

# Assessing the economic impact of social investment using a hyper-local analysis: Evidence from Futurebuilders England

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 **Social  
Investment  
Business**

# Executive Summary

## Introduction

Social investment provides capital to charities and social enterprises to develop new or existing activities that generate income – such as trading activities or contracts for delivering public services. Its goal is to help social organisations to grow and sustain their work, often in the most deprived neighbourhoods.

Futurebuilders England (FBE) was a ground-breaking, Government-backed, social investment fund that provided repayable finance to charities and social enterprises in England to help them bid for, win and deliver public service contracts.

The fund saw £142 million of loan, grant and blended finance invested into 406 charities and social enterprises between 2004 – 2010. The fund was principally delivered and managed by Social Investment Business.

Since 2019, Social Investment Business have been working with the Social Impact Investment team at the Department for Culture, Media and Sport on a learning project that focuses on the fund's historic portfolio data to better understand the long-term performance of this social investment approach.

This paper looks at the areas that received FBE investments and examines the impact it has had on local economic development.

The research used a neighbourhood analysis using Lower Layer Super Output Areas (LSOAs), which received FBE investment and compared them with neighbouring LSOAs which didn't benefit from FBE. To give a sense of the scale, LSOAs typically have a population of between 1,000 and 3,000.

The findings show local areas that benefitted from FBE investment saw reductions in deprivation and higher economic productivity compared to surrounding non-FBE areas.

## Stronger reductions in deprivation in Futurebuilders areas compared to non-Futurebuilders areas

If we map FBE deals against the Index of Multiple Deprivation (IMD), we can see that a significant portion of FBE funding went to the most deprived areas.<sup>1</sup> When comparing changes in deprivation levels between 2010 and 2019, we found FBE LSOAs compared to neighbouring non-FBE LSOAs, saw improvements in their deprivation levels. Deprivation levels improved by 12% when the FBE investment exceeded £3 million and over 17% when the FBE investment exceeded £4 million.

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<sup>1</sup> 23% of FBE deals went to IMD decile 1.

This shows deprivation change in the FBE LSOAs is more favourable than the neighbouring LSOAs that received no FBE investment. And tellingly, the larger the FBE investment, the greater the improvement in deprivation compared to non-FBE LSOAs.

This was the case whether there was a reduction in deprivation in FBE areas or an increase. If deprivation did increase, it did so at a slower rate than neighbouring non-FBE LSOAs. This suggests that those areas that received FBE investment have managed to develop stronger levels of economic and social resilience.

## Better economic output and productivity in Futurebuilders areas compared to non-Futurebuilders areas

To measure the impact of social investment on economic output and productivity, the research used Gross Value Added (GVA). When comparing GVA changes, we found increases were higher in FBE areas compared to non-FBE areas. The difference in GVA change between FBE LSOAs and their surrounding non-FBE areas, for social investment exceeding £500,000, is 14% (between 2010-2019).<sup>2</sup>

Similar to the trend seen with the deprivation data, the difference (measured through percentage changes in GVA) is higher when the FBE social investment is larger. The GVA change between FBE LSOAs and non-FBE LSOAs rises to 42% for FBE social investments exceeding £3 million and rising to 106% for FBE social investments exceeding £4 million between 2010-2019.

## Impact of social investment on local authority spending

An analysis of spending trends suggests that local authority areas which received investments through FBE have maintained, on average, a higher level of spending on social care as compared to non-participating FBE local authorities.

However, the paper doesn't fully establish the relationship between social investment and public service spending. This is to say that the relationship could simply indicate correlation i.e., FBE went into the more deprived areas and deprived areas have higher needs for public services.

Further research is warranted to establish a more meaningful relationship between public service spending and social investment.

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<sup>2</sup> For example, if we take Haringey O21B whose GVA went from £58m in 2010 to £103m in 2019 for a 77% increase and compare that to one of its neighbours Haringey O17A that went from £17m to £23m for a 36% increase over the same time period, we see an absolute difference of 41% in favour of the FBE recipient.

## Introduction

Social investment provides capital to charities and social enterprises to develop new or existing activities that generate income – such as trading activities or contracts for delivering public services. Its goal is to help social organisations to grow and sustain their work, often in the most deprived neighbourhoods.

