Local Trust
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people

Levelling the land:

Social investment and 'left behind' places

Dan Gregory for Local Trust
November 2021

Local Trust

About this report

Local Trust commissioned Dan Gregory to research and write this report considering social investment and 'left behind' neighbourhoods. It is based on desk research and some interviews with Big Local residents and makes the case for a new, long term investment, which shares risks.

About Dan Gregory

Dan Gregory is an independent advisor and researcher. He has worked for the Treasury and Cabinet Office, where he led the development of government policy on social enterprise access to finance and the role of the voluntary and community sector in public service delivery. For Social Enterprise UK, Dan has advised government departments globally on the development of social enterprise policies and has led research into social enterprise in around 20 countries.

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Front cover Zute Lightfoot

COMMUNITY FUND

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Foreword

Big Local is one of the most radical and exciting grant programmes ever launched by a major Lottery funder. Between 2010-12 The National Lottery Community Fund identified 150 areas that had historically 'missed out' on lottery and other funding. Each of those areas was allocated £1m of Big Local funding. This could be spent in any way they chose, provided local residents organised themselves locally to plan and manage that funding, involving the wider community in the decision-making process.

Beyond that, rules, constraints and priorities that define Big Local have been for local people to decide. By design, the programme is bottom-up and community led; there are no top-down targets or centrally-imposed delivery models. The timeframe for Big Local extends over 15 years, allowing communities to take their time, build confidence and skills, make decisions and deliver change without the usual pressures to meet end-of-year spend targets or other arbitrary bureaucratic deadlines. Ten years into the programme, and across the country, we can see the positive and transformatory results that can come from trusting local people.

From the programme's inception, we have sought to test and evaluate our approaches to supporting communities, and share that learning wherever possible. One assumption at the start of the programme was that Big Local areas would want to use social investment as a tool to transform their local neighbourhoods. In the early days of the programme, we provided significant support to Big Local areas wishing to access this type of investment, and introduced them to partner organisations with experience of working with social finance. Yet, and despite the success of the programme as a whole, there was little take up of this offer. As of today, only a handful of Big Local areas have accessed or provided social finance – although a number have taken out loans or mortgages from high street lenders.

To put this experience in context, we decided to commission the research on which this report is based from Dan Gregory, a leading expert in social investment and author of a previous, influential report for Local Trust, *Skittled Out*. We wanted to better understand whether social investment in its current forms could support the regeneration of the most deprived or 'left behind' neighbourhoods across the country or, as our experience with Big Local was suggesting, if new models were needed. And we wanted to start to map out what these new models might look like.

The report's conclusion is clear: we need to rethink current models of social investment if they are to be relevant to and make a difference in the most deprived or 'left behind' neighbourhoods. As Barbara Slasor from Gaunless Gateway Big Local puts it, social investment could make a difference in her area, but it needs to be "done right". As the report argues, social investment done right for disadvantaged or 'left behind' areas would be focused on meeting the community's needs rather than financial returns for investors, embrace risk, have some degree of flexibility and – crucially – be very long-term or patient. Those new approaches to delivering social investment would need to be conceived of and delivered at a very local scale, with ideally, significant involvement from local communities. Models based on these principles could build on and develop local assets, help create more vibrant local economies, and build wider community confidence and capacity, whilst also generating a financial return for investors.

Our intention is that this report will start a conversation that will inform the design of new and more appropriate models and approaches to social investment – ones capable of supporting change and tangibly turning around the fortunes of the most deprived or 'left behind' areas.

Matt Leach
Chief Executive, Local Trust

Introduction

Over 100,000 people have died during the COVID-19 crisis in the UK alone. The economy has been hit hard, unemployment has rocketed, and the doors of thousands of business and charities have closed. COVID-19 has exacerbated the inequalities that existed in the UK before the pandemic. A combination of public sector deficits, tax rises and a potential new wave of austerity all loom on the horizon, while climate catastrophe and ongoing uncertainty around the UK's post-Brexit arrangements bring further uncertainty.

At the same time, informal mutual aid has demonstrated the power of community over the last year. Addressing inequality has never been more of a priority, the idea of building back better has been adopted across the political spectrum, there is a focus on 'left behind' areas, and levelling up has become the mantra of this Conservative Government.

Local Trust operates exactly in this space, where crisis and neglect meet hope and action. It is a place-based funder, aiming to demonstrate the value of long term, unconditional, resident-led funding, trusting local people to make their areas better places to live. Over the past few years, Local Trust has played an increasingly pivotal role in exploring and proposing ways forward that can support communities to achieve their ambitions, through highlighting the importance of social infrastructure, instigating the All-Party Parliamentary Group (APPG) for 'left behind' neighbourhoods and bringing together a campaign for a Community Wealth Fund.

The aim

In this context, Local Trust wants to explore the role of social investment in levelling up 'left behind' areas. The idea of social investment has gained traction over the past two decades in the UK, evolving as it has emerged. While definitions vary, most agree that this is about investment with a blended motivation – seeking some combination of financial and social return.

Yet beyond this definition, the idea of social investment is still fuzzy. Does the pursuit of financial return require getting some money back; all of it; more than the original investment; or even commercially comparable rates of return?

On the social side of the coin, is measurable social impact required? If so, by what measure? Or is it just the motivation that counts? Or does any investment in an organisation with a social purpose qualify? Or even an investment in a building occupied by such an organisation?

After two decades, none of this seems to be much clearer, let alone without the introduction of the overlapping language of impact investment from across the Atlantic.

In the early days of the social investment industry, advocates were focused on creating wealth and employment in the UK's underinvested communities. Later, the emphasis shifted towards enabling civil society or the third sector to access much more significant levels of finance. Latterly, the defining characteristic of these investment models appears to have become impact, rather than the geography of deprivation, or the anatomy of the social sector. This shift in emphasis is subtle but important.

