Our regional health system is under unprecedented demographic, financial and capacity pressures. Overcoming these pressures will require a radical change in the way we deliver health and care: increasing the focus on wellbeing, preventing ill-health and enabling individuals to take greater control of their own care.

We believe the voluntary, community and social enterprise sector (VCSE) has the potential to play a significant role in this future model of health and care, harnessing the knowledge deep within communities to develop innovative, person-centred responses to the needs of our population.

Realising this potential will require change in itself. New approaches to partnership and collaboration will be required and new sources of funding and finance will be needed to develop, test and scale innovative VCSE models of care.

This report explores the role of three key actors in this context with the aim of strengthening the connection between the supply and demand for funding and finance for VCSEs:

- i) the VCSEs developing innovative models of care;
- ii) the organisations commissioning health and care in our region and;
- iii) the suppliers of finance from the social investment market.

Five key areas of opportunity are identified, potential challenges associated with each area explored, the demand and supply for social investment analysed and recommendations proposed. These recommendations will form the basis of our future work with members and partners to support innovation from the VCSE sector in the South West.

I would like to thank our local authority partners who co-commissioned the research and the project team for producing such a useful and informative report. I would also like to thank all those who generously gave their time to participate in this research through interviews and/or workshops. The breadth and depth of the research is without a doubt the product of your openness and willingness to support this work.

I look forward to working with members and partners to take forward the recommendations from this report and helping the South West to realise the opportunity for innovation from the VCSE sector.

Jon Siddall
Director of Investment Partnerships
South West Academic Health Science Network
In 2015, The Good Economy Partnership undertook a feasibility study on behalf of the South West Academic Health Science Network (SW AHSN) and five Local Authorities across the region (Cornwall, Plymouth, Devon, Torbay and Somerset). The study explored the opportunity to develop Voluntary, Community and Social Enterprise (VCSE)-led models of health and social care in the region and raise new sources of finance to support their development.

We considered commissioners’ priority health and care needs, what VCSE providers could deliver and what financiers might offer. We reviewed the evidence, conducted interviews and held workshops to test our emerging findings. This report summarises the findings of that work. The full report is available on request from SW AHSN (info@swahsn.com).

National Context and Policy Drivers for VCSE Development

Three main policy drivers relating to NHS reform are creating opportunities for VCSE organisations:

- An increasing emphasis on integration of services (of health and social care, physical and mental health, acute, community and primary care) based on a recognition that a focus on wellbeing, preventing ill-health and person-centred care in one part of the system can reap benefits and savings elsewhere and help put the whole system on a more sustainable footing.

- A continuing move towards personalisation of services, including the greater uptake of personal budgets. There is also a shift away from block contracts towards ‘capitated’ budgets allocated to a provider(s) based on a sum per patient.

- A focus on outcomes-based commissioning. In a tough financial climate, many believe that the taxpayer should be paying only for success and for what works. This is increasingly reflected in the rise of the idea of Social Impact Bonds, which incorporate outcomes-based payment mechanisms.

Devolution is also an important trend that brings potential to give local authorities more freedom to tailor local services to local needs.

Regionally, commissioners in the South West have been at the forefront of developing pioneering care models – with several integration pioneer sites and integration of services happening across the region, a region-wide Integrated Personal Commissioning programme and three Social Impact Bonds in relatively advanced stages of development and more in early stage development.

Regional Health Priorities

As is the case across many parts of the UK, our research found that smoking cessation, alcohol misuse and obesity are priority problems across the region. Other priorities included: supporting independent living for those with long term conditions; emotional wellbeing and depression; dementia care; and support for carers.

However, commissioners stressed the need to focus less on specific health conditions and instead, suggested two broader priority areas where they see a clear role and opportunity for VCSE organisations:

1. Care for the Elderly and Ageing Better – a clear response to demographic changes which are particularly strong in the South West. Commissioners are interested in services and interventions which offer care in the community and closer to home, enabling people to live more independently and in their own homes for longer while reducing their isolation. They want to prevent unplanned admissions, support recovery and reduce the severity of long-term conditions.
Healthy Lifestyles. There was widespread recognition that the underlying socio-economic determinants of health, such as unemployment and poor housing conditions, have a significant influence on behaviours, such as alcohol misuse, smoking, physical inactivity and unhealthy diets. These underlying determinants, in turn, cause conditions and diseases which lead to deaths and health problems. So commissioners would like to see services and interventions which address these underlying causes through improvements to job opportunities, housing, transport, and economic circumstances and which encourage people to take greater control over and responsibility for their own health and wellbeing.

