Beyond the cost of living crisis: how social financing and investment can help build resilience

The cost of not listening series

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In recent decades the UK has been moving steadily away from social protection and social welfare through significant public service and welfare reforms, alongside severe public spending cuts and attempts at reconfiguring state-society relationships.

In my first article, I argued that while rising costs have been documented globally, the experience of the current cost of living crisis in the United Kingdom (UK) is a continuation and amplification of pre-existing trends.

Of course, it is erroneous to assert that the Government should do everything, although it is far too easy to demonize state intervention as indicative of a 'nanny state'.

It is frustrating that debates around the role of Government often descend into diatribes seemingly driven by an excess of ideology over evidence, exemplified most recently in the polarized assertions of the final two contenders in the Tory leadership race relating to Government support with managing the cost of living crisis.

Governments should be clear about where they should intervene directly and where they should be creating the environment that encourages and incentivises others to 'pull in the same direction'. Even here, it is important to avoid uncritical assumptions and assertions.

Much has been claimed during the Tory leadership campaign about the desirability of tax cuts and deregulation as key conditions for stimulating growth and generating wealth for society. Yet the associated theories of change are not articulated and tested. For example, there has been compelling work arguing that the assumption of 'trickle-down' economics does not work.

We need a clearer framework for understanding value creation and how this works in specific contexts. Engines for social value exist across the public, private and third sectors, but the underpinning theories of change are often assumed at best and outdated at worst.

In addition, value creation across the various sectors often work in silos. The lack of coordination and cohesiveness result in the whole being less than the sum of its parts.

To put it crudely, while these endeavours – such as through philanthropic giving or through a company's corporate social responsibility activities – may generate social value, they do not add up to a coherent strategy of social investment into the conditions that optimize human capital.

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Relying solely on the Government to fund and invest in social value means that we are ultimately tied to a tax-and-spend model which, under a period of prolonged austerity, has meant that spending has been curtailed severely.

Looking ahead, the tenor of Conservative Party leadership contest indicates that the Government is likely to favour a continuation and perhaps deepening of a 'low-tax-low-spend' approach.

This reliance on a tax-and-spend approach to drive social value creation is too limiting, particularly as investment into human capital transcends public and collective services provided or commissioned by the state.

At the same time, estimates issued by the Global Impact Investing Network (GIIN) indicate that the global size of impact investment – defined as investment achieving social and environmental impact alongside financial returns – has been growing significantly year-on-year.

Domestically, Big Society Capital's (BSC) recent tenth anniversary report similarly documented the exponential growth of social investment in the UK. If we are able to 'crowd in' such sources of financing for social development, in a way that is joined-up and at scale, the impact can be transformational.

It is ironic that while public sector and third sector organisations routinely invest, much of this does not take the form of social investment but is instead underpinned by the desire for speculative financial gains.

In a few high profile cases that came to light, some of these investments have been contrary to social value, such as the revelation that the Church of England continues to invest in companies that actively avoid paying taxes.

Similarly, anyone who remembers the interest rate swap fiasco of the 1980s will recall that public money is not always invested wisely. While many players aim to invest ethically these days, the 'do no harm' motivation falls well short of the more proactive and ambitious goal of securing greater social good.

To help us deal with the uneven burden of the cost of living crisis, we need to see this as an opportunity to transcend conventional silos and to work together to help secure a more positive future for everyone.

Tackle inequalities by removing barriers

Image credit: Centre for Ageing Better

The growing inequalities exposed and exacerbated by the cost of living crisis will be a key barrier to future growth, and therefore represents a key risk to our collective prosperity as a nation. As such, it makes no sense to leave the worst hit groups to fend for themselves, or to see this as a problem to be solved only by the Government.

Levering in, mobilising and coordinating resources beyond public spending and philanthropy enables us to be more ambitious about the way we weather this crisis. Our response should not simply be about crisis management in the 'here and now', but should anticipate how we can lay the foundations for balanced and sustainable future growth. This calls for bold and creative ideas.

One of the key limitations of a conventional 'tax-and-spend' approach is that the public sector is often risk averse and, when money is tight, can often focus on the 'must dos' (e.g. as prescribed by statutory duties), rather than the 'should dos'.

Despite the rhetoric around prevention and early intervention, much of public sector activities and budgets are squarely on crisis management.

This 'double-running' challenge for public budgets is real, and this is where social financing and investment can play a role. First, the Government Outcomes Lab has argued that there are forms of social investment that can help alleviate public sector budgetary pressure by funding prevention and early intervention.

If these efforts are successful, it can help decrease reliance on further services in the future and certainly help shift spending gradually away from 'fire-fighting'.

I have argued elsewhere that diverse sources of capital for social good are underpinned by different risk appetites. By leveraging these and by blending them in creative ways, we can protect the space for innovation and risk-taking.

The current cost of living crisis is an exemplification of deep structural issues for which radical solutions are needed. Tinkling around the edges of the existing structure, which simply reproduces inequality and exacerbates vulnerability, simply does not work.

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Changing lives for good

Much of the rhetoric (if not always the practice) of social financing and investment is rooted in the language of 'outcomes'. The outcomes agenda is certainly gathering momentum as a global movement (e.g. framed in terms of the United Nations' Sustainable Development Goals), and has specific manifestations in the UK (e.g. outcomes-based contracting, the Public Services (Social Value) Act, etc).