Existing literature on social investment and its role in addressing disadvantage concludes that social investment through preventative action has enormous potential in preventing disadvantage or regional deprivation from compounding.<sup>3</sup>

Further research also suggests that social investment helps nations and regions to address a) gaps or problems in socio-economic inclusion and poverty and, b) creating a conducive environment for promoting active citizenship and democratic participation.<sup>4</sup>

In October 2000, Sir Ronald Cohen, in introducing the first report of the Social Investment taskforce, wrote to the then Chancellor of the Exchequer, Gordon Brown and stated, “Social Investment should embrace a new approach and encompass a far-reaching program to improve and unlock the socio-economic opportunities of underinvested communities”.

The creation of the Futurebuilders England (FBE) in 2004, was a ground-breaking, Government-backed, social investment fund that provided repayable finance to charities and social enterprises to help them bid for, win and deliver public service contracts.

The fund saw £142m of loan, grant and blended finance invested into 406 charities and social enterprises from 2004 – 2010. The fund was principally delivered and managed by Social Investment Business.

Since 2019, Social Investment Business have been working with the Social Impact Investment team at the Department for Culture, Media and Sport on a learning project that focuses on the fund’s historic portfolio data to better understand the long-term performance of this social investment approach.

This paper looks at the areas that received FBE investments and examines the impact it has had on local economic development.

The research adopted a neighbourhood level analysis using Lower Layer Super Output Areas (LSOAs), which received FBE investment compared with neighbouring LSOAs which didn’t benefit from FBE. To give a sense of the scale, LSOAs typically have a population of between 1,000 and 3,000.

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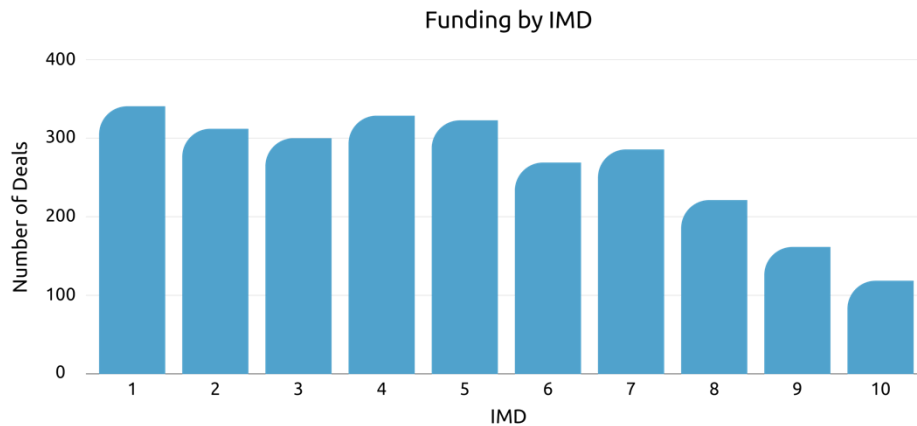
<sup>3</sup> Bouget, D. et al. 2015. “Social Investment in Europe: A study of national policies”, European Commission Policy Network.

<sup>4</sup> Noya, A. and Clarence, E. 2007. The Social economy; Building inclusive economies. OECD.

## Social investment and deprivation

Figure 1 shows the spread of deals across the general social investment community according to IMD classification. It shows social investment has been relatively successful in providing funding to most deprived areas.

