# SOCIAL INVESTMENT INSIGHTS SERIES

December 2014

## Health and Social Care and Social Investment

*The health and social care system in the UK is under severe strain. This Social Investment Insights paper focuses on how social investment can be used to support the health and social care sector. It includes a description of social need, summarises relevant market developments, outlines current challenges in the sector and suggests potential opportunities for social investment and Big Society Capital. Health and social care is a very large area to cover and we will subsequently be publishing deep dives into some of the sub sectors (for example social investment to enable improvements in elderly care).*

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The Social Investment Insights Series are occasional papers drafted by members of Big Society Capital's team on areas of interest to the social investment market.

Big Society Capital is an independent financial institution with a social mission, set up to help grow the social investment market in the UK, so that charities and social enterprises who want to borrow money, or take on investment, can access the finance they need to do more. Since we were set up in 2012, we have committed more than £165 million in investments to specialist organisations who lend to charities and social enterprises, and are showing that social investment can work. Over five years we will be capitalised with approximately £600 million - £400 million of public funds from English dormant bank accounts, and £200 million from the four main UK high street banks.

# EXECUTIVE SUMMARY

The health and social care system in the UK is under severe strain with increasing demand created by an ageing population and more people living with long term conditions. Although over £130 billion[1] is spent on health and social care, the current system of provision often delivers poor outcomes and offers inconsistent quality across the country.

Charities and social enterprises have a key role to play in addressing this issue and in light of this we have looked at a number of areas where social investment might act as a catalyst for greater impact and system change.

Big Society Capital currently has a number of investments in its portfolio seeking to improve outcomes in health and social care. These include funds providing working capital to delivery bodies as well as investment into new models of care that shift acute spending into preventative interventions.

As part of our current strategy we are seeking investments that have the potential to develop innovative ways of addressing social issues as well as those that have the potential to scale-up and attract large amounts of capital. We seek to make investments which deliver improved social outcomes for vulnerable or disadvantaged people, groups or communities, and will prioritise investments that deliver positive change for people in greatest need.

This paper sets out Big Society Capital's thinking in more detail and invites those with ideas and opportunities to approach us for further discussion. Big Society Capital is a social investment wholesaler, which means we can only invest via social investment finance intermediaries ("intermediaries"). However, we would also be interested in hearing from charities, social enterprises, housing associations and property specialists with a social mission who have ideas of ways that Big Society Capital should be looking to use investment in this sector.

