Social Investment FAQs: Service Delivery Organisations

Social investment is the use of repayable funding to help an organisation have a positive social impact.

There are different ways health and social care (HSC) delivery organisations (both NHS and VCFSE) can use social investment to test and scale health interventions. Social investment emphasises rigorous outcome measurement, flexibility, innovation, and accountability for impact.

The FAQs that follow cover social investment generally and provide specific detail around outcomes-based models which Social Finance recommend as a powerful model to drive HSC transformation.

Table of Contents

Glossary of terms

Expression of Interest: A process in which an organisation invites potential candidates to outline their intention or suitability to apply for an opportunity, for example, to receive social investment.

Integrated Care Boards (ICBs): NHS organisations responsible for the planning and commissioning of health services in a specific geographic area.

Intermediaries: Organisations (like Social Finance) that provide support and expertise in designing, delivering and managing social investments.

Outcome payor: An entity, such as a government agency (e.g. NHS, Local Authority, Central Government), insurance company or philanthropic organisation, that agrees to pay for specified outcomes achieved by a service provider or social program, typically as part of an outcomes-based contract.

Outcomes-based social investment/contract: A contractual arrangement in which payment is only made to an investor if predefined outcomes are achieved. Some social investments are structured in this way, a Social Impact Bond is a form of this.

Repayable outcome: In the context of an outcomes-based contract, these are the outcome(s) which, if achieved, will trigger a financial return to the investor(s) by the outcome payor.

Returns: The money earned from an investment. It can refer to profits or losses depending on the performance of an investment.

Service delivery organisation/service provider: An organisation that delivers interventions to meet the needs of individuals, communities, or other stakeholders. These organisations can include statutory organisations (including NHS), VCFSEs, and private companies.

Social determinants of health: Social determinants of health are the non-medical factors that influence health outcomes. They include aspects such as income, social inclusion, education, job security, housing, etc.

Social investor: An individual or organisation that provides finance for social investment initiatives, seeking to achieve both financial and social impact objectives.

VCFSE: Acronym for "Voluntary, Community, Faith, and Social Enterprise" sector, which encompasses organisations that are non-governmental, non-profit, and focused on addressing social, environmental, or community needs.

Section One: Understanding social investment

1. What are the different types of social investment?

Social investment is a way of providing money to service delivery organisations that aim to achieve a positive social impact while also generating a financial return. As a service provider receiving social investment, you have several options to explore. Note that different organisations will have different regulations about the types of finance they can receive.

Outcomes-based contracts

A unique form of social investment, increasingly used in HSC. An investor or investors fund one or more interventions and are repaid by the statutory sector or another motivated party (also known as the outcomes payor) if the intervention achieves pre-agreed outcomes. For example, an intervention aimed at improving end-of-life care (EOLC) could be funded by outcomes-based funding with repayments tied to the number of participants who have fewer unplanned days in hospital in their last year of life. Social Impact Bonds (SIBs) are a form of outcomes-based contracts. The NHS can take on social investment under this arrangement (see FAQ 9 for more details). for more details).

Loans

Loans are a common form of social investment available to VCFSEs but not the NHS. They provide money to service delivery organisations, which is repaid over time (typically) with interest. These loans can be used to:

- Fund start-ups: For instance, if you are delivering a new health service and need funding to mobilise, a loan can cover costs until the service becomes self-sustaining through revenue generation or government contracts.
- Drive scale: If you are an existing organisation looking to expand its services, such as a charity providing social prescribing, you could use loans to finance the expansion until it generates enough income to cover the costs.

Equity investments

Money is provided to a social enterprise in exchange for a share of ownership. This type of investment is more common in ventures that have the potential to grow significantly. It can be used for:

- **Innovation:** A medical technology start-up creating an app to more accurately assess risk in pregnancy could seek equity investment to scale up operations and improve its technology.

- **Revenue-generation:** For instance, a company making affordable medical devices might use equity investment to increase production capacity and enter new markets.

Revenue share agreements

Investors provide funding in return for a share of revenue. They are suitable for projects that expect steady income streams such as a subscription-based model.

Social investment can be used for salaries, equipment purchase, and operational costs; it is used less often for larger capital costs like purchasing property.