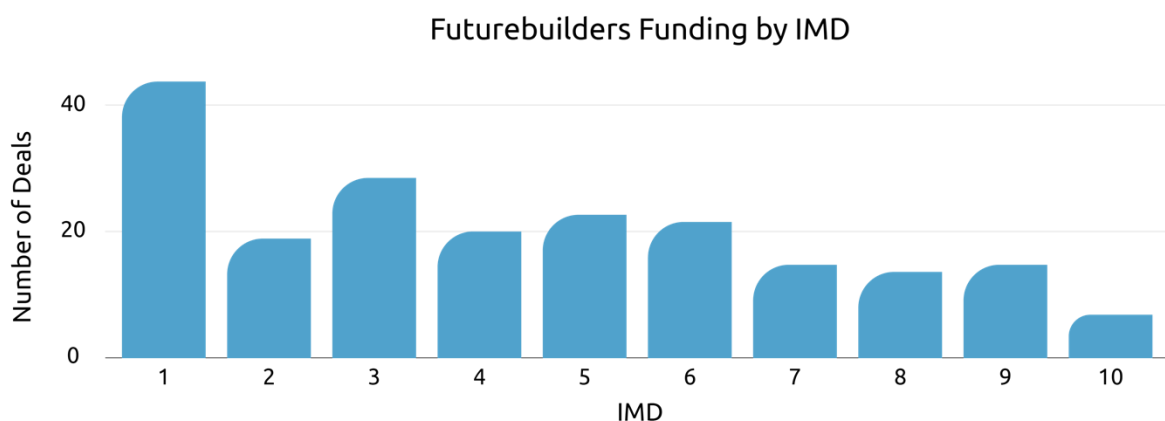
**Figure 1: Social investment and deprivation**



*Source: SIB analysis. These deals come from several social investment funds from the Social Investment Forum (SIF).*

Our research shows FBE funding disproportionately went to poorer areas (Figure 2). This is encouraging given the findings outlined later in the paper, that investment had positive effects on deprivation within the local area.

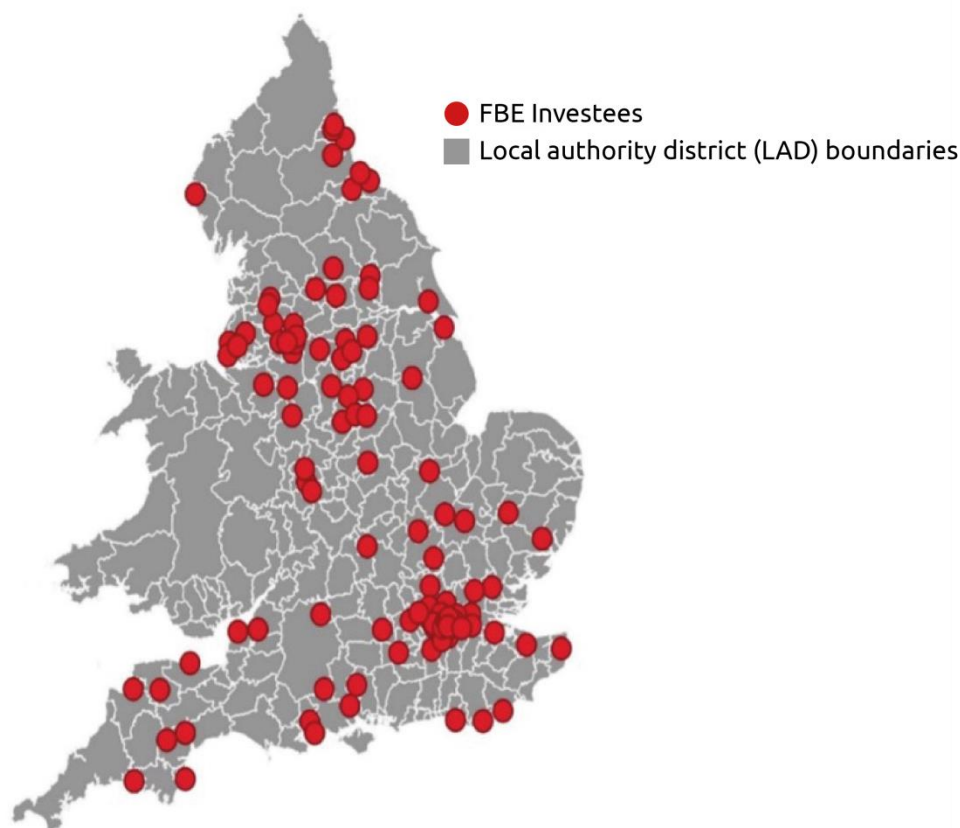
**Figure 2: Futurebuilders and deprivation**



*Source: SIB analysis*

The map below shows the geographical spread of FBE.

