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

Funded by UK Government

Contents

Contents

Introduction 3

Part 1: The case for a local social investment fund 4

1. **Why local social investment in Oxfordshire?** 4

1.1 Background 4

1.2 Alignment with local priorities 5

1.2 Social investment outcomes 5

2. **Defining the purpose & vision** 6

3. **Evidence of Need** 8

3.1 Summary of the current investment market 8

3.2 Local & National Evidence 9

3.3 Summary of the local need 14

Part 2: Designing a local social investment fund 14

4. **Fund model** 14

4.1 Finance mechanism 14

4.2 Sustainability & Operating costs 17

5. **Starting capital** 18

5.1 Target amount 18

5.2 Sources 19

6. **The finance offer** 23

6.1 Potential terms 23

6.2 Additional finance tools 24

7. **Fund Operations** 25

7.1 Fund hosting & management 25

7.2 Community involvement 26

7.3 Diversity, Equity & Inclusion 28

7.4 Eligibility for the fund 29

7.5 The process 30

8. **Risks & other considerations** 31

9. **Road Map** 32

10. **Appendices** 33

Introduction

This feasibility study into creating a local social investment fund for Oxfordshire was funded by the UK Government through the UK Shared Prosperity Fund. It was part of a wider 6 month support programme for Socially Trading Organisations (STOs)[1] and the inclusive economy delivered by OSEP, Co-operative Futures, Aspire & CAG Oxfordshire, on behalf of Oxford City Council.

The aims of this study have been to provide a case for the creation of a local social investment fund and provide an options appraisal for how it could be implemented. Although support for the feasibility through UKSPF has been provided by Oxford City Council, the intention of this report is to engage a range of other county-wide stakeholders in moving forward with the recommendations and securing investment.

This report has been prepared through desk-top research, interviews with existing local fund providers & sector leaders such as Power to Change, and a consultation with stakeholders.

The consultation, research and report was coordinated and written by Alice Hemming, Co-operative Development Worker at Co-operative Futures.

The report has been published and endorsed by Co-operative Futures, OSEP, Aspire & CAG Oxfordshire.

Funded by UK Government

[1] *We use the term Socially Trading Organisations, abbreviated to STOs throughout this report. STOs are businesses that have a social purpose but also trade. STOs can take many legal forms including community interest companies, co-operatives and charities as well as some companies and sole traders that demonstrate wider social benefits.*

Part 1: The case for a local social investment fund

1. Why local social investment in Oxfordshire?

1.1 Background

Oxfordshire as a hot spot for social investment?

Oxfordshire is not starting from scratch in this endeavour. The region already boasts a wealth of STOs and infrastructure support bodies, providing a solid foundation to build upon for any future social investment initiative. Oxfordshire has been a Social enterprise County since 2014, when it was recognised by Social Enterprise UK as the first Social Enterprise County under their 'Places' Programme.

Oxford is home to Ethex, a platform dedicated to social investment with a focus on community shares. Ethex has supported numerous share offers in Oxfordshire to launch and they've recently celebrated 10 years of positive impact. The Oxford Social Finance Programme at Saïd Business School offers advanced education and resources for social finance professionals.

Many local STOs have recently successfully received social investment through community share offers and bond offers. Notable examples include Project PT, Ultimate Picture Palace and Oxfordshire Community Land Trust, raising a combined total of £1.3m of investment from their communities.

Another precedent in Oxfordshire is the low-interest loan of £3.4m provided by Oxford City Council to the Low Carbon Hub for building solar infrastructure, thus aiding the local authority in meeting carbon reduction targets.

Investment success for Ultimate Picture Palace

However, the creation of these investment opportunities required substantial effort on the part of the STOs and has been reliant on having social capital and connections to investors.

Precursors to this work

Following a Community-Led Housing Paper & Action Plan approved by the then named Oxfordshire Growth Board in 2020, initial feasibility work was done by Oxfordshire County Council, Oxford City Council and The Collaborative Housing Hub in 2022 into establishing a revolving loan fund to support community-led housing development. Due to this not coming to fruition, there is still a need for social investment in this sector. However, due to the scale of the finance needed, this report does not look specifically at creating a local social investment fund for community-led housing.

1.2 Alignment with local priorities

Oxfordshire is recognised as one of the fastest growing economies in the UK, powered by its prestigious academic institutions and large global businesses, but it is a County with significant inequalities. The Future Oxfordshire Partnership, representing all six authorities in the county and key anchor institutions, have outlined an aim in their Strategic Vision to support the local economy to be “sustainable, diverse and inclusive”.

The Oxfordshire Inclusive Economy Partnership supports this objective through a working group with a focus on “place-shaping” activities and localised economic development.

More recently, Oxfordshire County Council has reported a commitment to pursuing Community Wealth Building approaches. A recommendation for action, identified through their work with CLES, was to enable “specific support for small businesses and entrepreneurs who are less likely to access current support and finance”.

1.3 Social investment outcomes

There is a growing body of evidence demonstrating the significant social value impacts of localised social investment. This best practice has come from the number of local-authority led social investment schemes (e.g. Plymouth Social Enterprise Fund & Cornwall’s Revolving Loan fund) that have been established over the last 15 years, as well as innovative new partnership and devolved and community-led approaches pioneered in this last five years (e.g. Kindred, Bristol City Funds and Barking & Dagenham Giving). Work is being done in Cambridge, Camden and at the West Midlands Combined Authority to develop new schemes.

Kindred Social [credit: Emma Case]

A summary of key outcomes and impacts from these examples are:

- *Boosted local economic activity*: As measured through the financial growth of STOs. E.g. Kindred's evaluation found that the combined turnover of the 20 STOs that received pilot investment doubled from £1.88m to £3.76m.
- *Improved social outcomes*: Improved quality of life for residents and increased opportunities for economically marginalised groups, through the creation and development of services and community infrastructure particularly in the key areas of education, health, and employment. E.g. The Cornwall Revolving Loan fund has led to the development of 44 affordable homes.
- *Circulation of wealth*: When money is invested into STOs, it creates a multiplier effect as it often stays within the area through employment and spending in local supply chains, rather than leaving the local economy. E.g. The Plymouth Social Enterprise fund led to the creation of 127 jobs.
- *Capacity building & resilience:* Local funds and the accompanying development support has helped STO's to implement sustainable business models, invest in infrastructure and grow their organisations and services. E.g. The Plymouth Social Enterprise Fund led to 14 buildings and pieces of land being brought back into use.
- *Stronger networks*: Many initiatives actively encouraged peer network approaches which resulted in collaboration between STOs building more integrated and inclusive solutions. E.g. Kindred created a network of peer STOs, which has led to 67% of STOs creating a new link in their supply chains.
- *Community engagement & empowerment:* Initiatives have encouraged greater involvement from local communities in addressing their own needs and decision-making, leading to a greater sense of local ownership and empowerment.
- *Innovation & targeted solutions:* Investment often fosters innovation by funding creative solutions to social issues and recognises the role that STOs often play in addressing market failure or loss of statutory services.
- *Leverage of additional investment*: Many funds have brought significant match investment and funding both from local and national sources. E.g. Plymouth's Social Enterprise Fund leveraged an additional £5m against the initial £2.5m investment.
- *Evaluation & learning*: Many initiatives have used evaluation frameworks to assess social value, which provide valuable insights to inform future investments and strategies.

Case studies of other local social investment initiatives are featured throughout this report and summary is included as a table in appendix 9.1.

2. Defining the purpose & vision

Although there are many shared outcomes, local social investment initiatives across the UK have subtly different focuses and aims. Based on these examples, the different (and at times conflicting) potential aims of a local investment fund might be summarised as:

- *More money in the system:* i.e. increasing the amount of new finance available or accessible to create growth in the STO sector.
- *Making money work better:* i.e. using the investment mechanism to maximise or recycle existing funds within the system for example offering repayable finance rather than grants and/or leveraging other investment.
- *Getting money to the right places:* i.e. re-distribution of wealth to areas or groups that have been traditionally economically marginalised. This is akin to one of the pillars of Community Wealth Building which aims to "make financial power work for local places" by redirecting existing wealth within local economies to tackle long-term inequalities.
- *Economic participation:* i.e. increasing democratic involvement in local economic development and supporting community-led place-making.