More information

- Good Finance has a summary of the different forms of social investment.
- Better Society Capital explores different financial products on their website.

2. How does social investment work in HSC?

Social investment in HSC is the use of investment to fund new or enhanced interventions to improve health outcomes and deliver financial benefits.

In the case of outcomes-based contracts, returns are only repaid to the investor(s) if pre-agreed outcomes are achieved. Outcomes-based funding models are supporting the HSC system in various health sectors, such as end-of-life care, mental health, and substance misuse. These models involve flexible and localised partnerships between the NHS, socially motivated investors, and local organisations, often VCFSEs. Partnerships allow for tailored interventions that address community-specific needs; ultimately reducing the pressure on the NHS, improving patient care, and fostering preventative health measures.

More information

- Read more about outcomes-based funding in HSC in this blog, which discusses its potential to support the NHS.
- Four questions to assess whether outcomes-based social investing is right for you.
- For more general information explore the Social Finance HSC website.

3. Who are the typical stakeholders in a social investment arrangement?

The simplest form of social investment involves an investor and an organisation delivering social impact. From this starting point there is flexibility depending on the funding model, investment vehicle chosen, size of the project, number of investors, need for intermediaries, involvement of service users, and so on.

An outcomes-based contract needs a minimum of three parties:

- **A social investor**: Who can provide at risk upfront funding with no guarantee they will get it back; often a philanthropic or socially driven organisation.

- **A service delivery organisation**: To implement the intervention, often a statutory service provider or VCFSE.

- **An outcome payor**: Who will pay back the investor if and when the project achieves the desired outcomes; generally, a government entity or commissioner (for example, an NHS Integrated Care Board).

4. What are the general benefits of social investment?

Social investment can provide funding for your organisation or for a specific service development, and brings wider benefits including:

- **Diversifying funding sources**: Having diversity within your funding strategy builds financial resilience in your organisation. Grants and government contracts are often short-term and have uncertainty around continuation. Social investment can offer multi-year arrangements and facilitates consideration of sustainability plans from the start.

- **Sharing risk across the system**: In many social investment models the investor(s) take on the financial risk associated with the investment in exchange for returns, revenue share, or equity, and in some cases simply the delivery of significant social impact.

- **Encouraging flexible service delivery:** Outcomes-based social investment models use real time data collection and analysis to deliver flexibility, innovation and maximise outcomes delivered for communities.

- **Driving measurement & accountability:** Social investment brings with it clarity of purpose and commercial discipline. It places significant importance on a robust cost benefit analysis and measuring and reporting on outcomes. This promotes transparency, accountability and continuous improvement in the service delivery model.

- **Fostering collaboration**: Social investment demands effective collaboration across diverse stakeholders, including communities affected by a social issue. This collaboration can create sustainable impact and deliver valuable learning for all partners.

- **Creating reputational/profile benefits & attracting further funding:** The emphasis that social investment places on data monitoring, commercial discipline and repayment based on achieved outcomes can build the evidence base that your service is effective. This provides evidence for an ongoing business case for further social investment or other sustained funding when the social investment period ends.

- **Building the evidence for sustainability**: Social investment can attract further funding from investors who become interested in opportunities that are delivering both social and financial returns.

- **Building capacity**: Many forms of social investment involve support from the investor or an intermediary organisation to allow you as a service provider to establish the processes, capacity and skills necessary to deliver a social investment model. This can lead to a long-term upskilling of your staff and technical capacity.

5. What are the benefits of social investment within HSC specifically?

In addition to the above points, using social investment for health and social care services offers five main benefits:

- **Value beyond cost savings:** The NHS has a statutory duty to balance its books and can struggle to find funding to invest in new or innovative projects. By providing pump-priming capital, social investment allows the NHS to try new ways of working at lower financial risk. Additional value released by successful projects can often be retained by the system, with cost benefits clearly defined.

- **A focus on preventive care**: Relatedly, the HSC system's primary focus is often acute care and treating existing conditions which stems from a lack of resources and bandwidth for preventive care. By investing in addressing the root causes of poor population health through early intervention and community-based initiatives, social investment allows the HSC sector to invest in and demonstrate the cost effectiveness of preventative care.

