

Place-Based Impact Investment: Mobilising Institutional Capital for Levelling Up

Investing in Our Own Backyard

Economic historians say that an ‘excessive export of capital’ led to Britain’s economic decline from 1870-1914, and if government and business had come together to divert these financial resources to ‘home purposes’ – say, Levelling Up (LU) today – the country would have added 25-50% and a dynamic structure to our national economy.¹

Faced by an economic crisis, there are positive signs that we will not make the same mistake again. The Treasury has directed the Financial Conduct Authority (FCA), in the Future Framework Review, to adopt a new goal for post-Brexit financial regulation: financial markets should ‘work well’ for people and firms in the real economy, not only from the perspective of the City and the aim to make London the world’s leading international financial centre.²

There are positive signs at the local level too – where many Institute of Economic Development (IED) members work and pay into pension schemes. In response to the LU White Paper, Local Government Pension Funds are preparing their own Levelling Up plans with an aim to allocate up to 5% of their £350 billion Assets Under Management (AUM) to local and regional projects (this target allocation was taken directly from The Good Economy’s own white paper ‘Scaling up Institutional Investment for Place-Based Impact’, May 2021). Tapping into this new source of institutional capital – from the LGPS alone – would effectively double the financial resources available through the Government’s competitive LU funding regime.

Place-Based Impact Investing: From Concept to Practice

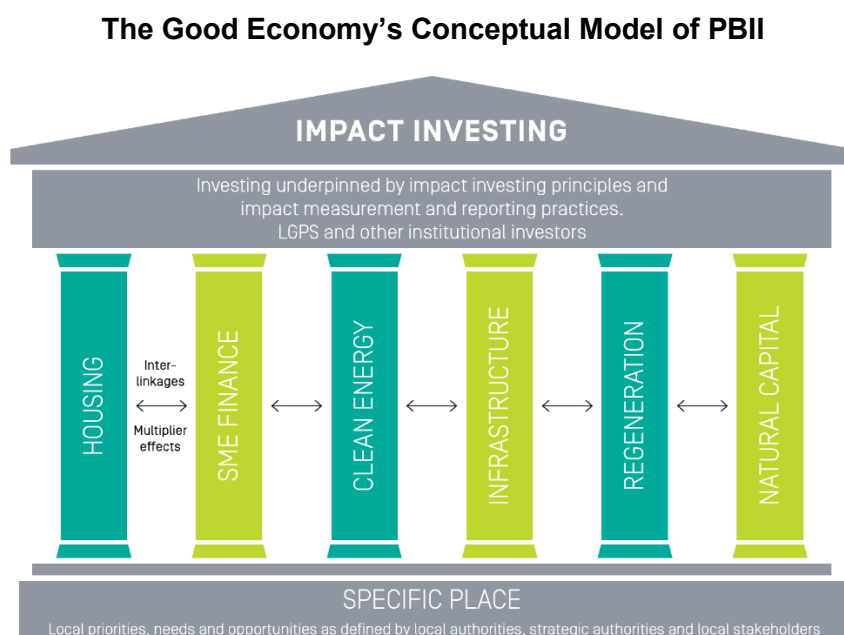
The Good Economy (TGE) works at the frontier of these trends in financial markets, at the nexus of impact investing and place-based economic development. Place-Based Impact Investing (PBII) is a hybrid model of these approaches to investment and economic development strategy. In our seminal white paper, ‘Scaling up Institutional Investment for Place-Based Impact’³, we defined PBII as follows: *Investments made with the intention to yield appropriate risk-adjusted financial returns as well as positive local impact, with a focus on addressing the needs of specific places to enhance economic resilience, prosperity and sustainable development.*

¹ Sidney Pollard, *The Economic History Review*, Second Series, Volume XXXVIII (4), 1985

² Kevin James, LSE Systemic Research Centre, <https://blogs.lse.ac.uk/businessreview/2021/12/10/city-or-real-economy-who-are-the-financial-markets-for/>

³ Authored by Sarah Forster, Mark Hepworth and Paul Stanworth, The Good Economy; in partnership with the Impact Investing Institute and Pensions for Purpose. May 2021

TGE's conceptual model of PBII (below) brings together places and investors around six 'pillars' that have a solid social and financial rationale for investing. These PBII pillars are dual structures (TGE uses a refined breakdown of each pillar in its impact services consultancy work): they represent both policy domains in local and regional development strategies and real economy sectors and investment opportunity areas in institutional investment strategies and asset classes. TGE's white paper research revealed that only 2.4% of the total value of LGPS AUM is allocated to these real economy sectors, of which 1% is invested in the UK. Returning to my opening paragraph there appears to be a strong historical argument for finding ways of breaking down the non-financial barriers (interpretation of fiduciary duty, the influence of intermediaries and information problems) that stand in the way of investing in our own backyards. Selecting and building long-term relationships with a growing number of impact-minded fund managers is key to scaling up PBII, which requires long-term capital and a commensurate engaged, long-term investment approach.