Twenty years ago, in October 2000, Sir Ronald Cohen wrote a letter to the then chancellor of the exchequer, Gordon Brown, as an introduction to the first report of the Social Investment Taskforce. In the final line of the letter, Sir Ronald describes "a new approach and a far-reaching programme to improve dramatically the prospects of underinvested communities". Ten years later, as the Social Investment Taskforce published its final report in 2010, Sir Ronald's closing line to his introduction describes ten year of "developing new approaches to improve the difficult lives of those whom rising national prosperity has not helped."

It is striking how, both 10 and 20 years ago, Sir Ronald was focused on the underinvested and those who had been 'left behind'. In 2020, as the idea of the 'left behind' has come to the fore, it seems timely to ask where social investment has gone.

The need

The concept of 'left behind' areas has emerged over the past few years, seemingly linked in some way to the Brexit referendum. In his first speech as Prime Minister, Boris Johnson described his job as "Prime Minister of the whole United Kingdom and that means uniting our country answering at last the plea of the forgotten people and the 'left behind' towns by physically and literally renewing the ties that bind us together."

Yet of course, disadvantage is not a new phenomenon, and inequalities go back decades. What is meant by 'left behind' areas? What are the particular needs of these areas? What does the literature and the evidence tell us about their circumstances, challenges and characteristics?

Again, there is no consensus here, but some patterns are emerging. These areas may have low levels of financial and social capital, assets and capacity; low levels of social mobility and connectivity, skills and investment; few places to meet and poor connectivity. On the other hand, they may suffer from high levels of deprivation and unemployment, ill health and poverty. Together, these factors hold back their potential – and the potential of the people who live there - for economic and social productivity.

The evidence

The UK 2070 Commission undertook an inquiry into regional inequalities (UK2070 Commission, 2020). The Commission's final report concluded that the UK is one of the most spatially unequal economies in the developed world, and argued that:

- much public spending is dealing with the consequences of failing to tackle spatial imbalances rather than creating conditions for success
- continuing with fragmented, underpowered, and short-term initiatives will not work
- we need a large-scale, comprehensive, long-term and devolved plan of action to deliver change
- actions required include strengthening the foundations of local economies through empowering local leadership in towns and local communities, and allowing different places to step up through different levels of devolution according to local ambition, need and capacity.

Alongside proposals around skills and transport, in particular, the word 'investment' appears 144 times in the Commission's final report. Specifically, with regard to investment, the report highlights:

- the bigger problem of access to risk capital rather than debt
- a need for critical longer-term investment
- a need for a more direct link between social and economic goals and expenditure programmes
- how public funding tends to rely on demonstrable short-term returns on investment.

An Institute for Fiscal Studies (IFS) report of October 2020 considered evidence on UK regional inequalities and looked at some of the existing programmes aimed at targeting resources to 'left-behind' places – defined as places with broad economic underperformance, which manifests itself in low pay and employment, leading to lower living standards in that area, as well as poor productivity and a low skill base (Davenport and Zaranka, 2020). The IFS found that:

- the UK is one of the most geographically unequal countries in the developed world
- regional inequalities are deep-rooted and complex: even well-designed policies could take years or even decades to have meaningful effects
- an effective 'levelling-up' agenda would need to use multiple tools, incorporating public investment, education and training, tax reform, planning law, devolution and a myriad of other policy areas
- long-term funding arrangements should encourage local areas to commit to potentially transformative schemes
- the government also needs to consider the appropriate mix between capital funding (for building new infrastructure) and current funding (to keep it running).

Nation, region, place and neighbourhood: Why scale matters

At the widest level, the UK is made up of four nations, and their relative economic position is an important aspect of the debate around the future of our United Kingdom.

Then within England, the idea of the north-south divide persists.

At the same time, many are concerned with the disproportionate power and wealth held by London.

While others compare the prospects and prosperity of cities to towns, with coastal towns often of particular concern.

Yet for some, even the scale of local authorities, towns or boroughs masks the inequality that is exhibited at a neighbourhood level.

Analysis by Oxford Consultants for Social Inclusion (OCSI) has identified 225 'left behind' neighbourhoods across England. These areas have a combined population of over 2 million people concentrated in housing estates on the edges of our post-industrial towns and cities and in coastal areas, particularly in the North and Midlands. They include neighbourhoods in Greater Manchester, Merseyside, Birmingham, Middlesbrough, Hull and Stoke, as well as coastal areas in southern England (Local Trust, 2019).

We sometimes need to go to this hyperlocal level in order to get to grips with what it really means to be a 'left behind' area and to understand what levelling up might mean for these areas.

A range of research into addressing spatial inequalities is focused on the way that transport challenges and solutions can make the difference. Centre for Cities – unsurprisingly focused on cities – argues that addressing "poorly performing transport networks in cities plagued by the worst congestion" could help to close the productivity gap between cities in the North and Midlands and those in the South to 'level up' the national economy (Edgar, 2020), while also arguing against spreading transport investment too thinly, thereby focusing on a handful of core cities (Jeffrey and Enenkel, 2020).

While this may offer the promise of efficiency from an investment perspective, this does not seem to offer much for areas not included. As this author and Toft (2019) have pointed out, even these advocates of the benefits of agglomeration admit that they need:

"Different responses to support prosperity in areas which don't experience its benefits, beyond new rail links and a reversal of the decline of bus routes. Sadly, they don't tend to make many suggestions for what those responses might be."

As Thomas Forth (2017) from Open Data Institute (ODI) says:

I don't have an economic answer for Newport, Bradford, Blackpool, Middlesbrough, Dudley, or Walsall."