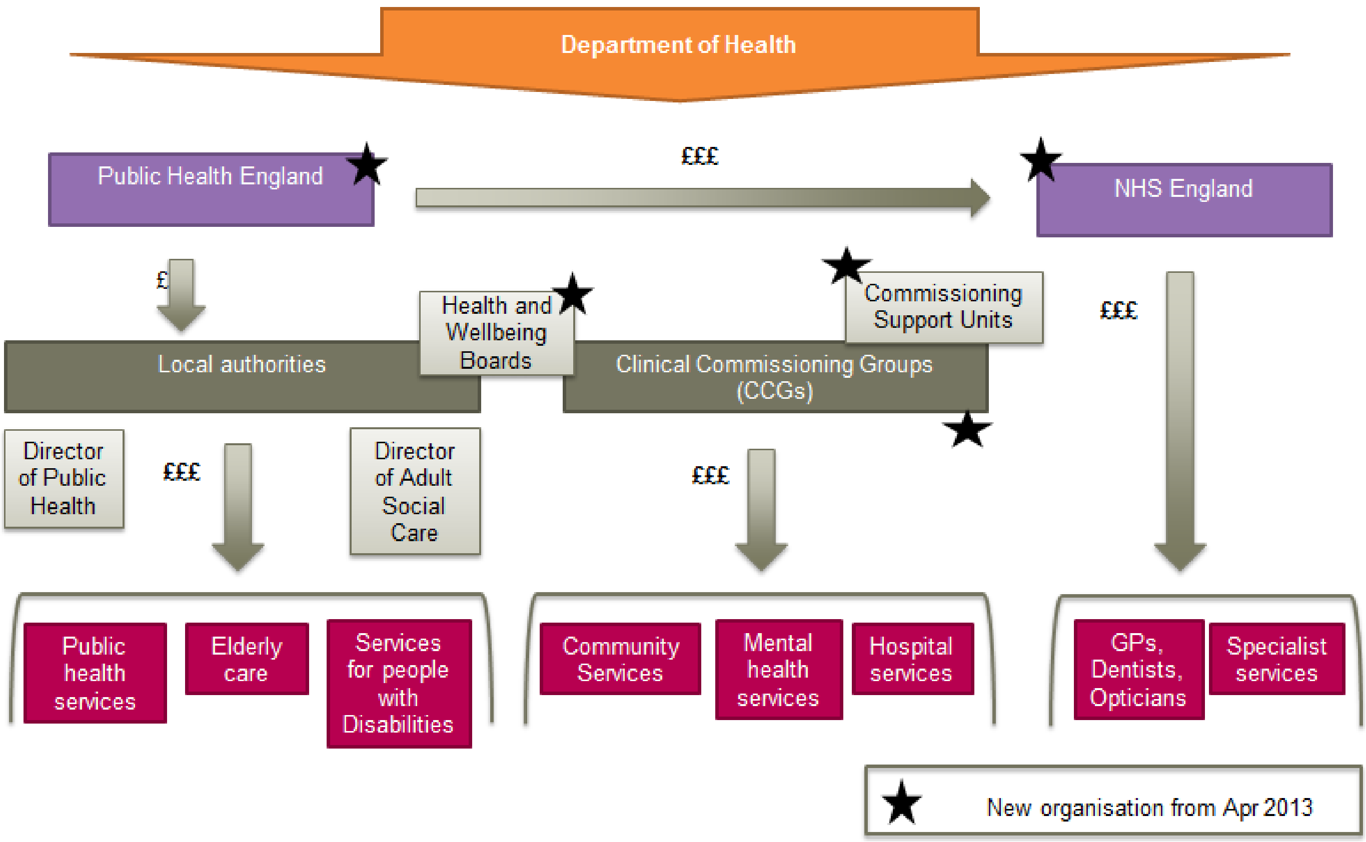
[1] http://www.reform.co.uk/wp-content/uploads/2014/10/Solving_the_NHS_care_and_cash_crisis.pdf

# POLICY CONTEXT

The health and social care policy context is rapidly changing. The Health and Social Care Act 2012 provided one of the most extensive reorganisations of the health and social care system to-date. Primary Care Trusts (PCTs) and Strategic Health Authorities (SHAs) were abolished and replaced by 211 Clinical Commissioning Groups (CCGs) run by GPs. A number of new statutory agencies were established centrally to oversee the delivery of health and social care such as NHS England and Public Health England.

The bill strengthened the powers of the Care Quality Commission and introduced Monitor to oversee all aspects of access and competition in the NHS.

**The diagram below provides a short summary of the new structures within the system**




Government also introduced new bodies and new funding routes to enable integrated care for the increasing number of people who have health problems requiring both health and social care. These have included the establishment of a £3.8 billion fund, the Better Care Fund, to drive transformation in integrated health and social care, and Health and Wellbeing Boards bringing key leaders from the two systems to deliver on that transformation. As well as the integration of health and social care systems, housing providers will become more involved in delivery of care services. The Housing and Care Act 2014 explicitly listed registered providers of social housing as one of the partners a local authority must co-operate with when considering and planning a person's need for care and support.

In addition to the structural reorganisation the austerity policies of the current Coalition Government will continue to push for further changes in how services are commissioned and delivered. Although the NHS is the only major government department not to have experienced a significant real reduction in funding, the demand pressures mean there are significant efficiency savings that need to be made.

# SOCIAL NEED

Big Society Capital believes improvements in physical and mental health outcomes are important both in their own right, and as an enabler of other outcomes, such as employment and wellbeing.

## Inequality

Despite overall life expectancy improving, health inequalities are increasing. For example the average disability-free life expectancy varies by 17 years between different areas of socioeconomic deprivation[2]. One of the most significant pieces of analysis on the state of health inequalities in the UK was completed by Sir Michael Marmot in 2010 and highlighted that addressing health inequalities was a matter of social justice and called for immediate action to tackle the social gradient that exists in outcomes.

