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**BATH**

# Social impact investment as a policy tool

IPR Report

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**IPR** Institute for  
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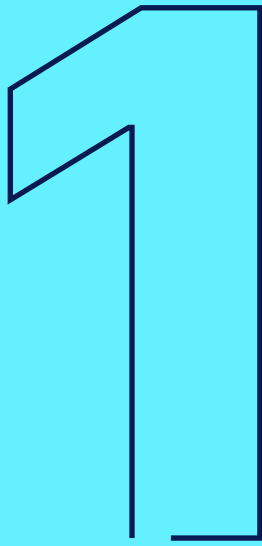
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# Introduction

# Introduction

Both before and since the 2024 UK general election politicians have been talking about the potential value of impact investment in achieving their policy goals. New Department for Culture, Media and Sport Secretary of State Lisa Nandy wrote a foreword to the Impact Investing Institute's recent estimate of the size of the market, saying *'We want a new partnership with investors, businesses, and charities. All the best examples of things that are built to last are when they have been built together. This is why impact investment matters. It has the power to harness the innovation and entrepreneurship that exists in all parts of our country, and direct it towards a common good.'*<sup>1</sup> Before the election Stephen Timms, now Minister of State for Social Security and Disability, wrote a newspaper piece citing several examples and setting out the opportunity for a new Labour government,<sup>2</sup> and former Prime Minister Gordon Brown endorsed a 2024 report on the potential for social impact investment to improve public services.<sup>3</sup>

However, despite this interest from politicians, and an increasing number of live and proven examples, it has often been hard for policymakers to understand what impact investment approaches can and cannot do, and when they might be a relevant part of the policy toolkit. This report aims to introduce some of the circumstances in which this approach might be helpful to policymakers, illustrated with UK-focused examples.

- 1 Impact Investing Institute (2024). *The UK impact investing market: Size, scope and potential*. Available at: <https://www.impactinvest.org.uk/resources/publications/the-uk-impact-investing-market-size-scope-and-potential/>
- 2 Timms, S. (2024). Labour must partner with businesses in the impact economy. *City A.M.*, 2 July. Available at: <https://www.cityam.com/labour-must-partner-with-businesses-in-the-impact-economy/>
- 3 Better Society Capital (2024). Gordon Brown calls for innovation to take action on child poverty and homelessness. 14 June. Available at: <https://bettersocietycapital.com/latest/gordon-brown-outcomes/>