Others do. OCSI's report of 2019 suggested that a lack of places to meet; the absence of an engaged and active community (Local Trust and OCSI, 2019); and poor connectivity to the wider economy – physical and digital – make a significant difference to social and economic outcomes for deprived communities. Deprived areas which lack these assets have higher rates of unemployment, ill health and child poverty than other deprived areas. The report proposed, in particular, a Community Wealth Fund to support the development of civic assets, connection and community engagement in the most 'left-behind' neighbourhoods and appropriate portions of government funds to support community economic development in these neighbourhoods.

There are some people who won't move and you need to make their lives honourable, manageable and pleasant where they are. That means in a sense preserving the environment, even if it happens to be a small town. Think about the small town as part of the environment. Preserving this environment is something we should just take as something we need to do, and we should find a way to do it."

Esther Duflo, Nobel Prize winning economist.

One report for Local Trust, by Steven Toft and this author (2019), looked at 'left behind' areas and the particular challenges they face. The research highlighted how:

- economic growth has bypassed some areas completely
- many people are witnessing falling real wages and the rise of 'precarious' work
- gaps have opened between high and low-skill occupations
- physical location and a lack of suitable transport disconnects many from economic opportunity
- productivity stagnation in the UK has been particularly marked since the recession, on top of a long-term productivity gap.

The report considered previous initiatives to invest in these areas and concluded that investment to help overcome these challenges has tended to be much more successful where it has harnessed local knowledge and trust, offered flexibility, and fostered social capital, ownership and responsibility at a community level. The research argued that emerging models of local economic development can be built upon the principles of long-term investment; rooted in the particularities of place; investing in social capital and social infrastructure; encouraging partnership; supporting asset creation; and targeting need and community control.

Social infrastructure appears to be a recurring theme. The Centre for Progressive Policy (CPP) published Productivity knocks Levelling up with social infrastructure investment in early 2020. The report argues that:

"investment in social infrastructure is essential for levelling-up the UK due to its long-run economic returns [and]… broadening the understanding and application of economic policy by integrating social policy and investment in social infrastructure, is critical to addressing the underlying structural causes of deprivation and productivity returns to social infrastructure investment are comparable to that of physical infrastructure."

The report proposes:

- a place-based approach - where local leaders can have full flexibility and accountability
- considering the long-term - over a 10 to 15 year period;
- accounting for assets
- thinking beyond capital
- a level playing field for project appraisal to take into account the productivity impacts of social infrastructure.

So, investment must be part of what these areas need. It seems clear that addressing inequality will require investment that tackles imbalances over the long-term, empowering local people to respond to their particular circumstances, building lasting assets, and addressing social and economic goals in tandem through harnessing the potential of people in 'left behind' areas.

The social investment response

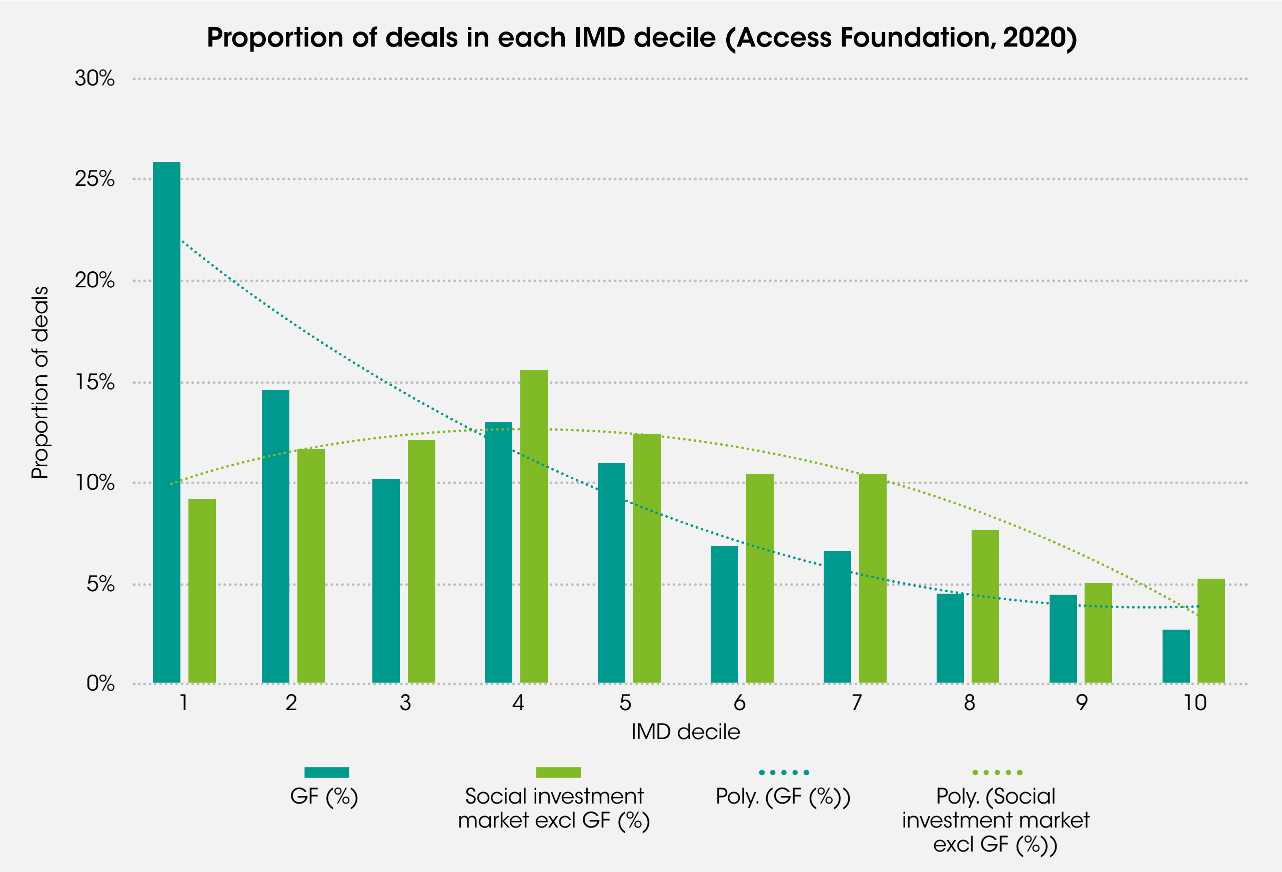
Advocates of social investment suggest it has the potential to transform communities and change lives. Is it doing so? Or at least helping to do so? Is social investment working for 'left behind' areas, responding to their needs? Or is it bypassing these areas and these challenges? Is social investment helping level up the country or is it even exacerbating existing inequalities?