## Long term conditions

Long Term Conditions (LTCs) such as high blood pressure, depression, dementia and arthritis are set to increase: There will be more than 50% more people with three or more LTCs in England by 2018 compared to 2008[3]. Nevertheless patients with LTCs are largely failed by the current system because the silos within the system and the disproportional focus on acute services doesn't facilitate a holistic approach to treatment. LTCs are not only a health problem but often affect many other areas of people's lives including family relationships, their ability to work, accommodation, educational needs and their finances.

## Ageing

It is expected there will be 51% more people aged 65 and over in England in 2030 compared to 2010, with dementia prevalence set to triple by 2050[4]. Older people will experience greater physical needs than other parts of the population but are also more vulnerable to social isolation and loneliness owing to loss of friends and family, mobility or income. Social isolation and loneliness have a detrimental effect on health and wellbeing such as the impact they have on blood pressure and depression.[5]

## Mental health

Mental health is the largest cause of disability in the UK - almost one in four British adults and one in ten children experience a diagnosable mental health problem at any given time[6]. However the increasing prevalence of mental health problems is not accompanied by increases in mental health provision, both in a hospital setting and in the community.

## Current issues

The current provision of services to improve health outcomes is often not suitable for the needs outlined. Inconsistency in service and poor quality of care remain a key concern for patients. For example in the lowest performing GP practices, only 25% of patients report being able to see their doctor and in many geographies (85%) local authority care is only available to those with substantial or critical needs. Given the push for savings, budgets for acute services are prioritised and rarely re-allocated to preventative services, which could lead to substantial future savings for the taxpayer.

[2] ttp://www.rcn.org.uk/__data/assets/pdf_file/0007/438838/01.12_Health_inequalities_and_the_social_determinants_of_health.pdf
[3] http://www.kingsfund.org.uk/time-to-think-differently/trends/disease-and-disability/long-term-conditions-multi-morbidity
[4] http://www.parliament.uk/business/committees/committees-a-z/lords-select/public-services-committee/report-ready-for-ageing/demographic-situation/
[5] http://www.scie.org.uk/publications/ataglance/ataglance60.asp
[6] Mental Health Foundation 2014

# CURRENT MARKET

There is a long tradition of charitable, not-for-profit and social sector organisation involvement in the provision of health and social care services. 8% of social enterprises operate in health and social care[7], providing billions of pounds of services annually. Through their involvement in service delivery, they are playing a valuable role in outcomes across the health and social care sector.

Services delivered by the social sector have a greater focus on prevention, collaboration with service users and innovation in service design. Additionally, many of the social sector organisations are grounded in their local communities with expert knowledge of local needs, as well as a focus on volunteer engagement.

There are many different organisations involved in providing health and social care services including: large charities such as Age UK, MacMillan and Marie Curie; spin-outs from Local Authorities and NHS such as Navigo, Plymouth Community Healthcare CIC and City Health Care Partnership CIC; and small local charities and social enterprises.

[7] http://www.socialenterprise.org.uk/uploads/files/2013/07/the_peoples_business.pdf

# CURRENT BUSINESS MODELS

NHS and social care services are delivered by a mixture of in-house provision, private sector companies and social sector organisations. Over the last decade, the emphasis on dividing the commissioner and provider has meant there are increasing opportunities for social sector organisations to play a role in public service delivery, particularly in the areas of:

