
A mission-oriented community wealth fund for Camden



Governing finance with public purpose

By Mariana Mazzucato, Laurie Macfarlane, Olga Mikheeva
and Ryan Bellinson

November 2022



Institute for Innovation
and Public Purpose

Institute for Innovation and Public Purpose

The Institute for Innovation and Public Purpose (IIPP) at University College London (UCL) brings together cutting-edge academic theory with teaching and policy practice, to rethink the role of the state in tackling some of the biggest challenges facing society.

IIPP works with partners to develop a framework which challenges traditional economic thinking, with the goal of creating, nurturing and evaluating public value in order to achieve growth that is more innovation-led, inclusive and sustainable. This requires rethinking the underlying economics that have informed the education of global public servants and the design of government policies.

IIPP's work feeds into innovation and industrial policy, financial reform, institutional change and sustainable development. A key pillar of IIPP's research is its understanding of markets as outcomes of the interactions between different actors. In this context, public policy should not be seen as simply fixing market failures, but also as actively shaping and co-creating markets. Re-focusing and designing public organisations around mission-led, public purpose aims will help tackle the grand challenges facing the 21st century.

IIPP is uniquely structured to ensure that this groundbreaking academic research is harnessed to tackle real world policy challenges. IIPP does this through its high-quality teaching programme, along with its growing global network of partners, and the ambitious policy practice programme.

IIPP is a department within UCL – and part of The Bartlett, ranking number one in the world for architecture and the built environment in the world.



Acknowledgements

This policy report was supported by the London Borough of Camden but represents the opinions of the authors and is the product of academic research. It is not meant to represent the position or opinions of Camden Council, nor is the official position of any Council officers or elected Councillors.

The UCL Institute for Innovation and Public Purpose (IIPP) team was led by Professor Mariana Mazzucato and included Laurie Macfarlane, Olga Mikheeva and Ryan Bellinson. Additional, invaluable support was provided by Catherine Fitzgibbon and Gyorgyi Galik.

We thank officers from across Camden Council who contributed to our research.

We also thank officers from Camden Council's Corporate Strategy and Policy Design team of the Corporate Services division and from the Economy, Regeneration and Investment team of the Supporting Communities division for their feedback on earlier versions of this report. Lastly, we would like to thank the Laudes Foundation for supporting the ongoing strategic collaboration between IIPP and Camden Council. All errors and omissions are those of the authors.

Glossary

Additionality	Catalysing new economic activity that otherwise would not have happened
Bottom-up	Progressing upwards from the lowest levels of a system
Crowding-in	When public investment leads to increased private investment due to the presence of more profitable investment opportunities
Grand challenge	A difficult but important systemic and society-wide problem with no 'silver bullet' solution
Market failure	A situation where markets do not deliver an efficient allocation of resources
Market creation	The use of public policy to catalyse the creation of new goods, services or technologies that previously did not exist
Measurable	Quantifiable with existing metrics or achievements that are evidently 'yes' or 'no'
Mission	A concrete target or an achievable step towards a grand challenge that contextualises a project or projects
Multiplier effect	The extent to which public investment generates additional rounds of spending and investment in the economy
Patient finance	Finance that is provided over a longer time horizon than is typically offered by commercial lenders, enabling firms to focus on sustainable growth rather than short-term profits
Project	A single, isolated, clearly defined innovation activity with risky or uncertain outcomes
Sector	A defined category or subdivision of economic activity
Spillover	An intangible, technological or other innovation that finds a use and value beyond that originally intended
Time-bound	Constrained by a hard deadline
Top-down	A hierarchical system where actions or policies are initiated at the highest level



Contents

1	Wealth funds as a way to direct value creation and re-distribution	8
2	The existing financial ecosystem	12
3	Public financial institutions	20
4	The mandate and remit of a community wealth fund: market shaping and co-creation vs. market fixing	24
5	A mission-oriented approach to market shaping	27
6	Governance	40
7	Community engagement	50
8	Capitalisation and funding	56
9	Monitoring and evaluation	66
10	Crowding-in and multiplier effects	70
11	Conclusion and next steps	74
12	Appendix A: The existing financial ecosystem in Camden	78

List of figures

Figure 1: From challenges to missions and projects	28
Figure 2: Illustrative mission roadmap for Camden's mission for young people	36

List of tables

Table 1: Example mission statements of mission-oriented organisations	31
Table 2: Assessment of funding sources	65

1

Wealth Funds as a way to direct value creation and re-distribution

The London Borough of Camden is a centre for wealth creation. Camden's creative arts are strongly associated with musicians like Amy Winehouse and its Knowledge Quarter hosts the British Library, British Museum, UCL, Alan Turing Institute and Wellcome Trust. From the foundation of the world-renowned Camden Market to the music created by young talent at the Roundhouse, the citizens of Camden are central to the borough's wealth creation. Camden is also a place where experimentation happens; where, for example, foodbanks become food cooperatives and bring agency to the welfare state. However, as is too often the case, much of this wealth is 'siphoned off' to other places, whether by record labels or via real estate values. The idea of bringing together wealth creation and wealth distribution is the guiding ethos of the new community wealth fund (CWF) that is being established by Camden Council.

A wealth fund is about investment in the opportunities that create value and also about the distribution of that value. Both need to be guided by principles of equity, purpose and inclusion, particularly as, pre-pandemic, Camden's childhood poverty rate stood at nearly 40%,¹ the fifth highest of London's 32 boroughs. By putting creation and distribution together we can design a pre-distributive way of tackling inequality and use 'mission-oriented' thinking as an instructive guide for directing co-investments. In Camden's particular place-based context, genuine community participation in wealth creation and distribution is an effective way to design 'stakeholder value' in our capitalist system.

Camden Council has long-standing experience of working with corporate partners (such as Camden STEAM), developing community-oriented investment programmes with long-term horizons, (for example the 15-year Community Investment Programme and Camden Living), and working with social enterprises and mobilising resident participation in decision-making (for instance on the Camden Climate Assembly, the UK's first citizens assembly on the climate crisis). Building on and further strengthening existing expertise in these areas, Camden Council aims to establish a CWF with an appropriate mandate, governance, sources of funds and investment functions to support the council's policy priorities and the local economy.

¹ See <https://www.jrf.org.uk/data/child-poverty-rates-local-authority>

The CWF aims to support the implementation of the four missions that were collaboratively developed through the Camden Renewal Commission (2021), as well as the six challenges identified in Camden's new We Make Camden strategy. The CWF is expected to be evergreen over the long term; have a diversified portfolio of investments; develop a co-investment profile that attracts additional private and public investors; engage citizens; and empower their ownership of economic decisions in the borough.

The UCL Institute for Innovation and Public Purpose (IIPP) has teamed up with Camden Council to think big about the opportunity of a CWF. The establishment of community wealth funds has been growing around the world in recent years.² This innovative finance vehicle has also received growing attention in the UK, with various proposals being put forward in recent years.^{3 4 5} In this report, we explore key questions relating to the design and governance of Camden's new CWF. We draw on international evidence and academic literature, as well as IIPP's own path-breaking work on patient finance and public wealth funds.

² See <https://democracycollaborative.org/sites/default/files/2020-11/Local-Economy-Preservation-Funds-concept-Nov2020.pdf>

³ See <https://localtrust.org.uk/wp-content/uploads/2019/03/local-trust-community-wealth-fund.pdf>

⁴ See <https://www.appg-leftbehindneighbourhoods.org.uk/news/long-term-funding-for-left-behind-communities-to-be-considered-in-public-consultation/>

⁵ See <https://tottenham.london/business/opportunity-investment-fund>



2

The existing financial ecosystem

Economic and social development has a rate of growth, which is, for example, measured by production or income growth estimates, but it also has a direction. This means that the change that occurs in production and social structures as a result of socio-economic development has a vector. This vector of change — the direction — is determined by multiple factors, but finance is one of the important factors that defines the direction and quality of change. For example, when financial capital is deployed with the purpose of stable returns, then the projects or economic sectors that are selected for financing are those that are characterised by a predictable rate of return. When financial capital is risk-averse and investments are expected to generate immediate returns, then more standardised projects tend to be selected for funding — those that are considered 'bankable'.

In cases where new economic sectors or innovation-oriented projects with higher levels of uncertainty and risk need financing, the type of funding deployed needs to correspond to this level of uncertainty and allow for a time horizon needed for experimentation. In other words: socio-economic growth must be financed, but finance is not 'neutral'.

There are various ways of structuring financial resources and this has a material impact on the type of investment that takes place. Financial systems (global, national and local) are comprised of various financial institutions and types of investors, both public and private, including social impact investors. The range of financial institutions and agencies that provide services to residents and firms in a given jurisdiction or locality can be described as an 'ecosystem' where different types of financial capital fulfil different functions (for example, profit generation, social impact, long-term savings, seed funding, etc). Public policy in the form of policy priorities and regulation, but also through public investments and co-investments with the private sector, has a distinct role to play in shaping the financial system(s).

Camden is located in London, which, as a major global financial centre, is home to a large financial ecosystem. Despite this however, there is a wealth of evidence that the financial sector isn't working effectively for everyone and is holding back the potential of many local communities.

By far the largest actors in London's financial ecosystem are commercial banks. In recent decades the UK's banking sector has grown rapidly relative to the non-financial sector, with total assets increasing from 32% of GDP in 1960 to 450% of GDP by 2010.⁶ However, while in the past most bank lending financed productive investment, in recent decades banks have increasingly favoured lending to other financial institutions and to property markets — lending which does not typically increase the productive capacity of the economy. This has triggered a shift in the role that banks play in the British economy, from mainly lending to businesses for productive investments to primarily lending to finance the purchase of existing assets.⁷

Part of the reason for this can be found in the evolution of banking business models over recent decades. While in the past the UK had a large number of banks operating a diverse range of business models, today's banking sector is dominated by a small number of large, shareholder-owned universal banks. While so-called 'challenger banks' and alternative finance providers have increased their market share in recent years, large banks still dominate the SME lending market.⁸ The rise of 'universal' banking has changed the nature of business lending, which has shifted away from relationship-based branch lending towards centralised and automated credit-scoring techniques, and a strong preference for collateral. Moreover, the growing focus on short-term returns on equity to boost share prices has shifted attention away from lending to productive enterprises. SME lending — often involving high transaction costs for relatively small loans — is particularly unattractive to large universal banks as it contributes little to the rate of return on equity compared with mortgage lending and financial sector lending.⁹ This is particularly relevant in the UK, which is uniquely dependent on a relatively small number of large commercial banks seeking to maximise shareholder return.¹⁰ As a recent report by WPI Economics for the All-Party Parliamentary Group on Fair Business Banking noted:¹¹

“The dominant financial players in the UK banking sector rely on a short-term, shareholder- driven model, which is highly centralised and not conducive to long-term relationships will allow the building of understanding between businesses and customers, during which patient investments can bear fruit.”

The result of this is that since the 1980s, the share of lending going to businesses has fallen rapidly. Recent research has found that prior to the Covid-19 pandemic only 2% to 5% of bank lending was allocated to small and medium enterprises (SMEs).¹² As a result, numerous studies have identified a large SME 'lending gap', which is holding back the potential of many firms. In 2019 the Bank of England estimated that this gap could be as large as £22 billion per year.¹³ Evidence shows that accessing bank credit is particularly challenging for the very smallest and newest firms, which often lack assets to offer as collateral and a strong credit history, as well as companies run by Black and Minority Ethnic (BAME) individuals.¹⁴

In addition to the large banking sector, London is also home to a vibrant venture capital sector. While the UK's venture capital sector performs relatively well at supporting start-ups, there is growing evidence that it is less effective at helping to scale successful enterprises. The former Chancellor of the Exchequer, Rishi Sunak, highlighted that the UK finishes 13th out of the 14 OECD countries in the proportion of start-up businesses that grow to ten people or more in three years.¹⁵ While multiple factors contribute to this, one reason is that venture capital firms are often 'exit-driven', seeking large returns within three to five years, which can result in short-term investment horizons.