The first two aims would be more likely to focus on scaling the existing or "proven" STO sector and increase its impact, whereas the second two aims might seek to support testing, new development and more bottom-up initiatives. The latter two aims are more aligned with a desire to rethink traditional investment models and power dynamics within the economic system so that risk is more shared by investors and social value is recognised.

The choice of how the fund might be structured will depend on the choice of the key purpose and what stakeholders and investors hope to achieve through the investment.

2.1 How important is it that Oxfordshire has its own fund?

It is important to interrogate whether the creation of a local fund should be prioritised over work that could be done locally to de-risk or increase access to existing finance options.

The case for a local fund:

- *A local fund can reach where other social investors can't*: Kindred reported that STOs came to them rather than other social investment providers due to their local knowledge, connections and because they'd built trust. A national social investment provider interviewed commented that larger, national providers often struggle to create a pipeline of applications for finance themselves.
- *Access to place-based investors*: Local funds can unlock new sources of investment as some investors may be more likely to invest in places they care about and where they can see impact. They might also be more likely to offer favourable terms.
- *Offers something that other providers can't:* If wrap-around incubation or business development support is integrated into the finance offer, it can be delivered more effectively at a local level. If the social finance initiative has strong local connections, it can create an ecosystem of peer networks and support.
- *Addresses specific local needs:* The fund can be targeted towards geographical areas or particular issues within a locality to tackle long-term systemic challenges and inequalities as well as target opportunity sectors within the local economy.
- *There is sector support:* 93% of business development support & infrastructure bodies in the consultation said it was important or very important to have a local offer.

The case against a local fund:

- *Resource intensive*: The set-up and management of a local fund may divert energy and resource from other kinds of support for the local economy. For example, funds could be used to increase the capacity of organisations providing specialist business development support who can support STOs to access existing finance.

- *Professional capacity & expertise*: Existing social investment providers have significant experience in what is a complex and technical field.
- *Support for reform/innovation in existing sector*: For example, anchor institutions in Oxfordshire could focus on advocating for local and national policy to make social investment more accessible or make the finance go further.
- *Low take-up risk:* Although there appears to be demand, there is always a risk that if created, it may not be used by STOs.

3. Evidence of Need

3.1 Summary of the current investment market

See Appendix 9.2 for a full summary.

- *Funds for investment readiness*: The REACH fund run by Access Foundation offers grants of up to £15K to STOs to become investment ready, including support to prepare business and financial plans.
- *Social Investment Loan Providers*: Social Enterprise UK reported that the majority of social enterprises accessed finance through these lenders. Loan amounts typically range from £50K to £2m, though there are a few providers offering as low as £20K. Terms can extend up to 15 years (majority between 5-8 years), with interest rates between 5.5-12% (majority between 6-8%). Most providers require a number of years of trading.
- *Other social investment products*: There are several unique products offering: a) blended finance options with up to 25% of the loan as a grant; b) revenue share products in which the loan is repaid based on a % of revenue; and c) matched share investment through a community share offer or in companies limited by shares.
- *"Ethical" banks & building societies*: There are 5 providers offering mortgages for community-led housing or community asset projects from £100K up to £20m (based on LTV of 65-80%) over 25-30 years with rates between 7-9%.
- *Mainstream Banks*: Social Enterprise UK reported that credit and bank overdrafts were used by more than 10% of social enterprises. However, STOs often struggle to get unsecured loans or loans at early stages of development from the mainstream banking sector. However, some high-street banks have joined a referral scheme whereby they sign-post to other options if they refuse to lend.
- *Private borrowing*: Social Enterprise UK found that a small proportion of STOs borrowed money through informal "soft" loans from friends and family. This does carry significant risk for the lenders and relies on "social capital" and access to networks of people with disposable money.
- *Credit unions*: Have not traditionally provided finance for STOs due to legal restrictions stipulating that business members can only make up a maximum of 10% of a credit union's total membership.

Case Study: Blenheim Palace Loan Fund

In Oxfordshire, Blenheim Palace provides loans to local purposeful and green businesses, specifically in the area immediately around the estate. These loans tend to be on the small to medium scale (£20-50K) and are provided at 0% interest over a short-term period but sometimes up to 10 years. The loans have mostly been for capital projects but have also been bridging finance to provide cashflow cover for VAT reclaim or where grant funding is awarded in arrears. They require businesses to have robust business plans and a clear vision but also place an emphasis on providing flexibility and using simple agreements to avoid high costs for lenders.

3.2 Local & National Evidence

Analysis of recent reports and reviews of data conducted by national bodies, as well as findings from local evaluations[2,] have found a number of key factors and trends for STOs relating to access to finance.

These trends were also reflected in the findings of the consultation conducted as part of this feasibility study. The consultation with the Oxfordshire sector took place in July 2024 through surveys and focus groups. This engaged with STOs and 15 infrastructure and network support bodies[3] providing business development advice and training.

The 42 STOs who responded to the survey represented a diverse range of legal structures, with the most common being CIO and CBS. While some were unregistered startups and others had operated for up to 50 years, most had been registered for 1-10 years and mostly described themselves as "established" or in a "growth" phase. They covered a broad range of sectors, with community centres & services, and health & well-being being the most common, along with a significant presence in retail/consumer products. 12 STOs representing a broad range of legal types and sectors attended the focus group.

Following is a summary of the key findings:

The demand for finance

Power to Change summarised the challenge as "access to the right finance at the right time".

- *For investment in growth:* STOs want finance for working capital / supporting their cashflow or to invest in product and service delivery, organisational capacity building, or acquiring or improving buildings or land. STOs often struggle to access the right kind of finance during their

[2] *Sources: Power to Change (Financing the Future); UCL Institute for Innovation and Public Purpose (Governing finance with public purpose), The Adebowale Commission on Social Investment (Reclaiming the Future); Plunkett (A Better Form of Business); Social Enterprise UK (The State of the Social Enterprise Sector); Good Food Oxford (OX4 Food Crew Evaluation – unpublished); Sparks Insights & Locality (Exploring Barriers to Funding and Support experienced by Marginalised Community Businesses); African Families in the UK (Pamoja Oxfordshire Report).*

[3] These included: Aspire Oxfordshire; Good Food Oxfordshire; Independent Oxford; Collaborative Housing Hub; Oxford Hub; Oxfordshire Social Enterprise Partnership; Oxfordshire Community & Voluntary Association; Co-operative Futures; Oxfordshire Community Foundation; Community Action Groups Oxfordshire; Community Catalysts; Business & IP Centre; Community First Oxfordshire; Owned by Oxford; and Oxfordshire Local Enterprise Partnership.

growth stages, as it is often too short-term. An interviewee from an infrastructure organisation in the sector said: “everyone wants to be at the ribbon cutting for something new” but there is little investment in growth for existing STOs.

- *Early-stage finance gap*: At the earliest stages, businesses may not qualify for traditional finance until they begin trading or until the trading revenue is proven. There is much more risk associated with lending at this stage and so start-ups are more likely to rely on grants. However, the scarcity of grant funding often means that development can take longer.
- *Small to medium sized loans:* Social Enterprise UK found that the “median desired amount from those that secured loan funding was £80K”.

Consultation highlights:

- From the 42 STOs surveyed alone, a **total of £560K-720K in finance is needed**
- The main need is small to medium-sized loans between £5K-50K.
- The funds are mainly needed for **new equipment & infrastructure**; operating capital & bridging finance; and building renovations. Larger loans over £50K are also required for capital projects. One support provider suggested that finance could be focused on equipment and infrastructure which would save energy costs and increase financial sustainability.
- Finance would need to be **unsecured** as 74% of local STOs surveyed lack significant assets.
- The STOs surveyed typically have **mixed income models**, with trading income supplemented by grants. Although entirely grant-funded STOs are unsuitable for finance, there was interest from a few established charities in moving towards trading. Some larger STOs reported that they get too big for the smaller grant funding available at a local level. There is a consensus that finance should not be encouraged for start-ups until they become stable.

Challenges around availability of finance:

Power to Change found that “one in five community businesses were experiencing difficulty accessing financial support, while 17% experienced difficulty accessing appropriate finance”. This is due to:

- *Lack of Tailored Products:* The social investment market frequently defaults to conventional loans. In 2022, the Adebowale Commission found a significant “gap” in lending tailored to social enterprises”. Social Enterprise UK found that only 42% of “social enterprises that sought external finance were able to secure the entirety of the amount they wanted”.
- *Unattractive to commercial lenders:* STO lending is often unattractive to banks and mainstream lenders due to small sums, high transaction costs and low returns. UCL’s Institute for Innovation and Public Purpose found that only 2-5% of bank lending was to small & medium enterprises.
- *Demand for patient capital:* STOs need more flexible and long-term finance options that allow for gradual development without immediate financial pressure or allow for slower rates of return.