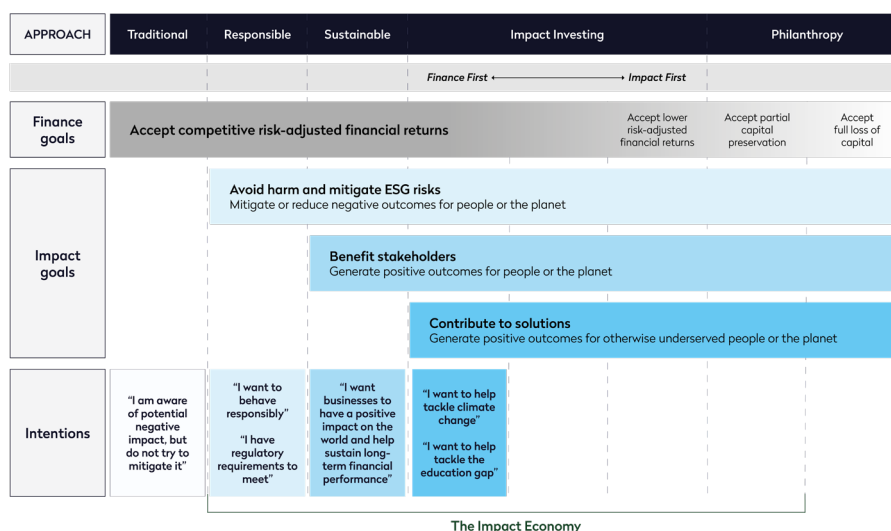
# 2

## **Definition and scope**

# Definition and scope

For the purpose of this discussion, impact investment is investment of capital that seeks both a financial return and measurable positive impact. Social impact investment is where that positive impact is on a social issue (such as health or education) as opposed to purely environmental impact (such as reduced CO<sub>2</sub> emissions). Impact investment does have an important role to play in addressing major environmental challenges, but this paper is focused on social impact cases. Of course, social and environmental impact are not distinct, and indeed impact investment has already demonstrated that it has a role to play where the two overlap (for example with the recent creation by a group of social investors of an Energy Resilience Fund to provide a combination of loans and grants to social sector organisations that wish to improve the energy efficiency of premises they own<sup>4</sup>).

It is important that the owner of the capital in these cases is usually actively seeking a social impact: it is not simply a pleasant by-product of normal commercial activity. This desire for impact affects the ways investors behave and the kinds of investments they seek. There is a wide range of types of investors with an impact preference, who will find different kinds of investment strategies to meet their overall needs. This range (and beyond) is often captured by describing a ‘spectrum of capital’.<sup>5</sup> The spectrum ranges from a desire to avoid harm (for example by avoiding investing in certain activities like the production of tobacco or pornography) through creating an active positive impact on significant social or environmental issues via investment, through to philanthropy. The focus of this report is on investment strategies in the ‘impact investing’ section of the spectrum in the diagram below, where investors are seeking to create clear additional positive impact alongside financial returns.



## BRIDGES

Source: Bridges Fund Management (2025) based on work for the Impact Management Project

- <sup>4</sup> For more information, see: <https://www.sibgroup.org.uk/funds/energy-resilience-fund/>  
<sup>5</sup> Bridges Fund Management (2015). *Bridges Spectrum of Capital*. Available at: <https://www.bridgesfundmanagement.com/insight/bridges-spectrum-of-capital/>

Recent analysis of the social impact investment market in the UK shows a £10bn total market coming from a wider range of investor types. The single largest group (21 per cent of the total) is pension funds, with the local government pension schemes a particularly significant element within that. Charitable endowments and wealth managers are the next two largest groups. These different investors have different appetites for risk and return, different time-horizons over which they invest and different preferences for the kind of social impact that their capital should be seeking.<sup>6</sup>

This report concentrates on potential policy applications in developed markets such as the UK. Practice around impact investment as a policy tool is more advanced in the international development sphere, led by multilateral development finance institutions like the World Bank and European Bank for Reconstruction and Development (EBRD) and the bilateral institutions like British International Investments and FMO in the Netherlands. However, the challenges faced and the potential mechanisms to deploy in response are distinct and there is already a greater body of existing published research on the development finance context.<sup>7</sup>

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<sup>6</sup> Better Society Capital (2024). Investors put £10 billion into a better society as Treasury considers budget cuts. 7 October. Available at: <https://bettersocietycapital.com/latest/investors-put-10-billion-into-a-better-society-as-treasury-considers-budget-cuts/>

<sup>7</sup> For summaries of this see, for example: Keohane, G. L. and Madsbjerg, S. (2016). The innovative finance revolution: Private capital for the public good. *Foreign Affairs*, 95(4), pp.161-170; Ketka, S. and Ratha, D. (2008). *Innovative Financing for Development*. World Bank Publications.



# 3

**Policy use at  
different levels of  
government**

# Policy use at different levels of government

The policy use cases discussed below can all be applied by different levels of government. As will become clear from examples included in the discussion, in a UK context there are already examples of social impact investment being considered by the national UK government, by the Scottish government, by English Combined Authorities and in local government.