If financing can genuinely be harnessed and directed towards outcomes-focused endeavours, the results can be transformational.

For too long, we have relied on claims around volume of activities and size of spending to underline claims that we are "doing good things". Yet what ultimately matters is whether any of those activities and spending have actually changed people's lives for good.

While any form of support for vulnerable households during the current cost of living crisis is welcome, how meaningful is it to keep harping on about the £400 grant through the Energy Bills Support Scheme when the Trussell Trust has been reporting ever-increasing reliance on food banks?

Lest it be forgotten, the Trussell Trust was already reporting in 2015 that usage of food banks had hit an all-time high at that time, pre-dating the current cost of living crisis by a considerable period of time.

To be fair, there have been encouraging steps in the right direction. For example, public bodies are increasingly acknowledging the role that procurement and commissioning can play in ensuring that public spending is done in a way that improves social value. The Public Services (Social Value) Act provides a mechanism for doing so.

Additionally, the pioneering role of Big Social Capital to grow and diversify institutional investors is noticeable, as is the introduction of legislation such as the Social Investment Tax Relief aimed at encouraging individual investors to invest in social purpose initiatives.

Likewise, the Association of Charitable Foundations (ACF) acknowledged that societal expectation and financial prudence will demand that foundations invest more intentionally and responsibly in the years ahead. The ACF stated that while grants will remain important, there is far greater recognition of the role of social investment moving forward.

Notwithstanding the positive steps above, it would be fair to say that progress has been piecemeal. For example, explicit use of the Public Services (Social Value) Act is still not treated as 'business as usual', although it is understood that the Government has plans to reinvigorate the social value agenda to better support post-COVID recovery and levelling up.

Furthermore, social investment is still niche, and are overwhelmingly directed towards social property deals and lower-risk propositions. The wider promise of social investment has yet to be fulfilled.

If we are not careful, the loose terminology around social investment may be used to create a halo effect, distracting us from scrutinizing whether such investment has really made any substantive and meaningful improvements in the lives of people that would not otherwise have happened.

In its current form, the social investment market is not quite up to the task to enable the type of societal transformation I have been talking about. At risk of over-simplification, it is still overwhelmingly supply-driven rather than needs-led; with a tendency to prioritize propositions that are lower risk which can be replicated to ensure an almost guaranteed return on investment.

It has failed to play any substantive role, for example, in backing social-purpose organizations at scale in an inclusive and diverse manner. Instead, it seems content to settle for 'more of the same' through cookie-cutter replication, with insufficient ambition for transformative outcomes. As such, social investment in its current form is distinctly finance-led rather than enterprise-focused.

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What can we do?

In the spirit of contributing to the thinking and debate in this area, here are some recommendations:

Provide an overarching framework for social investment priorities with the aim of strengthening social and economic resilience

The aim of stimulating social financing and investment should not simply be about increasing the size of the market.

The supply of capital, per se, is meaningless if it merely leads to a proliferation of small and uncoordinated propositions with no discernible pipeline for upscaling impact in areas of greatest need.

Without a clear framework for priorities, social financing may not be directed towards where it may be needed most, but instead simply stays around the easiest points of entry.

Clarify the functions of capital

Currently, social financing and investment can mean everything to everyone, and can often sound too good to be true. Yet it is not singular in form, nor in function.

The capital can play different functions, with different underpinning theories of change. For example, a significant proportion of social investment is current about helping to manage cashflow. The segment going into supporting social innovation through risk-taking is still lagging behind.

Retain a clear focus and commitment to outcomes

It is easy to badge investment as 'social' where intention replaces the requirement for evidencing. In recent years, there have been well-founded accusations of 'impact washing'.

A lack of clear standards and oversight mean that investment can be claimed to be for 'social' purposes but with little measurable positive impact. At the same time, forms of social investment with strict evidencing requirements are often blamed for being too 'burdensome' or 'costly', with recommendations for watering down evidencing requirements.

If social financing and investment is to be directed towards building social and economic resilience, then we need a clear set of criteria for assessing their impact against these objectives, and for performance to be made transparent so that we can start to refine our theories of change.

Work in partnership

Social financing and investment should not simply be left to financiers. The financing should be used as an enabler of outcomes, and not simply as a vehicle for making money.

This means that financiers should work with those from the public and third sectors, and with the public, to better understand needs and desired outcomes.

Co-production is vital in ensuring that the supply of social financing connects effectively with the demand for it, and that everyone pulls in the direction of outcomes. Relevant governance structures should be designed to support collaboration.

Innovate constantly and be needs-led

For social financing and innovation to be successful, it should be poised to meet ever-changing needs. This calls for it to be open to constant innovation to meet new challenges, as new solutions may be required.

The Government's emphasis on levelling up opens up interesting possibilities for innovation in social financing and investment. In recent years, place-based models of social investment are being piloted. In the UK, Bristol City Council and BSC instituted City Funds: a place-based impact investment fund aiming to address the causes and effects of inequality, whilst also generating a financial return for investors.

How might such place-based models be fine-tuned and scaled up across the UK to help overcome inequalities both within and across geographies? More importantly, how may these emerging models be designed and implemented in ways that are truly needs-led and context-sensitive?

A recent exciting example of what a truly innovative needs-led approach could look like is the current experiment in Liverpool. This has re-imagined social financing to be locally-rooted and entrepreneur-led, with zero interest and 'social' repayment options. May this herald a much-needed shift in social investment.

Get in touch

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