**Figure 3: Distribution of Futurebuilders investees in England**



*Source: SIB analysis*

## Futurebuilders and its local economic impacts

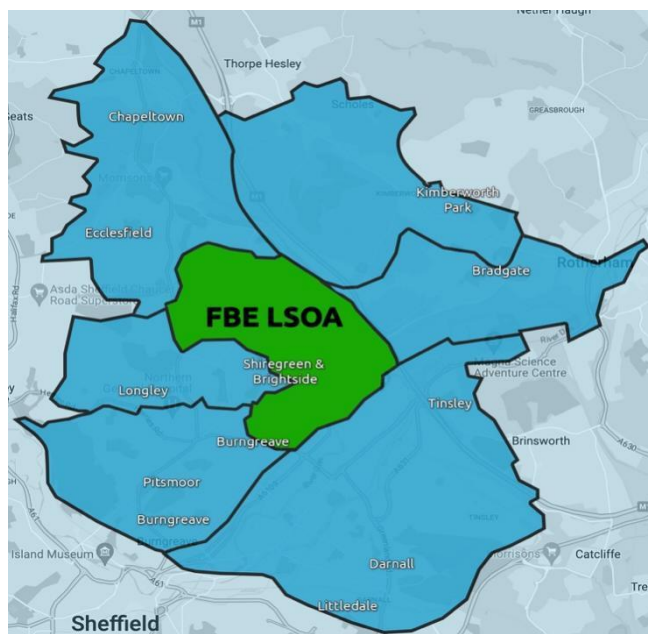
For the purposes of this research, we have adopted a hyper-local approach - using LSOAs - to better understand the economic impacts that social investment funding (in the context of FBE) can have.

The methodology is similar to that used in quasi-experimental research designs, comparison studies and Randomized Control Trials. The methodology makes a distinction between participants (Treatment group) and non-participants (Control group). While the participant group represent the areas which benefitted from FBE, the non-participant group represent the areas which didn't benefit from social investment.

To ensure that the participant and the non-participant group are sufficiently comparative, the non-participant group has been constructed as a group that geographically borders each participant group. This ensures that the participants and non-participant groups have, on average, similar characteristics. Therefore, the non-participant group, or in this context, the bordering areas represents a counterfactual to the participant group. Simply put, the

control group is constructed to mimic the treatment group in the event of non-participation in FBE (Figure 4).

**Figure 4: Illustrative FBE LSOA/Non-FBE LSOAs**



Source: SIB analysis

In strict econometric terms, the fulfilment of the similar characteristic condition between the treatment and control groups, which is alternatively known as the balance test condition, is the primary identification assumption of this research design. Upon fulfilment of the primary identification assumption of the methodology, any difference in the observed outcomes between the treated LSOAs and the non-treated LSOAs can be attributed to the social investment fund.

This analysis works in the following way.

If say an FBE LSOA went from an IMD 2010 score of 20 to a 2019 score of 10 (the lower the score the less deprived the area), this would be a change of 50%. If a neighbouring LSOA went from a score of 20 to 15 that represents a change of 25%. Although both areas are now less deprived, the FBE LSOA improvement i.e., reduction in - deprivation is greater. The difference in change between these areas would therefore be 25%. This works the other way around too. If the FBE investee started at 20 and went to 25 and the neighbour went from 20 to 30, both areas have become more deprived but the FBE investee rate of change in deprivation wasn't as great, so the difference in change would again be 25% (50% minus 25%).

The average of the differences amongst neighbouring LSOAs is then taken for each of the FBE LSOAs and applied to different FBE funding categories.