- **A focus on health inequalities:** Rigour around data collection and performance management presents an opportunity to better understand and address health inequalities in terms of access, experience and outcomes. See FAQ 10 for details of how we prioritise this at Social Finance.

- **Sustainable funding for VCFSE organisations:** HSC VCFSEs often struggle to sustain grant-funded projects. As outcomes repayments are factored into budgets from the start, social investment provides a solution to the ‘cliff-edge’ by demonstrating value, long-term impact and scalability from the outset.

- **Leveraging more resource by recycling**: A new model of outcomes-based funding is being championed by third sector investors like Macmillan Cancer Support. This model sees the investor providing upfront capital to a portfolio of social impact interventions as a ‘repayable grant’, with no expectation of a financial return above the level of investment made. Outcome payments, paid back to the charity by the system when outcomes are achieved, are recycled across the portfolio of projects and ultimately re-invested back into the NHS.

The Care and Wellbeing Fund and the Macmillan End-of-Life Care Fund have demonstrated that outcome payments can be recycled back into more service delivery to leverage investment: the current Macmillan End-Of-Life Care Fund is leveraging £5 service value for every £1 invested.

6. What are the risks of social investment?

When considering taking on social investment, delivery organisations should be aware of the following risks and take steps to mitigate against them:

- **Dilution of social impact**: Some critics of social investment suggest the focus on financial returns could divert attention from a core mission of creating social impact. Ensuring outcomes measures are meaningful for service users, having a range of key performance indicators for qualitative as well as quantitative measures, and creating governance and reporting that focuses on both social and financial impact can mitigate this.

- **Impact measurement and reporting:** Demonstrating and verifying social impact can be complex and resource intensive. Creating an impact monitoring framework that is fit for purpose, proportionate to the services you are funding, applies learning from previous examples and has some capability to flex based on learning can mitigate this.

- **Skills and capacity:** Your organisation may need to bring in additional capacity to effectively mobilise social investment due to the additional administration, financial management, governance, data monitoring and performance management it requires. This might require investment in training or support from investors or intermediaries. Either way, it will require planning and should be budgeted into the partnership structure.

- **Organisational buy-in:** To receive social investment you will need to convince your colleagues, Trustees and wider stakeholders of the opportunity it presents. Building trust around the potential benefits and how you will collectively mitigate the risks can take time and requires a set of motivated individuals to push through.

7. How does social investment differ from other forms of funding?

Delivering a service funded by social investment can require a shift in approach for service delivery organisations, emphasising accountability, performance, and a focus on achieving measurable results. Some key features include:

- **Focus on outcomes over activity:** Service delivery organisations need to prioritise achieving measurable outcomes over delivering pre-determined activities. This brings beneficial flexibility, but needs to be supported by strong performance management, data monitoring skills, resource and clarity around objectives and outcomes.

- **Skills & capacity:** To meet the level of rigour necessary for social investment, providers will need to build skills and capacity in areas such as financial management, data monitoring, analysis and reporting, and performance management.

- **Reporting & evaluation:** Reporting and evaluation requirements of social investment can be more focused and technical that those required by grant funders or traditional commissioners and may require additional resource to support. This may need to be factored into the business case.

- **Resource intensity:** Relatedly, social investment requires heightened attention to partnership working, governance, performance management and monitoring of the intervention by the service delivery organisation (with the support of the investor and/or intermediary).

- **Sustainability:** Social investment prioritises sustainability from the outset. You should work with partners to identify possible sources of sustained funding when the social investment ends. Ensure that the outcomes you are aiming for, and evidence base you are building, aligns with their interests.

- **Investor returns:** As an organisation (and depending on your investment model), you will need to establish that you are comfortable with an investor receiving a return.

8. What is the appetite for social investment within the NHS?

The appetite for social investment in the NHS is growing, driven by a recognition of its potential to improve health outcomes while increasing system efficiencies.

This was highlighted by NHS Confederation chief Matthew Taylor in his recent Royal Society of Medicine's Stevens lecture:

"We need to explore other avenues. At the Confed, we are working with partners to explore the scope for models of social investment in which upfront money generates a return through reducing demand. Ultimately, every ICS should aim to have a portfolio of social investment projects."