The lack of 'patient finance' in the UK has been acknowledged in recent years, including by HM Treasury and the Bank of England. The Treasury's Patient Capital Review in 2017 found that, 'The UK's historically thin market for patient capital has created a negative feedback loop that holds back further investment.'¹⁶ In its August 2020 Financial Stability Report, the Bank of England highlighted

6 Davies, R., Richardson, P., Katinaite, V. and Manning, M. (2010). 'Evolution of the UK Banking System.' Bank of England Quarterly Bulletin Q4 2010. Available at: <http://www.bankofengland.co.uk/publications/Documents/quarterlybulletin/qb100407.pdf>

7 Bezemer, D., Ryan-Collins, J., van Lerven, F. and Zhang, L. (2018). Credit where it's due: A historical, theoretical and empirical review of credit guidance policies in the 20th century. UCL Institute for Innovation and Public Purpose Working Paper Series (IIPP WP 2018-11). <https://www.ucl.ac.uk/bartlett/public-purpose/wp2018-11>

8 See <https://www.british-business-bank.co.uk/wp-content/uploads/2021/03/BBB-SBFM-Report-2021-Widescreen-AW-tagged-002.pdf>

9 Ekpu, V. and Paloni, A. (2015) 'Financialisation, Business Lending and Profitability in the UK.' Available at: https://ideas.repec.org/p/gla/glaewp/2015_18.html

10 See <https://neweconomics.org/uploads/files/still-exposed.pdf>

11 See https://www.appgbanking.org.uk/wp-content/uploads/2021/10/Scale-up-to-Level-Up-Final-Report-for-the-APPG-on-Fair-Business-Banking_amended-2.pdf

12 See <https://neweconomics.org/uploads/files/Greening-finance-for-a-BBB-recovery-FINAL.pdf>

13 See <https://www.bankofengland.co.uk/-/media/boe/files/speech/2019/enable-empower-ensure-a-new-finance-for-the-new-economy-speech-by-mark-carney.pdf?la=en&hash=DC151B5E6286F304F0109ABB19B4D1C31DC39CD5>

14 See https://www.appgbanking.org.uk/wp-content/uploads/2021/10/Scale-up-to-Level-Up-Final-Report-for-the-APPG-on-Fair-Business-Banking_amended-2.pdf

15 See <https://cps.org.uk/research/a-new-era-for-retail-bonds/>

16 HM Treasury and Department for Business, Energy & Industrial Strategy. (2017). Patient Capital Review. Retrieved from <https://www.gov.uk/government/publications/patient-capital-review>

that, ‘One type of productive finance that requires particular attention in the UK at instruments.’¹⁷ In addition, because venture capital firms typically seek high returns, companies and social enterprises which create significant social value, but deliver only modest financial returns, often struggle to access venture capital funding.

In addition to private banks and venture capital firms, the financial ecosystem in London also includes a range of non-profit lenders, including credit unions and community development finance institutions (CDFIs). While these types of lender play an important role serving some communities that are underserved by mainstream financial institutions, to date their role in the financial ecosystem has been limited by a range of structural factors. In the case of credit unions, for example, legal restrictions stipulating that business members can only make up a maximum of 10% of a credit union’s total membership mean that the majority of credit union lending is allocated towards individuals rather than enterprises.

While CDFIs have played a vital role lending to those that have been excluded from mainstream finance, their business model means that they have faced challenges scaling up their presence. CDFIs typically focus on providing finance to those that have struggled to obtain funding from mainstream lenders, which involves making relatively small loans to higher risk customers that have higher default rates. In addition, as CDFIs are not deposit-taking financial institutions, they need to raise external capital from a variety of sources, including loans from commercial and social lenders. This combination of high funding costs and high default rates means that most CDFIs operate at a loss, and are not financially sustainable without grant support.¹⁸ As a recent report from Carnegie UK noted, ‘The current capital and funding models are inadequate and insufficient to scaling up of the sector.’¹⁹

Another notable recent development in the UK has been the rise of social impact investing. Social impact investment refers to investments that aim to generate social impact alongside a financial return, typically by investing in social enterprises and charities. Key to the development of social impact investing in the UK has been Big Society Capital, which was launched in 2013 as the world’s first social investment institution of its kind. Today, Big Society Capital is co-owned by the Oversight Trust and four major UK high street banks — Barclays, HSBC,

Lloyds Banking Group and NatWest Group. Big Society Capital does not invest in organisations directly — instead it invests in investment funds, which then on-lend the funds to lend to charities and social enterprises. To date, Big Society has invested £750 million in social impact investment vehicles across the UK and has helped grow the size of the social impact investment market in the UK from £800 million in 2011 to £5.1 billion in 2019.²⁰

Despite this, evidence shows that many social enterprises in London still face significant barriers to access finance, which is holding back their potential. The most recent State of Social Enterprise Survey, commissioned by Social Enterprise UK, found that 30% of social enterprises in London said that the amount of finance available to their organisation ‘wasn’t sufficient’.²¹ It also found 61% of social enterprises in London have not applied for external finance, with the most common barriers cited as the ‘fear of rejection’ and ‘not knowing where to find appropriate finance’.²²

One final gap in the existing financial ecosystem in Camden specifically relates to finance that is informed by local knowledge and expertise, and that is strategically aligned to the challenges and opportunities in the borough. Evidence shows that financial institutions which maintain intimate knowledge of local people and the local economy are better than commercial entities at seeking and assimilating the ‘soft’ information needed to holistically assess the prospects of small firms.²³ Often described as ‘relationship lending’, this approach ameliorates the information asymmetry that makes patient SME lending unattractive to larger banks, where the drive for process efficiency leads to centralised systems of credit scoring that become blind to local and firm-specific conditions.²⁴

The decline in relationship-based lending in the UK banking system, and the resulting disconnect between banks and borrowers, was highlighted as a key problem in WPI Economics’ report for the All-Party Parliamentary Group on Fair Business Banking, which noted that, ‘What is in place to address the relationship between customer and bank does not offer enough support; relationship managers have very high client loads (reportedly up to 3000 clients each) and

¹⁷ Bank of England. (2020). Financial Stability Report: August 2020.

¹⁸ See <https://www.pwc.co.uk/assets/pdf/the-sustainability-of-community-development.pdf>

¹⁹ See https://d1ssu070pg2v9i.cloudfront.net/pex/carnegie_uk_trust/2020/02/04115945/Scaling-up-the-UK-personal-lending-CDFI-sector.pdf

²⁰ See <https://bigsocietycapital.com/about-us/our-history/>

²¹ See <https://www.socialenterprise.org.uk/wp-content/uploads/2022/03/SEUK-State-of-Social-Enterprise-London-2022.pdf>

²² See <https://www.socialenterprise.org.uk/wp-content/uploads/2022/03/SEUK-State-of-Social-Enterprise-London-2022.pdf>

²³ Prieg, L. & Greenham, T. (2012) Stakeholder banks: The benefits of banking diversity. Retrieved from <http://neweconomics.org/publications/entry/stakeholder-banks>

²⁴ Berger, A., Miller, N., Petersen, M., Rajan, R. & Stein, J. (2002). Does function follow organizational form? Evidence from the lending practices of large and small banks. *Journal of Financial Economics*, 76(2): 237-269.

closures of local branches have substantial implications for face-to-face support, especially for start-ups needing a greater level of advice and expert input.”²⁵ While social impact investors and CDFIs do aim to provide a greater degree of relationship-based lending, they remain minority players in the financial ecosystem and most lack the local knowledge required to tailor financing programmes to Camden-specific priorities.

Overall, it is clear that, despite London’s status as a global financial centre, access to finance remains a crucial issue across the city. This highlights that what matters is not just the quantity of available finance, but also the quality of that finance. While there is an abundance of financial institutions located in or near Camden, there remains a gap for a financing vehicle that is guided by Camden-specific local knowledge; is aligned with local strategic priorities; and provides the long-term, patient finance that the private sector is often ill-suited to provide. Annex 1 depicts the financial ‘ecosystem’ in Camden.



²⁵ See https://www.appgbanking.org.uk/wp-content/uploads/2021/10/Scale-up-to-Level-Up-Final-Report-for-the-APPG-on-Fair-Business-Banking_amended-2.pdf

3

Public financial institutions

Some of the most strategic and effective policy tools for directing financial capital that is 'patient', 'committed' and favours long-term returns are dedicated public financial institutions: from state investment banks to sovereign wealth funds to local community-oriented financial support measures. Because their governance arrangements typically do not create pressure to deliver short-term returns, these types of public financial institutions can supply the kind of long-term, patient finance that the private sector is often unwilling to provide. Public financial institutions often operate in line with broader policy priorities, which allows them to fulfil different functions at different times, such as when policy priorities change. For example, there is extensive academic literature on state investment banks operating at a national level (typically at a large scale) that have historically played a critical role in economic and social development across the globe.²⁶

There are also various categories of public wealth funds around the world that operate at different scales, with diverse guiding objectives. National wealth funds are investment funds owned by national governments that typically manage domestic state-owned assets, such as public enterprises and real estate. Sovereign wealth funds are similar to national wealth funds, but typically invest in international assets globally and often play an important macroeconomic role managing foreign exchange reserves or offsetting the fluctuations of global economic impact on domestic economies. Having long-term investment strategies and no commercial liabilities, sovereign wealth funds are well placed to withstand financial crises and can take a countercyclical, balancing role.²⁷ Many national and sovereign wealth funds are funded by natural resource exports, such as oil and gas (for example in Norway, Alaska, Qatar and Malaysia), but some also receive funding from public pension funds or asset sales. Typically, sovereign wealth funds invest overseas for the purpose of generating stable, long-term returns, but they can also act to support and protect domestic economic structures from undesirable foreign ownership, such as the case of France, where a structural investment fund was launched in 2008.²⁸

²⁶ See https://www.ucl.ac.uk/bartlett/public-purpose/sites/public-purpose/files/iipp_wp_2018-01.pdf

²⁷ See https://ec.europa.eu/commission/presscorner/api/files/document/print/en/speech_08_165/SPEECH_08_165_EN.pdf

²⁸ https://www.cer.eu/sites/default/files/publications/attachments/pdf/2011/essay_swf_dec08-1342.pdf

Crucially, wealth funds can also serve the function of (re)distributing wealth. Social wealth funds are collectively and fully owned by the public, and used for the public value of society as a whole. They are seen as a powerful tool for creating wider ownership of capital and, if the capital is properly structured and managed, can act as a vehicle to tackle income and opportunity gaps.²⁹ Wealth funds operating with explicit social objectives, for instance to finance local public services, have existed since the 19th century. An early example is the state of Texas, which established its Permanent School Fund to fund primary and secondary schools in 1854. Today the fund is the largest educational endowment in the United States. It receives a share of proceeds from sales of state land, rentals of mineral rights for oil and natural gas exploration, and is used to help pay school district costs.³⁰

In the UK, community funds were created through the Big Local, established in 2010 with some £200 million from the National Lottery Communities Fund. Big Local partnerships were created by 150 local communities, with many given over £1 million to spend over a ten to 15-year period with 'no strings attached'. The implementation of the programme was community-led, including the rules and priorities for spending. The funding has been given out mostly in grants, to facilitate capacity-building in local groups and organisations, improving and building social infrastructure (for example, renovating community spaces) and addressing gaps in local services (for example, mental health, loneliness initiatives).³¹

There are other public financial institutions operating at a local or regional level and these types of agencies have detailed knowledge of their local economies, local business structures and financing needs. They also have strong and distinct relations with the community. For example, community banks are very common in the United States. While following a traditional model of a money-lending institution, they remain locally owned. In some countries, robust local banking structures are a feature of the national financial system. For example, in Germany, Landesbanken and Sparkassen comprise a group of state-owned banks that play an active role in local economic development. Because of this localised knowledge, they have a competitive advantage over larger financial institutions operating at the national level. While operating on a smaller scale, locally operating banks and funds can finance a greater variety of projects, because they have a deeper knowledge of how these projects will be implemented and at what rate

of return. Understanding local economic and social structures allows for greater discretion in making financing decisions as opposed to branches of multinational financial corporations operating in the same locality. Therefore, local financial institutions have a distinct role to play within a local financing ecosystem. However, ultimately it is only publicly owned financial institutions that have the ability to strategically reinforce policy priorities and operate in a way that complements other policies and public support programmes with a long-term horizon.

The sections that follow below elaborate on different aspects of institutional design that Camden Council may take into account when establishing its CWF.

²⁹ Lansley, S. A sharing economy: How social wealth funds can reduce inequality and help balance the books. Policy Press, p.29.

³⁰ Lansley, S. A sharing economy: How social wealth funds can reduce inequality and help balance the books. Policy Press, p. 41.

³¹ See <https://localtrust.org.uk/big-local/>

4

The mandate and remit of a community wealth fund: market shaping and co-creation vs. market fixing

The overarching mandate of a CWF is crucial for determining its investment strategy and the impact it has. What constitutes an appropriate mandate for any new fund may vary significantly depending on local context, socio-economic conditions and existing institutional landscapes.