Consultation highlights:

- **Availability of finance** in Oxfordshire was **rated as average to poor** (60% of support bodies said there were few options, and they don't feel accessible).
- One support body highlighted the current poor availability of grant funding and loss of European Regional Development Funds as affecting the sector.
- STOs consulted in retail and hospitality with private structures reported only being able to access **very high-interest loans** (9% and 28%), highlighting a lack recognition of social value in more traditional loan products.

Viability of finance:

- *High Cost of Investment:* STOs often find the cost too high due to interest rates that reflect the perceived risk and low financial returns. Social Enterprise UK found that 31% of "social enterprises said the cost of finance was an issue".
- *Sector-Specific Challenges:* Social investment is more readily available to asset-backed sectors like housing and energy. Other sectors, such as community hubs and services, are perceived as higher risk and often do not own assets to be able to access more affordable secured loans. However, there is also a difficulty obtain finance for riskier "pre-development" for community-asset projects to pay for legal & professional fees before obtaining lease/ownership or planning permission.
- *Marginal business models:* STOs, particularly those delivering in more economically marginalised areas or overlooked sectors, report very low profit margins making loan repayments unmanageable. Plunkett found that community shops for example have a margin of only 5% of their turnover. Social Enterprise UK found that only 48% of social enterprises made a profit and 22% broke even, whilst 10% report persistent issues with cashflow. They also found that in the more economically marginalised areas only 25% of "social enterprises cited trading as their main source of income", indicating a reliance on grants.
- *Economic uncertainty:* Volatility of interest rates and the cost of living crisis have led to contraction and risk adversity in STOs. Social Enterprise UK found that more social enterprises considered but decided not to apply for finance since the previous year due to "concern over economic conditions, the prospect of additional risk and the cost of borrowing".

Consultation highlights:

- The **viability of businesses models** was highlighted by respondents, particularly their ability to generate enough surplus to repay and not being confident in their model, the market or the predictability of profit. One respondent said: *"As a new start up not for profit business, we can't be sure, at this stage, whether we'll still be open in a year's time."*
- Respondents said they were put off finance by **lack of flexibility or unfavourable terms** including: cost of interest unaffordable, issues with providing appropriate security; access to sympathetic investors; and lenders judgment of risk.

Accessibility of finance

- *Eligibility and Application Processes*: Complex application processes, inaccessibility of the language & documentation used by lenders, and a general aversion to debt due to reliance on grants are cited as issues.
- *Financial literacy:* There is a lack of financial skills and confidence within STOs, particularly amongst those already economically marginalised. Social Enterprise UK found a third of "social enterprises" reported lacking the skills to obtain external finance or investment.
- *Organisational Capacity*: Smaller and under resourced STOs often lack the time or leadership capacity to apply for and manage finance. Kindred found that STOs reported that often one person was responsible for "everything from strategic growth to bottle washing" and so investment in time to focus on business development was important.
- *Need for support & resources*: 121 tailored business development support for STOs to identify sources of finance, develop business plans and apply is essential. Power to Change found that "support to find and access sources of funding" was ranked as being the most important thing STOs needed. In Oxfordshire, Good Food Oxford found that STOs in the food sector needed "timely tailored support" and "expert advice" particularly around finance and the challenges of "access to appropriate funding to take the next steps (loans are a big scary step)".
- *Culture shift would be needed*: For a local fund to be successful there would be a need to change mentality around grant reliance and focus on support to create more sustainable models. Work is also needed to demystify assumptions about charities not being able to take loans.

Consultation highlights:

- There was a general **lack of confidence and risk aversion**, with only 21% said they would be confident or very confident taking out a loan. However, only 7% of STO respondents said they wouldn't take out finance as they already had enough access to grants.
- There was a **mixed response** to the question "would you be interested in taking out finance?" with only 31% STO respondents saying "Yes" and 33% saying they were "unsure". This uncertainty was also reflected by the support bodies.
- Some respondents highlighted **concerns around organisational culture and capacity** including decision-making structures / getting sign-off; pressure on staff; lack of capacity & uncertainty around their legal structure particularly around charities being able to take loans.
- Although **skills and experience** are less of a concern for STO respondents, it was identified strongly by support bodies. One support body said: "we see poor business plans, lack of/inadequate financial planning and often challenges around writing a solid application".
- One key concern highlighted in the consultation was around **assumptions about debt & ethics** including options around: wanting to grow organically; not wanting to be profit focused; questioning ethics of interest; "morality" of offering security through community asset held in trust; financial independence, not wanting to be beholden to shareholders. One respondent said: *"I would also like to challenge the seemingly widespread assumption that 'the way a business grows is to get a loan' [...] there are other ways to grow a business! [...] Many 'advisers' came to teach us 'how to become investment ready' [...] They thought I was crazy when I said we wanted to grow organically"*.

- 30% of respondents wanted **business development support** and 33% a dedicated fund manager contact. One respondent felt that an advisor would help empower STOs around financial literacy, add capacity, signpost & help navigate the system and reduce stress. There was also a need for support with monitoring and measuring impact with consistent frameworks. Some focus group respondents said that this would be just as important than the fund and could precede it.
- A **need for "staircasing"** the finance offer was highlighted. 56% of the respondents who had taken out finance said they would be interested in doing so again. Compared to 15% of those who hadn't previously taken out finance saying they would be interested. One attendee of the focus group said they'd gained experience to be able to do a community share offer by accessing other smaller bits of finance. This perhaps shows that confidence grows with experience. Those who said they were "unsure" tended to express interest in smaller loans (under £20K). Therefore, the fund could be structured to allow initial small amounts and then taking more as the STO develops.

Equity and Inclusion Issues:

The Adebowale Commission found that *"social investment continues to have a serious problem with inclusion and equity particularly, although not exclusively, in relation to race."* Some of the key issues include:

- *Structural economical inequalities*: Sparks Insights found STOs especially those supporting economically marginalised areas and groups, suffer from "persistent & severe underinvestment", leading to increased demand on overstretched services and an "uneven playing field" of financial instability, lack of assets and dependence on volunteers and small teams. In Oxfordshire, the Pamoja Report highlighted the lack of capacity and "struggle with writing proposals" experienced by Global Majority-led STOs.
- *Diversity in the social investment market*: The Adebowale Commission found a lack of representation of people with lived experience of marginalisation within social lenders. It suggests that social investment is unattractive to many "Black-led STOs".
- *Unconscious-bias:* Power to Change found that STOs led by Global Majority entrepreneurs or those from other economically marginalised groups often face challenges around recognition including "eligibility requirements around their legal model and governance structure, having to demonstrate a 'track record' of delivery". The Pamoja report highlighted that particularly in the South East, Global Majority-led STOs received a disproportionately small amount of funding when compared to their Global Majority population size.

Consultation highlights:

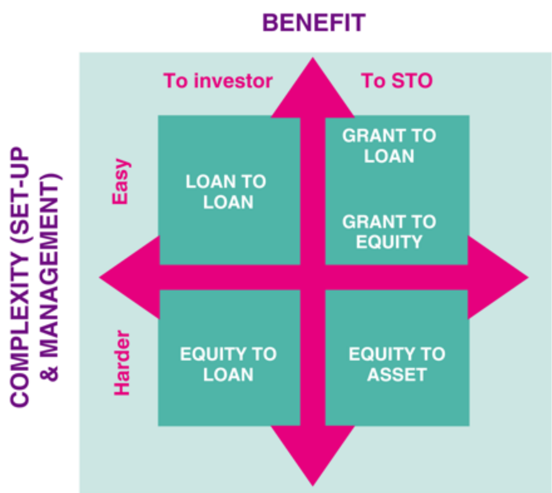
- Respondents highlighted **challenges** with written English and/or use of digital platform; lack of familiarity with expectations of application forms; lack of reputation or track record. They also had concerns about risk, liability and personal financial security. This was particularly around where there might be **lived experiences** around having debt and less economic security.