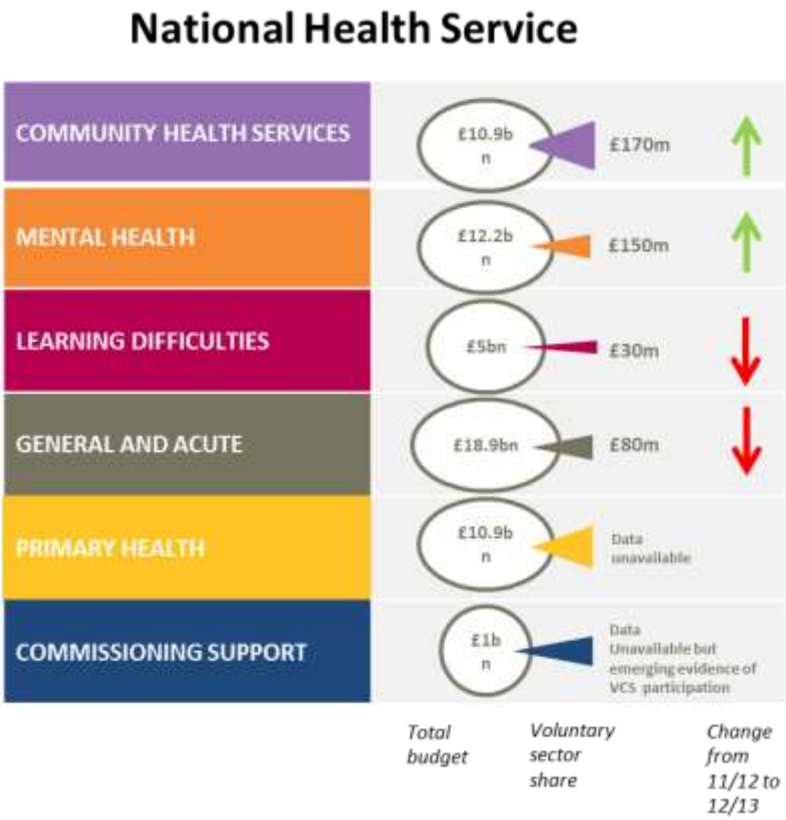
- Community health
- Social care provision, including day care and residential care
- Mental health

The public sector budgets for these services are held by a combination of individuals (through personal budgets which are allocated to care users based on need), Local Authorities, Clinical Commissioning Groups (CCGs) and NHS England. Commonly a number of social sector organisations will employ cross subsidy models, providing services to individuals using private funds to support the delivery of services for people from disadvantaged backgrounds free at the point of use.

Although a number of budgets are being cut as part of the spending review, we are seeing some positive increases in the Voluntary and Community Sector (VCS) share of these budgets. For example, the share of money going to voluntary providers of community health services has increased from 8% of the total national budget in 2010-11 to 13% in 2012-13.

**Change in the VCS share of NHS and Local Authority budgets**

Trends in the system, such as personalisation, more local commissioning (including the creation of CCGs and devolution of public health), the integration agenda, open public services and the Social Value Act, are likely to create further opportunities for social sector organisations. Additionally, the Social Enterprise Investment Fund established by the Department of Health to provide capital to help social enterprises spin out from the NHS has helped support the growth of the social sector. Nevertheless, the commissioning landscape and the markets for services remain nascent. Therefore these changes will require social sector organisations to invest in new ways of engaging with both personal budget holders and new commissioning bodies.




[8] Data extracted from Nuffield Trust 2014 report " Into the Red, the state of NHS Finances"
[9] http://www.nuffieldtrust.org.uk/sites/files/nuffield/publication/131113_role_of_the_voluntary_sector_0.pdf

# CHALLENGES FOR SOCIAL INVESTMENT

Health and social care budgets are facing significant strains due to the Spending Review and the continuing rise in demand. This has already negatively impacted the VCS in a number of ways with substantial reductions in sector activities. VCS organisations are increasingly finding themselves cross-subsidising the commissioner price for a service with the use of other funds or volunteers to deliver those services.

Competition for services is increasing with a range of private and social sector providers bidding for contracts. The opening up of NHS and social care markets has led to a number of new entrants from other countries and other sectors. The social sector is competing with public provision such as the acute trusts and GP services. In some areas, commissioners are able to address this competition and encourage collaboration between the acute and the community service sector through contracts for vertically integrated service provision, but it has not yet become a widespread approach.

Increases in competition are accompanied by increases in contract size as the public sector reduces capacity for managing a large number of smaller contracts. The size of an organisation's balance sheet and a requirement of a high value guarantee remains a key barrier to entry for the social sector. As a result the bidding process is geared against smaller, more local providers of care services. Although new partnerships with private sector organisations and consortia with other social sector organisations are emerging, there are substantial cultural and organisational barriers to a different way of working.

