increased access to affordable and fair financial services as ever more important.

The Affordable Lending Portal, launched through the Cabinet Office's Affordable Lending Steering Group, is a partnership between seven community lenders (CDFIs and credit unions), Asda, Experian, and StepChange (the debt advice agency). This innovative partnership aims to pilot the model of high street supermarkets and utility companies referring their customers who are in need of a loan to community lenders, who will provide them with affordable credit. This model leverages the strong presence and brand of national chains – such as Asda, and the community lenders' ability to serve this segment of the market affordably.

The outcome will be that vulnerable and excluded customers will avoid seeking out high cost credit, and the brand and presence of ethical alternatives will become much more prominent. It will also become part of the national financial services infrastructure. The provision of affordable credit not only generates consumer surplus, but also increases broad financial wellbeing, contributing to a resilient economy. The Affordable Lending Portal is well positioned to tackle financial exclusion, and help the government achieve its commitments to improving access to affordable credit through a sustainable model.

Financial exclusion and the ensuing negative impacts it has on social, economic, and community wellbeing have recently been highlighted by the Financial Inclusion Commission. The Commission and its chair, Sir Sherard Cowper-Coles, are immensely supportive of the Affordable Lending Portal, and view it as central objective in achieving the Commission's objective of tackling financial exclusion.

4.2 Pilot Phase

The Affordable Lending Portal will be launched as a pilot with the current partners, with support from the Cabinet Office and the FCA, in January 2016. The pilot will run for 6 months, after which it will be rolled out nationally, and opened up to more commercial partners and community lenders. The pilot phase aims to achieve the following results:

- Provide a sustainable product/s that operate/s for a social purpose;
- Create a credible brand which is recognised by customers seeking access to short term credit;
- Raise awareness of community lenders as alternative providers of short term credit;
- Increase the customer base of community lenders;
- Provide a basis for community lenders to achieve economic scale and reduce operating costs;
- Increase access to wrap around services to vulnerable customers provided by community lenders such as savings products and financial advice;
- Drive down the costs of loans within the short-term credit market.

Within the 6 month pilot period it is estimated that the 7 community lenders will receive an additional 60,000 applications through the Portal, which will result in 30,000 loans. **This alone will save consumers £2.7 million in interest payments to high cost credit providers, and generate £8.7 million in economic value, through financial literacy training.**

4.3 National Roll Out

The national roll out of the Affordable Lending Portal, across community lenders, utility companies, and supermarket chains across the country will dramatically compound the economic benefits listed above achieved through increased financial stability among vulnerable populations. As a national programme, the portal will provide a solution to financial exclusion, and by building a national infrastructure – contribute to a stronger financial services system.

A critical factor to the successful national roll out of this programme is for community lenders to have access to the capital they need to meet the increase in demand this programme will generate. The national roll out of the programme will require both capital and revenue funding for the community lenders to meet the modelled demand. As can be seen in Table 4.1, a new fund of £11.5 million will need to be raised, which in turn will be matched by the participating community lenders' own funds. A government grant of 20% of this fund - **£2.3 million will be catalytic in raising the remaining £9.2 million from commercial sources.** In addition, it will enable the programme to raise the **£70,000 required in revenue funding from philanthropic sources.**

The government's commitment to addressing financial exclusion and increasing access to affordable credit has been instrumental in generating broad support for the Affordable Lending Portal pilot. Similarly, support during the national roll out phase will help the initiative become commercially sustainable, and therefore able to serve the vulnerable and financially excluded segment of the market on a long-term basis.

4.4 Affordable Lending Fund

The table below projects the capital requirements and operating costs of the national roll out, based on the costs and time scales of the pilot.

- It is projected that an additional three community lenders will be incorporated onto the technology platform per quarter, over the course of four quarters. 16 community lenders will participate in the portal during the first year of annual roll out.

- The average loan amount is expected to be £350.

- The participating community lenders will contribute their own funds to the referrals that come from the portal – an average of £720,000 per community lender per year.

- It is projected that to meet the demand, community lenders will need access to an additional £250,000 per quarter for on-lending, requiring an additional fund of £11.5 million (which would be matched by the community lenders' £11.5 million). In total £23 million of funding will be available to community lenders in the first year of the national roll out.

- To structure the £11.5 million fund, the 20% contribution from the government will be critical in leveraging in the 80% commercial contribution from funders who have expressed interest in this fund split (Big Society Capital, Unity Trust Bank, The Co-Operative Bank, Charity Bank, European Investment Fund).

- If the Community Investment Tax Relief (CITR) is made available to CDFIs lending to individuals (as proposed above) it can be utilised as part of this fund with some of the investors above.

- The capital can be recycled for on-lending until the commercial loans need to be repaid.

- **In total 65,770 consumers are expected to access this product during the first year of national roll out. This will save consumers £6.2 million in interest payments to high cost credit providers, and generate £19.7 million in economic value, through financial literacy training during the year.**

Table 4.1: Projected operating and funding costs for the national roll out

	2016 QTr 2	2016 Qtr 3	2016 Qtr 4	2017 Qtr 1	**Total**
Capital for on-lending (7, 10, 13, 16 CLs each lending £1m pa)	£1,750,000	£2,500,000	£3,250,000	£4,000,000	**£11,500,000**
20% Government grant	£350,000	£500,000	£650,000	£800,000	**£2,300,000**
80% Commercial match	£1,400,000	£2,000,000	£2,600,000	£3,200,000	**£9,200,000**
Community Lender capital match	£5,040,000	£2,160,000	£2,160,000	£2,160,000	**£11,520,000**
Total Capital available for on-lending	**£6,790,000**	**£4,660,000**	**£5,410,000**	**£6,160,000**	**£23,020,000**
Management & Administration	£28,000	£21,000	£14,000	£7,000	**£70,000**

As specified in Table 4.1, the £2.3 million grant from the government in support of making financial services more accessible to those facing financial exclusion, will leverage an additional £9.2 million from commercial sources, structuring an £11.5 million fund, matched by the community lenders' own £11.5 million. Overall this sizeable fund that will enable the programme to be sustained in the long-term. **Given that the technology and process will have been trialled and tested during the pilot, the national roll out of the Affordable Lending Portal will be highly feasible**.

Conclusion

The Affordable Lending Portal is an innovative and sustainable solution to the challenge of financial exclusion. The pilot is scheduled to launch through welcomed support from a number of stakeholders, including the Cabinet Office, the FCA, the Financial Inclusion Commission, Asda, Experian, Barclays, the CDFA, Stepchange, and each of the community lenders. However, for the next stage of this programme, the government grant will unlock significant private investment, enabling the community lenders to access a package of funding and therefore meet the demand for affordable credit that will come through the portal. **In the first year alone nearly £20 million in economic value is expected to be created as a result of the government's contribution.**

For those individuals who otherwise do not have access to affordable credit, this programme has the potential to offer a number of benefits as a result of greater financial stability and wellbeing including:

- More people accessing affordable loan products
- Mainstream alternative to combat high cost lending
- Transition from emergency high cost credit to managed borrowing and saving
- A reduction of over-indebtedness and spiraling indebtedness
- Comparison of average interest charged, across community lenders, with the high credit lenders, indicating % savings to customers
- Improved physical and mental health
- Improved family relationships
- Maintaining tenancies
- Remaining in employment

For the community lenders, who are the only affordable and ethical providers operating in this segment, this programme is an opportunity to significantly scale the sector and its brand; a vibrant and innovative community finance sector will contribute tremendous economic benefit back to society for years to come.