## Impact of social investment on deprivation

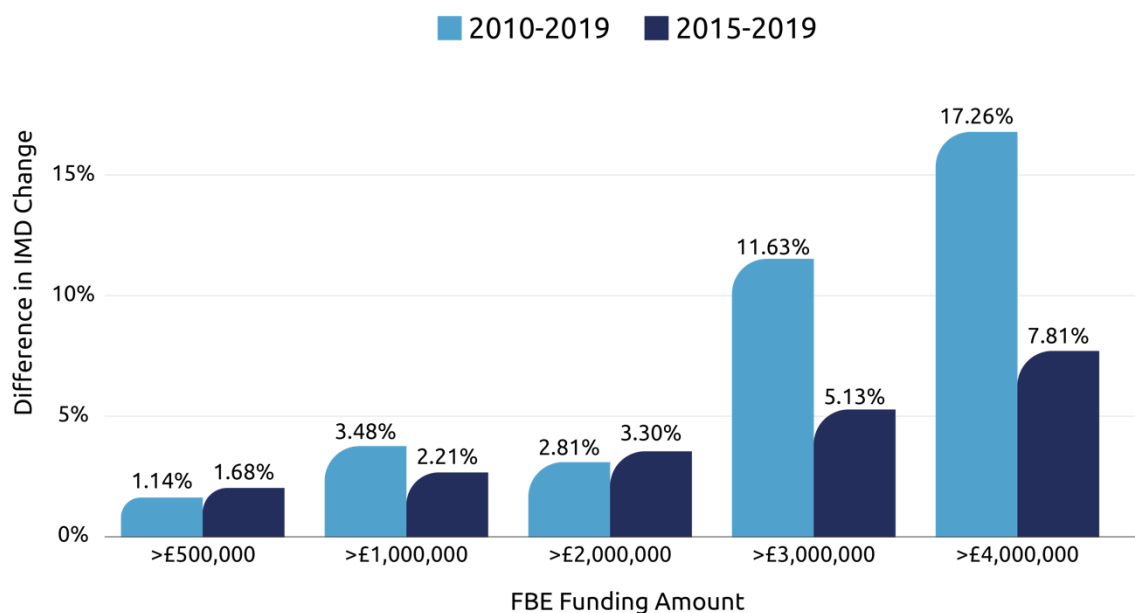
The findings of this analysis are very encouraging.

If we map FBE deals against the Index of Multiple Deprivation (IMD), we can see that the majority of FBE funding went to the most deprived areas. When comparing changes in deprivation levels between 2010 and 2019, we found FBE LSOAs compared to neighbouring non-FBE LSOAs, had seen their deprivation levels improve. When the FBE investment exceeded £3 million deprivation levels improved by 12% whilst FBE investment exceeding £4 million resulted in improvements of over 17%. Figure 5 depicts the analysis.

This shows deprivation change in the FBE LSOAs is more favourable than the neighbouring LSOAs that received no FBE investment. And tellingly, the larger the FBE investment, the greater the improvement in deprivation compared to non-FBE LSOAs.

This was the case if there was a reduction in deprivation in FBE areas, or if deprivation did increase, doing so at a slower rate than neighbouring non-FBE LSOAs. This suggests that those areas that received FBE investment have managed to develop stronger levels of economic and social resilience.

**Figure 5: Futurebuilders funding and IMD**



Source: SIB analysis

The findings also imply that social investment may have significant cost savings to both central and local government. This is to say that social investment through its objective of preventing social problems and ensuring improved efficiency of public service provisioning, may enable local governments to make savings in their anticipated social spending and reduce the need for costly interventions in the future, which could in turn boost their level of financial reserves. As a way forward and in future research, we propose to integrate



