Social Investment FAQs:

For Social Investors

Social investing is a holistic approach to investing that aligns improvements in financial and social/health outcomes, aiming to create positive change with the potential of repaying investors or generating financial returns.

There are different ways to invest in social impact in health and social care (HSC); all aim to provide upfront capital 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.

SOCIAL FINANCE

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Glossary of Terms

Concessionary terms: Terms for an investment or loan that are more favourable than standard terms. These can include reduced interest rates, extended repayment periods, or more lenient repayment plans.

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 financing/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 and 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, trigger a financial return to the investor(s) by the outcomes 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/provider: An organisation that delivers specific interventions to meet the needs of individuals, communities, or other stakeholders.

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 investing money into interventions that aim to achieve a positive social impact, while also generating a financial return. As a potential social investor, you have several options to explore:

Outcomes-based contracts

A unique form of social investment, increasingly used in HSC. An investor(s) funds intervention(s) and is repaid by the statutory sector or another motivated party (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.

Loans

A common form of social investment. They provide money to service delivery organisations, (often VCFSEs) which is repaid over time (typically) with interest. These loans can be used to:

- **Fund start-ups:** For instance, if a health service needs funding to mobilise, a loan can cover costs until the service becomes self-sustaining through revenue generation or government contracts.

- **Drive scale:** An existing organisation looking to expand its services, such as a charity providing social prescribing, can 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; less often it can be used 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. The 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 general information explore on 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 providers 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, and NHS Integrated Care Board).

4. What are the general benefits of social investment?

Providing social investment can result in the following benefits for investors and funders:

- **Aligning values:** Social investment allows investors to align their social and financial goals.

- **Delivering potential financial returns:** Compared to grant making, the investor has a chance of being repaid their investment (potentially with a positive financial return) meaning it can be recycled for further impact.

- **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 involved.

- **Driving measurement & accountability:** Social investment brings with it clarity of purpose and commercial discipline. It places significant importance on measuring and reporting of social outcomes, promoting transparency, accountability, and continuous improvement in the model.

- **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.

- **Creating reputational/profile benefits:** Social investment sets investors apart from those solely focused on financial returns; charities acting as social investors can focus on clear outcomes and sustainability. This differentiation can attract like-minded individuals or organisations and create opportunities for collaboration or partnership.

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

- **Diversifying a financial portfolio:** Including social investments in a diversified investment portfolio can offer risk and resilience-related benefits.

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

In addition to the above points, investing specifically within the HSC sector 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 8 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 grant 'cliff-edge' by demonstrating value, long-term impact and scalability from the outset.

- **Leveraging more resources 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?

Social investment, in common with all investment or funding arrangements, carries with it financial, reputational, market and operational risks to the investor, including the risk of not getting the money invested back.

Here are some risks to consider, that are more specific to social investment:

- **Lack of appropriate investment opportunities:** As an investor you may face difficulty in establishing a pipeline of mission-aligned projects that are ready to receive social investment and are of sufficient scale to attribute impact. You may need to invest time in identifying candidates and working with potential investees to develop proposals.

- **Resource-intensity:** Social investment requires heightened attention to partnership working, governance, performance management and monitoring of the service itself by the investor (or intermediary). This can be a great learning experience but will require skills and resources.

- **Administration costs:** Social investment contracts require particular attention around setup and contracting that may sit outside organisations core experience and therefore require additional specialist input (e.g. legal and accounting). This means that projects need to be of a sufficient size and scale to justify the upfront and ongoing expenditure.

- **Organisational buy-in:** If this is a new way of working, 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. What is the appetite for social investment within the NHS?

There is well-established momentum around social investment in 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."

Social investment in 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 ICBs, all Welsh Health Boards, all Northern Irish Health & Social Care Boards and four Scottish Health Boards.

8. 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.

9. 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 on 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. What returns can you expect from social investment?

There is a range of social investment involving different priorities between financial returns and social impact. Bookended by normal commercial investment at one end and philanthropy at the other, the spectrum of financial returns for social investors can be broadly summarised as:

- **Returns comparable to commercial investment or high-street bank loans:** In sectors with strong market potential and ventures with strong revenue-generating models, such as health tech, social investments can yield competitive financial returns like those of commercial investments.

- **Impact-first financing:** Some investors prioritise social or environmental impact over maximising financial returns. These investors accept lower returns (low-medium single digits) or concessionary terms (such as extended repayment periods) in exchange for significant social impact. For some charity investors, they will be aiming to recoup up to their original investment but no more, offering a particularly sympathetic form of investment.