A continuing challenge for organisations operating in this sector is the splintering of funding steams between CCGs, NHS England and Local Authorities. Additionally, there is still a lack of appetite to decommission acute services until there is sufficient evidence that an upstream service will lead to cashable savings. Therefore health commissioners rarely have the appetite to purchase preventative interventions, due to the “double running” it requires for a period of time.

Lastly the lack of data and poor IT within the health and social care system makes patient care and impact measurement difficult. Commonly social sector organisations will need to invest in their own IT systems to enable them to develop appropriate processes for monitoring and evaluating service quality.

# OPPORTUNITIES FOR SOCIAL INVESTMENT

Social investment is the provision of capital to social sector organisations with the expectation of social and financial return. Social investment can play a role where other sources of capital might not be available due to the perceived risk of organisations. Additionally, the alignment of investor and investee motivations, as well as the rigour associated with taking on investment, is often crucial to the success of the interventions taking on capital.

Within health and social care we have focused on a number of ways in which social investment is able to drive innovation and system improvements.

## Prevention

The current hospital-based models of care are becoming increasingly misaligned with the health needs of the population and the need for on-going support of those individuals. There is increasing evidence that a large number of hospital stays and other acute services are preventable. Across a range of health conditions Social Impact Bonds (SIBs) are beginning to be used as a tool for commissioners to reallocate scarce resources upstream away from hospital services. We believe SIBs can have a significant role in health and care, promoting integrated care and reallocating spend towards preventative services. Further use of SIBs or other types of outcome based contracts will increase the need for working capital to deliver those contracts.

Complex issues that are well suited for a SIB include integrated care for long term conditions, dementia, ageing well and drugs treatment. In particular, public service areas where acute services are commissioned on a spot purchase basis would enable a smoother transition to an outcome based model as it would not require mass reorganisation of the commissioning approach. The case study below outlines the way in which a SIB structure might be used to improve the management of long-term conditions.

### Case Study: Ways to Wellness SIB

The Ways to Wellness SIB aims to improve the quality of life of people with long-term conditions by giving them access to social prescribing. Social prescribing can help patients manage their daily lives better, feel less isolated and look forward to a healthier life as well as create significant savings to the CCG. The service is commissioned by Newcastle West CCG which will make payments to investors subject to three outcomes being achieved: more cost effective patient use of prescription drugs; reduced hospital bed days; and increased patient self-reported wellbeing.

## Personalisation and community-based models of care

Social investment can help empower individual involvement in care provision and catalyse community-based care. While many people would prefer to receive care in the community, and this option is often cheaper, it can be challenging for commissioners to find the money needed to develop new services that are community-based. Social investment can provide the risk capital needed to test some of those models as seen in some of Big Society Capital’s recent investments into DERiC and Shared Lives.

### Case Study: Developing Empowering Resources in Communities (DERiC)

Big Society Capital has invested £1.05 million in DERiC to enable it to provide finance for community owned social enterprises working with elderly people receiving social care. These enterprises will provide care users with volunteer support to meet their care needs and manage their personal budgets in a way that results in the same or better outcomes for beneficiaries, in a more cost effective manner. Savings will be shared with the community to use for the improved wellbeing of the community.

Given the scale of the problem, technology has been a key enabler of change across the globe and we expect personalised services to be heavily reliant on technological innovation. Within the UK, social enterprises such as Buddy App and Patients Know Best are accessing social investment to grow their models of putting patients in control of the services they receive.

## Outcome improvements in existing services

More traditional forms of care such as residential care and home care will remain the bedrock of the care system. These services are often delivered by large charities. With the use of social investment, these organisations will be able to access the capital needed in order to scale up effective care delivery models both within a locality and across geographies.

### Case Study: Scope Bond

Scope is a UK disability charity working with disabled people and their families. In 2011 Scope launched a £20 million social investment programme and closed its first issue of a £2 million bond in 2012. The finance raised was used to increase unrestricted income and to pay for key programmes, such as training parent befrienders who run peer support groups for parents with severely disabled children

In many cases the required capital will be to expand provision of community-based accommodation to people with care needs as well as housing needs.