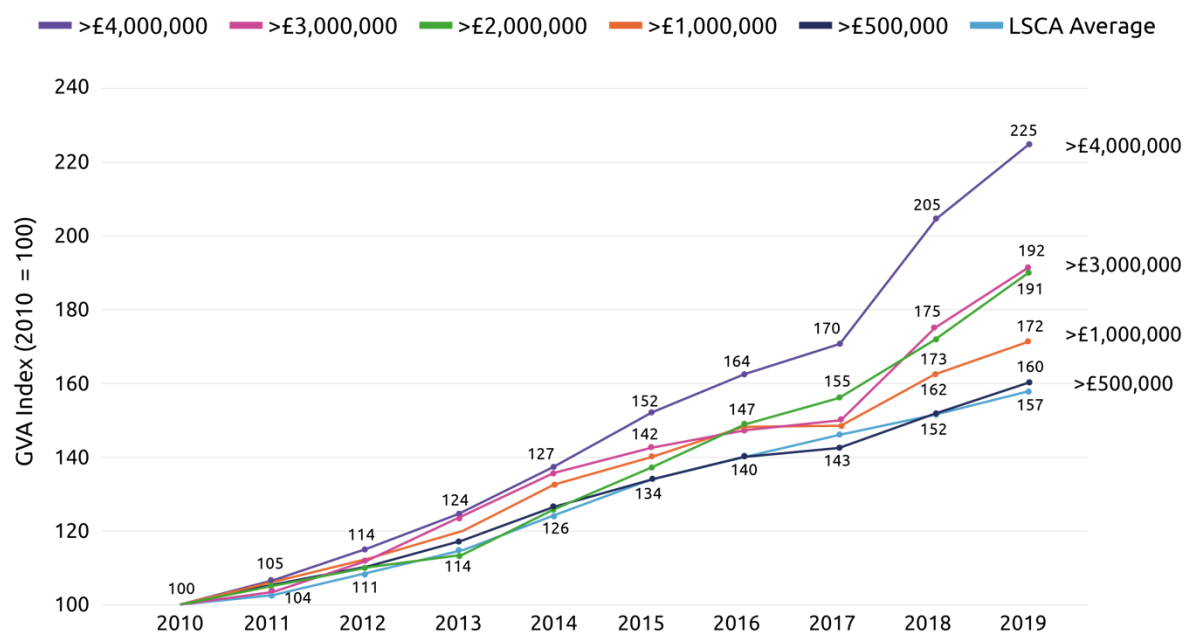
government saving into the social investment data to identify hidden patterns of association between social investment and levels of public spending.

## Impact of social investment on economic output and productivity

Gross Value Added (GVA) is one way of measuring economic output and productivity that is a more robust measure than the Gross Domestic Product (GDP). It measures the value of products and services produced minus the costs incurred in production. The ONS have begun releasing experimental data that provides GVA at a much smaller spatial scale – lower-layer super output areas (LSOAs).

We have used GVA to examine the economic output and productivity in FBE LSOAs areas and surrounding non-FBE LSOAs. To see the change in FBE areas, 2010 is set as a base year, which means that the value of the index in 2010 is 100. As can be seen, GVA increase is higher in LSOAs with higher FBE investment.

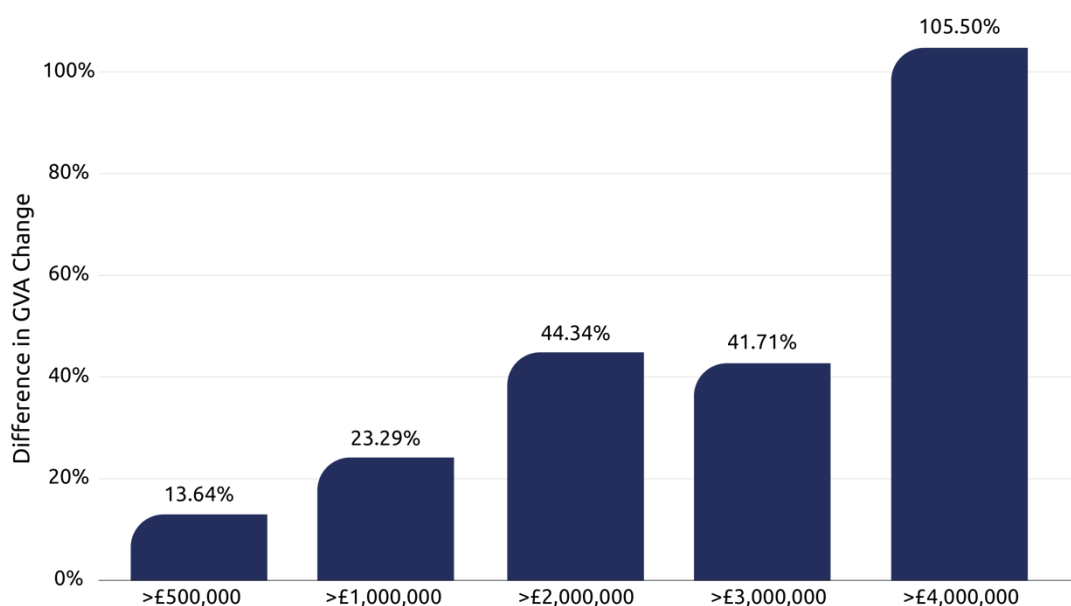
**Figure 6: Futurebuilders funding and GVA score**



Source: SIB analysis

Using a similar analysis as in the deprivation neighbourhood comparison, we can see that the same trend also holds true.