Realising the VCSE Opportunity – Challenges for the South West

Commissioner Perspective

We interviewed a number of commissioners all with experience of working with VCSE organisations and there was a strong interest in building on the strengths of these organisations, particularly in terms of preventative, person-centred services.

The ‘social enterprise’ model was of interest among commissioners for its combination of a business-like approach, public service ethos, focus on achieving long-term financial sustainability and reinvestment of the majority of profits. As one interviewee put it, “There is not much fat in the system for big business to make megabucks so social enterprise models are more appropriate and better able to be stomached by health professionals and the public.”

Commissioners, however, highlighted the challenges to realising the potential which VCSE organisations promise. Perceptions exist that the VCSE sector is sometimes fragile, consists of a large number of very small organisations and faces challenges in terms of collaboration, evidencing appropriate outcomes, professional capability to deliver, and meeting regulatory requirements.

At the same time, commissioners recognised that they themselves will need to change their way of working if they are to successfully leverage the potential of VCSE organisations and increase their engagement in service delivery. Commissioners interviewed expressed a need for improved market intelligence, new commissioning processes to support co-design and co-production models, new contracting arrangements and deepening their understanding of the opportunity offered by social investment.

VCSE Perspective

VCSE organisations are often ambitious about playing a greater role in service delivery and believe that VCSE-led models can deliver both better outcomes for individuals and cost savings. However, they perceive that the policy rhetoric – for example a move towards a focus on prevention – is not always or not yet matched by reality.

The high degree of instability in the public sector landscape and funding cuts is a major challenge for many VCSE organisations, particularly smaller organisations. Some interviewees expressed frustration at an absence of meaningful strategic engagement and appropriate commissioning relationships between VCSE organisations and commissioners. “Commissioners rarely co-design and involve VCSE at a strategic level, they usually only do so at a consultative level.”

VCSE organisations believe they can improve their marketing, their technology expertise, their leadership and skills and develop partnership and consortia relationships to increase their capability to deliver commission-ready services.

Despite the challenges, our interviews suggested an increasingly shared view and sense of common purpose among commissioners and VCSE organisations about the system-wide problems and what is needed to address them.

Our study suggests that leadership is required on both sides to engage in a more committed and strategic way if we are to see deep systemic change and new VCSE-led health and care service models develop.

A Way Forward: Five Routes to VCSE Innovation and Scale-up

Our study identified five strategic opportunities for commissioners and VCSE organisations:

1. Developing community-based micro-providers
2. Scaling up existing VCSE organisations
3. Outcomes-based commissioning models
4. New forms of consortia and partnerships
5. Co-creating new asset-backed social enterprises
1. Developing community-based micro-enterprise providers

The opportunity

The integrated, personalised care agenda is opening up opportunities for the development of micro enterprises providing support or care to people in their community paid for by personal budgets. People may need support or care at home because they are older, disabled, unwell or particularly vulnerable.

Micro-enterprises can offer a middle way between large care providers and individual carers with potential benefits including:

- Operating at a very small-scale means that micro-enterprises can offer a more personalised service than larger care providers and better continuity of care.
- Micro-enterprises can be more innovative, particularly in terms of how services are delivered – for example taking the time to sit down and have a meal with someone rather than making the food and leaving.
- Micro-enterprises can offer better value for money, offering more personalised care without a high price tag.

There are already ongoing efforts in the South West to develop integrated personal commissioning that links to VCSE and micro-enterprise service provider development through the South West Integrated Personal Commissioning Programme (IPC), for example. Community Catalysts CIC is also playing an active role in developing micro-enterprise care providers, particularly in Somerset.

The challenges

There are a range of challenges in developing micro-providers including the low level of uptake of direct payments, lack of referrals to micro-providers by health and care workers, commissioner concerns about risk and safeguarding, and the financial fragility of micro-providers that are dependent on spot-contracts and hence unpredictable demand and income.

Commissioners could help overcome these challenges by explicitly recognising micro-enterprise development as an important part of developing more personalised community-based services and ensuring better knowledge of local providers and referral mechanisms and support for micro-enterprise development.

Potential demand and supply of social investment

There is some demand for loan finance among micro-providers, particularly from those who want to provide CQC-registered care and hence have higher set-up costs. The amounts needed are typically small – in the range of £500 to £10,000. Currently, the main sources of potential funding for micro-providers – beyond self-funding, friends and family – are grants from organisations such as UnLtd or micro-loans from the Fredericks Foundation. This is an area where there is room for further development of tailored support and finance in the South West region.
2. Scaling up existing VCSE organisations

The opportunity
This study identified a number of existing VCSE organisations in the South West region that are providing high quality services and have the appetite and capacity to scale-up. These include spin-outs such as Livewell South West (formerly known as Plymouth Community Healthcare, PCH) which provides integrated health and social care services in Plymouth, South Hams and West Devon, Kernow Health CIC, a GP-owned organisation interested in developing new pathways and models of care in Cornwall, and Westbank, a charity which offers care and healthy living services to the elderly and local communities. More examples are provided in our full report.