Which level will be able to make best use of these tools in the future is an open question for further research, and will also be partly determined by how the further devolution to the English cities and regions promised by the current government in their manifesto and recent White Paper plays out in practice.<sup>8</sup> Many of the social investment tools are most likely to be useful in situations where flexibility around budgets for service delivery or for capital investment means they can either be combined in different ways or used over different time periods. A hypothesis to explore further in the coming years is that Combined Authorities, being relatively new and sitting at a different level from many existing service delivery institutions, may find it easier to allocate funding in more innovative ways, and their relatively limited budgets provide a strong incentive to operate in a way that leverages private investment more effectively.

It has been argued that there is significant inequality between Combined Authorities in terms of their policy capacity<sup>9</sup> and we would expect this to play out in their ability to deploy social impact investment in the sorts of situations explored below. To date, Greater Manchester, widely seen as the authority with the most capacity, has been leading the way with several examples of social impact investment already in place. However, there are also early signs of other models being developed elsewhere, and considerable potential to adapt examples across the country to fit different local contexts.

## Introducing four policy use cases

There are four distinct policy use cases that are emerging for social impact investment in a developed market context. Each is relevant to different situations and points to different actions by government policymakers. The four are summarised below and then explored in more detail in the following sections.

<sup>8</sup> Labour Party (2024). *Change: Labour Manifesto*. <https://labour.org.uk/change/kickstart-economic-growth/>

<sup>9</sup> Bates, G., Larkin, C., Pearce, N. and Smyth, L. (2023). Policy 'R&D', capacity and advocacy in English Combined Authorities. *Local Economy*, 38(3), pp.226–241.

## Risk transfer over uncertain outcomes

When the public sector wishes to achieve a social outcome but does not possess a simple delivery model for doing so, it may make sense to share the risk of achieving the outcome with investors. In this model the public sector commissioner commits to pay for that outcome when delivered, and impact-motivated investors provide the upfront capital needed by delivery organisations (often in the voluntary sector) to develop the necessary suite of services.

‘Social outcome contracts’, or ‘social outcome partnerships’ as they are often known, build on more general payment-by-results (PBR) approaches but differ from them in crucial ways. First, they have been used for specifically defined groups of high-need individuals, which avoids the risk often identified with PBR of providers picking the easy people to work with among a large cohort of potential beneficiaries and ignoring the others (often called ‘creaming and parking’ in the literature<sup>10</sup>). Second, by involving impact-motivated investors as part of the scheme design, incentives are more strongly aligned between government commissioners and the upfront funders, around measuring and delivering the agreed positive outcomes. Third, recent research<sup>11</sup> shows that many of the PBR models in the UK (such as the Work Programme) were designed to focus on a narrow policy objective and encourage contractors to cut costs and increase volumes. In contrast, the goal of social outcomes partnerships has been to redesign services around the needs of particular individuals and groups.

## Efficiency and leverage of public subsidy

There are many policy situations where there are positive externalities to an activity so that the market will undersupply it relative to the socially optimal outcome and therefore there is a case for government subsidy. However, in some of these cases the market failure will not be total – i.e. there is an element of private economic return and so the subsidy should be limited appropriately. Social impact investment offers some options for using subsidy more efficiently than has tended to be the case in many areas of policy.

In some situations, if government subsidy is provided as part of a structured investment vehicle it will be possible to leverage in additional investment that would otherwise not have taken place. This could make policy sense if market failures will otherwise lead to systematic underinvestment in a given area of opportunity.

Approaches of this type are a strong illustration of the point above about development finance practice being more advanced. Institutions such as

<sup>10</sup> For example, Carter, E. and Whitworth, A. (2015). Creaming and parking in quasi-marketised welfare-to-work-schemes. *Journal of Social Policy*, 44(2), pp.227-229.