Public financial institutions around the world exhibit a wide range of strategic mandates. One approach is where mandates are focused on maximising financial returns for the owner, which can then be used as an additional source of revenue to support government priorities. This approach has historically been adopted by sovereign wealth funds, which often invest internationally as well as domestically to maximise returns for their government owners. Under this approach, the purpose of investing is not to catalyse structural change in the domestic economy, or to tackle social and environmental challenges, but to maximise the value of the fund's investment portfolio. However, at a time when countries around the world are facing major social and environmental challenges, it is increasingly being recognised that social and environmental considerations must be embedded into investment decisions, and not considered as an afterthought. Given Camden's ambition to create a vehicle for investing in the creation and re-distribution of local wealth and tackling social inequalities, we do not consider this approach to be suitable for the CWF.

Another approach is to focus mandates on fixing a set of perceived 'market failures'. Under the market failure framework, the state should only 'intervene' in markets to correct certain identifiable market failures, which might arise from the presence of positive externalities (for example public goods like basic research), negative externalities (such as pollution) and incomplete information (for instance between banks and SMEs). Under this framework, it is assumed that the private sector is the more efficient innovator, possessing greater entrepreneurial capacity and better able to take risks. In contrast, the state is viewed as risk-averse and in danger of creating 'government failure' if it becomes too involved in the economy by 'picking winners'. Instead, its role is to make marginal fixes to address market failures, 'level the playing field' for commercial actors and then get out of the way.

However, the recent history of capitalism tells a different story, one in which different types of public actors have been responsible for actively shaping and creating markets, not just fixing them; and for creating new wealth, not

just redistributing it. From advances such as the internet and microchips to biotechnology and nanotechnology, many major breakthroughs were only made possible by direct, problem-oriented state investment. In each of these areas the private sector only entered much later, piggybacking on the technological advances made possible by public funds. Here, the story is not one of the state getting out of the way, but of an 'entrepreneurial state' that is a lead investor and risk-taker, co-creating and shaping new markets, not simply 'fixing' them.³² In other words, the state has embraced its role as 'investor of first resort', not just lender of last resort. Seen through this lens, markets are not self-regulating forces, but rather outcomes of the symbiotic interactions between public, private and third-sector actors.

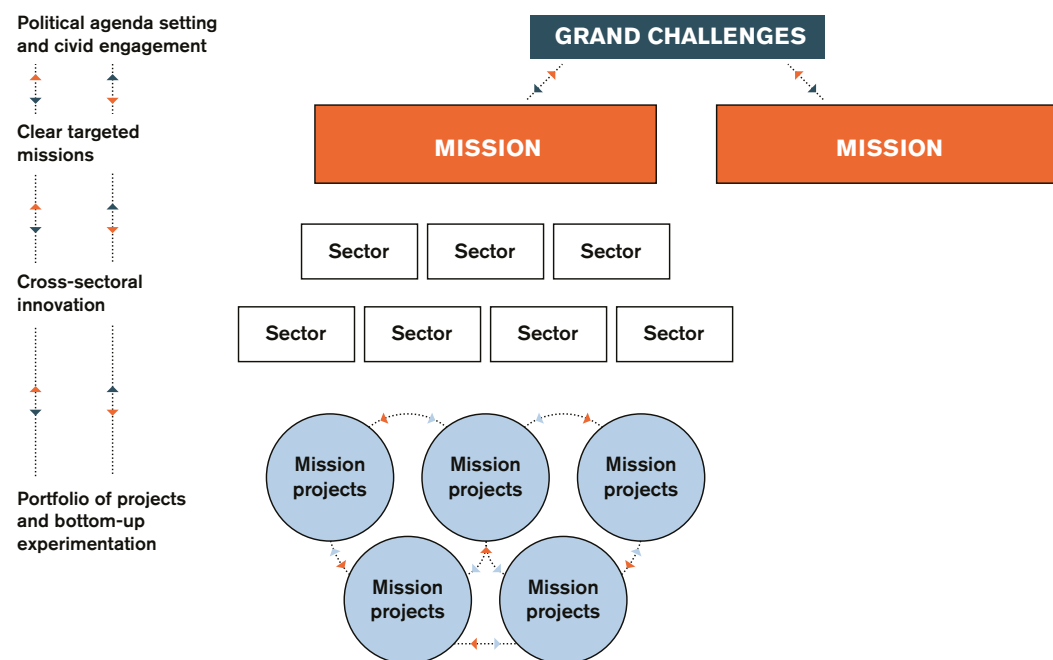
³² Mazzucato, M. (2013). *The Entrepreneurial State*. Anthem Press.

5

A mission-oriented approach to market shaping

Building on the idea that the state can create and shape markets as well as fix them, an alternative framework for setting the mandates of public financial institutions is the mission-oriented approach. Rather than focusing on specific sectors or market failures, a mission-oriented approach identifies concrete problems that can galvanise production, distribution and consumption patterns across various sectors. Mission-oriented thinking requires understanding the differences between broad challenges, missions, sectors and specific solutions, as shown in Figure 1.

Figure 1: From challenges to missions and projects



Source: Mazzucato (2018)³³

Challenges are a broadly defined area which a government may identify as a priority (whether through political leadership or the outcome of a movement in civil society). For example, how do economies deal with problems that have no simple solution, that require transformation and innovation to solve, like redressing racial wealth inequality or environmental justice? While challenges are useful to direct focus and priorities, for the most part they remain too broad

³³ Mazzucato, M. (2018). Mission-oriented Research and Innovation in the European Union. A Problem-Solving Approach to Fuel Innovation-Led Growth. Available at: https://research-and-innovation.ec.europa.eu/knowledge-publications-tools-and-data/publications/all-publications/mission-oriented-research-innovation-eu-problem-solving-approach-fuel-innovation-led-growth_en

to be actionable. Missions, on the other hand, are concrete targets which different sectors can collaboratively address by tackling a challenge through a series of interconnected innovation activities, such as reducing carbon emissions by a given percentage over a specific timeframe. Finally, solutions are specific projects undertaken by businesses, governments, universities or the third sector that can help support a mission. Solutions have clear objectives, should involve many different sectors, and can be supported through the use of policy interventions and financial instruments.

A mission-oriented approach to investing is not about 'top-down' planning. Instead, it is about providing a direction for growth, increasing business expectations about future growth areas and stimulating bottom-up solutions across many different sectors that address a shared challenge. Whereas the market failure approach to policy is about 'de-risking' and 'levelling the playing field', mission-oriented policy encourages risk-taking, sharing of risks and rewards, and tilting the playing field in the direction of the desired public purpose goals. It does not seek to 'pick winners', but instead serves to 'pick the willing' — identifying those organisations (in different sectors, across both the public and private spheres) that are willing to engage with societally relevant missions. By framing the CWF's mandate around well-defined missions, Camden can begin to direct investment towards solutions that tackle the problems that matter to local people.

Importantly, a mission-oriented approach recognises that there does not need to be a trade-off between generating financial returns and other priorities, such as reducing social inequalities and tackling climate change. By steering investment towards those that are willing to work on overcoming societally relevant missions, it is possible to deliver mission impact and generate financial returns — but only if investments are structured and governed effectively. In recent years this mission-oriented approach to policy has been embraced by governments around the world at the regional, national and local level.³⁴

In Camden, the ambition is that the CWF works in synergy with other council activities to become a powerful tool for change within a dynamic ecosystem. Camden Council's priorities have recently been set out in a series of strategic plans. The first is *We Make Camden* – a new vision for the future of Camden published in March 2022.³⁵ *We Make Camden* builds on the vision set out in a previous document, *Camden 2025*, and sets out six ambitions for the borough:

³⁴ See https://ec.europa.eu/info/sites/default/files/research_and_innovation/contact/documents/ec_rtd_mazzucato_report-issue2_072019.pdf

³⁵ See <https://www.wemakecamden.org.uk/wp-content/uploads/2022/04/We-Make-Camden-Vision.pdf>

- Camden is a borough where every child has the best start in life
- Camden's local economy should be strong, sustainable and inclusive — everyone should have a secure livelihood to support them to live a prosperous life
- Camden actively tackles injustice and inequality, creating safe, strong and open communities where everyone can contribute
- Camden communities support good health, wellbeing and connection for everyone, so that they can start well, live well and age well
- Everyone in Camden should have a place they call home
- Camden should be a green, clean, vibrant, accessible and sustainable place with everyone empowered to contribute to tackling the climate emergency.

In order to deliver on these ambitions, *We Make Camden* sets out four missions, which evolved from the work of Camden's Renewal Commission. The commission was established in September 2020 with the overarching aim of reducing inequality and creating a fairer, healthy and sustainable local economy, and was co-convened by Camden Council and IIPP (see Case Study 1).³⁶

In addition to the four missions from the Camden Renewal Commission, *We Make Camden* also sets out six 'Camden challenges' covering the other areas where the council believes working differently in collaboration with the community will achieve transformative change:

- **Safety:** everyone is safe at home and safe in our communities
- **Debt:** everyone can get the support they need to avoid debt and be financially secure
- **Digital:** everyone in Camden can access and be part of a digital society
- **Loneliness:** no one in Camden is socially isolated and without the means to connect to their community
- **Housing:** Camden has enough decent, safe, warm and family-friendly housing to support its communities
- **Climate emergency:** Camden's local economy tackles the climate emergency

³⁶ See https://www.wemakecamden.org.uk/wp-content/uploads/2021/12/Renewal_Commission_report.pdf

In setting a mission-oriented mandate for the CWF, it is important that it aligns with the vision outlined in *We Make Camden*. This will ensure that the CWF, as a new policy instrument, works in tandem with other policy levers to advance these bold, strategic goals. This also creates the opportunity to generate a powerful synergy between finance and other policy levers, which can be coordinated strategically to 'tilt' Camden's economy in a new direction.

Many mission-oriented institutions have a mission statement that succinctly outlines the overarching purpose of the organisation. Some examples are shown in table 1.

Table 1: Example mission statements of mission-oriented organisations

Institution	Mission statement
Scottish National Investment Bank	'To provide patient, long-term capital to businesses and projects throughout Scotland to support the development of a fairer, more sustainable economy'
KfW	'To support change and encourage forward- looking ideas — in Germany, Europe and throughout the world'
Big Society Capital	'To improve the lives of people in the UK through investment with a sustainable return'



Case study 1

The Camden Renewal Commission

Established in September 2020, the Camden Renewal Commission was co-chaired by UCL Professor Mariana Mazzucato and the Leader of the Council, Councillor Georgia Gould, with the overarching aim to reduce inequality and create a fairer, healthy and sustainable local economy. The Commission brought together a diverse group of people from across Camden's community, voluntary, business and academic sectors to look beyond the pandemic and think about how Camden could not just recover from the crisis, but to renew and build a more equal, sustainable borough.

Supporting this process were 15 Commissioners, including representatives from a range of Camden anchor institutions, civil society and cultural figures. Inspired by community stories and informed by evidence, both of which reflect on local people's lived experience of the pandemic, the Commission developed four renewal missions for Camden:

1. **By 2030**, those holding positions of power in Camden are as diverse as its community.
2. **By 2025**, every young person has access to economic opportunity that enables them to be safe and secure.
3. **By 2030**, everyone eats well every day with nutritious, affordable, sustainable food.
4. **By 2030**, Camden's estates and streets are creative and sustainable.

Since the Commission's final report was published, Camden has been experimenting with mission road-mapping and identifying different levers that can be used to create change. Among the tools identified was the creation of a new community wealth fund, and it is hoped that a new Camden Wealth Fund can play a leading role delivering on the four renewal missions.

