



Social investment in mental health

An introduction for providers



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Introduction

A growing number of charities are beginning to use – or are at least thinking about using – social investment as a different tool for financing their work. Within mental health, it is relevant to help fund:

- property to deliver care and support services, including housing for vulnerable people
- scaling new innovative services or income generation (e.g. through social enterprise, potentially also delivering employment opportunities for people with mental health needs)
- new services that shift spend from acute services to preventative services focused on outcomes

But this is a new area that has developed in recent years, and lots of organisations are confused about what social investment is, how they could use this type of finance, and how to go about accessing it.

This briefing for mental health charities provides a basic introduction to social investment and the types of products that are available. It is aimed at readers with little or no knowledge of this topic, to help you think about whether your organisation or project might be suitable for social investment. It also provides examples of how others are using social investment, the types of products available and where to find out more.

What is social investment?

Social investment is the use of repayable finance to achieve a social as well as a financial return. This means that the investor will expect their money back (usually with a financial return on top), but the investor is also interested in the social impact that is created by the work that the charity or social enterprise is doing.

Social investment won't be right for every organisation or project. It should be considered alongside other options, such as bank loans, grants and raising funds from donors.

Investments must be repaid, so your project or activity needs to generate enough of a surplus to generate a return for the investor and support your own sustainability, as well as having a social impact. The exact shape of this return will vary depending on the type of investment. For example:

- a loan to develop an organisation could enable you to develop new services or develop trading activities which will generate additional revenues for you, and allow you to pay back the loan
- investment in property with a rental income providing the return
- government social impact bonds pay financial returns to investors based on the extent that providers' outcomes have resulted in savings to the public purse

There are different:

- types of social investment solutions (e.g. bonds, loans)
- ways of accessing investment (e.g. from established funds, directly from individuals, and government programmes that are designed to use investment)
- ways to repay investment (e.g. rental income, savings to public services)

The choice of social investment solution depends on the:

- project/activity
- financial sustainability
- risk
- length of investment

Is social investment a good match?

These questions will help you to begin to assess if social investment is a good fit for the project or activity you have in mind, and to identify the best options from the product guide.

- 1. What are you seeking to achieve? What is the specific project/activity that requires funding?**
This might be a specific project or investment could be organisational e.g. expanding activities, delivering new services, working capital.
- 2. What is the additional impact that will be created?**
Can use of investment be justified (e.g. you will be able to support more people, or provide new services, and grow more quickly)? How will you demonstrate your social impact (more rigour around this may be needed with some forms of investment).
- 3. How will the investment be repaid?**
Is there an income stream? What type? E.g. government contract, rental income, selling services or goods to the public, membership fees. What are your margins on these revenues and how will this affect your sustainability? What interest rate can you afford? How will you pay back the investment?
- 4. What will the investment pay for?**
For example: a property or other assets; activity such staff to develop an expanded service.
- 5. What is the timescale?**
What is the likely route to repayment of the investment (refinancing, paying down annually, results payments?) When will you generate enough surplus cash flows to repay the investor? How predictable are your revenues and how might that impact on the repayment profile and schedule? What length of commitment could you make to an investor?
- 6. What are the risks and how can they be managed?**
What might happen to reduce your revenues and surpluses, or otherwise affect your ability to meet your commitments to the investor? Are there risks to organisational stability and culture? How would you manage and mitigate risk – what is plan B?
- 7. What alternative funding options are available? What are the pros and cons of these options?**
For example, bank loans or grants. Do you have security (e.g. an asset that you own or have a long lease over)? What is your risk appetite? Are you able or do you want to increase the liabilities on your balance sheet?
- 8. What are you looking for from an investor apart from the funding?**
For example, some investors may want to take a role in organisational strategy, for example via a seat on the board, in order to protect their investment – would you be comfortable with this? Could there be benefits for your organisation through bringing in investor expertise as a partner? Or do you want to raise the profile and support for your organisation through investment from many individuals?



Social Investment Product Guide

There are a number of social investment products available which can be accessed from a range of sources. This guide provides a summary alongside examples of how these products are used in practice, including some from sectors outside of homelessness. Most forms of social investment used by charities and social enterprises are loans, but there are other forms of investment that may be relevant to your organisation's needs and goals.

It is important that charities and social enterprises have choices about the type of investment that they take on, depending on your circumstances and the nature of the project – as well as your risk appetite. You can consider:

1. Raising the investment directly. You will find the range of ways you can do this on page 6.
2. Sharing some of the risk with the investor by using other vehicles such social impact bonds and property funds. You can find more details on this on pages 9 and 10.