3.3 Summary of the local need

- There is a clear need for finance for STOs in Oxfordshire. **Small to medium sized finance** (£5K-50K) is needed particularly at growth stage for STOs investment in equipment & infrastructure and operating capital. Finance for start-up phase or pre-development costs is often deemed too risky but there is a need for more sympathetic finance products for this stage.
- To make social finance viable for community-led STOs there is a **need for "staircasing"** the offer to provide initial development grants or offer smaller initial loans, as well as being to offer a product at more preferential rates and terms than the existing social investment market.
- Due to issues with inclusion & equity, confidence and risk aversion in the sector there is a need for tailored **business development support** for STOs to get investment ready, as well as more training and education to increase confidence and create a culture shift away from grant reliance.

Part 2: Designing a local social investment fund

4. Fund model



4.1 Finance mechanism

There are five potential mechanisms that could be used for the local fund that have been drawn from how existing funds have been set-up. There is also the possibility that multiple mechanisms can be used within the fund as it matures.

They can be viewed in terms of priorities (from focusing more on benefit to the recipient / STO vs to the investor) and the level of complexity (from easy to hard to set-up and manage).

Also to consider is the level of difficulty raising the original capital, with it being potentially easier to raise capital when there is a return to the investor. This may be more appropriate if the purpose of the fund is defined as getting "more money into the system" or "making money work better".

However, there is a growing movement within the social investment sector that is encouraging a different outlook for investors. Bonnie Chiu describes this as "return agnostic", prioritising social & environmental performance over financial returns. Within the spectrum of social investment, these approaches might aim to either "preserve capital with a modest return" or be "catalytic" which prioritises social return with financial return only expected in some cases. For example, Kindred have a strong position on not wanting "the haves to benefit from the have nots" through investment. If the purpose of the local fund is defined more as "getting money to the right places" or "economic participation", the more long-term and patient the investment needs to be.

Summary of potential finance mechanisms			
Option	**Description**	**Examples**	**Considerations**
1: Grant to loan	The fund receives non-repayable start-up capital. It offers loans to STOs. The loans are paid back over a period with or without interest. Money returned through interest and capital repayment is reinvested and/or used to support the fund.	Kindred, Kent Community Foundation.	• Carries very little risk to fund due to not needing to obtain a return on investment to initial investors. • Is the simplest model in terms of set-up and management. • Likely to be slightly higher risk to the lender than equity investment. • No requirement for STOs to be a certain legal structure.
2: Grant to equity	The fund receives non-repayable start-up capital. It invests in STOs through shares / community shares. The fund received interest or dividends from the STO and there may be a requirement to allow withdrawal or transfer of the shares after a period. Money returned through interest	Barking & Dagenham Giving primarily uses equity investment. Plymouth is expanding their offer to equity as well.	• This is longer-term patient investment and so would be more beneficial to the STOs but would carry more risk of not receiving the expected return for the fund. It would also take longer for the money to come back into the fund so would work better with a larger starting capital pot and more phased investment. • STOs would need to have appropriate legal structures to issue shares (Companies Ltd by Shares, CICs Ltd by Shares or Community Benefit Societies) or could use "quasi-equity" profit share model for STOs who can't issue shares. • Fund holder would have some control over the STOs as a shareholder. In the CBS structure, along with all other shareholders, this is limited to one vote, but this power could be more

	and withdrawals is reinvested and/or used to support the fund.		significant for other models which some STOs might be concerned about.
3: Loan to loan	The fund receives loan/s. It offers loans to STOs. The loans are paid back over a period with interest. This income is used to repay interest on the fund holder's loan.	Cornwall Revolving Loan Fund (borrows from PWLB).	• Fund holder would need to "mark-up" interest charged to STOs to cover interest payable on their loan/s at the least. • Medium to high risk to both the fund & recipient and would need to ensure provision for defaults.
4: Equity to loan	The fund holder issues shares to investors. It offers loans to STOs. The loans are paid back over a period with or without interest. This income is used to pay interest / dividends to the shareholders. Money returned through interest and withdrawals above what is paid to shareholders is reinvested and/or used to	ICOF Community Capital Limited issues shares to individual and corporate investors and provides loans to co-operatives & community businesses. Radical Routes issues shares to the public and uses the capital to provide loans to housing co-operatives.	• Would need to use an existing organisation with the appropriate legal structure to issue shares, or one would need to be set up. • This is probably the most complex of the approaches and would need more resource to start-up • This model would be lower risk to the fund (then receiving the capital as a loan) due to it being more patient capital. Slightly higher risk to the investor as the amount of interest paid and the opportunity to withdraw the shares is not guaranteed.

	support the fund.		
5: Equity to Asset Ownership	The fund holder/ownership vehicle issues shares to investors. It uses the funds to purchase community assets on behalf of the STOs which are held in trust. STOs lease the assets and the lease fees are used to pay interest to the shareholders.	Music Venues Trust ran a community share raising £3.5 million to purchase grassroots music venues which it rents back to the community to provide 3% return. This is something that Liverpool City Council are also looking into supporting there.	● Would need to use an existing land trust with a Community Benefit Society structure or set one up. ● There are significant community assets in Oxfordshire and current activity to secure them has no joined up strategy and is reliant on individual groups who are often under resourced and struggle to raise capital alone.

4.2 Sustainability & Operating costs

A fundamental question for the design of the local fund is whether the fund will be “evergreen” or “loss-making”/revenue supported in terms of how provisions will be made for the operation/management of the fund and its long-term ability to “recycle”. Some sources cite that operating costs of a social investment fund are at around 1-2% of the total fund size, however this would depend on the complexity of the model and the size on onward investments being made. More about the operation and management is covered in section 6.1.

An evergreen fund

With this approach operational and management costs (including provision for bad debt) would be covered through an allowance in the finance mechanism. Also depending on the length of the loan the interest charged would allow for inflation as a minimum. This would mean that the fund would be self-sustaining and continue to recycle itself rather than diminish. There are several ways this could be done:

- *With arrangement fee:* A fee at either a flat rate or as a % of the total loan/equity share would be charged to the recipient. This could be based on the staff costs for the administration. However, an additional provision would be needed for bad debt if there was no security. This approach is used by Cornwall Revolving Loan Fund who borrow from the Public Works Loan board and pass on this interest rate to their borrowers and charge an admin fee based on staff time.
- *With interest rate mark-up*: The rate of interest charged to the recipient of a loan or the target return on investment for equity shares would need to allow for return to the original investor (if

required) but could then be "marked up" to a higher rate to provide for administration and bad debt. With this model, over time, surpluses will build if there are no defaults, meaning that the available pot will grow and there may then also be potential for flexibility i.e. offering lower interest rates on certain schemes or grants for riskier projects.

- *With grant subsidy*: If the rate to investors was passed on to the finance recipients so that the return to the fund only just covers what is being paid out to investors, then the operational costs would need to be covered by ongoing grant support. However, there is an ethical question around charitable grants or local authority money being used to allow for increased financial return to investors.

There could also be a provision made for to pay for the wrap around business development resource that would be needed to support this kind of initiative. However, an assessment would need to be made about the affordability of the finance and so it would be better to fund this through other means.

A loss-making fund

If the fund charges low or 0% interest to the recipient, the capital pot will diminish over time through inflation and defaulting or if blended non-returnable finance is offered. This would only work with the grant to loan or equity finance mechanisms where no return to the capital investor is required. To stay stable, the fund would need to be topped up with more investment or it could be allowed to be run down depending on the vision of the initiative. The operating costs would need to be covered by ongoing revenue funding through grants or, if operated by a local authority, allocation of resources.

There is an argument to be made for this approach, in which grant subsidy is used to back-up the local fund to support specific outcomes around economic development. Kindred describe themselves as a "loss-making" fund and purposefully set out to offer 0% interest investment. They, like Barking & Dagenham Giving, allocated a proportion of their original capital sum to cover operational costs and receive ongoing grant funding.

The loss-making approach is obviously more accessible to recipients of finance as it makes the finance cheaper than most other social investment products.

If there is any concern that additional investment or ongoing revenue support would be unlikely, then an evergreen approach would be best in terms of sustainability. However, it would be possible to start with the "loss making" approach and then as more investment is secured, the fund could build a portfolio with different offers and as funds start to be returned over time it may be possible to use these to support the operating costs.

5. Starting capital

5.1 Target amount

Other local social investment funds started with between £1.5m - £10m. Cambridge Council and Camden Wealth Fund are aiming to set their new schemes up with £10m and £30m respectively.