The challenges
The main challenge for many existing VCSE organisations is simply getting their services commissioned. Interviewees cited how organisational boundaries and budget silos in health and social care combined with risk aversion make commissioning integrated services difficult. Once contracts are won, the main concern is pricing and ensuring that margins are sufficient to run a sustainable service including paying staff a living wage.

Systemic and cultural changes are needed on both commissioner and VSCE sides to overcome these challenges, including greater collaboration and partnership by commissioners with VCSE organisations, greater market intelligence and better articulation by VCSE organisations of their service offer and value for money.

Potential demand and supply of social investment
There is some demand from VCSE organisations that are planning to scale-up for loans or other forms of repayable finance to support growth. However, for most health and care VCSE organisations the priority is winning contracts or securing grant funding to deliver their services. Those with a strong management team, proven service offer and positive cash generation can typically access finance either from mainstream banks (particularly if they have physical assets or long-term contracts) or from the growing number of specialist social investment finance intermediaries.

However, there are two finance gaps identified in this research and reinforced by national evidence. First, is the lack of availability of patient, low-cost, risk capital to support VCSEs transition from grant dependency to income generation and develop new service offers. This is where the bulk of demand is; the lack of such finance from social investors has led to frustration among some VCSE organisations that the social investor market is not responding to market need. Social investors are well aware of this gap yet it is a finance gap which is seen as too risky and economically unviable for many investors to consider. In response, Access, The Foundation for Social Investment, was established in 2015 with backing from the UK Cabinet Office, Big Society Capital and Big Lottery Fund to blend grants with loans to offset some of the perceived or actual risk in lending to early stage organisations. The SW AHSN is actively engaged in helping ensure these funds are available to support VCSE organisations in the South West.

Second, is the demand for larger amounts of capital for property purchase to develop VCSE business models of supported living and residential care. Here, some VCSE have ambitious plans e.g. to buy out private or local authority care homes and turn them into social enterprise models. Accessing such large-scale finance (tens of millions) for property purchase and development is difficult for VCSE organisations.
3. Outcomes-based commissioning models

The opportunity

Systems leaders and commissioners in the South West region are already relatively well advanced with exploring new, outcome-based commissioning models that seek to attract social investment to scale-up preventative services, including several related to healthy living and preventing long-term conditions, alcohol dependency and diabetes. Details are provided in the main report. Two key models of outcomes-based commissioning are emerging:

- Investor-led outcomes-based commissioning with VCSEs: where a social investor or group of investors work in partnership with a commissioner to develop a new intervention model commissioned using an outcome-based contract. The investor or group of investors may create a special purpose vehicle (SPV) at the heart of the financial and contractual relationships.

- Provider-led outcomes-based commissioning with VCSEs: where a VCSE provider is commissioned to deliver an outcomes-based contract and then, if necessary, turns to an investor to finance the working capital required to deliver the contract until payments materialise.

The challenges

There are a number of challenges in developing outcomes-based commissioning models including the cost and complexity of establishing an appropriate payment mechanism and contract; access to data which is sufficiently robust and accurate for outcomes measurement; mitigating against the risk of perverse incentives; and cultural aversion to such a rigorous focus on measurable outcomes and quantitative data, as opposed to a more trust based approach in which the focus is on the qualitative information such as the quality of care relationships and patient satisfaction.

Advocates for Social Impact Bonds (SIBs) and other outcomes-based models themselves admit that these models only work in certain specific circumstances where:

- There is an objective mechanism for assessing and agreeing measurable outcomes;
- The target groups are identifiable and large enough to justify the development of an outcome-based approach;
- There is a model of intervention that works and which generates greater savings than it costs;
- The benefits accrue in cash to just one or a few budget-holders and within a reasonable timescale;
- There is a willingness and capability to pay such that the investment has the potential to deliver the agreed target financial return to social investors.

Potential demand and supply of social investment

There are already significant resources being directed towards SIBs and related outcomes-based payment models. Three outcomes-based commissioning projects in the South West have attracted financial support from the Big Lottery Commissioning Better Outcomes fund and others are likely to do so. At the moment, there are funds available from central government to pay both for the development of SIBs and sufficient supply of risk capital from social investors to provide the capital.