Specifically, where is social investment going? Is social investment making a difference in disadvantaged areas?

The idea of social investment rests on an assumption that investment into organisations with a social purpose can be an effective route to addressing disadvantage. The social economy offers a convenient proxy, or maybe the nearest vehicle – or even perhaps the only game in town – when it comes to targeting disadvantage. For many social investors, there is a compelling logic here to invest in businesses set up with a social mission to serve communities, in areas failed by government or the private sector, and which reinvest any profits in those areas.

Yet it is worth noting that some research has suggested that 'left behind' places have fewer charities which help support and engage the community compared to other similarly deprived areas. If social investment was spread equally across the charity sector, then these areas would be missing out even further (APPG, 2021). On the other hand, other research tells us that social enterprises operate disproportionately in disadvantaged areas. Of course, both these observations may be true – as social enterprises and charities overlap but they are not the same thing.

Meanwhile, when it comes to funding and finance for these organisations, the APPG for 'left behind' neighbourhoods recently reported how 'left behind' areas have received lower levels of COVID-19 charitable grant funding than other areas – less than half the funding per head received by other deprived areas and one third of England as a whole, despite higher average levels of need (OCSI, 2020). We therefore need to examine the data in order to understand whether social investment is truly addressing disadvantage across the UK. Social investment must surely play a role in filling gaps, getting to where others cannot, doing what others do not and making a difference where others will not. Does it?



The Access Foundation has compared their own investment activity with the wider social investment market (excluding their own Growth Fund). This data shows us that social investment is spread quite evenly across the country – around 10 per cent of social investment is flowing to areas in the lowest Index of Multiple Deprivation (IMD) decile, which likely equates to around £100 million per year (Benton, 2019).

This tells us that social investment is getting to disadvantaged areas to some extent but no more than to other areas. Further, in the scheme of wider capital flows, these are negligible quantities. It gives us no more detail than the level of the lowest IMD decile and little about the extent to which social investment is really reaching those areas which have been specifically characterised as 'left behind'.

More concerningly, in Autumn 2020, Big Society Capital released their latest estimates of Social impact investment in the UK, worth over £5.1 billion in total (BSC, 2020). Big Society Capital's visualisation of this data shows us that around 40 per cent of the investment is in London, only 10 per cent in the whole of the North of England and indeed none at all in the North West.[1] Again, we cannot see the extent to which investment is flowing to 'left behind' areas specifically, but this picture does not offer much hope. To understand the picture more clearly, we need to look at specific funds and programmes.

[1] North East, North West and Yorkshire and Humber combined.

What is the link between social investment and 'left behind' areas?

The link between social investment and 'left behind' areas is not always clear. The meaning of social investment has evolved over the last two decades and while the story arguably began with a focus on disadvantaged areas, today, the term is most commonly understood to refer to investment in organisations with a primarily social purpose or the impact achieved as a result. How does this relate to the needs of 'left behind' areas?

For many within the social investment industry, the idea is that investing in these organisations can help tackle disadvantage across the UK. For example, as The Social Investment Business (SIB), outlines, "the social economy provides more jobs by turnover than the private sector, creates jobs in some of the most disadvantaged areas, and invests in employees to improve the quality of their jobs". SIB argue that "given the scale of challenge ahead, there is no space for extractive investment that siphons profits out of an area to private shareholders… The social economy, with its commitment to putting people first, can play an essential role in the recovery, while tackling some of the underlying issues facing these areas… Supporting businesses with a social conscience that put income and employment as their most important outcomes, over profit-maximisation." (Thomson, 2020).

The funds

The following table explores a number of models delivered over the past two decades under the banner of social investment. Many are predicated on the idea that investment should deliver financial return above and beyond the initial outlay. Others allow for the possibility that some money may return but this may be less than what was invested, justified on the basis of the social impact, however that may be measured. Some models are current and others have run their course. In any case, we can learn from both past and existing practice.