In the case of the CWF, it may be beneficial to develop a similar mission statement that sets a clear overarching ambition for the institution. It is common for public financial institutions to provide directionality to the fund's investments. These missions should fulfil the following key criteria:³⁷

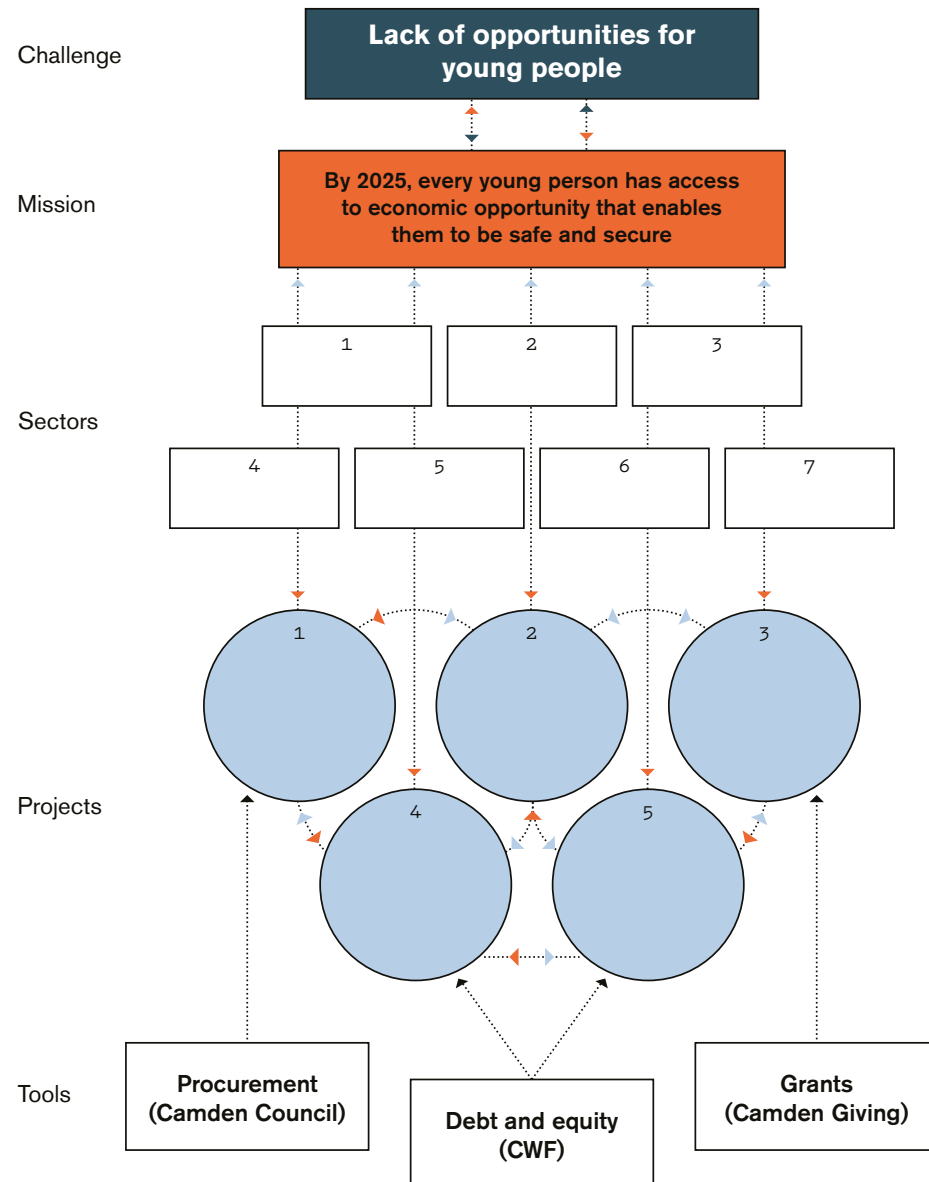
- **Bold, inspirational, with wide societal relevance:** Missions should engage the public. They should make clear that through ambitious, bold action at the local level, solutions will be developed that will have an impact on people's daily lives. To do this, missions must outline exciting opportunities, while being connected to debates in society about what the key challenges are, such as sustainability, inequality, health, climate change and increasing the quality of the welfare state.
- **A clear direction: targeted, measurable and time-bound:** Missions need to be very clearly framed. While enabling long-term investments, they need a specific target that can either be formulated in binary ways or quantified. In addition, they need a clear timeframe within which actions should take place. This needs to be long enough to allow the process to grow, for actors to build relationships and interact, while at the same time being time-limited. Without specific targets and timing, it will not be possible to determine success (or failure) or measure progress towards success.
- **Cross-disciplinary, cross-sectoral and cross-actor:** Missions should be framed in such a way as to spark activity across, and among, multiple disciplines across different sectors (transport, agriculture, health, services) and different types of actors (public, private, third sector, civil society organisations). Missions need to be chosen to address clear challenges that stimulate the private sector to invest where it would not have otherwise invested ('additionality' in business). Missions connect all relevant actors through new forms of partnerships for co-design and co-creation by focusing on targets that require multiple sectors and actors to solve.
- **Multiple bottom-up solutions:** Missions should not be achievable by a single development path or by a single solution. They must be open to being addressed by different types of solutions. A mission-based approach is clear on the expected outcome. However, the trajectory to reach the outcome must be based on a bottom-up approach of multiple solutions, some of which will fail or have to be adjusted along the way.

³⁷ Mazzucato, M. (2018b). Mission-oriented Research and Innovation in the European Union. A Problem-Solving Approach to Fuel Innovation-Led Growth. Available at: https://research-and-innovation.ec.europa.eu/knowledge-publications-tools-and-data/publications/all-publications/mission-oriented-research-innovation-eu-problem-solving-approach-fuel-innovation-led-growth_en

The four missions set out in *We Make Camden* represent an obvious strong starting point for guiding the CWF's investments, although it may make sense to tailor them to suit the specific aims and objectives of a wealth fund. However, it is important to note that it is unlikely that the CWF will be able to achieve these missions on its own. The establishment of the CWF will provide a new tool to help achieve Camden's vision, namely a vehicle providing repayable finance (debt and equity). As an investment fund, the projects the CWF invests in must be 'bankable' — they must be expected to generate future revenue streams that can be used to repay the finance. Not all projects that can help address missions will be bankable. Some may require other forms of support, such as grants, provided by a different entity, such as Camden Giving. In other cases, projects may benefit from a combination of grants and repayable finance, as is already being trialled by the Future Camden Fund.

For example, turning the challenge of a lack of opportunities for young people into a concrete goal such as 'Every young person has access to economic opportunity that enables them to be safe and secure by 2025' will require actors across many different sectors to innovate and collaborate. Establishing the CWF will provide a powerful new tool to stimulate bottom-up investment towards that goal.

Figure 2: Illustrative mission roadmap for Camden’s mission for young people



In setting a mandate for the CWF, it is also vital that it does not seek to replicate programmes being delivered by the council elsewhere, such as the provision of grants and public services, or by other financial actors already operating in Camden, but instead represents a new tool that delivers additionality, catalysing activity that otherwise would not have happened. As discussed in section 2, there is already a large ecosystem of financial institutions operating in Camden. In addition, organisations such as Camden Giving are already playing an important role in the local community by issuing non-repayable grants. As such, the CWF’s founding articles should clearly specify the unique role it is expected to play in Camden’s existing financial ecosystem. Some examples of what this could include:

- **Nurturing local knowledge and expertise:** The CWF should seek to house extensive knowledge of the local economy and local firms, enabling it to assimilate the ‘soft’ information and intelligence needed to holistically assess investment prospects without relying on narrow credit scores. This could involve recruiting locally where possible; engaging widely with local businesses and other stakeholders; and offering training opportunities for local citizens.
- **Investing locally to generate mission impact and financial returns:** In contrast to grant-giving programmes, the CWF should aim to support projects that deliver mission impact using repayable financial instruments (for example, debt and equity). By making investments that generate positive returns rather than making grants, the CWF can generate a virtuous cycle of reinvestment and local wealth creation. In doing so, it can build on the experience of the Future Camden Fund, which is currently trialling blending grants and repayable finance.
- **A patient, long term investor:** The CWF should aim to provide longer term, more patient and — where necessary — more flexible finance than is typically offered by commercial lenders. This will provide valuable time for investees to focus on growth and delivery, rather than short-term financing constraints, while also delivering additionality by making some projects financially viable that otherwise would not be.
- **Inclusive finance:** The CWF should be open to everyone in Camden, including (but not limited to) those who have been rejected by mainstream finance providers. However, the CWF could also take steps to proactively address structural barriers in the finance sector, such as the lack of finance for companies run by BAME individuals. In doing so, the CWF should seek to complement and where appropriate collaborate with other socially-oriented investors, such as social impact funds and CDFIs.

As well as setting out missions to guide the CWF's investments, it may also be beneficial for the CWF's mandate to specify sectors or activities that the fund will not invest in, for example for environmental, social or ethical reasons. Such 'exclusionary criteria' are common among other public financial institutions and would ensure that the CWF's resources are not used to support initiatives that are incompatible with the council's wider social, environmental or ethical principles.³⁸



³⁸ Macfarlane, L. and Mazzucato, M. (2018). State Investment Banks and Patient Finance: An International Comparison. UCL Institute for Innovation and Public Purpose WP (IIPP WP 2018-01). Available at: <https://www.ucl.ac.uk/bartlett/public-purpose/publications/2018/feb/state-investment-banks-and-patient-finance-international-comparison-0>

6

Governance

Governance of public investments refers to a set of institutions and mechanisms to support the implementation and evaluation of those investments. It encompasses the organisation, supervision and monitoring, evaluation and responsibilities over decision-making related to the CWF on the one hand and to its investments on the other.

Broadly, governance of mission-oriented organisations, and in particular financial institutions, involves capability-building, competencies and skills that reflect the ambition and thematic focus of the mission-oriented investments.³⁹ Governance of public wealth funds should reflect their distinct role in the financial ecosystem as these funds can play a role in tackling the distribution question — they are institutions that can help ensure income from economic activity is shared more evenly before redistributive taxes and social benefits payments are applied, thus taking some pressure off the redistribution role of the state.⁴⁰ There are no one-size-fits-all prescriptions when designing a policy mechanism (such as a CWF) for sharing risks and rewards⁴¹, but if properly structured and governed, wealth funds can contribute to a wider spread of capital ownership and therefore the benefits of that. In relation to the CWF, its governance should reflect its unique position within the council's existing portfolio of funding programmes and the CWF's unique contribution to implementing the missions, as defined in its mandate, discussed previously.

International practices suggest that governance of public wealth funds often remains quite secretive and there are only a handful of examples that are known for their highly transparent governance practices.⁴² These are Norway's Sovereign Wealth Fund, managed by Norway's Central Bank on behalf of Norwegian people⁴³ and New Zealand's Super Fund, managed by the management group, Guardians, an autonomous Crown entity and legally separate from the

³⁹ See https://ec.europa.eu/info/sites/default/files/research_and_innovation/contact/documents/ec_rtd_mazzucato-report-issue2_072019.pdf

⁴⁰ Lansley, S. 2016. *Sharing Economy: How Social Wealth Funds Can Reduce Inequality and Help Balance the Books*. Policy Press, p. 29.

⁴¹ See <https://www.newstatesman.com/uncategorized/2014/12/public-risks-private-rewards-how-innovative-state-can-tackle-inequality>

⁴² Lansley, S. 2016. *Sharing Economy: How Social Wealth Funds Can Reduce Inequality and Help Balance the Books*. Policy Press, p. 46-48.

⁴³ See <https://www.nbim.no/en/organisation/governance-model/>

government.⁴⁴ Both funds enjoy considerable support from the general public and other stakeholders, due to their work with the corporate boards of companies they invest in, stringent disclosure practices, and continuous work on ethical and responsible investments.

Despite operating on very different premises from community wealth funds, these two examples demonstrate that transparency and accountability require systematic and proactive engagements with all stakeholders, as well as substantial internal capabilities to steer these engagements. Ethical appraisals, risk assessment frameworks and investment monitoring frameworks are based on strong in-house technical, financial and communication expertise that also ensure stakeholders have an easy access to the investment practices of these two funds.⁴⁵ These examples demonstrate that governing public wealth with a clear community-oriented purpose requires systematic work with extensive public disclosure. This can be done through various avenues: from public lectures to continuous reporting on investment practices.

Governance of community-oriented public wealth funds involves having a representative voice on one hand and a strategic form of association with the community authority on the other. In terms of community participation, there are broadly three alternative mechanisms of involving citizens in the CWF's decisions. These alternatives are not mutually exclusive, but we deem it useful to differentiate between these different modes of engagement as each implies different organisational elements.

In the first instance, citizens participate at the initial stage when the mandate of the CWF is established, and its functions are determined. For example, while establishing the Scottish National Investment Bank, the Scottish Government conducted a public consultation on the suggested mandate of the Bank. Crucially, the priorities selected for the CWF must be widely perceived to be legitimate and of high societal importance. This will ensure their durability and survival across political cycles. To achieve this, meaningful public participation in the selection process of missions is essential, even if missions are ultimately selected at the political level. Without meaningful engagement, there is a risk of alienation and lack of buy-in from the local community.