Investment taken on directly by the organisation (and recorded on their balance sheet)

What is it?	When might I use it?	Where can I get it from?	Other considerations
Secured loans Loans secured against an asset (usually a building or equipment)	To buy an asset (e.g. housing), or to raise funds from an existing asset you own to fund other projects (e.g. working capital for growth or to refurbish the asset).	Social banks and mainstream banks.	May be cheaper than other investment since the asset makes it less risky for investor. Banks will often only lend a maximum of 70% of the value of the asset. Can be long term. You should be aware of the risk of repossession of the asset if unable to repay loan.
Unsecured loans Loans where the investor does not take security on the organisation's assets	If you don't have assets and want to borrow money to fund working capital for growth of services, investment into a trading social enterprise, or as short term bridging finance.	Social investment funds and CDFIs. Individuals e.g. social angel investors or through crowdfunding platforms*. Investment can use social investment tax relief**. Some charitable foundations.	Likely to charge higher interest than on secured loan, to reflect higher risk. Can be used alongside a secured loan (e.g. as part of a package to buy a building) if you don't have sufficient reserves. Often 3-7 years in term. You will need to generate enough surplus to cover interest and repayments
Blended finance This is a combination of unsecured loan and grant.	To fund growth and development (usually for smaller sums, and smaller or earlier stage organisations).	Could access the unsecured loan and grant from different sources. Some social investment funds can provide both.	Could be a first step to using investment. Could reduce the risk and cost of using an approach with solely loan funding.
Charity bonds Debt from multiple investors that can be traded and transferred	To buy an asset or fund growth. May be relevant if you're seeking to raise profile among investors and the public.	Charity bonds are normally arranged by an adviser who can promote your investment offer to a range of investors.	Usually for established larger organisations to raise £1m-£20m Fixed interest with all capital repaid at end of the bond
Quasi equity Debt where the repayments are more flexible and are linked to a % of future income or surpluses	To fund growth and expansion of services, including payments by results services.	Some social investment funds.	Relevant if you are looking to share risk with investors, but the interest may be higher depending on performance. Typically more complex to structure and monitor.
Equity, inc community shares Shares in an organisation. Investors will be repaid through dividends (dependent on surpluses made by the company) or by selling on their shares.	Can provide start-up funding for social enterprises as well as funding to grow. Community shares are relevant to local communities who need finance to take over local assets or run local social enterprises.	Equity can be invested by venture funds, some charitable foundations, and individuals e.g. social angels or through crowdfunding platforms*. Community share issues often aim to engage local people.	More "patient" investment, and involves sharing risk and ownership with investors. Not relevant to most charities – needs to be a company limited by shares. Community shares can be issued by community benefit societies (which can have exempt charitable status) or co-operatives.

Notes from previous page

***Crowdfunding** – this is a popular way of raising finance by asking a large number of individuals to donate to or invest small amounts of money in a specific cause or project. The UK Crowdfunding Association offers guidance on how this works and can provide links to crowdfunding platforms. Visit www.ukcfa.org.uk.

****Social Investment Tax Relief (SITR)** – SITR is a new government incentive which offers a 30% tax break for individuals investing into a trading charity or social enterprise. It has been introduced to encourage new investment into charities and social enterprises and level the playing field with tax reliefs currently available to more traditional business. Visit www.GoodFinance.org.uk/SITR.

Case study: Barnet Mind



Photo cred: Barnet Mind



As an affiliate to the national Mind Network, Mind in Barnet is supporting people with mental health problems with a number of services including counselling, befriending and social clubs. A secured loan obtained from [Unity Trust Bank](http://www.unitytrustbank.com) was used for developing a recently purchased property, where the charity brings its services under one roof, in order to better meet the needs of service users. The loan repayments are being made through income streams generated through the services provided.

Case study: Big White Wall



Photo cred: Big White Wall

Big White Wall is an anonymous digital mental health and wellbeing service where people who are experiencing mild to moderate mental health issues can talk freely about their problems and self-manage their own mental health. The organisation used equity investment (shares) from [Impact Ventures UK](#) (a social investment fund manager) to scale their social business.

Big White Wall is a subscription service. The investment is repaid through subscribing organisations, including NHS providers, government departments, the armed forces, universities and individuals.

[Read more on how Big White Wall used social investment.](#)

Case study: Midlands Together



Photo cred: Midlands Together

Midlands Together works to create employment opportunities in the construction space for ex-offenders. It buys empty properties in need of refurbishment or redevelopment and employs and trains ex-offenders to deliver the construction work.