**Figure 7: Futurebuilders funding and GVA change (%)**



*Source: SIB analysis. This change is between 2010 and 2019. The analysis is done the same way as in the neighbourhood IMD analysis, it is the difference in GVA change between the FBE LSOA and its surrounding neighbour LSOAs.*

To measure the impact of social investment on economic output and productivity, the research used Gross Value Added (GVA). When comparing GVA changes, we found increases were higher in FBE areas compared to non-FBE areas. The GVA change between FBE LSOAs and their surrounding non-FBE areas, for social investment exceeding £500,000, is 14% (between 2010-2019).

Similar to the trend seen with the deprivation data, the difference (measured through percentage changes in GVA) is higher when the FBE social investment is larger. The GVA change between FBE LOSAs and non-FBE LSOAs rises to 42% and 106% for FBE social investments exceeding £3million and £4million respectively (between 2010-2019). See Figure 7.

This is a strong indication that bigger FBE social investments contribute to improved economic productivity.

## **Impact of social investment on local authority spending**

Figures 8 & 9 below provide a preliminary overview of the spending levels at the local authority level in the education and social care sector. The spending data is presented across two groups, namely the local authorities which have benefited from FBE social investment and those which did not.

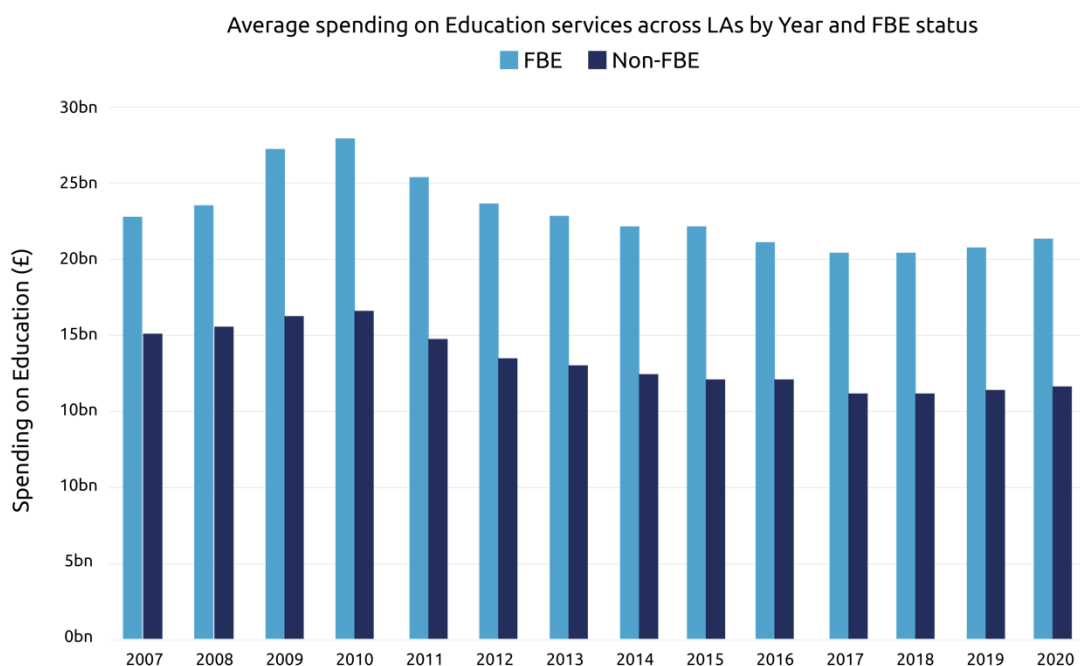
The spending trends suggest that local authority areas which received investments through FBE have on average higher spending on social care and education services as compared to the local authorities that did not receive the investments. In other words, areas where FBE has gone in have maintained, on average, a higher level of spending on social care as compared to the non-participating local authorities.