This model focuses on using upfront funds to reduce future demand on healthcare services, creating a sustainable financial ecosystem.

Social investment in the HSC sector is not new and has shown promising results in specific areas such as EOLC. The Care and Wellbeing Fund, launched in 2015, has supported over 14,000 people in their final year of life, enhancing the quality of their care. 11 of the 13 services have been sustained in some form. In 2021, Macmillan Cancer Support introduced a new EOLC Fund, further embedding social investment as a viable funding mechanism in NHS England's commissioning and funding guidance for EOLC. This fund has supported 5,600 people as of May 2024 with all services ongoing.

The effectiveness and affordability of outcomes-based social investment approaches are becoming increasingly evident. For instance, the HIV Social Impact Bond, supported by the Elton John AIDS Foundation, funnelled investment into local charities to improve health outcomes, with the NHS acting as a facilitator rather than a primary funder or provider. This model has shown that leveraging community resources and expertise can lead to more effective healthcare delivery than traditional NHS-led models.

Moreover, there are ongoing efforts to explore and expand social investment across various areas of HSC. For example see this article on improving maternity outcomes by Social Finance's Sabrina Rafael in Healthcare Leader. This demonstrates the broad applicability of this approach to diverse healthcare challenges. The development of social investment models is being actively pursued with several Integrated Care Boards (ICBs), aiming to replicate successes seen in other domains. As of May 2024, Social Finance have discussed social investment with over half of all Integrated Care Boards, all Welsh Health Boards, all Northern Irish Health & Social Care Boards and four Scottish Health Boards.

9. Can the NHS receive social investment?

The simple answer is "yes", but with the caveat that it is the form/structure which the social investment takes that will ultimately determine whether the NHS can or cannot accept it.

At Social Finance we have delivered social investment to support NHS services through outcomes-based contracts. In these outcomes-based models, the NHS can act as the service provider and/or the outcomes payor. Provided that the outcomes are unknown/uncertain at the outset, and that it is the outcomes which dictate whether the investment is repaid, the outcomes-based model is not a loan and is an accepted instrument in the NHS.

Respecting HMG Treasury rules regarding the use of external revenue financing sources, the simplest way to assess the acceptability of the social investment is to assess the contractual certainty of any possible repayment. If the social investment takes the form of a loan (however it may be described contractually), a key condition of which is that the investment will be repaid under any conditions, then it cannot be received by the NHS.

10. Can social investment help reduce health inequalities?

Social Finance is driving a focus around tackling inequalities in access, experience and outcomes for different groups through our social investments. We build a focus of health inequalities and race equity from the start of development conversations and as part of our ongoing performance management.

We conduct equity impact assessments with partners to think through service design and implementation, building in action plans to increase equity. These plans look at protected characteristics as well as other factors such as socioeconomic status, urban/rural, digital connectivity etc. The assessment and action plan are dynamic documents and reviewed and updated regularly.

During performance management, where there is access to person-level data, projects can track differences in access, experience and outcomes for different groups. For example, we could look at whether people of a certain age, home location, diagnosis have longer waiting times or see if people from certain ethnicities get better or worse outcomes. We work closely with the delivery teams to unpick the root causes to inequities observed in the data and problem solve ways to address these based on wider research and evidence of what works. This forms the basis of action plans to focus work where it's needed.

Section Two: Practical considerations around using social investment

1. How can a service delivery organisation pay back social investment?

Paying back or ‘generating returns’ for a social investor involves a strategic approach that balances social impact with financial performance. For service delivery organisations, both NHS or VCFSE, generating returns over and above costs can be difficult.

You must build the case for this upfront, working with the social investor to create a robust financial model or business case that outlines the expected costs, revenues, outcomes and impact. Clearly defining these elements helps in setting realistic expectations for both the service provider and the investor. Different types of investors will require different levels of returns. Some methods of generating returns include:

- **Cost savings & efficiency improvements**: Service delivery organisations can generate returns by implementing programs that lead to cost savings or efficiency improvements. For example, an intervention that reduces the need for unplanned hospital care can translate into significant cost savings for the healthcare system, which can then be shared with the investor.