Model	Features	Mechanism	Source of funds	Geographical focus
Community shares (BSC, 2020)	Community shares have been used to save local shops and pubs, finance renewable energy schemes, transform community facilities, support local food growing, fund new football clubs, restore heritage buildings and more.	Community shares are a form of investment unique to co-operative and community benefit societies.	Local community. Since 2009, almost a 120,000 people have invested over £100m to support 350 community businesses throughout the UK	Often perceived to be in wealthier areas. However, over three times as many investors (17%) are from the most affluent areas of the country (IMD 10) compared to just 5% of organisations running share offers in those same areas.
Fair for You £7.5m perpetual bond	Seven UK social investors came together in 2020 to provide an investment in the form of a perpetual bond or quasi-equity capital worth £7.5m (Patton, 2020).	A "fixed income security with no maturity date, more akin to a type of equity, rather than debt. Not redeemable but pays a steady stream of interest payments forever." (Patton, 2020).	The deal includes £5m in dormant assets funding from the government-backed Fair4All Finance, plus further investment from Fair for You's existing social investors: Joseph Rowntree Foundation, Esmee Fairbairn Foundation, Tudor Trust, Barrow Cadbury Trust, Robertson Trust and Ignite.	Fair for You is based in Coventry. Perpetual bonds have rarely been used beyond one or two investments in the social investment field.
Futurebuilders	Futurebuilders invested in social and community businesses that, among other things, ran local health and social care services, took over buildings to be used as community space, or provided affordable childcare and support. Futurebuilders closed to new investments several years ago but SIB still manage the ongoing loan portfolio.	Debt and grants. The average loan length was 13.9 years with financial and non-financial variations were applied to a significant number of investments, representing the long-term commitment to supporting investees through difficult times.	HM Government.	40% of investment went to the 20% most deprived areas in the country (SIB, 2019).
Place-based funds	These include a number of funds such as Bristol and Bath Regional Capital; Key Fund; and the North East Social Investment Fund. Many are still operating today.	A mix, often debt investments.	Often backed by Big Society Capital	While some of these clearly include many 'left behind' areas in their work, they also include many relatively wealthy areas and indeed cover too wide an area to draw firm conclusions.
Social Investment Tax Relief (SITR) funds	Resonance's place-based funds include a North West Social Investment Tax Relief Fund, and similar funds in the South West and West Midlands. SITR was created in 2014.	These offer unsecured loans in social enterprise with a time horizon of 6-8 years and expect a 7-8% return	Often backed by Big Society Capital	HM Treasury's own analysis of the impact of SITR was that the benefits of this tax break would accrue disproportionately to investors who are "male, located in the south of England and have higher overall income levels".

Model	Features	Mechanism	Source of funds	Geographical focus
Bridges Fund I	Risk capital investment in disadvantaged communities, created around 20 years ago.	Equity capital, venture capital-style.	HM Government and others.	Bridges Ventures was focused on underserved areas, creating employment and boosting supply chains in disadvantaged areas.
Access Foundation	The Access Growth Fund provides a mix of grant and loan support via network of investors, such as Key Fund, Big Issue Invest and more. Access was created in 2015.	While the average interest rate may be seen as relatively high at over 7% this is often accompanied by grant and flexible terms (Access, 2020).	Unclaimed assets.	Investment activity is heavily concentrated in more deprived places, both by number and by total value
Local Trust	Established in 2012 to deliver a Lottery funded programme which committed £1m each to 150 neighbourhoods across England.	Communities making their own decisions on what is best for their area. 150 communities have been given at least £1m with no strings attached to use as they see fit.	Lottery funds	Includes but not limited to 'left behind' areas
Community Development Financial Institutions (CDFIs) and credit unions	CDFIs and credit unions have relatively long history in the UK in the context of social investment. Savings and loan co-operatives were formed in 1960 in Derry and 1964 in Wimbledon.	Loans	Lending CDFIs were established in the late 90s, supported with capitalisation through European funding, the Single Regeneration Budget and the Phoenix Fund. The government's subsequent Growth Fund provided capital and subsidy which allowed for further creation and expansion (Evans et al, 2018).	Often focused on disadvantaged areas CDFIs and credit unions are today faced with multiple challenges to their sustainability, from competition and economic conditions, technology, regulatory challenges, and internal capacity (Alexander, 2020).
Community Foundations	Community Foundations encourage local philanthropy, using the funds raised to make grants to local charities. They work with a range of local charities and community groups depending on local need. The have existed for several decades.	Grants.	Funds raised from local people and businesses.	Mixed, spread across the UK.

The lessons

There are lessons to be drawn from a number of evaluations and reports into the funds and programmes outlines above, specifically with regard to the question of whether social investment is making a difference to 'left behind' areas.

The Futurebuilders evaluation report in 2010 suggests a number of lessons for social investment, including the importance of patient and engaged funding for areas of greatest need, among other findings (CRESR, 2010). More recently, analysis of the Futurebuilders portfolio suggested three answers to the question of 'what makes social investment work' – patience, flexibility and investing in areas of most need. This analysis seems to suggest that investment along these lines can create long-term employment and return some capital to investors but needs subsidy to absorb risk (SIB).

A recent review of the community shares market reported that only 8 per cent of investees fall within the most deprived decile of wards (COOP). However, over three times as many investors (17 per cent) are from the most affluent areas of the country compared to just 5 per cent of organisations running share offers in those same areas, suggesting that, overall, community shares allow for more privileged members of our society to invest directly in communities that may not have sufficient resources available locally.

Bridges Fund I was focused on businesses which were located in or had links with the 25 per cent most deprived wards in England as measured by the Index of Multiple Deprivation. A government evaluation of Bridges Fund I reported that investees had grown their turnover and jobs but also pointed out that a major factor contributing to the commercial success of Bridges Fund I was that a large part of its portfolio comprised property-backed businesses (Aulakh and Thorpe, 2011).

In February 2020, the Access Foundation outlined how their investment activity is heavily concentrated in more deprived places, both by number and by total value of investments (Elsworth, 2020). Access also shows how their work compares very favourably to bank lending data, which has "a more flat line across all the IMD deciles although with a trend away from the most deprived areas".

In March 2021, the Treasury published a policy paper on the extension of the SITR scheme (HM Revenue and Customs, 2021). In the paper, the Government suggested that the measure is not expected to have any significant economic impacts, negligible impact on social enterprises, and is not expected to impact on individuals. Previously, the government had suggested that the benefits of the break were expected to accrue disproportionately to rich white men in the South East of England.