However, it may still make sense for local investment to be channelled towards supporting outcomes-based commissioning models to help local VCSE organisations build the organisational capacity to engage in the development of an outcomes-based commissioning model and be in a position to secure national funding, and to develop new and different outcomes-based models with a particularly local flavour, for example, where individual patients are at the heart of the payment trigger mechanism, rather than metrics developed by investors and commissioners.
4. New forms of consortia and partnerships

The opportunity

As integration continues and contracts are aggregated, individual VCSE organisations will increasingly miss out on opportunities to play a role in service delivery unless they find ways to work together to seize opportunities at scale. Increasingly, VCSE organisations in the South West are looking at partnership models, such as ‘Alliance Contracting’, as a means to pool resources and expertise and open up more commissioning opportunities, deliver greater impact, spread risk, share knowledge and improve joined-up service provision for beneficiaries.

Organisational options along the spectrum of collaboration

The challenges

Challenges to partnership models include cultural, legal, financial and governance challenges and a tendency for organisations to focus on short-term priorities. Steps to overcome these barriers include commissioning practices that encourage partnerships, longer-term contracts that allow time for partnerships to develop and physical co-location as exemplified by the Exeter engagement hub led by Exeter CVS that brings together public, private and VCSE enterprises together into one space to devise and provide recovery and wellbeing services to people at risk of social exclusion.

Potential demand and supply of social investment

Funding for the development of partnerships and alliances is not easy to find. One interviewee commented, “If just a fraction of central government resources which have been directed at the development of Social Impact Bonds had been directed at exploring the benefits of Alliance Contracting or other forms of partnership, we would be much better placed to learn lessons on how to effectively fund these arrangements.” There is demand for investment in consortia and partnership building, learning from the likes of the Health and Wellbeing Partnership in Manchester and other models.

We believe what is needed is cornerstone risk capital or a blend of grant and loan for the creation of new bidding consortia. As well as consortia and partnerships within the VCSE sector there is also scope for developing multi-outcome partnerships across sectors: for example, across housing and health, or employment and health.
5. Co-creating new, asset-backed social enterprises

The opportunity
Within the region, ideas for creating entirely new, relatively large social enterprises are being explored, to meet a specifically targeted market opportunity, and backed by investment and/or assets.

Public Social Partnership / Asset-backed SPV
Joint venture with external investment

These opportunities include service reconfigurations, such as non-invasive pre-natal testing for Down Syndrome offered free to high risk NHS clients while charging private clients, or telecare models for cystic fibrosis patients. But also the development of asset backed models, such as new community hospitals which retain some beds for re-enablement, acting as a step down service from an acute setting (e.g. for elderly patients with dementia under circumstances where home care isn’t immediately possible). Use of a social enterprise model could allow an incumbent NHS provider to partner with local communities (under ‘Place Based’ principles) to transform local community assets into facilities that deliver greater community benefit, exploit the opportunities of integration and, for newly created social enterprises, earn money from the savings generated by acute providers.
The challenges

There are a number of challenges in developing of these models including overcoming risk aversion among public bodies, testing the feasibility of entirely new service or asset models, and creating appropriate legal, governance and financial frameworks for these new models.

Potential demand and supply of social investment

Social investment could play a role in developing new social enterprises. It may be the case that land, assets or contracts could be involved against which investment could be secured and/or acute trusts or local authorities may be able to provide guarantees. The capital required may be at a significant scale, with the cost of a new care village, for example, running into many millions of pounds. There may also be a case for feasibility funding for these type of projects, where the ambition and capital sums are large and significant work is required in the early stages to undertake business planning, set-up, forecasting, and surveying, etc. Initial discussions suggest that social and commercial investors could have an interest in such models, particularly if the Social Investment Tax Relief could be used to help improve the risk and return profile.

Summary of Demand and Supply of Social Investment

We found that the existing source of supply of finance is relatively well-developed for VCSE organisations looking to scale-up where there is a proven business model and revenues and for outcomes-based commissioning models. What is lacking are (i) easy access to very small loans for micro-enterprises, (ii) patient, risk capital suitable for funding the development and scale-up of new care models, including partnerships and consortia; and (iii) larger equity-like investment willing to back new, larger social enterprises or property-based developments.
## Summary of Opportunity Area and Financing Gap