In 2013, [Triodos Corporate Finance](#) helped Midlands Together to issue a bond to raise £3 million. This money is helping Midlands Together to rehabilitate up to 150 ex-offenders, and to fund purchase of properties, which are sold once refurbished and proceeds used to repay investors.

[Read more on the Midlands Together bond issue.](#)

Case study: FareShare South West



Photo cred: FareShare South West

FareShare South West is a charity that works with the food industry to reduce the amount of fit-for-purpose food going to waste. The produce is distributed to local organisations working with vulnerable people, ensuring those in the community that are most in need have nutritious food.

FareShare South West started a social enterprise arm (Surplus Supper Club) which provides catering services. They used £70,000 unsecured loan investment from individuals using the Social Investment Tax Relief (SITR) to help scale up the social enterprise. The investment will be repaid from its increased future revenues.

[Read more on how FareShare South West raised money using Social Investment Tax Relief.](#)

Other forms of social investment to finance charities' work (not taken on directly by the organisation)

Social Impact Bonds

Social impact bonds (SIBs) are a three way relationship between an investor, a delivery organisation and an outcomes payer. In the UK, they have so far mainly been used to improve the social outcomes of services by making early intervention funding available that will then deliver long-term savings to local or central government e.g. through reduced unemployment rates, re-offending rates and reductions in A&E admissions.

Investors pay for the project at the start. If the charity or social enterprise delivers the expected outcomes, the local or national government will make payments based on the outcomes achieved, which allows investors to be paid a return. What this means for you as a charity is that the financial risk of outcomes not being achieved is taken by the investors. However, providers should be aware of additional focus and resources required around monitoring of outcomes.

SIBs are usually driven by programmes commissioned by central government and local commissioners, but can sometimes be led by providers who have identified how they can be used to tackle an issue of interest to commissioners. Investors in SIBs include specialist social investment funds, foundations and individuals.

Case study: Ways to Wellness Social Impact Bond



Photo cred: Ways to Wellness

The west of Newcastle-upon-Tyne is one of the most deprived areas in England. People from disadvantaged backgrounds are more likely to suffer with long-term health conditions, typically with an earlier onset. They have poorer health outcomes and consume more health service resources.

Ways to Wellness services are delivered by 4 not-for-profit providers. They add to and complement medical support through social prescribing: patients are helped to manage their long-term conditions through one-to-one support and supported to access community based activities. The programme is funded through a SIB (via the Bridges Ventures SIB Fund), with repayments coming from payments for outcomes, paid for by Newcastle Gateshead CCG as the commissioner. The outcomes include improvements to patient wellbeing and long term reduced use of hospital services.

[Read more on how Ways to Wellness developed a social impact bond.](#)

Case study: Mental Health & Employment Partnership

Only 37% of people with a mental health condition are in work, dropping to 7% for people with severe mental health issues. Individual Placement and Support (IPS) is an approach that provides support for people with mental health needs into employment, as well as ongoing support for employees and employers. The Mental Health and Employment Social Impact Bond will provide support to around 2,500 individuals living with severe mental health illness over three years to help them achieve competitive, paid employment.

Under this model, Mental Health and Employment Partnership (MHEP), a new social purpose company, has co-commissioned evidence-based supported employment services with CCGs and local authorities in three areas. MHEP has raised a pool of socially-motivated investment from Big Issue Invest to finance service provision up-front, with investors repaid with up to £1.3m of outcomes-based Cabinet Office funding when user engagement, job entry and job sustainment outcomes are achieved.

[Read more about the Mental Health and Employment partnership.](#)

Social Property Funds

These are funds managed by a specialist firm, who raise money from investors, and then use the fund to buy property that can be used by a charity to deliver its services. The charity leases the property from the social property fund. This option enables charities to access property where they can't or don't wish to own property (and borrow significant sums directly). This is particularly relevant for providing housing for vulnerable people, where large amounts of money are required.

Case study: Real Lettings Property Fund



Photo cred: Real Lettings, part of St Mungo's Broadway

In 2014, Real Lettings, a social lettings agency run by homelessness charity St Mungo's Broadway, partnered with [Resonance](#) to develop the Real Lettings Property Fund to help people at risk of homelessness.

The fund buys 1 or 2 bedroom flats, refurbishes them as necessary and then leases them to Real Lettings to provide move-on accommodation for homeless individuals and families in London. The benefits to tenants are measured in terms of improving their housing options (including eventually moving on to other stable accommodation), achieving progress towards work, and developing greater resilience against reverting to homelessness, for example through stronger support networks and relationships.