Camden Council has experience conducting participatory processes and has the requisite capabilities and capacities in place. However, there are a variety of methods that could be utilized to create buy-in and generate co-ownership for the missions and investment mandate of the CWF. One highly participative method that could be considered is a citizens' jury. This method, like a judicial jury, is highly deliberative where a small group of randomly selected people are charged with answering a narrow question and reaching a decision by consensus. A key difference between a citizens' jury and assembly is the number of people involved - a jury is often around 20-30 people while an assembly often has at least 40 people. At the outset of the process, jurors are given a briefing about the process and an overview of the issues and questions they will reach a decision on. Then, the jury hears testimony from 'neutral' expert witnesses, relevant stakeholders and representatives from all sides of the issue, having the opportunity to ask questions. Finally, jurors are given time to deliberate, reach a consensus decision and make recommendations. Camden Council could consider using an approach like a citizens' jury to create transparency and public support for the CWF's investment mandate that is defined from the missions.

⁴⁴ See <https://www.nzsuperfund.nz/about-the-guardians/governance/>

⁴⁵ For example, the management of Norway's Wealth Fund reports on divestments and observations of companies <https://www.nbim.no/en/the-fund/responsible-investment/exclusion-of-companies/>

Case study 2

Citizens' jury on a fair and inclusive ecological transition in Besaya, Spain

The Regional Ministry of Economy and Finance in Cantabria, Spain, wanted to explore innovative approaches to citizen participation to help it decide how to use European Regional Development Funds and European Social Funds to create and maintain jobs in the Besaya basin, while simultaneously adhering to principles of a fair and inclusive ecological transition.

After several months of planning, in May 2021 the Regional Ministry launched a citizens' jury that took place virtually over six weekends.⁴⁶ Thirty-five citizens from ten municipalities in the Besaya region were randomly selected by a civic lottery. The jurors were asked to consider how to take advantage of European funds in the Besaya region to create and/or maintain jobs, while respecting the criteria for a fair and inclusive ecological transition. They were told their answers would only be confirmed once 80% of jurors agreed and they debated their assigned question for a total of 39 hours.

Ultimately, the Besaya Citizens' Jury made three recommendations to the Regional Ministry, which included 25 detailed actions.⁴⁷ The Government of Cantabria will take forward some of the recommendations and actions suggested by the citizens' jury, and in order to be transparent will regularly update the public on how they have utilised the public's views within investment decision-making.

⁴⁶ See <https://besayaeuropa.es>

⁴⁷ See <https://drive.google.com/file/d/1iWGjmcV590mp31phXomi7y6Q63Ar4aim/view>

A second option for community participation involves consulting citizens on a more regular, ongoing basis. This could take the form of creating a citizens' advisory group that provides inputs into the work of the governing board. This was the approach embraced in the Scottish National Investment Bank implementation plan, which recommended that a stakeholder advisory group should be established with membership comprising representatives from stakeholders and wider civic society. A stronger form of community participation would involve reserving seats on the governing board for citizen and/or wider stakeholder representatives. This would give citizen representatives formal decision-making power over the CWF's strategic direction. Examples of public financial institutions that have embraced a 'stakeholder' approach to board governance include the Banco Popular in Costa Rica, KfW in Germany and FINNVERA in Finland.⁴⁸

This mode of consulting with citizens also assumes that wider engagement with citizens occurs elsewhere, outside the CWF structure. Appointing citizen representatives to the governing board (or co-opting them through advisory groups reporting to the board) means that only a few representatives will have knowledge of the fund's actual activities and decision-making. Therefore, for a wider sense of ownership and participation, deliberation related to the activities or priorities of the fund should be incorporated into existing participatory spaces.

The third layer where a community participation mechanism can support the CWF's decision-making is the potential for citizens to take part in the day-to-day investment decisions on a systematic basis. Such direct participation in the allocation of financing can be found in participatory budgeting and in participatory grant-making ('giving' organisations such as Camden Giving and its counterparts in other boroughs), although in these two cases the funds are spent just once with no options for re-investment. This makes spending decisions and appraisal of funding applications less complex, and there is limited consideration of risks and returns. Examples of participatory investment activities involving the use of repayable financial instruments, such as debt and equity, are relatively rare. The Buen Vivir Fund⁴⁹ in Mexico is a participatory impact investment fund that operates internationally and was set up by NGOs. Its governing board is comprised of ten international grassroots organisations and other investors, while the participatory approach is ensured by equal voting rights in governance and

⁴⁸ Macfarlane, L. and Mazzucato, M. (2018). State Investment Banks and Patient Finance: An International Comparison. UCL Institute for Innovation and Public Purpose WP (IIPP WP 2018-01). Available at: <https://www.ucl.ac.uk/bartlett/public-purpose/wp2018-01>

⁴⁹ See https://opendocs.ids.ac.uk/opendocs/bitstream/handle/20.500.12413/14534/Buen_Vivir_Fund_Final.pdf?sequence=2&isAllowed=y

management of the fund through its members' assembly. This governing setup is quite unique and involves organisations that self-selected to establish the fund. In the case of Camden, it may be prudent to experiment with different forms of citizen participation in the allocation of investments, using relatively small sums of money in the first instance. This experimentation would present opportunities for 'learning by doing' and identifying best practice, which can then be scaled up over time.

If citizens are to engage with the fund's activities on a systematic basis it may be appropriate to provide practical training or apprenticeships for selected individuals. This way it is possible to reach out to a wider group of citizens (wider than in the case of selecting representatives for the board) and the outcomes of the training will have more tangible social impact. Financial literacy plays a crucial role in navigating economic opportunities and is therefore of key importance — particularly to young people and under-represented groups. There are emerging examples of providing such training in the UK, as in the case of the borough of Barking and Dagenham working with its Community Steering Group.⁵⁰ Creating this space within local council structures is an inspiring way of building the capabilities of local residents that will last far beyond the training period. In a wider national context, such capability-building programmes can help kick-start development of a group of individuals who are knowledgeable and passionate about community-oriented investments.

Regarding the CWF's position vis-a-vis the council, there are two options that can be considered. The first option involves establishing a small, in-house team that would set up and manage the CWF's ongoing administration, and then outsourcing all or part of the fund's investment activities to an external fund manager. An investment panel would then be established to make recommendations on the CWF's investment decisions, which would consist of officers from within the council as well as some external representatives. The investment panel would have delegated powers to make investment decisions within certain parameters and any investment opportunities that fall outside of these parameters would be referred to the council cabinet.

However, international evidence indicates that successful mission-oriented investment requires dynamic organisational capabilities, such as the ability to experiment, take risks and — crucially — learn from successes and failures.⁵¹

⁵⁰ See <https://bdgiving.org.uk/CSG/>

⁵¹ See <https://academic.oup.com/icc/article/27/5/803/5127692>

As Mazzucato (2018) states, 'A crucial element in organising the state for its entrepreneurial role is absorptive capacity or institutional learning. Governmental agencies learn through the process of investment, discovery and experimentation that is part of mission-oriented initiatives.'⁵² This process requires 'dynamic capabilities of the public sector.'⁵³ In addition, evidence from successful public wealth funds and other public financial institutions indicates that the presence of sufficient in-house expertise, including financial and technical expertise, is an important ingredient of their overall success.^{54 55 56}

It remains unclear whether an external fund manager would have the capabilities and experience necessary to successfully invest in a way that is aligned with the mission-approach embraced by Camden Council. Even if an appropriate partner were identified, by outsourcing management of the CWF to an external partner there is a risk that Camden Council would lose out on the opportunity to 'learn by doing' and develop its own dynamic in-house capabilities over time, as much of the learning would be done by the fund manager rather than the CWF itself. This concern is also related to the tendency of specialised financial knowledge becoming isolated and monopolised — structuring financial contracts is often seen as a highly technical legal expertise inaccessible to most.⁵⁷ While investment decisions should indeed be based on solid financial expertise, impactful investments also involve substantial non-financial knowledge, such as market structures, local economy intelligence, impact measurement and monitoring. Camden Council has some existing strategic expertise related to the local economy and community, and this should feed into the work of the CWF on a systematic and continuous basis, fulfilling a critical 'advisory' function.

An alternative approach would involve establishing the CWF as a separate legal entity fully owned by the council, but operated at arm's length. In this case, it would be crucial to establish a framework enabling the council to periodically set and review the CWF's strategic objectives and functions. The council would have to design structures for holding management accountable for meeting the CWF's objectives, while ensuring that the management team was at liberty to make

⁵² See <https://www.ucl.ac.uk/bartlett/public-purpose/sites/public-purpose/files/iipp-wp-2018-05.pdf>

⁵³ See <https://academic.oup.com/icc/article/27/5/803/5127692>

⁵⁴ See https://www.ucl.ac.uk/bartlett/public-purpose/sites/bartlett_public_purpose/files/state-investment-banks-and-patient-finance-an-international-comparison_policy-report_mariana-mazzucato_laurie-macfarlane.pdf

⁵⁵ See https://www.ucl.ac.uk/bartlett/public-purpose/sites/public-purpose/files/final_iipp_policy_brief_11_public_wealth_funds_10_nov.pdf

⁵⁶ See https://www.ucl.ac.uk/bartlett/public-purpose/sites/public-purpose/files/final_the_eib_and_the_new_eu_missions_framework_report_30_mar.pdf

⁵⁷ Pistor, K. 2019. *The Code of Capital: How the Law Creates Wealth and Inequality*, Princeton University Press.

sound investment decisions in line with its mandate, free of day-to-day political interference. This could include establishing a governing board for the CWF that included council representation as well as other key stakeholders.

Another consideration relates to the influence of political representatives on the fund's activities. While political representation can help to maintain alignment with council priorities and a path of democratic accountability, steps should be taken to prevent undue political interference in the fund's activities. It is important that management teams are free to make sound, long-term decisions in line with the CWF's mandate, free of day-to-day political interference. If the fund's activities are perceived to be shaped by individual politicians or political parties, there is a risk that the fund will not survive changes in political cycles, nor attract co-investors on a regular basis. Giving the council cabinet some discretion over the fund's strategic mandate and objectives via seats on the board, rather than control of individual investment decisions, may therefore be the best way to ensure it becomes an enduring institution.

Transparency and accountability are also crucial governance considerations for the CWF to consider. As discussed above, while it is important that the activities of the CWF are aligned with the priorities of the council, this should be done transparently, for example by setting out a clear mandate and accountability mechanisms. The council should seek to avoid communicating with the CWF through undisclosed channels that lend themselves to opportunism.⁵⁸ Ensuring high standards of corporate governance in all aspects of transparency and accountability offers the best opportunity to ensure the CWF is an enduring institution that retains public trust over time.

A continuous exchange of financial information, as well as non-financial knowledge stemming from investment activities, will have to be ensured between the CWF and Camden Council. Transparent communication and accountability mechanisms between the council and the CWF, as well as between the CWF and the wider public and the private sectors, will also be needed. Relatedly, the CWF should take an equally strategic approach towards building its network of knowledge-sharing feedbacks and partnerships with other wealth funds, boroughs and local financial institutions. This will involve adequately resourcing the CWF to enable it to invest in developing in-house financial and technical expertise, and establishing a strong emphasis on learning, experimenting and retaining this institutional knowledge.

⁵⁸ See https://www.ucl.ac.uk/bartlett/public-purpose/sites/public-purpose/files/final_iipp_policy_brief_11_public_wealth_funds_10_nov.pdf



7 Community engagement

Deep processes of community engagement within policy design and programme management is a fundamental value in Camden and a guiding principle for the council throughout its work. For the CWF to achieve its aspiration of promoting equitable, inclusive, sustainable social impact in accordance with Camden's transformative missions and calls to action in the We Make Camden strategy, citizen engagement must continue to be seen not as a beneficial afterthought, but as a central pillar of the CWF. In this sense, the CWF should rely extensively on citizen engagement during its design and operations phases, using multiple approaches to facilitate 'a process of co-production' between the council and community, rather than relying on a single method at a static moment in time that risks tokenising the wider community.

The recent evolution in community engagement approaches from consultation towards co-production across local governments in the UK and globally is significant. Consultative forms of community engagement are typically not deliberative and emphasise generating public feedback on decisions that have already been extensively developed by a public sector body, in turn providing limited opportunity to meaningfully redress the public's comments. This makes consultative forms of community engagement aimed at enabling the public to feel empowered or in control of decisions ineffective, while also making it more likely that the public won't see their interests reflected in a policy outcome. Meanwhile, a co-productive approach to community engagement is highly deliberative, generates ideas collaboratively between the public sector convening organisation with a range of stakeholders through collective didactic knowledge exchange. As such, relative to consultative processes, co-productive forms of policy design and decision-making have a much stronger potential for consensus-building and collective ownership over outcomes across a diverse range of stakeholders.