## A diverse provider landscape

Social investment could enable the creation of a more diverse provider landscape, equipped to meet the range of health and social care need. Business models such as spin-outs and group structures of charitable providers are emerging as contenders to the private sector. Many spin-outs in health and social care have significant revenue, with a total turnover of >£500 million. Additionally, although commonly spinning out with a single contract, many have diversified and have been successful in securing new contracts within the locality, as well as in other geographical areas.

We are beginning to see social investment as a tool to drive sustainability in the spin-out sector, through initiatives such as the Local Partnerships Spin-out Fund, which will make loans to spin-outs for technology investments. As discussed earlier in this paper, the opening up of health and social care markets is accompanied by increases in contract size for many CCG and local authorities. For the social sector to take a lead role in those contracts they will need access to investment, ranging from capital backing in the form of guarantees, to finance for bid development.

# PRIORITIES FOR BIG SOCIETY CAPITAL

Big Society Capital has made a number of investments in health and social care to-date including:

- £8 million into Nesta Impact Investments with a total fund size of £17.6 million. One third of the fund will be invested into organisations that use technology to have a positive impact on the health and wellbeing of an ageing population.

- ~£1 million into DERiC CIC to provide loans to community owned social enterprises that engage local volunteers to ensure effective use of personal care budgets.

- £3 million into Local Partnerships Technology Spin-out Fund which will make loans to NHS and local authority health and social care spin-outs for technology investments.

- Underwriting the Scope Bond which enabled Scope to finance the expansion of its charity shop network and fundraising programmes.

- £35 million into general social investment funds that have made a number of investments in the health and social care sector such as Impact Ventures UK's recent investment in Buddy Enterprises, a social enterprise that was founded to provide a digital tool (Buddy App) to support therapy services in the fields of mental health and well-being

Over the next few years, we are looking to further support improvements in health and social care outcomes through the use of social investment. In particular, we are interested in:

- New models of care that use social investment to shift spending away from acute services and into community based, preventative services. These could include provision of services in the community for people with eating disorders or supporting the elderly with early onset dementia. In the future, we welcome the opportunity to work with local and central commissioners to develop Social Impact Bonds or other outcome based commissioning models.

- Models that require investment to provide care commissioned by people with personal budgets. The rollout of personal budgets will require social sector organisations to radically adapt their models, as well as work even closer with users to understand their needs and provide appropriate care. To better understand the type of support or investment required, we plan to commission research exploring the landscape of initiatives.

- Opportunities for social investment to enable health and social care charities to enable them to develop new accommodation options to provide support for their beneficiary groups (further information available in Social Investment Insights: Housing). The squeeze on Local Authority funding is likely to provoke acceleration of the trend for more community based accommodation models such as fostering and domiciliary care rather than traditional residential care homes, which are typically significantly more expensive. One of the ways in which Big Society Capital has worked to support charities in raising investment for this purpose has been the development of infrastructure to grow the charity bond market. In summer 2014 we have seen the launch of a charity bond platform, which has enabled Golden Lane Housing to raise more than £10 million to create housing for people with learning disabilities.

- Supporting the development of social prime contractors that are able to bid for larger CCG and NHS England contracts. We are already seeing a number of models such as Albion Ventures emerging and hope to see social investment being used to support similar models.

- Supporting intermediaries that are developing specialist expertise within the sector to provide appropriate finance and support for smaller charitable organisations.

**The information and opinions in this report were prepared by Daria Kuznetsova, Strategy and Market Development Associate, and Christine Chang, Investment Director, on behalf of Big Society Capital.**

## Titles available in the Social Investment Insights Series

Growing Social Enterprise Through the Holding Company Model: Groupe SOS (June 2014)

Social Impact Bonds: Lessons Learned (June 2014)

Growing the Market for Charity Bonds (July 2014)

Housing and Social Investment (August 2014)

Heath and Social Care and Social Investment (December 2014)

Financial Inclusion and Social Investment (Coming Soon)

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