- **Outcomes-based funding**: In the NHS, ‘cash releasing savings’ or efficiency savings are often absorbed into the bottom line. In this context, a service delivery organisation may be better placed receiving social investment through an outcomes-based model, whereby the 'return' is delivered by an outcomes payor who pre-agrees a value attributed to achieving specific outcomes. This value can then be repaid to the investor as a return and in some models can then be reinvested into more service delivery. This builds the case for sustainability by demonstrating impact through the clear link between the outcomes for the person receiving care and the benefit to the health care system.

- **Blended finance models & leveraging additional funding**: Leveraging funding sources can enhance the ability to generate returns. Securing grants, private or public funding can complement social investment and enhance overall financial performance; as well as possibly providing sources of money that can be used to provide returns for investors.

- **Revenue generating activities**: Some service delivery organisations or social enterprises deliver revenue-generating activities that can provide returns to investors. This could include selling products or services that align with the social mission, such as affordable medical devices or health services.

2. What are the main factors to consider around governance of social investment contracts?

Social investment, especially in outcomes-based models, typically demands active involvement in governance from the service provider in terms of reporting, partnership working and collective decision-making. Key considerations include:

- **Transparency**: Maintain transparency with all partners, including investors, by agreeing and delivering regular, detailed reports on performance, and social and financial impact.
- **Risk management**: Service level risk management strategies should be developed and regularly shared with partners and reviewed as part of robust governance.
- **Shared learning:** Effective governance encourages continuous learning and knowledge sharing among all stakeholders involved in the investment (and more widely).
- **Collective decision-making**: Governance structures should facilitate collective decision-making processes where all social investment partners have a voice; ensuring decisions are informed by diverse perspectives.
- **Collective problem-solving**: Governance should support collective problem-solving efforts; partners should collaborate to develop innovative solutions and address issues promptly. Governance should incorporate the perspectives and voices of service users or beneficiaries to ensure investments are responsive to the needs and preferences of the communities they serve.
- **Rapid course correction**: Agile governance can enable a partnership to reflect on challenges or poor outcomes and identify opportunities to redress these, including any necessary shifts in the operational model.
- **Fit for purpose**: Governance frameworks should be tailored to the specific context and objectives of each social investment contract and effectively support the achievement of desired outcomes.

3. What are some key aspects of accounting for outcomes-based funding?

Where social investment is provided in the form of an outcomes-based contract, the terms of that contract will link any potential repayment to outcomes, which will be unknown or uncertain at the outset.

Is outcomes-based funding (or SIB) a loan?

Provided that the outcomes are indeed unknown/uncertain at the outset, and that it is the outcomes which dictate whether the investment is repaid, then no, the outcomes-based contract (or SIB) is not a loan.

If it is not a loan, then what is an outcomes-based contract (or SIB)?

An outcomes-based contract (or SIB) is a financial instrument which is comprised of two parts:

- **Investment**: A commitment from the investor to provide investment to the recipient. Subject to there being an early termination or modification of the outcomes-based contract, this investment is certain.

- **Potential Repayments**: A commitment from the recipient or outcomes payor to pay to the investor outcomes-based payments, which will be payable only if outcomes as specified in the contract are achieved. Given the unpredictability and uncertainty of outcomes, such payments may be less than the initial investment.

How do we account for an outcomes-based contract?

Outcomes-based contract accounting should reflect that they are financial instruments with two separate parts, and generally be as follows.

- **Investment**: The investment is certain and should be recognised as income in the accounts of the recipient or outcomes payor, with the timing of revenue recognition following normal accrual accounting rules and methodologies.

- **Potential repayments**: Any repayments should be recognised as cost/expenditure in the accounts of the recipient or outcomes payor. Although accrual accounting rules should again be followed, the precise values and timing of recognition will need to take account of the rules which relate to financial estimates where the value and timing of the potential liability may be uncertain (i.e. UK FRS102/IAS 37, 'Contingent assets and liabilities').

The extent to which any potential liability may or may not be material in the accounts of the recipient or outcomes payor may provide some flexibility with regards to when and to what extent the potential liability can be recognised.

4. What are the key considerations around performance managing a social investment funded project?

Performance management in social investment entails an ongoing process of analysis, interpretation and collaboration between investor and investee. This process is crucial for achieving outcomes and strategic objectives.

