



CREATING A LOCAL SOCIAL INVESTMENT FUND FOR OXFORDSHIRE

A feasibility study into creating a local social investment fund for Oxfordshire
Funded by the UK Government via Oxford City Council through the UK Shared Prosperity Fund
Researched and produced by Co-operative Futures

THE CASE FOR A LOCAL SOCIAL INVESTMENT FUND

Oxfordshire is fertile ground for social investment

The county is already home to a wealth of Socially Trading Organisations (STOs), infrastructure bodies & innovators in social finance. Some local STOs have successfully raised social investment, but success has relied heavily on social capital and investor connections. There is a sympathetic strategic environment in Oxfordshire, with the Future Oxfordshire Partnership's priority around the development of a more "inclusive, diverse and sustainable local economy" and Oxfordshire County Council adopting community wealth building approaches.

The finance gap

- STOs are often under-capitalised, especially in the early stages.
- The existing social investment market can be inaccessible to STOs due to the lack of smaller, patient and tailored finance options and high interest rates. They may also be seen as commercially unattractive to mainstream lenders.
- Existing economic inequalities exacerbate barriers to accessing to finance.
- Availability of finance options was rated in a consultation with Oxfordshire STOs as average to poor.

Inspiration & proof of impact

The maturity of other initiatives like *Kindred, Barking & Dagenham Giving* and *Plymouth Social Enterprise Fund* provide evidence that local social investment has boosted local economic activity; improved social outcomes; encouraged community-led solutions and circulated wealth within communities through job creation & bringing assets back into use.

What might a local fund achieve?

- a **More money in the system** – providing new finance for existing STO growth
- b **Making money work better** – maximising or recycling existing funds
- c **Getting money to the right places** – redistributing wealth & focusing on economically marginalised groups/areas
- d **Community-led economic development** – greater participation and bottom-up priority setting

Why local?

The case for localising social investment is that it can reach areas where other social investors can't, leverage place-based investors, provide tailored support, and address specific local needs. Alternatively, there is an argument that other work could be done locally to de-risk or increase access to existing finance options, without the intensive resources needed to establish a new local fund.

Evidence of need

- A literature review of local and national reports, as well as a consultation conducted with local STOs and business development support providers found a number of key factors around access to and demand for finance:
- Small to medium sized finance (up to £50K) in needed, with a particular gap in finance of between £5K-20K.
- Finance is needed particularly at growth stage for STOs, for investment in equipment/infrastructure and operating capital.
- Due to issues with economic inequality, the viability of socially driven business models and a general lack of confidence and risk aversion in STOs, there is a need for tailored business development support to prepare STOs to become investment ready as well as mechanisms to make finance more accessible.

From the 42 local STOs consulted alone, a minimum of 720K in finance is needed



DESIGNING A LOCAL SOCIAL INVESTMENT FUND

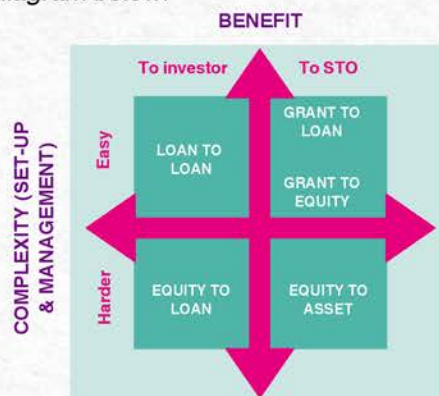
The finance mechanism

There are five potential financial mechanisms for a local fund which determine the terms of the input capital and the finance offer to STOs (*see table below*).

Sustainability: there is a choice between whether the fund will be “evergreen” or “loss-making”. An evergreen fund is self-sustaining through charging an arrangement fee or interest rate mark-up on the finance. A loss-making fund, which might provide more accessible and cheaper finance, would require on-going grant revenue to cover the operational costs.

Balancing operation & benefits: The choice of the mechanism may be based on the ease of raising returnable capital and managing the fund (in the case of a mechanisms which bring a higher return to the investor) vs the benefit to the STO in terms of more accessibility (in the case of mechanisms which might encouraging a “return agnostic” outlook, prioritising social and environmental performance over financial returns). *See matrix diagram below.*

Input seed capital		Output finance offer to STOs	
Grant	→	Loan	
Grant	→	Equity Investment	
Loan	→	Loan	
Loan	→	Loan	
Equity Investment	→	Asset Purchase	



Starting capital

A target amount for the starting seed capital would be upwards of £1.5m. But the fund could start smaller and develop in complexity and size over time. Success will depend on securing an initial “pioneer” investor. Potential sources of capital include:

- 1 Better Society Capital
- 2 District Authorities (CIL, UKSPF, asset disposal, Public Works Loan Board, bonds, Local Government Pension Scheme investment)
- 3 Other Anchor Institutions
- 4 Corporates
- 5 Individuals (High net worth investors, community shares)

The finance offer

The fund would need to provide small to medium amounts which are flexible over longer terms at lower than market rates (i.e. <6%). Additional finance tools which could make finance more accessible include offering :

- a proportion of grant funding
- 0% interest loans
- repayment through social return
- a guarantor mechanism

Hosting & management

The fund hosting options include:

- a setting up a new independent body;
- b a local authority; or
- c an existing local organisation or fund holder.

The management function could be performed in-house or outsourced to an existing professional investment or fund manager. Resourcing business support capacity to develop a pipeline of prospective applicants, will be key to the success of the fund.

OCTOBER 2024

Participation & inclusion

The fund could include an element of “participatory investment” by involving the community at various levels, including through co-design processes, advisory groups, or decision-making panels.

Diversity, Equity, and Inclusion should be embedded in the design of the local fund. Approaches include targeted funds for under-capitalised groups; ongoing DEI evaluation; making application processes more accessible; and considering Shariah compliant finance.

Managing risk

Although defaulting tends to be quite low for social investment, options for risk management include making provisions for bad debt; creating a balanced portfolio; being flexible with repayments; taking security; conducting sufficient due diligence; staged draw-down; monitoring and aftercare; and building in accountability and a culture of repayment.

To realise the potential of local social investment, strong leadership and additional resourcing is needed to develop a vision and secure investment. There is an opportunity for anchor institution networks like the Future Oxfordshire Partnership and the OIEP to support meaningful change in this area in line with aspirations around inclusive economic development.



Funded by
UK Government

Researched and
produced by

COOPERATIVE
FUTURES