In an interview with someone from one of the schemes, advised that it was not worth starting with less than £1m, however the viable size of the pot should be determined by the size and type of investments that this fund wants to achieve.

Some of the existing local funds have started with a smaller pot and focused on smaller, capacity building investments with the view to scale and attract more investment over time.

5.2 Sources

In all other local social investment initiatives have drawn initial capital from a variety of sources. In most cases, the success has depended on securing an initial “pioneer” investor to provide leadership and to bring on other co-investors over time. In all cases this has been a local authority. Evidence and best practice suggest place-based partnerships as the key to realising these models.

The availability of capital and suitability of the investor will also need to be matched to the purpose of the fund and the expected level of return.

Summary of potential sources of capital

Source	**Type**	**Examples**	**Terms & appropriate mechanism**	**Considerations**
Better Society Capital	Matched investment. Can only be provided to a social investment vehicle.	Better Society Capital (formerly Big Society Capital) have provided match investment for other local social investment schemes including Bristol City Funds and Kent Community Foundation.	Returnable investment with/without interest. **(Mechanisms: Loan to loan; Equity to loan; Equity to asset)**	Expect to see a return between 3-10 years with a target of 3-5%. They look for a 1:1 match but ideally higher match. Restricted to “third sector organisations” by dormant assets act. This is a particularly good time given the recent announcement about social investment being prioritised for the dormant assets fund. The Enterprise Growth Network are calling for this to be targeted at smaller enterprises.
District Authorities	Neighbour-hood Community Infrastructure Levy	Barking & Dagenham Giving used CIL to raise the initial pot of £1.5m Plymouth City Change fund uses CIL funding to provide grant match of up to £30K for	Grant with no return expected (as provided by developments presumably the LA charging interest would not be allowed)	Legislation allows NCIL to be spent on infrastructure or ‘anything else that is concerned with addressing the demands that development places on an area’. Means that targets will need to fall within a certain geographical area and/or align with broad council priorities.

		community & social enterprises crowdfunding campaigns once they've met at least 25% of their target to demonstrate community support.	**(Mechanisms: Grant to loan; Grant to equity)**	
Local Authorities	UK Shared & Rural Prosperity Funds (or their successor)	Plymouth Council topped up their existing local fund with £700K from the UKPSF last year.	Grant with no return expected (as granted from central government presumably charging interest would not be allowed) **(Mechanisms: Grant to loan; Grant to equity)**	These funds could be used either to provide initial capital or could be brought in to provide match grant funding for lenders of the loan fund, particularly on capital projects.
Local Authorities	Capital from disposal of assets	Camden Council is considering this for their Wealth Fund	Either grant with no return or as returnable investment with/without interest. **(Mechanisms: Grant to loan; Grant to equity; Loan to loan; Equity to loan; Equity to asset)**	Potential conflict if assets disposed are considered assets of community value.

Local Authorities	Borrowing from the Public Works Loan Board	Cornwall Council's Revolving Loan Fund borrows from the PWLB to lend to community-led housing schemes. There are many other examples of councils borrowing to invest.	Returnable investment with interest charged at least equivalent to the interest payable on the PWLB **(Mechanisms: Loan to loan)**	Legislation that governs PWLB borrowing, includes being able to use the loan on spending on 'the acquisition of share capital or loan capital". Because PWLB lending rates are linked to government borrowing costs, the PWLB typically offers the lowest rate of interest and most stable and long-term source of finance available to local authorities, although the interest rates paid by councils have increased in recent years.
Local Authorities	Issue of public municipal bonds – Investment could come from individual residents and/or institutions	Camden Council raised £1m for their Climate Investment Fund through a bond offer. Residents can invest a min of £5 and earn a return of 1.75% a year which is eligible to be held in a tax-free ISA. Their original investment gets paid back after five years.	Returnable investment with interest charged at least equivalent to the interest payable on the bond **(Mechanisms: Loan to loan)**	Issuing bonds comes with additional costs that are not associated with PWLB borrowing and the LA would need to obtain a credit rating and work with a professional agency to manage the bond offer.
Local Authorities	Local Government Pension Scheme investment	Islington Council's pension fund earmarked 15% of its fund (up to £150m) for social housing and infrastructure in the borough.	Returnable investment with interest charged **(Mechanisms: Loan to loan; Equity to loan; Equity to asset)**	A Levelling Up White Paper urged local government pension scheme funds to devote at least 5% of investment to 'local projects'. Although there is growing interest from Local Authorities in this approach, there is an acknowledgement that investment would need to be confined to "stable, high, long-term returns" from sectors with "real assets" such as "affordable housing, clean energy, infrastructure".

Other anchor institutions	E.g. Oxford University, Oxford University Colleges, Oxford Brookes University.	There are no examples where anchor institutions have invested but Kindred & Camden Wealth Fund have been provided with academic support.	Either grant with no return expected or returnable with/without interest. **(All mechanisms)**	Either from their existing grant or local development schemes or from their endowment funds
Corporates	Investment from large, high worth businesses based in Oxfordshire or developers. These funds might come from annual "levies" of profits.	Music Promoter Riot Noise is donating 2.5% of annual profits to the Music Venue's Trust Pipeline fund which provides small grants to grassroots music venues.	Either grant with no return expected or returnable with/without interest. **(All mechanisms)**	With the high levels of development happening around the city, there are opportunities to encourage developers to meet their social value commitments through monetary investments. This also recognises the role that corporates should play in local place-making.
Individuals	High net worth investors & investor groups	There are existing networks in Oxfordshire such as The Funding Network and OION. There is also a good track record of local investors investing in community share offers via Ethex.	Returnable investment with interest charged. **(Mechanism: Loan to loan; Equity to loan; Equity to assets)**	Could appeal to local individuals who wouldn't consider grant giving and investor groups who may which to diversify their portfolios with an emphasis on ethical social investment.
Individuals	Crowd-sourced through community shares	There is a good track record of community share offers receiving investment from local people with	Returnable investment with interest charged	The idea of lots of local people contributing a small amount is appealing in terms of being more community-led but this may struggle to raise as much as other methods. It would also require the set up or use of a

		the minimum investment starting at as low as £50.	**(Mechanism: Equity to loan)**	community benefit society which is the only legal form that can issue community shares.
Individuals	Crowd-sourced through other novel fundraising	For example – a project which was a precursor to Kindred raised £300K to invest through obtaining a site from the council to run as a car park on match days over 3 years.	Grant with no expected return **(Mechanisms: Grant to loan; Grant to equity)**	The costs of fundraising would need to be proportional to the amount raised.

Investment Tax Relief:

Through SITR, investors used to receive a 30% tax break on qualifying investments, and this was a huge incentive for social investment. As of April 2023, SITR is no longer available, although there are calls for it to be renewed. Community Investment Tax Relief (CITR) is active, giving a 25% tax relief to investors who back STOs in areas in the top 35% percentile of the Indices of Deprivation. However, the investment needs to be through an accredited Community Development Finance Institution.

6. The finance offer

6.1 Potential terms

In order something which isn't already provided by the existing social investment market the finance offered the terms offered would need to be:

- Small to medium amounts from £5K - £20K as a minimum but potentially up to £50K depending on the size of the capital pot.
- Flexible lengths and rates based on the business model of the STO set within a certain parameter to ensure the target overall return is met (see section 7 below about risk) but ideally:
  - Longer term of up to at least 10 years.
  - Interest rates matching or lower than other social investment products i.e. below 7%.
  - Offering capital repayment holidays – for example the Thrive Together Fund offers a period of up to a year at the start of the loan when only interest is payable thus reducing the size of the repayments at the early stage which may help STOs who are growing.
- Another potential is to offer the loan as a compound interest product rather than annuity, which most social investment products are. This may be particularly helpful for STOs who are

purchasing or renovating assets. Due to large upfront costs and delay in being able to build revenue income, it may take several years to "break even" and so allowing the interest to compound and paying back the capital and interest at the end of the period, may help their cashflow positions.

6.2 Additional finance tools

Below are some additional tools which could be used as part of the local fund to make the finance more accessible. These have been drawn from other examples of local funds.