There are a variety of community engagement methods that can be utilised to facilitate co-production processes within the design and operations of the CWF. Co-production is a community engagement approach, rather than a single method, that seeks to enable stakeholders from different backgrounds to share responsibility and power, while learning from each other's experiences, and work together in equal relationships. By cultivating a collaborative, participatory decision-making culture, co-productive forms of community engagement can create opportunities for historically marginalised and disenfranchised communities

to become empowered in new ways, cultivating the potential for the CWF to support truly equitable investment outcomes. While there are many opportunities created by, and advantages to, utilising co-productive community engagement approaches, they should not be seen as a panacea for the CWF or a guarantee of success. Facilitating co-production requires particular organisational capabilities to lead, significant capacities to manage, and, relative to consultative approaches, can be uncertain and time-consuming.

Case study 3

Participatory budgeting in Tower Hamlets

In 2009, the East London borough of Tower Hamlets, home to over 220,000 diverse residents and consistently ranked as having some of the highest rates of poverty in the city's 32 boroughs, wanted to involve residents directly in the council's budget decision-making process. To improve the perceptions and performance of local services, the cabinet voted to allocate £2.38 million per year for two years, to be used to give residents the power to design and choose the public services they wanted. In addition to the £4.76 million from the council, the local primary care trust provided an additional £300,000 over two years, totalling £5 million over the two-year period.⁵⁹

The £5 million was spent across the borough in 2009 and 2010 through the You Decide! Participatory Budgeting project, led by the council and the borough's eight local area partnerships (LAPs). The Participatory Budgeting project team sought 'bids' for services through public events that were held in each LAP and used that feedback to generate You Decide! service menus, with each costing no more than £280,000

⁵⁹ See <https://participedia.net/case/26>

to deliver. These draft service menus were presented to cabinet, whose feedback shaped the final service menu. This was shared with event participants and publicised via an advertising campaign, designed to encourage residents to register for You Decide! events where attendees would select services from the menu.

Each Participatory Budgeting event had capacity for 100 people or more, with 815 people attending the eight events. Residents who attended the Participatory Budgeting events selected services via a three-step process:

- **Inform** – residents received information about the 33 services on the menu
- **Deliberate** – residents then talked about each of the services in groups, led by a trained facilitator
- **Decide** – each participant voted on the service they considered to be most important and the service with the most votes was selected.

Each LAP prioritised different services following these Participatory Budgeting events. Selection event participants reflected that they felt empowered, and could influence their local council's decision-making and services, as well developing skills. More broadly, the You Decide! Participatory Budgeting process gave greater agency to the people utilising public services in Tower Hamlets to shape those services.⁶⁰

⁶⁰ See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/6152/19932231.pdf

In recent years, Camden Council has developed robust public engagement capabilities, gained nuanced local intelligence-gathering flows in relation to the borough's diverse communities, and formed strong relationships with citizens and local organisations. This is a sturdy foundation that the council should leverage for the CWF. The council has demonstrated its interest in utilising co-productive approaches in past decision-making processes and has already developed some of these capabilities and capacities, which can be further advanced.

For example, Camden Council successfully designed and facilitated a sophisticated Citizens' Assembly on the climate crisis in 2019. The assembly's 17 recommended actions were unanimously supported by the council cabinet⁶¹ and have subsequently been integrated into the Camden Climate Action Plan 2020 – 2025.⁶² This is an example of a co-productive community engagement mechanism setting a new policy direction.

On the other end of the decision-making spectrum, Camden also has experience of engaging communities using co-productive methods to monitor and evaluate policy. Through the Good Life Euston initiative, Camden Council is working with citizen social scientists to identify the priorities of local communities and what it means to prosper from their perspective. They are collectively designing a wellbeing index that will be used to track and evaluate how the local community is affected by the major regeneration project that is underway.⁶³ Building on this hyper-local initiative, Camden Council is developing a borough-wide wellbeing framework which will be co-created with residents and used to measure how communities are doing across a multidimensional range of issues which are essential for a good life.

Camden Council could build on these past experiences and consider three different, but overlapping, approaches to facilitate a co-productive form of community engagement within the CWF's design and operations, as described in the previous section:

- **Shaping the mandate** – Utilise a highly participatory community engagement method such as a citizens' jury or citizens' assembly to help identify the CWF's mission statement, building from the We Make Camden

⁶¹ See <https://www.involve.org.uk/resources/blog/project-update/camden-citizens-assembly-recommendations-unanimously-supported-full>

⁶² See <https://democracy.camden.gov.uk/documents/s89494/Climate%20Action%20Plan%20Appendix%201%20-%20Camden%20climate%20action%20plan.pdf>

⁶³ See <https://www.camdengiving.org.uk/euston-voices>

calls to action and Camden's missions. This would create public ownership of the strategic direction and mandate of the CWF.

- **Directing strategic governance** – The CWF governance structure could include various board options as explored in the prior section. The public could play a seminal role within this strategic governance structure through a variety of options, depending on the CWF's overall governance architecture. One option would be a separate and distinct 'citizen advisory group' that would make recommendations and/or decisions which would formally feed into the CWF's overall governance structure. A section option would be mandating that one or multiple positions on the CWF's governing board be dedicated to community voices, with a clear and transparent approach for recruiting these representatives. Both options would give the community a strong voice in directing the CWF's strategic decision-making.
- **Day-to-day administrative insight** – One innovative aspect of the CWF would be its potential to harness very localised intelligence within investment decisions, information that institutional investors or banks would not have access to. Furthermore, the CWF could also be a vehicle for improving the skills capacity of the local community and providing a training and employment pipeline through a training programme, as described above. Involving the community with the day-to-day operations and administrative decision-making processes of the CWF is an additional avenue for fostering co-production and empowering the community to feel in control of the wealth in their community. One option for a form of community engagement within the CWF's operations could be a two-stage process. First, professional fund managers could appraise proposed projects for their potential financial viability and, second, formally trained and locally networked citizens working for the CWF as investment advisors could help select fundable projects.

Rather than utilise a consultative community engagement methodology that facilitates civic involvement at a singular moment, Camden Council should consider how co-productive public participation could be embedded throughout the CWF's activities, as has been suggested in multiple sections of this report. This approach to community engagement would be aligned with Camden Council's recent citizen participation efforts; would give the public a democratic voice in the CWF; and, in the long run, would help accelerate the process of catalysing 'community power' in line with the aspiration of Camden's missions and calls to action.

8 Capitalisation and funding

Like all financial institutions, the CWF must be able to fund its investments. However, not all sources of funding are the same: evidence suggests that 'where the money comes from' can have an impact on the type of investments made and long-term financial performance.⁶⁴ There have been many examples where problematic funding sources have significantly undermined the ability of a public financial institution to meet its strategic objectives. In identifying the optimal funding mix, a number of factors should be considered. First, sources of funding should be relatively low cost. If the CWF can only access funding that has high financing costs, then it will be unable to finance local initiatives on affordable terms. Second, funding sources for the CWF should be long term rather than short term. Given that the CWF will be a long-term, patient investor, it is important that it is not heavily reliant on sources of short-term funding, as this could create a maturity mismatch between its assets and liabilities, and result in liquidity problems. Third, sources of funding should be stable and predictable. If a source of funding proves to be volatile or unstable, this could undermine the ability of the CWF to fund its investment activities. Fourth, funding sources should be available on the scale required to meet the desired level of investment, which may increase over time (they should be 'scalable'). A final consideration is whether different sources of funding may affect the CWF's appetite for risk and its ability to invest in higher risk activities but potentially higher return projects.

Camden Council has indicated that seed funding of around £10 million could potentially be raised to capitalise the CWF via asset disposal. This should be sufficient to launch the CWF and fund initial investments during its start-up phase, but going forward the fund should seek to identify new sources of funding to enable it to scale up its impact over time, potentially to a total value of £50 million over the CWF's first five-year period.

Returns on investment

There are many different sources of funding that the CWF could seek to mobilise. The first of these relates to using the returns made from previous investments to reinvest into new initiatives. This is what makes investments different from conventional public spending. Camden has stated that its ambition is for the CWF to be an 'evergreen fund', generating returns that can be recycled to support ongoing investments and cover future running costs. Although the CWF is not being established to maximise financial returns, it is important that it aims to generate positive returns over time. Therefore, it will be important to establish a

⁶⁴ See https://www.ucl.ac.uk/bartlett/public-purpose/sites/public-purpose/files/iipp_wp_2018-01.pdf

target rate of return that the CWF's management will be expected to deliver over a certain timeframe. Given that the CWF will be a long-term, patient investor, the aim of being an evergreen, self-sustaining fund may not be achieved until the medium term.

Importantly however, the CWF's evergreen ambition does not mean that it can only invest in projects that are expected to generate this level of return. In making its investments, the CWF can learn from the portfolio strategies of venture capitalist firms and social impact investors, structuring investments across a risk-return spectrum so that higher return investments help to cover lower return ones, ensuring that the CWF can still invest in projects that have a high social benefit, but low financial return (for example by providing long-term, low-cost loans). However, this also highlights the importance of ensuring that the CWF is able to capture some of the financial rewards that are made possible by the risk-taking and investment of the CWF to cover losses or lower returns elsewhere. One effective way of doing this is to take equity stakes in some of the projects the CWF invests in.

Ensuring that the CWF is able to capture some of the financial rewards in instances where a company or project enjoys substantial success may be particularly appropriate for investments in projects that have the potential for rapid growth.⁶⁵ In practice, the CWF should establish a wide range of financial instruments that cover the full risk/return spectrum. This should include long-term debt instruments that generate moderate returns in the form of interest payments for lower risk projects; equity instruments that have the potential to generate large returns for higher risk projects; and hybrid instruments such as mezzanine products, which combine features of debt and equity instruments.

However, relying on returns alone to fund the CWF on an ongoing basis may not be sufficient for the CWF to reach its full potential. In some cases, returns will arise slowly and may be negative in the beginning, while in other cases returns may never materialise. As a result, returns may not be stable or scalable enough to act as a reliable funding source. We therefore recommend that Camden explores other potential funding sources to complement the returns it makes on its investments.

⁶⁵ See https://www.ucl.ac.uk/bartlett/public-purpose/sites/bartlett_public_purpose/files/state-investment-banks-and-patient-finance-an-international-comparison_policy-report_mariana-mazzucato_laurie-macfarlane.pdf

Case study 4

Bpifrance

One example of a public financial institution that takes a strategic approach to risk and reward is Bpifrance.⁶⁶ Bpifrance offers a wide of financing instruments that enables it to invest across different areas of the risk landscape. At the lower end of the risk spectrum, Bpifrance offers long-term, low-cost loans to organisations and projects that are aligned with its legal mandate. At the higher end of the risk spectrum, Bpifrance also takes minor equity stakes in higher risk ventures to ensure that it shares in the upside of success.

Bpifrance also deploys a number of innovative instruments which help to balance risk and reward. One of these is 'profit sharing development loans', which provide long-term finance to SMEs to fund the product launch phase. If the launch is successful and the product becomes profitable, Bpifrance receives a share of the profits. Another instrument used by Bpifrance is 'repayable advances', which place an obligation on the beneficiary to repay all or an agreed part of the money if certain criteria are met, for example if a company starts to make a predetermined level of profit. Repayable advances can therefore be viewed as a form of income-contingent loan.

This wide range of instruments ensures that Bpifrance can invest across different areas of the risk landscape while still generating a positive financial return overall.

⁶⁶ See https://www.ucl.ac.uk/bartlett/public-purpose/sites/public-purpose/files/iipp_wp_2018-01.pdf

Debt finance

One additional potential funding source is debt finance. This is a common way for both public and private financial institutions to fund investments, and enables an entity to leverage its own capital base and invest on a greater scale than it could otherwise afford. One source of debt finance that could be mobilised is the Public Works Loan Board (PWLB). The PWLB was previously a statutory body of the UK Government, providing loans to public bodies from the National Loans Fund. In 2020, however, the PWLB was abolished as a statutory organisation and its functions were allocated to HM Treasury, where they are discharged through the UK Debt Management Office.