Project management and business intelligence for performance management needs to be sufficiently resourced across partners. This should be planned from the outset as part of the business case and may need to be grant funded for the duration of the project, including a ramp-up and down period.

Your social investor may be very hands on in terms of performance management or they may employ an intermediary depending on their own resource, skills, and capacity. Social investment intermediaries can add value through sector and social investment expertise, specialist skillsets such as finance and data, their networks, and providing some third-party independence. They can bring value at different stages of the social investment journey, from identifying viable opportunities to managing the setup, mobilisation, performance and close of projects.

No matter which of the combination of partners (service provider, investor or by an intermediary like Social Finance) holds performance management responsibilities, its value cannot be overstated. Some key features of effective performance management include:

- **Adequate skills & resource**: Performance management requires skilled personnel and sufficient resources to oversee and support the investment; from initial planning through implementation and finally to closure.

- **Clear objectives & outcomes**: Clear articulation of objectives and outcomes enables effective performance management and ensures alignment between the investor and the investee.

- **Clear monitoring & evaluation systems:** Establishing robust monitoring and evaluation systems underpinned by a culture of shared learning and continuous development can identify areas for improvement and demonstrate impact.

- **Service user engagement:** Meaningful engagement with service users is key to performance management. Their insights can ensure that interventions respond to the needs and preferences of communities they serve.

- **Partnership working**: Transparency, capacity building, equity, and ethics should underpin investment partnerships, fostering trust and mutual accountability to deliver effective performance management. Learn more by reading our Power and Partnering Guide.

5. How do you measure the success of social investment?

As a service delivery organisation, evaluation (including formal independent evaluation if appropriate) can demonstrate impact, inform decision-making, enhance accountability, drive improvement, and can play a key role in securing sustained funding for your service. Be clear on your role as the service delivery organisation from the outset. Ensure you understand and negotiate the reporting and evaluation requirements of any social investment that you receive so you can ensure your organisation is able to plan accordingly and expectations are reasonable and proportionate.

The success of a social investment will be judged primarily on its performance against the agreed outcomes and its financial return. However a wider view should be taken around the impact on:

- other key performance indicators.
- addressing health inequities for minoritised groups
- value for money or value creation
- service sustainability and legacy
- community and system impacts, for instance better collaboration or a shift in policy. See our Evaluating Systems Change report for further information.
- Other benefits attributed to how the service was delivered, to the extent this can be tested.

Considerations for *how* to measure success well:

- **Pre-defined outcomes and objectives**: Success should be measured against clear, pre-defined outcomes and objectives, agreed by all partners during the planning phase.

- **Learning & reflection:** Foster a culture of learning and reflection within the project team to continuously monitor progress and adapt strategies as needed.

- **Transparency**: Ensure transparency in reporting and communication regarding project performance and outcomes. Transparency builds trust among stakeholders and enables effective joint problem solving.

- **Sharing learning & success**: Share learnings and successes with stakeholders to amplify impact and contribute to sector-wide improvement.

- **Mixed methods approach**: Identify what will be measured and evaluated by the project versus what areas may require an external evaluator to bring in particular expertise or independent validation. Similarly ensure you are capturing a mix of quantitative and qualitative data and giving thought to areas that need to be assessed at multiple points or just a snapshot in time.

Section Three: Taking the next steps

1. Where can I find out more?

There are several social investment resources freely available, consider the following:

- **Social Finance**: Our website has more information across a broad variety of topics.
- **Good Finance**: Provides a wealth of accessible information about social investment in all its forms including directories of key stakeholders in the sector.
- **Better Society Capital**: Offers insight and resources around social investment including research, case studies and guides

2. Where can I find social investment for my organisation?

Advisors and intermediaries such as Social Finance, Better Society Capital, and the Pathway Fund can help identify opportunities that align with goals. The Pathway Fund specialises in Black and Minority-led investment opportunities.

Good Finance holds a directory of social investors who will have specific processes for applying.

Get in touch

We welcome suggestions for additional FAQs or additional insights to add to our current answers. Please get in touch with Alice Birch at alice.birch@socialfinance.org.uk.