- *Seed funding*: Offering small grants initially to support STOs to become investment ready. This was done by Barking & Dagenham Giving and Kindred to stimulate the local STO sector. This may not be so needed in Oxfordshire where there is a more established sector and there are a number local and national grant makers providing this type of funding. One approach might be to offer these as "Enterprise Grants" which offers an alternative to traditional grant making where the level of grant is linked to increasing trading income.
- *Grant to loan option*: Finance is offered as a grant and converted to a loan if the business is successful or otherwise it is written off should the business be unable to pay it back. This may be like a social business equivalent of a "student loans" model where the loan is only paid off once a certain level of income is reached. This would be more appropriate to riskier pre-development asset projects where there is potential that the project might fall through. Kindred made incremental investments initially through development grants for testing and then converted to an investment if the project preceded. Plymouth Social Investment Fund allowed some funds for "sacrificial loans" which can be converted into a grant if needed. This provides something half-way between philanthropic giving and a loan. However, the language needs to be right to encourage repayment. There was also a concern raised in the consultation that if the conversion to a loan is based on financial performance this must account for STOs to be able to make reserve contributions.
- *0% interest loan or repayable grant*: *The loan carries no interest, and it is repaid in full after a set period. For example, Kindred offer a 0% interest investment.* As part of the consultation the focus group felt it could be like "borrowing from a friend".
- *Repayment through social return*: A proportion of the loan is repayable through a measured social return, for example, savings for the health service due to improved mental health delivered through a STOs activities. This acknowledges that social and community benefit that STOs provide and give institutional investors multiple returns on their investment, through long-term savings. Kindred offer lenders up to 20% of their investment to be paid back in social value, as defined by that organisation. They said they did this as STOs wanted their "double dividend recognised" but on "their terms", often not as quantifiable data but through stories and case studies. However, the STO is allowed to pay back in 100% financial terms if they are able.
- *Blended finance*: These offers combine loans and non-repayable grants. Other providers of blended products offer the grant at around 20-25% of the total. The aim of the grant element is to facilitate lending by making the finance more appealing for STOs and improving expectations of return for investor where the investment would have otherwise been judged too risky. The Kent Community Foundation's loan fund offers up to 30% grant.
- *Guarantor mechanism* – As with guarantor mortgages, a large and financially secure business based locally could act as a guarantor for STO loans, whereby only if they default, the guarantor steps in to cover repayments until they are able to do so. This may work best if linked to

mentoring from the guarantor to ensure the STO stays viable. The respondents in the consultation thought that this would build on the increased interest in CSR from local developers and corporates, but they thought the guarantor would need to be well matched and respect their STO partner.

7. Fund Operations

7.1 Fund hosting & management

In terms of the hosting and operations of the local fund there is a distinction between the "leadership" and hosting of the fund and the management & administration of it. There is a decision to be made about how devolved the leadership will be and who will be involved in decision-making. The management functions might be done in-house or be outsourced.

Fund hosting options:

This body would provide leadership, strategic direction and make final award decisions. The organisation would need to be of an appropriate legal structure to host, for example, if an equity model is chosen it will need to be able to issue shares. There are also rules around charities investing and the charity would need to be incorporated i.e. a CIO):

- *New independent body*: A new investment vehicle would be set up which may be supported by institutional investors, but not directly owned by them. It would be governed by trustees or a board of directors, which may or may not include representation of investors. For example, Barking & Dagenham Giving is a CIO and Kindred is a CIC. In the case of Kindred, although Liverpool Council invested, they are not involved in decision-making about the fund. A concern with this approach is the significant resource and funding that would be needed to set up the new organisation.
- *Local authority or wholly owned subsidiary*: Several existing local funds are hosted within the local authority. Alternatively, the local authority could set up an arms-length organisation to host the funds in order to spread risk. Where a Local Authority is hosting the fund and investing money in it, they would need to ensure practices fell within their powers and state aid limitations. Concerns were raised in the consultation about the need for the fund not to be politically motivated and be independent from Councillors. Advice from a local authority who hosts a local fund also said that powers over the fund should be at officer level to avoid conflicts of interest.
- *Existing local organisation*: This could be a local organisation with a track record of grant or investment management. For example, the Kent local fund is hosted by the local Community Foundation. There was a concern expressed in the consultation that if hosted by an existing grant making body, it would be important to ensure that existing funds were not diverted from grant but that additional resource should be sought.

Fund management options:

These services could involve facilitating the application process; performing due diligence on applications; preparing agreements & documentation; monitoring & collection of repayments; record and book-keeping. Where needed this may also include professional advice on risk or portfolio management. These services could be:

- *Performed in house*: Where there are existing capabilities or where there is a desire to invest in resourcing internal capacity, the operation and management of the fund could be done in house.
- *Outsourced*: These functioned could be outsourced to a professional fund manager to that aligns with the purpose of the local fund and has the existing infrastructure. It would be important that the fund manager had aligned values. For example, the management of the Bristol City funds were outsourced to Bristol & Bath Regional Capital. Potential fund managers are Co-operative & Community Finance or more locally Ethex.

7.2 Community involvement

In the case of several of the local funds, such as Barking & Dagenham Giving and Kindred, community involvement is a core component of the fund.

The idea of "participatory investment" – also known as "democratic money" by The Curiosity Society, the organisation behind designing Barking & Dagenham's fund, has become widespread in the social investment sector. The idea behind this, described in the Transform Finance report, is the "notion that investment efforts should not happen to communities, but with them" and that local people should be at the heart of decisions that shape the places in which they live.

There is an opportunity for deeper liberation work through building "power in BIPOC and working-class communities through the sharing of power within investment processes".

Barking & Dagenham have made sure to have strong leadership from those who have been traditionally excluded from the mainstream economy, such as BME and working-class communities. Centring marginalised voices in design and management of a fund can help to ensure that the fund is accessible to a diverse range of people and build financial confidence and financial literacy.

Community Steering Group, Barking & Dagenham Giving

Ways to facilitate community involvement:

There are ways for the community to be involved at various levels and stages. This might include some or all of the following:

a) *Co-design* – early and sustained involvement in setting priorities and inputting into the shaping of the fund. For example Kindred conducted a large consultation with STOs to design the fund.
b) *Steering & Advisory* - Consulting on ongoing basis through advisory group or other means. For example, Barking & Dagenham Giving have recently launched a public survey to get input
c) *Decision making* – this might be through a panel and having a say on the budget allocation and final awards of finance. For example, the Barking & Dagenham Giving Community Steering Group. Kindred, set up a "peer" panel of other STOs to judge the applications.

The first two stages could involve a smaller group or wider involvement, whereas the decision-making stage would likely to be a small group. Some examples have selected local residents acting as an individual, whereas people could also be chosen to represent key organisations and grassroot groups from the community.

Those who've used participatory processes have suggested some essential factors to make it a success:

- *Reimbursement:* Paying people to participate, especially those from more marginalised groups or areas, helps to address socio-economic disparities, ensuring that their voices and lived experiences are adequately represented and valued. Barking & Dagenham Giving pay people in their Community Steering Group at least the living wage. They also made sure that people couldn't opt out of receiving payment, but they were able to donate the money if they felt they didn't need it.
- *Training & capacity building*: Resourcing for training of participants is vital to ensure they feel comfortable with the processes and can make informed decisions. If this kind of support is resourced, there is less need to recruit participants with existing business or financial skills and lived experience or knowledge of the place can be prioritised.
- *Organisational capacity*: Having staff with time and the skills to facilitate participatory processes. Barking & Dagenham also put resource into doing initial community organising and outreach work going beyond the usual gatekeepers to recruit the participants.

Learning from other participatory processes in Oxfordshire:

Oxford Hub have run a successful participatory grant making programme in Blackbird Leys since 2021. The panel were selected from the local community and trained in evaluation and decision-making skills. The criteria for the fund were partly decided by the panel. The Hub's learning was in the importance of trusting the panel and supporting the process but not leading the decision making. Applicants appreciated being able to pitch in person to peers which was more accessible than longer written applications.

Oxford University Public and Community Engagement with Research have also just launched a paid community panel with lived experience to make funding awards for research projects.

In the Transform Finance report, it acknowledged that "trade-offs need to be made between the complexity of a governance structure and the speed and ease of investments being made". Another factor that has been discussed by existing social investment providers is the balancing the cost of facilitating participation to the size of the fund i.e. resourcing involvement vs making more money available as finance. These choices will depend on the purpose and vision of the fund.

In the consultation, there was strong support for participatory processes or governance. However, support for participatory processes was lower than support for tools which would make the finance more accessible and affordable (i.e. blended finance option, repayable grant, social value return).