The majority of local authority borrowing is sourced from the PWLB: in 2019-20, local authorities borrowed £69.9 billion from the PWLB, out of total borrowing of just over £93 billion.⁶⁷ Because PWLB lending rates are linked to government borrowing costs, the PWLB typically offers the lowest rate of interest available to local authorities, although the interest rates paid by councils have increased in recent years.⁶⁸ Local authorities are only permitted to borrow from the PWLB to support capital spending (expenditure that results in the creation of an asset from which the council will benefit), not revenue spending (day-to-day expenditure), and only if the borrowing can be demonstrated to be affordable. According to the legislation that governs PWLB borrowing, however, capital spending includes spending on ‘the acquisition of share capital or loan capital’.⁶⁹ As a result, there may be scope for Camden to borrow from the PWLB to provide funding to the CWF, given that CWF investments will be income-generating assets. Borrowing from the PWLB has the advantage of being relatively low-cost, long-term, stable and scalable — and is unlikely to create undue pressure to minimise risk-taking. At the same time, the rules for how to use PWLB funds (administered by the UK Treasury), as well as supervisory guidance on S151 procedures (from the Chartered Institute of Public Finance and Accountancy) are often subject to change, which introduces a degree of uncertainty regarding use of funds.

A newer source of potential debt financing is the UK Infrastructure Bank (UKIB). Established in 2021 to replace the loss of access to the European Investment Bank (EIB), the UKIB has a core mission ‘to partner with the private sector and local government to increase infrastructure investment to help to tackle climate change and promote economic growth across the regions and nations of the

United Kingdom.’ The UKIB has two main operational arms: one focused on lending to private sector customers and another focused on lending to local authorities. Loans to local authorities are offered at a rate of gilt yield + 60 basis points for ‘high value and strategic projects of at least £5 million’.⁷⁰ As a result, there is potential for Camden to explore borrowing from the UKIB if the CWF intends to invest in large projects in the borough. Borrowing from the UKIB would provide similar benefits to borrowing from the PWLB — it is also relatively low-cost, long-term, stable and scalable, and shouldn’t create undue pressure to minimise risk-taking.

Another form of debt finance that could be explored is bond issuance. Following the increase in PWLB interest rates in recent years, a number of councils across the UK have issued municipal bonds as an alternative source of debt financing. Bonds allow local authorities to raise substantial sums of capital immediately, to be repaid at a specified point in the future, often spanning a long time period (up to 50 years). As well as being a long-term funding source, bonds have the advantage of being relatively low-cost, scalable and stable. However, issuing bonds comes with additional costs that are not associated with PWLB borrowing. In particular, any local authority wishing to issue bonds would need to obtain a credit rating and would be likely to need to work with a professional agency to handle the sale of the bonds, which could cost upwards of £50,000.⁷¹ We therefore recommend that Camden explores the option of issuing bonds (particularly with long maturity periods) to fund the CWF, but that the benefits of doing so should be carefully weighed against borrowing from the PWLB.

While regular bond issuances are generally aimed at large institutional investors, one option that could be explored is issuing bonds aimed at smaller scale ‘retail’ investors, such as small businesses and households. Given the substantial wealth that is held in Camden, launching retail bonds or other community investment schemes can provide a mechanism for local businesses and individuals to invest in local wealth-generating initiatives, while earning a return that would be higher than simply keeping money in a bank account. Given the substantial household savings that were accumulated during the Covid-19 pandemic, there may be a strong demand for such bonds. However, this would need to be explored through further citizen engagement.⁷²

⁶⁷ See <https://researchbriefings.files.parliament.uk/documents/SN05797/SN05797.pdf>

⁶⁸ See <https://researchbriefings.files.parliament.uk/documents/SN05797/SN05797.pdf>

⁶⁹ See <https://www.legislation.gov.uk/uksi/2003/3146/regulation/25/made>

⁷⁰ See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/966131/UKIB_Policy_Design.pdf

⁷¹ See <https://researchbriefings.files.parliament.uk/documents/SN05797/SN05797.pdf>

⁷² See <https://commonslibrary.parliament.uk/research-briefings/cbp-9060/>

Camden has recently pursued bonds through the launch of the Camden Climate Investment (CCI), an innovative community municipal investment (CMI).⁷³ The CCI was launched in partnership with crowdfunding platform Abundance and is seeking to raise £1 million to fund a range of green projects across the borough, which have been selected based on feedback from the 2019 Citizens' Assembly. Residents can invest from as little as £5 and earn a return of 1.75% a year, and investments are eligible to be held tax free in an Innovative Finance ISA.⁷⁴ Residents investing will receive interest from the council every six months and their original investment back after five years. As well as potentially providing a relatively low-cost and long-term source of funding for the CWF, CMI schemes also offer an additional mechanism to engage citizens with the CWF, as they provide an opportunity for citizens to become directly invested in their success. However, it remains unclear whether CMI schemes have the potential to be stable and scalable funding sources. To date, the CCI has raised £1m from 398 investors.

Consequently, a CMI scheme may not be able to provide funding on the scale that the CWF requires on an ongoing basis. In addition, there is some evidence that sources of funding which draw heavily on household savings — such as postal savings in the case of Italy's Cassa Depositi e Prestiti — create political pressure to minimise risk-taking and thus reduce investment in higher risk activities.⁷⁵ As a result, Camden should consider this risk before deciding on whether to raise funding from residents for the CWF.

Pension funds

Another potential funding source to explore is the local authority pension fund. Pension funds have large pools of capital, are by necessity long-term investors and are operated in the interests of local authority employees. The London Borough of Camden Pension Fund (LBCPF) currently has investments of nearly £2 billion, most of which is invested outside Camden, either internationally or in other parts of the UK.⁷⁶ Any decisions on the LBCPF's allocations would need to be taken independently by the council's Pensions Committee, which would do so purely in the best interests of the pension fund. However, the UK Government has recently encouraged local government pension funds to invest more in local

⁷³ See <https://news.camden.gov.uk/council-launches-camden-climate-investment-to-help-tackle-climate-emergency/>

⁷⁴ See <https://www.abundanceinvestment.com/invest-now/camden-climate-investment-2027>

⁷⁵ See <https://www.ucl.ac.uk/bartlett/public-purpose/publications/2018/feb/state-investment-banks-and-patient-finance-international-comparison-0>

⁷⁶ See https://www.whatdotheyknow.com/cy/request/london_borough_of_camden_pension

economies: the new levelling up White Paper urged local government pension scheme (LGPS) funds to devote at least 5% of investment to 'local projects'.⁷⁷ In addition, in recent years a number of other London local authority pension funds have invested in local initiatives. For example, in 2014 Islington Council's pension fund earmarked 15% of its entire pension fund — up to £150 million — for social housing, shared ownership assets and infrastructure in the borough.⁷⁸ Given the scale of the LBCPF's investment portfolio, even if it was to reallocate a very small proportion of its funds towards the CWF, this would still represent a significant source of funding that could be invested in the local community. However, it remains unclear on what terms the LBCPF might invest, and what its appetite for risk would be.

Taxation

Another option is to explore the potential for Camden Council to use its taxation powers to fund the CWF. Camden currently boasts the third highest number of businesses of any region in the UK. These include Google and Facebook, and the square kilometre around Kings Cross contributes more to UK GDP than Manchester and Birmingham combined. However, despite this significant wealth, there is a strong sense that it is not being shared widely in the borough. As a result, Camden could explore the scope of introducing a new tax, or modifying an existing tax, to be levied on major businesses in Camden, the proceeds of which could be hypothecated into the CWF. Camden Council is already responsible for levying business rates in the borough, which raise around £606.7 million per year.⁷⁹ One option would be for Camden Council to explore the potential for introducing an additional business rates levy for large businesses in the borough, with the proceeds to be ring-fenced for the CWF to invest in the local community. There are precedents for this approach: for example, in 2010 the Greater London Authority (GLA) introduced a supplementary business rates levy, on businesses with over £70,000 of rateable value, of two pence per pound in order to help pay for the Crossrail project.⁸⁰ However, this would likely require consent from the UK Government, which may be difficult to achieve in practice. In addition, while tax revenue would prove a low-cost source of funding, it may not be stable or scalable — tax revenues are unpredictable and can widely fluctuate year on year

⁷⁷ See <https://www.localgov.co.uk/Council-pension-schemes-urged-to-invest-in-local-economies/53642>

⁷⁸ See <https://goodlocaleconomies.cles.org.uk/government/housing/use-pension-funds-to-finance-social-housing/>

⁷⁹ See https://www.camden.gov.uk/documents/20142/1488890/2985.5+-+Council+Tax+Infographic+2021_v9_online.pdf/66df0f95-2e9a-b30d-b86d-f4033ce05faf?t=1618843717332

⁸⁰ See <https://www.london.gov.uk/what-we-do/business-and-economy/promoting-london/paying-crossrail-business-rate-supplement>

depending on macroeconomic conditions. In addition, as with CMLs, relying on funding from local businesses could create political pressure to minimise risk-taking, as businesses may not tolerate seeing their taxes invested in initiatives that carry a risk of failure.⁸¹ As a result, Camden should consider these factors before deciding on whether to mobilise taxation to fund the CWF.

Corporate contributions

In addition to revenue from business rates, Camden could also explore the option of asking large corporations located in the borough to make an annual voluntary financial contribution to the CWF to reflect the benefits they receive from being part of a thriving local community. This could be formalised through partnership agreements between companies and the council that include a pledge to contribute a small percentage of annual net profits to the CWF over an agreed timeframe, which the companies would then benefit from in the form of being located in a more dynamic and inclusive community. Partnership agreements are often signed between local authorities and private sector organisations to establish ways of working together to achieve a common vision. In addition to financial contributions, partnership agreements could also include other pledges, such as those relating to skills sharing or training programmes. This could potentially provide an additional low-cost source of funding, although in practice it may not be stable or scalable enough to act as a primary funding source.

Developer contributions

A final funding source that could be explored is using developer contributions to fund the CWF. One form of developer contribution is the Community Infrastructure Levy (CIL), which came into force in April 2010. The CIL allows local authorities in England and Wales to raise funds from developers undertaking new building projects in their area, which can be used to fund a wide range of infrastructure that is needed as a result of development.⁸² Camden collects two types of CIL: the Mayoral CIL and the Camden CIL. In 2020/21, Camden Council collected £7 million of Camden CIL receipts, and spent around £2 million of these receipts' funds on local initiatives.⁸³ The CIL therefore represents an existing mechanism for capturing private wealth to support local investment and Camden could explore

⁸¹ See https://www.ucl.ac.uk/bartlett/public-purpose/sites/bartlett_public_purpose/files/state-investment-banks-and-patient-finance-an-international-comparison-policy-report-mariana-mazzucato-laurie-macfarlane.pdf

⁸² See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/6313/1897278.pdf

⁸³ See <https://www.camden.gov.uk/community-infrastructure-levy>

the option of allocating a proportion of CIL revenues to the CWF to reinvest in the local community.

There is already a precedent for this developer contribution approach in London. In December 2020, Barking and Dagenham Council agreed to transfer parts of the Neighbourhood Community Infrastructure Levy (NCIL) to Barking and Dagenham Giving (BD Giving) in order to set up a community endowment fund. The decision was for an initial capital investment of £650,000, with a commitment to add to the fund as more NCIL is collected over time.⁸⁴ However, as with taxation, revenues from the CIL can be unpredictable and volatile, which means it may not be suitable as a stable or scalable funding source.

Table 2 provides an overview of our assessment of different potential funding sources against the criteria set out at the beginning of this section. Overall, we recommend that Camden should seek to identify a diverse range of funding sources for the CWF, with the potential costs and benefits of each funding source examined in detail before launching the CWF.

Table 2: Assessment of funding sources

	Low-cost	Long-term	Stable	Scalable	Does not constrain risk appetite
Returns on investment	✓	✓	×	×	✓
PWLB / UKIB	✓	✓	✓	✓	✓
Bond issuance	✓	✓	✓	✓	✓
Community municipal investments	✓	✓	?	?	?
Pension fund	?	✓	✓	✓	?
Community Infrastructure Levy	✓	×	×	×	×
Taxation	✓	×	×	×	?
Voluntary corporate contributions	✓	×	×	×	?

⁸⁴ See <https://bdgiving.org.uk/blog/community-endowment-fund-report/>

9

Monitoring and evaluation

Where private financial institutions tend to be evaluated on the basis of their financial performance, public financial institutions are often evaluated on the extent to which they are fixing perceived market failures. In addition, public financial institutions are sometimes criticised for ‘picking winners’ or ‘crowding out’ other actors, and while there are instances where this criticism is merited, part of this can often be explained by the absence of monitoring and evaluation frameworks that adequately capture the dynamic outcomes of public investments, and the additionality they generate.⁸⁵

Missions are successful when they catalyse cross-sectoral and cross-actor investment and collaboration. As a result, new monitoring and evaluation frameworks will be required to assess the performance of the CWF that go beyond the narrow market failure frameworks and simple static financial metrics. This should include an array of new indicators aimed at assessing the extent to which the CWF has been successful at meeting its missions and delivering additionality to other existing funding mechanisms. Each mission should have concrete targets and objectives, so that it is possible to say definitively whether it is being achieved or not. This will likely include social and environmental indicators as well as financial ones.