The LGPS sector was selected as a case study for our white paper given its administrative and membership geography, as well as some evidence of PBII activity by the larger funds, for example Manchester, South Yorkshire and Clwyd. However, the PBII model has a much bigger potential audience in the investor community. For example, Alex Notay, Investment Director at Places for People, believes that *'the PBII conceptual model is useful to align investors and local authorities. Place-based regeneration happens everywhere, of course. However, we are on to something by making PBII a mainstream investment theme, bringing in new investor interest and focusing on the importance of responding to local needs and benefits to local places'*.

Core traits of a PBII project



Whilst it is positive that PBII is sparking investor interest, we nevertheless recognise the dual structure of the PBII model requires matching interest from local stakeholders involved in economic development and regeneration. Therefore, TGE launched the PBII Innovation Lab in May of this year, partnering with the IED and Pensions for Purpose. We have set up Local PBII Labs as solutions-focused ‘walled gardens’ that enable local stakeholders, impact-oriented investors and sector experts to collaborate in developing innovative financing models with the potential for high social impact as well as replication in other places and aggregation into institutional fund structures.

The PBII Labs, by immediately engaging with committed actors, will offer better insights into the demand for impact investing capital from place-based economic development stakeholders. Equally, it will enable a more comprehensive understanding of the supply side of the PBII marketplace – the range of investors, their strategies, financial products, and risk-return-impact expectations. This shared understanding of both demand and supply is essential for building relationships and an aligned ecosystem capable of scaling up transaction activity across the nascent PBII marketplace. By overcoming information barriers, increasing trust and identifying innovative ways of closing funding gaps, the Lab aims to reduce PBII transaction costs and act as a catalyst for place-based impact investing.

The First Wave: Themes and Issues

As of mid-August, five local PII Labs were established in different regions of the UK. The originators and sponsors of the Labs are local authorities except for the community-led Dunoon Project partnership, in Argyll and Bute. Participating local authority directorates include housing, regeneration and economic development, finance and external relations. There is a shared interest in the PBII Lab as ‘space’ for learning about new funding models and investor relationships and identifying barriers and opportunities to raise appropriate finance for local projects in an open and constructive setting.

The Lab process itself involves three workshop sessions:

1. To define a strategic theme and case study for the Lab framed as a model PBII project (see above);
2. To create a PBII impact framework around the project, including a theory of change model and impact metrics dashboard;
3. To draft a business case for project financing with selected investors and sector specialists sharing their commercial knowledge and expertise.

Manchester

Develop 15,000 new homes over the next 20 years to address housing shortfalls. 7 new neighbourhoods to be created with public spaces and improved public transport links.
Challenge: how to fund the reversion of social housing given government policy focus of only providing grant funding for net additional homes?

Bath & North East Somerset

Meet the local housing needs of the "squeezed" middle with 15,500 new sustainable and affordable homes required.
Challenge: what types of investors and developers could local authorities partner with to deliver housing that is affordable to local people in areas with high housing prices?



Dunoon

Reverse the decline of a Victorian coastal resort through adventure tourism and development on community-owned land.
Challenge: how to find aligned investors willing to buy into the vision and co-develop a funding model for community-led regeneration?

Doncaster

Support the Council's regenerative neighbourhoods programme, including facilities and services that benefit local children and young people.
Challenge: how to an investment model that combines asset-backed and revenue-based finance for community facilities and services?

South Essex

Support Rochford Council's Net Zero plan including investments in affordable housing and renewable energy infrastructure.
Challenge: How to develop an innovative financing model for housing retrofit that could be replicated nationwide?

As stated earlier, we want to establish a 6th Local Lab this autumn, and then network all the Labs into a knowledge community of local stakeholders, investors and sector experts. We also want to keep the door open for others to this unique PBII community and plan to hold a national conference in spring 2023.

Ultimately, we are seeking to co-develop PBII projects that produce positive social, economic and environmental outcomes for specific local communities and economies as well as appropriate risk-adjusted financial returns for investors. We believe there are investible PBII projects in all real economy sectors in every region of the UK. However, a critical universal requirement for scaling up PBII is an increase in focus and operational resource across the ecosystem including local authorities, pension funds, investment consultants and fund managers. PBII is an area where there is a need to think creatively and collaboratively about how we use financial products and partnerships to deliver investments that benefit local places. A first step in building capacity and competency is to increase knowledge sharing and learning across the ecosystem. This is the aim of the Lab – to learn by doing and share experience. Do get in touch via mark@thegoodeconomy.co.uk if would like to be involved.

Mark Hepworth is Director, Research and Policy at The Good Economy. Mark is delivering a breakout session on 'Place Based Impact Investment' at the IED Annual Conference 2022. Book your place [here](#).