7.3 Diversity, Equity & Inclusion

As highlighted in the evidence of need, there is a systemic under-resourcing of STOs led by economically marginalised groups, particularly Global Majority-led STOs. DEI should be at the heart of the design of the local fund, with considerations about how to make the fund accessible and inclusive incorporated from the start. Following are suggestions drawing on best practice and recommendations from organisations leading DEI work in the social investment sector:

- *Targeted or ringfenced funds & programmes*: A proportion of the funds might be targeting STOs led by under-capitalised and economically marginalised groups or in areas which have experience financial exclusion. For example part of the Social Investment Business's Recovery Loan Fund was ringfenced to Global Majority-led STOs. This can be even more effective when accompanied by wrap around support, such as the Pathway Fund's development programme or The Ubele Initiative's Flexible Finance programme. Another example is the Kindred initiated BlaST (Black Social Traders) network, which provided £50K of small awards to 23 Black-led STOs. This has since led to 25% of their overall investment going to Black-led STOs.
- *On-going Evaluation of DEI*: The Impact Investing Institute recommend assessment of DEI should be embedded into monitoring and evaluation processes and investment policies. The Racial Equity Scorecard has also been designed for social investment providers as a practical tool to evaluate racial equity performance within investment.
- *Equalising the deal*: The Power to Change report Exploring Barriers to Funding and Support Experienced by Marginalised Community Businesses highlighted the exclusionary processes of many funding and finance providers with barriers cited as not knowing the "hidden code" or "right language" when applying, as well as challenges with time-consuming and onerous formal written applications or understanding legal documents, especially those identifying as neurodiverse or having English as a second language. **Equality Impact Investing** have learned from STOs about perceptions of the process of obtaining social finance and have produced a number of recommendation on how to "equalise deal terms". They recommend addressing power imbalances through creating "processes and documents that are clear, balanced and reflect equitable risk sharing". Other things include using plain English in documentation and having non-written applications and reporting.

Islamic Finance:

In Islam there is a prohibition of "riba" (interest) and Muslims are encouraged to avoid investment deals that involve paying or receiving interest. There is also an emphasis on socially responsible investing and avoidance of investing in anything deemed "haram" (forbidden) under Shariah Law such as gambling, alcohol etc.

In our focus group one participant said: "marginalised group like Muslims have to navigate the Islamic economic system as well as the Western system to ensure they can access things like loans" and so there is a need to look at how this fund could be made more accessible to STOs in Oxfordshire that are led by or involve Muslims stakeholders.

There have been significant developments in Shariah compliant finance in the social investment sector, including the use of profit share offers, known as "Mudharabah" such as the Growth Impact Fund. There has also been work by Co-ops UK's Community Shares Unit to make community share offers Shariah Compliant.

7.4 Eligibility for the fund

When designing the fund, eligibility criteria will be set based on the purpose and vision of the fund and any limitations of the finance offer. Some suggestions for eligibility considerations are:

- *Local connection*: Based and/or operating in Oxfordshire
- *Legally incorporated*: The STO should be registered as a legal entity. There is a question about if the eligibility should be restricted to not-for-profit organisations or if for- profits could be included if they can prove they are trading for social purpose. Kindred take the latter approach saying they "judge by actions not legal structure". However, which legal structures are eligible may also depend on any restrictions linked to the source of the capital investment and the finance mechanism.
- *Delivery track record*: Unless the local fund is targeting new STOs, there may be a need to demonstrate previous achievements and that there is a viable organisation or project to develop.
- *Financial track record*: Depending on how open the fund will be the minimum might be the need to have a bank account, up to producing financial accounts for a certain period of time.
- *Evidence of governance & capacity*: That they can show they have a functioning Board of Directors or Trustees to provide robust oversight and potentially staff capacity to manage the funds.
- *Evidence of local need*: or demonstration of public engagement or community support for their plans. This might need to align with priorities for the kind of intervention, area or group the fund has.
- *Asset lock*: Where funds are used to purchase assets, there may be a requirement for the organisation to have an asset local so that the assets are not able to be sold on for private profit.
- *A business plan & financial plans*: To show that taking out the finance would be viable and there is a plan for repayment.
- *Social Impact*: For example, Kindred look for STOs who can "show the difference the money would make" and can tell a story about the impact. They also look for STOs willing to collaborate with others and join their network.

7.5 The process

Drawing on best practices from other local funds and incorporating insights from a design session with the focus group during the consultation, the proposed process for applicants and accompanying support would be:

Pre-application:

- *Inclusive invitation*: Resource put into promoting the fund and ensuring that groups targeted through DEI commitment are informed.
- *Guidance*: Provision guidance and orientation through toolkits, webinars, and application checklists. This should provide up-front clarity on the process including time commitment; timeline; terms; likely competition / chance of success; and consequences of defaulting.
- *Business Development Support:* Access to financial literacy and business planning support for STOs to ensure they meet the eligibility and are prepared for the application.

During the application:

- *Making the application accessible*: Methods to make the process simple and non-labour intensive. For example, using a "suggested" word count instead of strict limits; offer non-written ways of applying, avoiding jargon, no fixed deadlines, in-person pitches with peer groups (used by Kindred). Kindred talk about how they aren't "looking for good bid writers or people who are good at maths" but people with ideas and so they provide support to articulate them.
- *Two-stage process*: Potentially offering an initial assessment or meeting to see if ready to apply which could identify gaps or provide additional grants or support to prepare for investment.
- *Creation of clear decision-making framework*: This would be used by the panel to make award decisions but could be shared with applicants so they are able to prepare. For example Barking & Dagenham Giving created a "bullseye" matrix to assess impact, risk, liquidity and return. They also made a useful distinction between "widely felt vs deeply felt" issues so that smaller minority issues did not get overlooked.
- *Due diligence*: Making sure the STOs meet eligibility requirements and are fully prepared should be done with clear communication and transparency.
- *Offer feedback*: Provide detailed feedback for unsuccessful applications.

After securing finance:

- *No surprises!:* Fixed terms such as interest rates, which don't change unless there is a need from the STO for flexibility.
- *Straight-forward reporting*: Simple, predefined reporting requirements and flexible reporting options, including in-person visits or non-written reports. The reporting burden should also be proportional to the finance awarded. Access to consistent evaluation and impact monitoring frameworks, similar to TOMS. Some local funds such as Kindred, allow for STOs to self-report on social impact based on their own methods. Plymouth's fund asks to be sent copies of annual reports to save STOs from creating multiple reports.
- *Tailored aftercare*: Opportunities for ongoing support with managing repayments, business sustainability and reporting but minimised to prioritise delivery time for the STO. Level of aftercare could be dependent on the organisation's size and maturity.

- *Wrap-around business development support / resources*: Continued access to specialist business development support and a register of sympathetic commercial providers for professional services and follow-on finance providers.
- *Opportunities for shared learning*: With other STOs accessing finance.

Resourcing business development support

One of the takeaway learnings of the Bristol City Funds evaluation was that whilst they "started out with an intent to invest mainly in community-based, 3rd sector organisations. In practice, few of these were in a position to take on repayable finance." They concluded that they needed more "headroom to undertake strategic research to develop a strong pipeline".

For a local fund to be successful, resourcing the business development support "ecosystem" is key. This includes local development and infrastructure bodies, business advisors and community champions who can sign-post to the fund, help generate a pipeline of potential applicants and ensure that STOs get the specialist professional support to do robust business and financial planning.

The current business development sector in Oxfordshire includes a diverse and broad range of organisations. However, due to the lack of any consistent centralised funding of business development support provision both nationally and locally, the capacity of these organisations to provide long-term dedicated support is patchy. Therefore, the resourcing of this fund would need to be done in parallel to increased resourcing to this sector locally. 15 of these bodies responded to the consultation and 57% of the providers currently don't give advice and signposting to STOs on accessing repayable finance. Therefore, there would need to be investment, especially, in creating resourcing and up-skilling support providers in this area.

8. Risks & other considerations

Many existing local funds report low levels of defaulting (i.e. not being able to make repayments or needing to write off the debt) or even none in the case of the Plymouth fund. As a guideline, CAF reported that over 10 year of their community-led housing loan fund, bad debt equated to 13% of the capital provided. However, this was for housing projects at the riskier pre-planning stage and so the default levels are likely to be lower for STOs with other business propositions. There has been much evidence about the long-term sustainability of co-operatives and community business models with co-ops being reported to be almost twice as likely to survive the early years than other companies. Plunkett's report also showed that of the shops, pubs and hubs they support, there is a 92% long-term survival rate – few have ceased to trade once open.