<table>
<thead>
<tr>
<th>Opportunity area</th>
<th>Demand for finance/support</th>
<th>Existing supply of finance/support</th>
<th>Financing Gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Developing community-based micro-providers</td>
<td>Demand for small amounts of funding from £1-10k in form of grants or affordable, unsecured loans + business support</td>
<td>Limited</td>
<td>Yes – some demand for small, unsecured loans (&lt; £10K)</td>
</tr>
<tr>
<td>2. Scaling-up existing VCSE organisations</td>
<td>Some VCSE organisations seek external finance for property acquisition or working capital for new business development and to scale operations. Typically from £50k to £10m +</td>
<td>Good supply of finance options (£100k+) from banks and social investment organisations</td>
<td>Sufficient supply of finance for VCSE with proven business models and clear pathway to positive cash generation</td>
</tr>
<tr>
<td>3. Outcomes-based commissioning models</td>
<td>Funding required for both development of outcomes-based commissioning models/ SIBs and risk capital for providers</td>
<td>Good supply of finance for both the development of SIBs and risk capital with strong central government backing</td>
<td>Good supply of funding available including government subsidy for development</td>
</tr>
<tr>
<td>4. New forms of consortia and partnerships</td>
<td>Risk capital for creation of new partnerships/ SPV</td>
<td>Limited</td>
<td>Yes – risk capital and technical support required to underpin new partnerships/ alliance contracting</td>
</tr>
<tr>
<td>5. Co-creating new social enterprises</td>
<td>Asset transfer + risk capital</td>
<td>Limited</td>
<td>Yes – risk capital + facilitating asset transfer</td>
</tr>
</tbody>
</table>
Recommendations

The original thinking behind this research was to set-up a single fund to support VCSE innovation in health and care in the South West. Our research has led us to believe that a single regional ‘fund’ is not the best approach for three main reasons:

1. The diversity of financing needs – from micro-loans to large-scale, risk capital investment – would be very difficult to meet within a single fund model.

2. Leverage existing funding – there is a growing availability of a range of social finance products at a national level, hence it makes sense to attract funding from existing sources. Already SW AHSN is taking a proactive role in developing a new regional fund that would help meet the gap for smaller amounts of risk capital (less than £15,000) which will become part of the supply of funds.

3. Too many initiatives, not enough focus – already there is a sense in the region that there are too many new initiatives.

Our thinking, therefore, is to test out the idea to establish a ‘Regional Health and Care VCSE Innovation Facility’ designed to build on, connect and leverage existing funds and initiatives.

The objective of the proposed facility would be to support the prototyping and development of innovation and scale-up of VCSE-led services and care models that support commissioner priorities and that provide personalised, high quality care that deliver better outcomes for individuals and provide good value for money.

The main role of the ‘facility’ would be to broker and intermediate both existing technical support and funding – connecting the right type of support and funding to different VCSE-led care models.

The facility could be available for applications from any VCSE or large local provider/CCG in partnership with a VCSE to respond to an identified market opportunity, for example:

- A group of VCSE organisations want to partner or form a consortium to bid for new Work and Health Programme contracts coming out in 2017 but with a more holistic focus than just focusing on job-readiness and help into employment looking at the underlying causes of worklessness.

- An NHS Foundation Trust wants to pilot a dementia care early discharge mini-village that integrates community and acute care on a specific physical site.

- A group of commissioners want to develop new service offers for people living in isolated rural areas using personal budgets.

Additionally, the facility could carry out the following roles which would help overcome market information gaps:

- Support mapping or audits of VCSE health and care providers in local areas so as to help improve market information and intelligence about what local services are available.

- Improve sharing and successful uptake of knowledge, innovation and good practice both within the region and nationally.

- Support outcomes-based commissioning by backing research to define outcome metrics and evidence standards that are agreed by commissioners and VCSE organisations and test new SIB models inspired by local context.

- Explore the value and feasibility of establishing a ‘portal’ or mechanism that could facilitate the sharing of information about VCSE service offers direct to NHS and social care users.

From recommendations to action

The next phase of work involves testing out these findings and the ‘facility’ proposal with stakeholders (including commissioners, providers and funders) with a view to developing a strategy and operational plan for SW AHSN and the commissioners who have supported this study. This must be practical, realistic, acceptable to stakeholders and for them to ultimately take forward and own.

The challenges to our health and care system are significant and growing. But opportunities are opening up, the need for action is clear, and commissioners in the South West region are already leading the way. If existing and new sources of finance can be harnessed to help VCSE organisations and others to overcome the barriers we face through the further development of community-based, person-centred care models, then there is significant potential here to make a real difference and improve the health and wellbeing of people across the South West.
This report was commissioned by the South West Academic health Science Network (SW AHSN), Devon County Council, Cornwall Council, Somerset County Council, Plymouth City Council and Torbay Council.