In 2015, the fund closed at £56.8m and is currently supporting over 230 people in London. Over seven years, the fund aims to help up to 600 people by providing 220 properties.

[Find out more on the Real Lettings Property Fund.](#)

Common questions on social investment

Where do I go if I have a new enterprise idea?

Taking on repayable finance may not be the right first step for a start-up charity or social enterprise - grant funding, sometimes combined with other support (for example from accelerator programmes) may be more appropriate.

In each area, there are often more local or focused programmes. There are also a number of national initiatives and specialists who support social entrepreneurs and you may be able to gain support from the School for Social Entrepreneurs, UnLtd or Power to Change.

What is the benefit of social investment as opposed to borrowing from banks?

If borrowing from mainstream sources is available to your organisation then this may well be a very cost effective way to finance your social business. However, there are many organisations who are not able to access this finance, and who need to be able to borrow money, or take on investment, from investors interested in social impact as well as financial return.

In addition, specialist social investment finance managers can help organisations to not only access finance, but also provide additional support such as social impact measurement expertise and capacity building.

My organisation has lots of reserves, why would we borrow money?

Using your own resources may be the right option for funding some activities, as it will be cheaper than borrowing externally. Organisations that hold reserves may still choose to take on investment as:

- their reserves may be held for emergencies rather than to fund new developments.
- they may want to make best use of the reserves they have built up - i.e. choose to only use reserves to fund activities that could not use repayable finance (e.g. pilots for new projects, research) and bring in external investment to fund activities that generate income.
- 'softer' benefits of using investment may be attractive (e.g. increased awareness of the organisation by a new group of stakeholders, potential benefits of expertise and an external perspective from the investor as well as the money they bring).
- organisations with high levels of reserves will have lower perceived financial risk, and therefore may be able to attract investment at more competitive rates - unlike grant funders which are usually less likely to give to organisations with significant reserves.

Is social investment cheaper than commercial alternatives?

The cheapest form of commercial finance is generally secured on property, this is most widely available from commercial banks, though the social banks (such as Charity Bank) will generally offer competitive pricing and may lend to proposals commercial banks would not.

In cases where good quality security is not available, it will often be challenging to raise commercial finance. Where finance is available from banks or peer-to-peer lending platforms, they may demand personal guarantees. For example, Funding Circle provides statistics on its loan pricing, which generally require a personal guarantee.

Social lenders will rarely ask for personal guarantees, and will generally expect a lower rate of interest for equivalent risk. However the cost of social investment depends on the social investor, their motivations for investing, risk appetite and return expectations. For example, a trust or foundation may be willing to provide a loan at lower than commercial rates of interest, whereas a pension fund may have higher financial return requirements to meet their responsibilities to pension scheme members. Many social investors will trade off the return and risk expected with the likely social impact achieved.

For equity finance evidencing the returns that commercial investors will demand versus social investors is more challenging. Anecdotally though, social investors have been willing to back enterprises with strong social impact that commercial investors have declined.

In addition, the Social Investment Tax Relief offers an opportunity for smaller charities and social enterprises to attract unsecured investment from individuals who are able to gain an incentive of a 30% income tax relief and offer lower financial returns than those investors might otherwise have found acceptable.

Where to find investment and support

The social investment market is expanding and there are now a number of social investors across the UK offering a range of investment products and expertise. When deciding which to use, it is important to consider what you value most from an investor. For example, assistance with business planning, access to networks and patience.

There are also lots of organisations providing support, information and advice to help you get on top of social investment.

You can seek advice and guidance through a business support organisation or broker who has expertise in social finance or a professional service partner such as your accountant (although these may not be free at the point of delivery and it will be important to determine any costs).

The Big Potential is a grant programme available to help meet the costs of advice from approved advisory organisations, and to help initially explore whether social investment is right for you. Visit www.bigpotential.org.uk.

You can also visit Good Finance to find out more about social investment in general and the current funding available. Visit www.GoodFinance.org.uk.

If you are a charity trustee or provider board member, you can sign up for information and support through the GET INFORMED Social Investment for Boards campaign. Visit www.bigsocietycapital.com/get-informed.

If you want to find out more about the work that Big Society Capital is doing to develop social investment in health and social care, visit www.bigsocietycapital.com/social-issues/health-and-social-care.



Who we are

Big Society Capital is an independent financial institution with a social mission, set up to help grow the social investment market.

What we do

We want to make sure that every charity and social enterprise in the UK can navigate and find appropriate and affordable finance and support which is accessible and easy to understand, to grow their positive impact on society.