However, there are a number of suggestions for how risks can be mitigated:

- *Provision for bad debt*: If the fund is to be "evergreen", then a percentage provision for bad debt can be made through fee charges or interest rate mark-up.
- *Creating a balanced portfolio*: Rather than having a fixed rate for all investments, the fund could establish an overall target rate of return which would enable investment in "riskier" STOs when balanced with higher return investments. Barking & Dagenham's investment policy states that

the profile of risk across the Portfolio is maximum 10% higher risk; maximum 50% medium risk; the balance of 40% lower risk.

- *Ability to be flexible*: Most local funds have been able to provide repayment holidays or have restructured the debt to ensure that the STOs is able to repay. Therefore, some flexibility in the model is needed i.e. not totally dependent on a certain level of return.
- *Security*: Security may be taken where an STO owns an asset. However, it would be preferable for the local fund to be the junior lender, as this will enable the STO to seek other finance where needed.
- *Sufficient scrutiny and due diligence* of the business case, as well as resourcing of business support organisations to ensure that support is given to be certain of viability before submitting an application.
- *Staged draw-down*: With larger sums, the finance could be broken down through approving stage by stage, with spend limits and approvals per stage dependent on meeting milestones. If the loan is for development projects, STOs could be required to obtain fixed cost tenders for the to prevent schemes going over budget (Cornwall Revolving Loan scheme require this).
- *Monitoring & aftercare*: Adequate capacity to resource this support in order to be able to recognise warning signs or support needs before defaulting happens.
- *Building in accountability and credibility:* This is about creating a culture of repayment through not being explicit about the fund's ability to "write-off" as well as through the localising and personalising of the finance. Kindred suggested that people wanted to repay their investment as they knew it would support someone else like them. One lender said: "I want to take money out of the pot, use it for as long as I need it, then pay it back for the next person". Barking & Dagenham Giving created a narrative around the investees being "guardians of community wealth".

9. Road Map

Currently there is not an organisation or body clearly identified to host the ongoing development of the fund and therefore the first step would be to find suitable stakeholder/s to take leadership. Should there be interest from stakeholders to support further development of a local fund in Oxfordshire, below is a potential roadmap for implementation:

Further Development Phase:

- *Allocate funding & resource*: Secure a grant to fund detailed development and financial appraisal work, including the creation of a business plan for the local fund which will pin down options for the fund model and finance offer. Creation of a detailed timeline.
- *Develop a vision & purpose*: Agree on the desired outcomes, targets, and priority groups for the fund.
- *Create a participatory process / community advisory group*
- *Stakeholder development*: Engage with investor stakeholders to build partnerships and obtain pledges of capital.
- *Secure key operational matters*: Identify hosting and management functions and delivery.

Start-up:

- *Secure initial capital*: Start process of applying for or securing capital investment.
- *Set-up structures*: Establish governance and the legal structure of the fund host.
- *Recruitment*: Develop or recruit necessary personnel to host and manage the fund.

- *Investment Strategy*: Create an in-depth investment strategy.
- *Monitoring and evaluation*: Develop a M&E framework.
- *Create a support & engagement strategy*: To detail how the fund will be integrated into the business support ecosystem and how the fund will be publicised. This might be combined with initiatives to provide seed funding for investment readiness.

Launch

- *Capital draw down*: to provide the starting investment pot
- *Open to applications*: the fund is launched

Longer-term

- *Top-up of funds*: Secure additional capital if needed.
- *Evaluation*: Appraise and develop the investment portfolio.
- *Reinvestment*: Reinvest returns for sustainable growth.

10. Appendices

10.1 Table of existing local social investment initiatives

Name	Capitalisation	Finance Offer	Fund operations	Impact
Plymouth Social Enterprise & Co-operative & Mutuals Development Fund (From 2014)	£2.5m. Recently topped up with £700K from UKSPF.	Small loans (£5k-£10k), larger loans (£50k-£100k) at low/no interest rates. Also, small grants (>£10K) for feasibility. Diversifying into equity investment.	Hosted by Plymouth Council with panel of members and staff.	Created 127 jobs and repurposed 14 buildings/land. Focus on asset acquisition which supported projects like Nudge Community Builders. Leveraged £5 million in match funding
Kindred (From 2019)	£6.5m from Local Authority & Power to Change.	Investments at 0% interest, repay 20% through "social value", average loan £45k (range £15k-£70k).	Hosted by an independent CIC. Peer panels.	Nearly doubled employment and turnover in 20 STOs, attracted an additional £10.5m investment.
Barking & Dagenham Giving (From 2020)	£1.5m from Local Authority (CIL monies)	Equity investments, unsecured loans & grants typically £75k-£250K.	Hosted by an independent CIO. Participatory decision-making processes.	Supported 8 socially trading organizations through accelerator program. Expected 2.5%-3.5% return.

Cornwall Revolving Loan Fund (From 2009)	£4m from Local Authority (Public Works Loan Board)	Loans to community-led housing groups (£75K-£1.5m for up to 18 months) at 4.5%. With pre-development grants of £25K.	Managed by Cornwall Council	Supported 44 affordable homes over 13 years.
Kent Community Foundation Social Enterprise Loan Fund	Grants from Big Lottery, Big Society Capital, Access, and Local Authority	Blended finance (grant up to 30%), loans £10k-£100k up to 5 years at 5%.	Hosted & managed by Kent Community Foundation	Supported over 250 organizations with £3.3m in loans and grants, provided investment readiness support.
Bristol City Funds (from 2019)	£10m from Bristol City Council and Big Society Capital (50:50 basis) and other funds from Access.	Loans - average £370K.	Managed by Bristol & Bath Regional Capital	Completed 31 investment deals with 24 organizations, projected IRR of 2-4%.
Camden Community Wealth Fund (In development)	Expected to raise £30m from Camden Council through asset sales and other sources.	Repayable loans at affordable rates, equity finance, non-financial support (mentoring, grants).	Hosted within Council but may look to transition out.	Focused on economic opportunity for young people and marginalised groups, plans to grow/replenish fund through repayments, equity sales, and co-investors.
Greater Cambridge Impact Fund (In development)	Expected to £10m. Cambridge Council has made an in-principle commitment of £1m	Equity investments & loans for purchase of assets, no grant element.	Hosted by independent body.	Will focus on systemic inequality and large-scale solutions.
West Midland Combined Authority				Committed to developing a local investment fund, investing in pipeline development through

(In development)				accelerator programs, aiming to refine investment approaches through low-risk opportunities.

10.2 Table of Social Investment Providers & Products

Type	Social Investment Providers & Products
Start-up loans	• British Business Bank's Start-up Loan lend up to £25K at fixed interest of 6% over up to 5 years.
Small - medium loans	• Co-operative & Community Finance: £20K-150K at 6-10% interest over up to 10 years. • Resonance £20K-250K unsecured at 6-8% interest over up to 10 years
Medium – large loans	• CAF Venturesome £50K - £1m, unsecured at 5.5% fixed interest rate over 3-5 years but up to 10 years in some cases. • Social & Sustainable Capital: £250K - 2m (terms undisclosed) • Social & Community Capital: £30K - 500K at 5-8% over up to 15 years • Growth Impact Fund: £500K - £1.5m at 8-12% over up to 7 years
Blended finance	• Thrive Together Fund**:** £25K - 150K (with up to 25% grant) at 7.5% over up to 6 years • Big Issue Invest Impact Loan £20K - 200K (with up to 20% as grant) at 7.5%-8.5% over 8 years
Revenue share offers	• The Growth Impact Fund offer £50K - 750K on a revenue share structure in which the loan is repaid based on a % of revenue. • The Frederick's Foundation also offer £20K - 50K on a revenue share model.
Equity offers	• Co-ops UK's Booster Fund offers matched equity investment for community share offers of up to £100K. • Growth Impact Fund offer £50K - 500K for CICs and Companies Ltd by shares and they receive dividends according to their ownership share.
Mortgage offers	• Charity Bank, Reliance Bank, Ecology, Unity Bank and Triodos offer mortgages primarily for community-led housing or community asset projects from £100K up to £20m over 25-30 years. These must be secured against an asset with a typical loan to value at 65-80%. Anecdotally interest rates are between 7 - 9%.