One aspect of Local Trust's work has been to provide information, support and guidance to build the knowledge of social investment and local economies in Big Local areas[2] to help residents make more informed choices about the potential contribution of social investment and social enterprise. The evaluation of the early years of the programme reported that the amount of information available to areas increased and there was better intelligence about what areas' support needs are in relation to social investment (NCVO, 2014). Yet the extent to which areas have engaged with investment models that foresee even some financial return is very limited, with the community of Lawrence Weston investing in a community wind farm as one of a very small number of examples. A community-owned wind turbine is to be built near Bristol and will provide

[2] Big Local areas are neighbourhoods selected by the National Lottery Community Fund to receive at least £1m. Local Trust is working with 150 Big Local areas.

renewable energy to thousands of homes. The community intends to use profits from the turbine to help fund a development plan for the local area, including a £1.7m community hub providing training, social support and debt advice (BBC, 2020).

CDFIs and credit unions have been evaluated and analysed, both individually and collectively over several decades now. A government review in 2010, for example, summarised how CDFIs were delivering to their target market, reducing market failure, representing value for money, but facing a challenge with sustainability. In 2015, a further evaluation suggested that CDFIs were heavily reliant on subsidy and that attracting commercial finance would be limited by, again, questions over their sustainability (PwC, 2015). In 2019, an early evaluation of Big Society Capital's Community Investment Enterprise Facility (CIEF) highlighted how CDFIs are lending to disadvantaged groups and 20 per cent of investments were to MSMEs in the 10 per cent most deprived neighbourhoods according to the Indices of Multiple Deprivation (IMD).

There are other funds and other evaluations but overall, these funds and these studies suggest a number of lessons. Above all, that models which harness subsidy and offer appropriate, patient and flexible terms are often necessary in order to attract demand, absorb losses and successfully reach disadvantaged areas.

Another perspective

To get a better understanding of why social investment may not be flowing to 'left behind' areas as much as we may like to see, we should listen to voices from these neighbourhoods. While the data can give us a sense of what is happening, personal perspectives may shed light on why.

Barbara from Gaunless Big Local

Barbara Slasor from Gaunless Gateway Big Local in the North East quite likes the idea of social investment. She likes community shares especially. But she also believes that the idea of investment is a little daunting or scary for some local organisations who simply do not know enough about it. Barbara describes a few local projects where she thinks social investment could work – a disused community facility, a local sports club, an old housing association property that could be brought back into use, or to put a building the council was going to close down into the hands of a Community Interest Company. She says social investment could be great, if it is done right. What does she mean by 'done right'?

Barbara outlines how investment could help bring people together to form a consortium around a project, to co-operate rather than compete. She believes the idea of return should be seen more widely than in terms of direct financial return for investors. She would welcome investment if it was bottom-up, not top-down, and "based on where the community is at and what their need is rather than from the point of view of the money."

Tim from the West Midlands

Tim Evans in the West Midlands already has some experience of "DIY social investment" when a bakery business he knew issued "bread bonds" to buy equipment and raise tens of thousands of pounds very quickly and with little paperwork. He has also seen social investment work with a big charity and likes the idea. He describes how investment models might create a long-term, sustainable asset for the community – a sort of hyperlocal sovereign wealth fund.

But for smaller, riskier projects, Tim is not so sure. Maybe it could work for the local bike shop, a social supermarket or a housing project. But he also has hesitations and sees limitations. Making a business work in a tough community is hard already. Does the community really have the expertise? What would the right investment product be? Is debt really appropriate? Tim also thinks that social investment needs demystifying, the jargon is baffling and there are cultural barriers.

Tim wants to see finance that is a bit more attuned to the local conditions. In particular, that recognises how the pace of change can be slow, "we're talking 10 years, 15 years or more," he says, "because that's how long it takes!"

Alison from Salford

Alison Jones has similar ideas. She doubts that much social investment, if any, has come to Little Hulton. But she is interested nevertheless. Investment in housing or refurbishment projects could work. In fact, she says she would love the idea if she could find the right model – she just cannot see the model that would work in Little Hulton.

Alison thinks it is difficult to recommend investment to the boards of local organisations because of the risks involved but she can see how it might work. There are businesses – and social businesses – in Little Hulton who have received a few small grants to get going and to help them grow. There is a nursery, a training provider and a building project in the pipeline. In theory, and in time, these projects could want investment but it just has not happened yet.

Emerging US models

A number of emerging models in the US may also offer us lessons for consideration in the UK:

- **O zones** – The Tax Cuts and Jobs Act created the concept of Opportunity Zones, defined as "economically-distressed communities where new investments, under certain conditions, may be eligible for preferential tax treatment." OZ plans are now in place for communities in all 50 US states, aiming to foster more equitable development outcomes, such as job creation and business growth, in undercapitalised communities. These have had mixed success so far. They can be complex and tend to back property and real estate, while tax breaks naturally mean benefits go disproportionately to wealthy investors (Wittenberg, 2020).
- **Rise of the Rest** – a seed fund based on the recognition that roughly three-quarters of US venture capital goes to Silicon Valley, New York City and Boston, covering much less than one-tenth of the population (Luce, 2019). The fund invests capital in promising seed stage companies located outside of Silicon Valley, New York City, and Boston.
- **Benefit Chicago** – a place-based impact investing project. It aims to finance impact enterprises that "build wealth, create jobs and enhance job readiness" in poor neighbourhoods of Chicago. Benefit Chicago is mobilizing $100 million in impact investments. The Chicago Community Trust, the John D. and Catherine T. MacArthur Foundation, and Calvert Impact Capital created Benefit Chicago, raising capital from the general public through a community investment note and Chicago Community Trust allocated donor advised funds. Investments have been made in a range of businesses seeking to generate local employment, as well as healthcare services and housing.
- **Philimpact Fund** – Reinvestment Fund and The Philadelphia Foundation have joined forces to create a fixed-income product that puts 100 per cent of investments toward enhancing the growth of the greater Philadelphia region. Reinvestment Fund brings together individual investors, banks, government officials, private foundations and faith-based and community organisations to invest in projects that transform communities. As a federally certified Community Development Financial Institution (CDFI), they manage $1.2 billion that comes from 830 investors.