This observed trend also hints towards a possible correlation pattern between local authority spending on social services (education, health and social care) and social investment.

However, the paper doesn't fully establish the relationship between social investment and public service spending. This is to say that the relationship could simply indicate correlation i.e., FBE went into the more deprived areas and deprived areas have higher needs for public services.

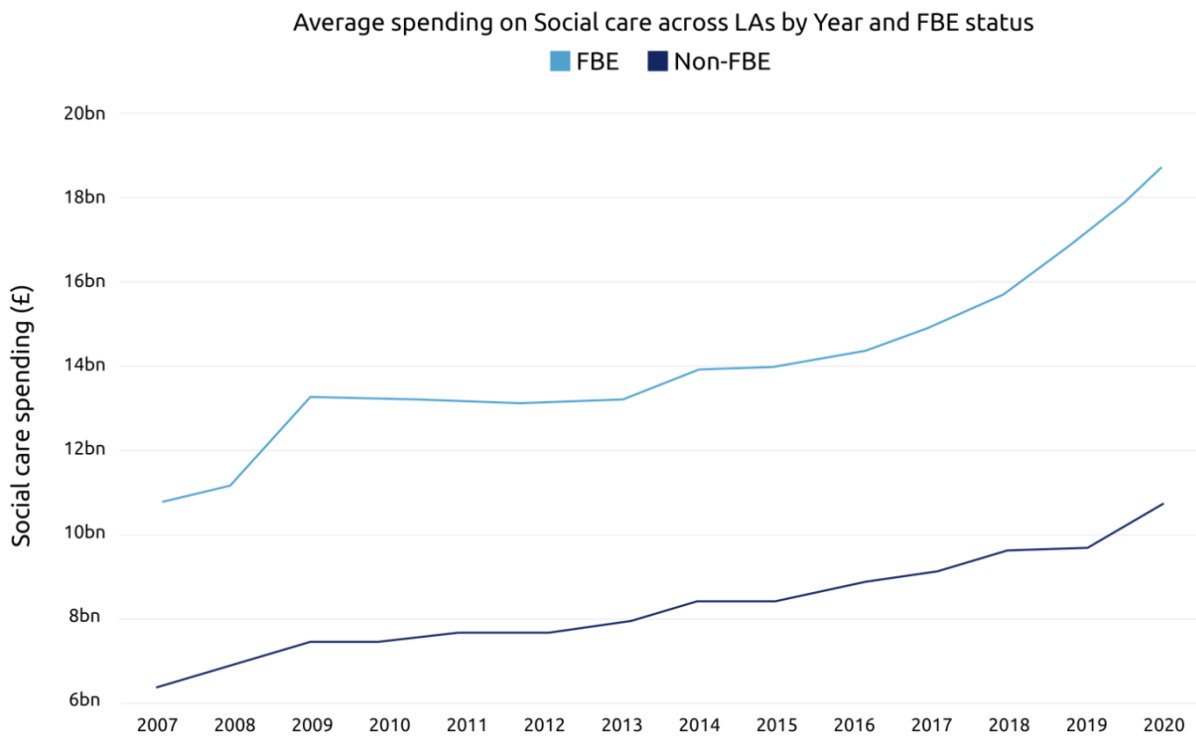
While further research is warranted to establish a meaningful relationship between public service spending and social investment, the correlation suggests that there may be a connection worth exploring.

**Figure 8: Education spending trends (FBE investees Vs Non-FBE investees)**



Source: SIB analysis (Data compiled from [Local authority revenue expenditure and financing](#))

**Figure 9: Social care spending trends (FBE investees vs non-FBE investees)**



Source: SIB analysis (Data compiled from [Local authority revenue expenditure and financing](#))

## Conclusion

In summary, the analysis indicates that social investment is strongly associated with both improvements in deprivation levels and better economic productivity. The findings don't claim any causality. Instead, the research suggests meaningful correlations, by demonstrating that social investment is linked with positive changes in deprivation and economic productivity levels.

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