Establishing intermediate milestones is also important, as they provide the means to keep track of progress towards the mission objective, and allow for informed and flexible adaptive decisions to intervene. Real-time open data on progress on the milestones will also keep a sense of urgency, achievement and motivation among involved actors. While missions are long term and should have a stable goal, these intermediate signposts should be used to decide whether changes in direction are required and, in some cases, whether the mission itself needs redefining. Importantly, mission metrics should aim to capture dynamic effects over time and focus on collective impact across projects (rather than assessing each project individually). This approach can help to capture positive, economy-wide spillover effects — and identify when projects may no longer be helping to achieve the CWF’s strategic goals.

⁸⁵ https://www.ucl.ac.uk/bartlett/public-purpose/sites/public-purpose/files/iipp_wp_2017-05_patient_strategic_finance-opportunities_for_state_investment_banks_in_the_uk.pdf

However, monitoring frameworks should also be established for each individual investment, which can be used to inform decision-making and risk management: resources can be released and distributed on a 'stage-gate' principal dependent on the project achieving intermediate milestones.⁸⁶ If certain milestones are not met, this may indicate that the investment is not delivering the expected impact and the CWF may decide it is optimal to reallocate its investments elsewhere. One innovative example of this approach is the 'mission covenants' that are applied by the Scottish National Investment Bank (see Case Study 5).

⁸⁶ https://ec.europa.eu/info/sites/info/files/mazzucato_report_2018.pdf

Case study 5

The Scottish National Investment Bank's mission covenants

The Scottish National Investment Bank (SNIB) is a mission-oriented public investment bank that began operations in November 2020. The design and governance of the bank was informed in part by advice from IIPP, which published *A Mission-Oriented Framework for the Scottish National Investment Bank* in 2019.⁸⁷

The bank has been designed to provide long-term, public, patient finance to support Scottish Government policy priorities. Following a process of engagement with stakeholders and shareholders, the Scottish Government tasked the SNIB to focus on three missions:

- Achieving a just transition to net zero by 2045
- Extending equality of opportunity through improving places by 2040
- Harnessing innovation to enable our people to flourish by 2040

The SNIB holds itself accountable to its missions by publishing an annual missions report, wherein it assesses and reports on the 'mission impacts of its investments'.⁸⁸ One innovative aspect is the bank's application of 'mission covenants' to all of its investments. These covenants require the businesses it has invested in to report regularly on their mission impact compared to what was expected. In turn, this performance is included in the bank's regular mission impact reporting. If investments do not meet expectations around mission impact and the business is unable to remedy the situation, then the bank reserves the right to implement an exit mechanism.⁸⁹

⁸⁷ See <https://www.ucl.ac.uk/bartlett/publicpurpose/wp2019-02>

⁸⁸ See <https://www.thebank.scot/publications/mission-report/>

⁸⁹ See <https://www.thebank.scot/publications/investment-strategy/#guide14>

10

Crowding-in and multiplier effects

Not all public spending has equal economic and social effects. It is generally accepted that capital investment will create employment and help optimise cost structure for businesses through improved access to infrastructure. These effects are notable, but taking a more strategic, 'market-shaping' approach to public investments can do more than that, and achieve wider economic and long-lasting social impacts.

Public investments implemented following a mission-oriented approach means channelling investments to sectors and activities that will further generate new business and investment opportunities.⁹⁰ Through deliberately and strategically designed investments that follow a targeted approach to socio-economic policies with the help of missions, public investments tend to create higher 'multiplier effects' than, for example, consumption-oriented spending.⁹¹

Investments that have cross-sectoral effects will no doubt have a higher multiplier than investments that are more siloed on to one area. Ambitious public investments can affect expectations in the business community of where future opportunities lie, affecting the 'crowding-in' dynamic. This should be visible through higher business investment in the community. Capturing this will allow Camden Council to have a more granular understanding of its investments' multiplier.

Multipliers capture how much growth in the economy results from public investments, due to the effect on spending/investment rounds. This can happen both via a demand multiplier (as people earn more, they spend more) and an investment multiplier (as the public sector creates a new opportunity for investment, business follows).

In the context of the CWF, creating new markets can mean extending existing socio-economic opportunities and activities to give more long-lasting effects, and identifying sectors, activities and groups of residents that cannot access the right type of funding elsewhere. Doing so will require robust intelligence of local needs and knowledge of major bottlenecks locally, and Camden Council — rather than the CWF — is in the best position to consolidate and continuously upgrade this intelligence.

⁹⁰ See <https://medium.com/iipp-blog/more-than-just-a-multiplier-quantifying-the-macroeconomic-impact-of-government-innovation-policy-3473648f9807>

⁹¹ Ibid

Because public financial institutions have a unique role to play, their governance structure and alignment with the wider set of socio-economic policies and objectives are crucial for attracting new investments and new types of partnerships. Rethinking the existing pool of partnerships and deliberately deciding on the council's priorities in strengthening this area of work could be an effective starting point. Camden Council has been working with various corporate partners across the borough, particularly through Camden Giving, and there are various teams in the council that develop and work through such partnerships. Fostering new partnerships and taking on a strategic relational approach to business actors in the borough will need a more consolidated and deliberate approach that benefits the council's policy goals. Camden Council may want to consider how to better organise such organisational learning and ensure that this adds value to the work of various teams across the council. In other words, developing a more strategic relational approach to working with corporate partners and ensuring that this becomes an internal policy goal throughout the council is another avenue for exploring co-investment opportunities.

Co-investments can take various forms: from one-off donations by large corporate partners thereby leveraging existing partnership relations to attracting funding from new private and public institutions. When considering attracting various types of co-investors it is important to differentiate between short-term co-investment projects and long-term-oriented funding. Section 9 above explores various sources of funding available to the CWF, and bringing in committed, 'patient' financing will be crucial for the long-term orientation of the CWF and ensuring it is able to take a portfolio approach to its own investments. In this regard, attracting funding from other public financial institutions is important. Public banks, such as British Business Bank and the newly created UKIB can provide such long-term funding. Having an investment portfolio that consists of projects with higher returns that can help invest in more socially impactful 'non-bankable' projects implies that the funding base should be similarly diverse and there is a stable, long-term-oriented funding stream available.



11

Conclusion and next steps

As a result of the joint work between IIPP and Camden Council, the following steps were identified as a way of thinking about the future of the CWF. It might be useful to differentiate between the following four phases: pre-start-up (ongoing); initial/ start-up; operational/scaling-up; and long-term/sustainable:

1. Pre-start-up (circa one year)

– crucial for building the dedicated team, and developing and internalising the conceptual framework and internal capabilities needed for establishing the CWF. During this ongoing phase, Camden Council has been actively working with IIPP on the conceptual framework and will need to engage with other stakeholders, particularly internal, to widen the ownership of the fund.

- a. Defining the internal team (within the council) that will take the ownership and be in charge of organisational learning related to establishment of the Fund
- b. Working with the key stakeholders and with other teams across the council
- c. Putting legal and financial arrangements in place for establishing the fund
- d. Making plans for developing/hiring the needed expertise in the next phase
- e. Identifying and reaching out to peer organisations in the UK (local, national) to build a network of community-oriented financial institutions
- f. Mapping the 'ecosystem' of socio-economic activities in Camden (for next phase)

2. Initial/start-up phase (circa one to three years)

– substantial expenditures take place and key operational decisions are made to kick-start the fund.

- a. Defining the mandate and key activities of the fund, including vis-à-vis existing support programmes run by the council (complementarity)
- b. Defining appropriate governance structures
- c. Deciding on participatory processes, their concrete aims and modes of engagement (including the training programme)

- d. Hiring and integrating this new expertise into existing internal team
- e. Developing investment strategy together with key stakeholders
- f. Developing a mix of evaluation techniques (including for internal use)
- g. Piloting the first investment projects (potentially managed internally/from within the council at the beginning)
- h. Working with a wider range of stakeholders, including corporate actors (establishing robust mechanisms)

3. Operational/scaling-up phase (circa three to five years)

- the cost structure of operating the fund should be moving towards balancing expenditures with first revenues.
- a. Developing a growing network of strategic partnerships
- b. Solidifying communication and outreach activities with stakeholders
- c. Solidifying the training programme for citizens (first tangible outcomes)
- d. Scaling up investments and starting to generate first revenues
- e. Adjusting the mix of evaluation techniques (including for internal use)
- f. Institutionalising the training programme and integrating with other participatory spaces run by the council

4. Long-term/sustainable phase (five to seven+ years)

- making the fund a sustainable or evergreen in the long-term.
- a. Generating and reinvesting first profits
- b. Conducting an evaluation of the first period of actual operations and disseminating the results widely among stakeholders
- c. Systemically engaging with the wider network of peer organisations and leading on certain initiatives.



12

Appendix A

The existing financial ecosystem in Camden

Actor	Description	Examples
Commercial banks	Large shareholder-owned banks that provide a wide range of financial services to businesses and households, including deposit-taking activities, payment services, business loans, personal loans, credit cards and mortgage loans. Commercial banks are licensed deposit-taking institutions which require authorisation by both the PRA and FCA.	Barclays, HSBC, Natwest
Building societies	Mutual financial institutions whose statutory 'principal purpose' must be to make loans which are secured on residential property and are funded by their members. Like banks, building societies are licensed deposit-taking institutions and also require authorisation by both the PRA and FCA. However, building societies are subject to a number of statutory provisions which means their activities are more restricted than those of banks.	Nationwide
Venture capital	Private investment funds that provide financing to start-ups, early-stage and emerging companies that have been deemed to have high growth potential or which have demonstrated high growth. Because start-ups face high uncertainty, venture capital firms typically have high rates of failure and often invest by taking equity stakes in firms. The high-risk nature of these investments often means that venture capital investors seek high rates of return on successful investments.	SFC Capital, Octopus Ventures
Credit unions	Not-for-profit financial cooperatives that are owned and controlled by their members. They can offer savings, lending and other services to their members who meet criteria set out in a 'common bond', such as living and working in a particular area or working for a certain employer. Often members of credit unions are individuals who have poor credit ratings and have been turned away from mainstream financial institutions. Credit unions are regulated by the PRA and the FCA, but the regulatory requirements are generally much simpler than for a bank.	London Plus Credit Union, North London Credit Union
Community development finance institution (CDFIs)	Financial institutions that provide financial products and services to people and communities underserved by traditional financial markets. CDFIs provide credit to businesses, social enterprises, individuals and homeowners. The core of the CDFI lending market is existing micro and small enterprises that are commercially viable, but cannot access some or all of the finance they need, because of their size or lack of security. Unlike banks, building societies and credit unions, CDFIs are not deposit-taking institutions and are not regulated by the PRA.	Fair Finance
Development banks	Publicly owned financial institutions that have been given a mandate by governments to advance specific socio-economic goals in a region, sector or market segment through the use of repayable financial instruments (for example debt, equity).	British Business Bank, UK Infrastructure Bank
Social impact investors	Investment funds that aim to generate specific beneficial social or environmental effects in addition to financial returns. Social impact investors are often funded by philanthropic donors.	Big Society Capital
Grant giving organisations	Organisations that aim to tackle specific economic, social and environmental challenges in a given area or sector by issuing non-repayable grants to individuals and organisations.	Camden Giving

**A mission-oriented Community Wealth Fund for
Camden: Governing finance with public purpose**

October 2022

Written by

The UCL Institute of Innovation and Public Purpose:
Professor Mariana Mazzucato, Laurie Macfarlane, Olga
Mikheeva and Ryan Bellinson.

Published by

UCL Institute for Innovation and Public Purpose
11 Montague Street
London, WC1B 5BP
ucl.ac.uk/iipp

This report can be referenced as follows:

Mazzucato, M., Macfarlane, L., Mikheeva, O., Bellinson,
R. (2022). *A mission-oriented community wealth fund
for Camden*. UCL Institute for Innovation and Public
Purpose, IIPP Policy Report No. 2022/03.

ISBN 978-1-917384-31-5

INNOVATION IS POLITICAL