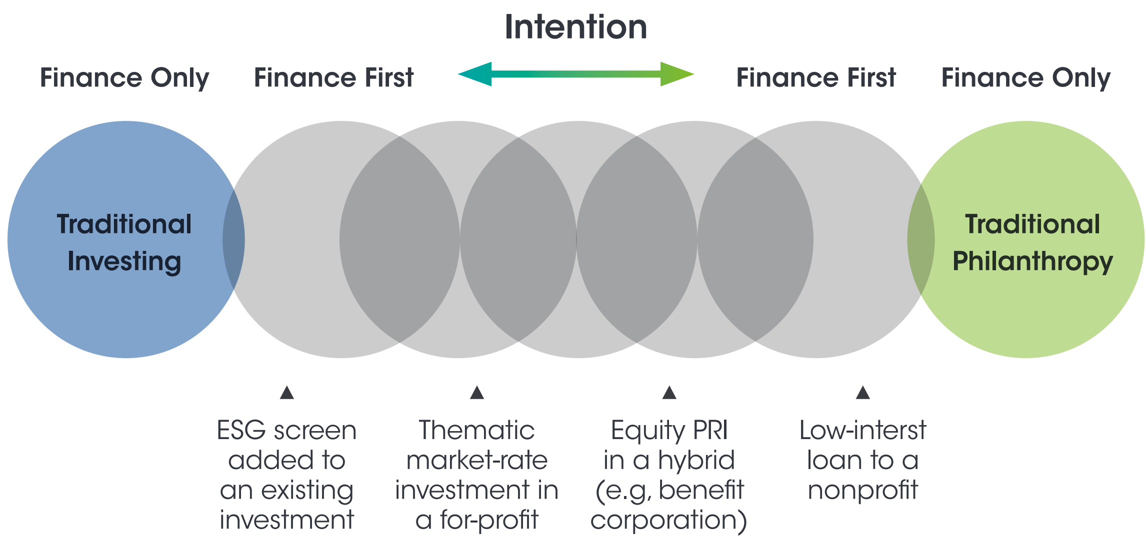
Social investment: Financial return?

It appears that the question of financial return in social investment needs revisiting. What are appropriate levels of financial return in this context? For many years now, social investment experts have used the idea of a spectrum of financial return to help illustrate various types of activity investment which accord to investors' motivations. The following images from leading global experts in this space are typical examples.

Return → **Impact**

Traditional Investment	Responsible Investment	Sustainable Investing	Thematic Impact investing	Impact-First Investing	Traditional Philanthropy
Seeks purely financial return	Investments are screened based on investors' values	ESG risks factors affect investment selection	Targeted themes drive investment selection	Environmental and social outcomes take precedence	Seeks purely social and environmental outcomes

Source: Social Finance



Source: Rockefeller Foundation

One problem here is that such a spectrum suggests a graduated shift across the stages or spheres. This can be misleading. The activities to the left of the spectrum – traditional, finance only or finance first investment – all seek or expect financial return above and beyond the return of the initial capital, for example, capital plus interest or >1 return. The activity to the right - philanthropy – seeks no financial return at all, not even the initial capital, for example, 0 return. The relatively vast space between 0 and 1 is frequently underrepresented (and this is the space in which Futurebuilders and Access have operated).

The second problem is that the dimension of risk – widely recognised as essential partner in the risk-return dynamic – is also not represented. Return is presented as according to motivation, while of course actual returns depend on a range of factors, from decision-making to market conditions and so on, and investors bring different appetites for risk. An investor with a social motivation is assumed to expect zero financial return. An investor who is motivated to take significant risk by engaging in activity which may or may not deliver financial return accordingly simply has no place on the spectrum.

We see the two problems with this influential spectrum reflected in practice in the social investment field – in the absence of barely any genuine risk capital. Even Access, who expects between 0 and 1 in terms of financial return and who are set up to take risks, structure their activity in the form of a somewhat complicated blend of loans (which expect returns) and grants (which do not).

Almost no investment in the field is structured to allow for the possibility of 0 to 1 or even greater financial return based on a high appetite for risk, fuelled by social motivation.

Conclusion

Of course, whilst social investment can and does make a difference in addressing disadvantage, we cannot expect it to solve inequality, even if respected and influential leaders in the field of social investment explicitly describe their mission to "dismantle poverty" (Big Issue Invest).

The hundreds of billions of UK government and private sector investment across the UK every year dwarfs even the most optimistic estimates of the UK social investment market, which sits in low single figure billions (Benton, 2019). Frankly, social investment is just a drop in the ocean in terms of the wider financial dynamics faced by 'left behind' areas. Often, they are fighting against more powerful tides. The idea that social investment can dismantle poverty is just another gust in a storm of hyperbole.

Although social investment alone cannot dismantle poverty, we must surely expect social investment to be part of the solution, rather than part of the problem. Yet, while social investment has promised much over the last 20 years – predicated on the idea that investment in charities, social enterprise and community business is an effective way to tackle disadvantage – it is not really reaching those parts of our country understood to have been 'left behind'. While one or two particular models have focused on the most disadvantaged areas and adopted models that respond to their needs, most social investment has, in fact, not gone to these areas, is spread more evenly across the country, and is not really in the form that these areas need. In other words, social investment is not doing it on a wet Wednesday night in Stoke.

Social investment and inequality

We must look at existing models of social investment and reflect on who benefits the most. Where does the money go? In what direction does wealth flow? Are the wealthy getting wealthier quicker than the poor?

If we are concerned about inequality and 'left behind' areas, then we cannot ignore the financial flows that arise from such investments. If investors are the principle beneficiary of their investments, then this movement of money is not helping create a fairer society. Indeed, on this basis, many social investment models have been exacerbating economic inequality in the UK.