- **Blended finance:** This model leverages different types of capital; combining public, private, and philanthropic funds to create a structured investment with varying levels of risk and return, often involving different tranches of investment. This structure can help de-risk the investment overall and attract a wider range of investors.

The potential returns from social investment are influenced by various factors:

- **Type of finance:** The nature of the investment (outcomes-based, loan, equity, revenue share etc).

- **Terms of investment:** The specific terms attached to the investment, such as interest rates, repayment periods, capital layers and guarantees, will shape the return profile. These terms are often negotiated based on the investor's financial capabilities, risk appetite and financial strategy.

- **Market conditions:** Broader market and economic conditions (market stability, inflation rates, and economic growth) can affect the performance of social investments, as with traditional investments. For instance, factoring in pay inflation into multi-year budgets.

Investors should tailor their strategy to align with their own financial goals, risk tolerance and the impact they are seeking. This involves understanding and negotiating terms that are agreeable to you, while also considering what are reasonable and compelling terms for partners / investees.

2. How do you determine the appropriate investment model and vehicle?

Developing funding models to suit the needs of several partners can be intricate, requiring a period of negotiation to align priorities and individual requirements. Depending on your in-house capabilities, you may need to seek specialist advice from a social investment intermediary and/or legal counsel.

Some key questions to consider:

- What type of finance can you provide (i.e., debt, equity) and over what time frame?
- What is the organisation receiving investment going to do with the money and over what time period?
- Are there any specific limitations or criteria around your investment?
- What are the funding flows between you and other partners (i.e. outcomes payor, intermediaries)?
- What are the terms of repayment?

Answers to these questions will inform the creation of a ‘cash flow model’ showing the financial flows over time from the perspective of each partner.

To determine the vehicle through which the social investment will be delivered (e.g., limited company, charity, social enterprise, community interest company), the cash flow model should be considered alongside:

- financial regulation and compliance considerations

- the resource-intensity of different vehicle in terms of set up and operation
- the scalability and flexibility of the chosen approach
- the market norms and best practice
- an approach which can accommodate other sources of funding when your investment ends

Practically, you need to get in place the key processes, licenses, and documentation to establish the delivery vehicle, including the constitutional documents of the vehicle.

3. 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 investor to ensure:

- **Accountability for outcomes:** The investment partnership must hold itself accountable for achieving the intended social outcomes of the investment. This involves setting clear objectives, monitoring progress, and taking responsibility if impact measures are not met.
- **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.

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

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.

It can be valuable to use a social investment intermediary to support with performance managing your social investment. 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 and resources**: 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 and outcomes**: Clear articulation of objectives and outcomes enables effective performance management and ensures alignment between you as the investor and the investee.
- **Clear monitoring and 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 social investor, investing in rigorous evaluation processes, (including formal independent evaluation if appropriate) is essential. It demonstrates impact, informs decision-making, enhances accountability, drives continuous improvement, and can play a key role in securing sustained funding for interventions when your investment ends. Evaluation activities should be planned at the outset and be budgeted for; both in terms of internal resource needs and any additional costs.

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 expertise or independent validation. Similarly, you should 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

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1. Where can I find out more?

There are a number of social investment resources freely available, consider the following:

- **Social Finance**: Our website has more information across a broad variety of topics and there is specific information about investing in HSC on our HSC Social Investor Hub.
- **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 investment opportunities?

Social Investors have a number of routes to finding investment opportunities.

Organisations like Good Finance and the Charities Aid Foundation (CAF) provide resources and networks to connect investors with suitable projects.

Advisors and intermediaries such as Social Finance, Better Society Capital, and the Pathway Fund can help identify and vet opportunities that align with an investor's interests and goals. Social Finance specialises in End of Life Care and further funds are in development around community health transformation, maternity and dementia. The Pathway Fund specialises in Black and Minority-led investment opportunities. Leveraging the expertise of intermediaries ensures comprehensive support throughout the investment journey, from opportunity identification to project management; resulting in sustainable and impactful social investments.

Social investors can also contact organisations directly to offer social investment. This would be particularly appropriate if you already had good understanding of an issue area and a relationship with a specific organisation in that field. You could also conduct your own Expression of Interest (EOI) process to put out a call for applicants. You should consider the skills, resources, and ethical considerations required for either approach.

For further guidance refer to resources available on our HSC Social Investor Hub.

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.