The conclusion here is that if levelling up is to really happen, and social investment is to play a role, then the nature and terms of social investment in 'left behind' areas must be such that the recipients are the principle beneficiaries of any investment. The balance of financial interest must favour the investees. Social investment needs to adapt to make a difference to the places that need it the most. We will not address inequality unless we adopt models that shift wealth to the poorest communities.

Community Wealth Building

The idea of Community Wealth Building has gained some attention in recent years, linked to initiatives in Cleveland in the US and Preston in the UK. This model places emphasis on social value, consideration of the Living Wage, Community Land Trusts, local co-operative development, support for community business, corporate social responsibility policies, and more.

But it is one particular element of the model which has captured imaginations. This is the idea that the buying power of local public bodies – or anchor institutions – can be harnessed to keep wealth circulating in the local economy. Procurement can be a tool to shape the amount of money spent by local public bodies, locally. Over the last few years, various blogs, media articles and presentations have explained how these changes in procurement in Preston have taken the amount of money that local public bodies spend locally from £38m in 2013 to £111m in 2017.

While we may sympathise with Preston, and the perspective of a cash-strapped local council in a poorer part of the UK, this model has also received much criticism for its protectionist, somewhat insular approach. The model is now being explored in leafy London boroughs and Bath, where it is rather more problematic.

Albeit understandable, this is a reactive, negatively framed defensive tactic to stop money leaking out of an area. Instead, perhaps we need a more proactive, positively framed and progressive strategy to get more money flowing in.

The solution?

Social investment is not getting to where it needs to. Yet it also seems that people in 'left behind' areas can see the potential, if it is done right. To make this work, we need to give greater consideration to models which lie beyond most of the current social investment field of vision. As Danny Kruger (2020) writes, "the decade since Big Society Capital was launched has shown that 'left behind' places need a blend of finance types."

Any future investment – from central government, from the Lottery, or the next wave of unclaimed assets – will need to look quite different to most current models of social investment. Social investment in 'left behind' areas must be:

1. Long-term and patient:

With pots of money invested over 20 or 30 years. This investment will not seek short- or even medium-term financial return but will be truly patient capital. This long-term investment may deliver financial return but this must not be the driver – in a few decades time, these pots may have grown, or they may have been exhausted. Rather, this is investment in local social and economic foundations – as Tomaney, Pike and Natarajan for the UK2070 Commission who suggest that "'left-behind' regions would be better served by policies aimed at securing their foundational economies… Strategies might include asset-based forms of community development that aim to increase and broaden capital ownership to anchor jobs locally and strategies of 'remunicipalisation' to take local infrastructure back into local control…" (Tomaney et al, 2019).

2. Designed to create the right incentives:

Through new models, such as neighbourhood bonds or shares, attracting further investment from individuals and communities who have greater imagination and flexibility than simply seeking commercially comparable rates of return. Such place bonds could be founded on a combination of potential revenue streams: emerging from currently low value property, buildings or land; future tax revenues (such as business rates, statutory charges, fees and levies, parking or congestion charges); future savings to public budgets; and land value capture models. These can be inspired by the likes of UK Onward's work on land value capture and Policy Exchange's Street Votes which give local people a share in the wealth created. This creates the incentives - for people, statutory bodies and others to direct more energy and resources into an area over time, with a stake in success. Investment designed to create more valuable and valued places which are more able to attract money over time.

3. At a very local, human scale:

Putting a lot of money into a small neighbourhood creates higher potential for impact and less chance of investment drowning against the tide. Investing millions in a handful of streets could be transformational. We could envisage investing in 100-200 neighbourhoods on the Durham coast, in Northumberland former mining communities, Manchester and Liverpool, Hull and Leeds housing estates, and the Black Country - each with millions of pounds.

4. Locally-led:

Through flexible, devolved investment that can respond to local need and capacity, and harness local ambition, participation and control. The creation of new, local endowments or trusts, with new money ring-fenced for local communities to invest as they see fit in whatever local assets, infrastructure, enterprise, projects and activities offer potential to transform the social and economic circumstances of these communities. Money will have been invested, by, with and for those who have been 'left behind' by others over decades, and on the basis of local decision making.

As Esmé Fairbairn Foundation (2020) says:

"A patient, equitable risk-sharing approach to investing is core to meeting the true purpose of social investment: placing the social purpose organisation and the creation of impact for those they support at the heart of investment decisions. This, we believe, is more important than ever…"

Until now, those social investors which have attracted subsidy into the market have deployed products structured to blend appetites for financial return (75 per cent this and 25 per cent that). Long-term, high risk, flexible, investment does not really exist. Instead, to make a difference for 'left behind' areas, social investment needs to harness appetites and structure products which are long term, patient, and recognise risk. Because they must also recognise the risk of not doing so. If, in 30 years, we have not addressed the inequality endemic in our communities, and social investment has focused elsewhere, will this be secondary to the achievement of Big Society Capital, for instance, preserving their capital intact?

In summary, existing models of social investment have failed to work for 'left behind' areas. Social investment will continue to have little impact on addressing inequality across our country – the so-called levelling up agenda – unless it adopts fundamentally new models. We need a radically different solution for reimagining social investment to level up the land.

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About Local Trust

Local Trust is a place-based funder supporting communities to transform and improve their lives and the places where they live. We believe there is a need to put more power, resources and decision-making into the hands of local communities, to enable them to transform and improve their lives and the places in which they live. We do this by trusting local people. Our aims are to demonstrate the value of long term, unconditional, resident-led funding through our work supporting local communities make their areas better places to live, and to draw on the learning from our work to promote a wider transformation in the way policy makers, funders and others engage with communities and place.

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