<sup>11</sup> Reedy, J. (2024). Demystifying Social Outcomes Partnerships. In: Anastasiu, A., Carter, E. and Airolidi, M. (2024). *The Evolution of Social Outcomes Partnerships in the UK*. Government Outcomes Lab (GO Lab). Available at: [https://golab.bsg.ox.ac.uk/documents/The\\_Evolution\\_of\\_Social\\_Outcomes\\_Partnerships\\_in\\_the\\_UK.pdf](https://golab.bsg.ox.ac.uk/documents/The_Evolution_of_Social_Outcomes_Partnerships_in_the_UK.pdf)

the World Bank and European Bank for Reconstruction and Development have a track record of thinking about how to use their resources to address market failures in a way that maximises the leverage of private investment for desirable purposes.<sup>12</sup> There are more opportunities to import this practice into the developed market context.

## Cornerstone/early mover risk

Many private investors are unwilling to make the first or largest commitment to a new investment model. Institutional and cultural barriers can make this kind of 'early mover risk' particularly hard to overcome. Such risk aversion creates a collective action problem whereby no-one is willing to get such a model to the scale that enables everyone else to invest. As achieving social benefit through investment is a relatively emerging approach it is particularly prone to being undermined by this particular challenge.

Government can take such cornerstone or early mover positions if it believes there is a policy advantage to development the investment strategy concerned. This does not necessarily require government to take a different return or subordinate place in an investment structure.

## Creating sustainable organisations

This case is less around delivering a specific policy objective and more relevant when policymakers are taking a longer-term view of the delivery system in a certain area ('System Stewardship' in the words of the Institute for Government<sup>13</sup>). If it is deemed desirable to build a resilient group of independent organisations in a certain sector, helping to create a sustainable financing system whereby those organisations can invest and grow is an important part of the policy approach. Creating such a financing system can be a valuable policy tool among others in building a sustainable community of robust organisations.

# Use case one: Risk transfer on outcomes

This first example is most relevant where a public sector commissioner can identify a clear and measurable outcome that it wishes to promote for a specific and defined cohort of people, but does not have an existing delivery model for reaching that outcome or a blueprint for how to create one. Both of these criteria need to be met for the risk transfer involved in a social outcomes partnership to be worthwhile. There needs to be a defined cohort with a defined outcome, as otherwise it will not be possible to identify what needs to be achieved with sufficient clarity to form the

<sup>12</sup> DFI Working Group on Blended Concessional Finance for Private Sector Projects: Joint Report (2018). Washington DC: World Bank Group. Available at: <http://documents.worldbank.org/curated/en/654631613402335765/Joint-Report-2018>

<sup>13</sup> Hallsworth, M. (2011). *System Stewardship*. Institute for Government. Available at: <https://www.instituteforgovernment.org.uk/publication/report/system-stewardship>

basis of payment. To take an example, this kind of social outcomes model has been used to support successful completion of Key Stage 4 education among at-risk children. The outcome is clear and measurable: meeting agreed thresholds of good school attendance and attainment at GCSE. The cohort is also easily defined: children who at a set point (say age 14) exhibit a certain set of risk factors known to be associated with poor educational outcomes.

The criterion around there not being an existing delivery model is what could then push a commissioner to pursue a social outcomes partnership approach. The interventions may need to be tailored to individuals in a way that large-scale public service delivery can struggle with: for example, a package of personal tutoring and mentoring in the education case. They may require flexible design and delivery approaches that do not sit comfortably in the public sector, making a consortium of third sector organisations better positioned to achieve the goals. Of course, the public sector could simplify matters by simply grant-funding the relevant third sector organisations. It has sometimes been argued that this is a superior approach as it avoids tying delivery partners into solving a single narrow outcome and ‘game playing’ to achieve it.<sup>14</sup> However, in reality, public sector commissioners are rarely willing to give grants with sufficiently wide discretion while retaining all the risk of non-delivery, and therefore outcomes-funded approaches have often in practice increased the flexibility and personalisation that can be delivered by third sector organisations. This experience is described by Hanley from her work as a commissioner in Kirklees Metropolitan Borough Council.<sup>15</sup>

Three examples of areas where these models have been tried in the UK and shown positive results are:

- **Management of long-term health conditions:** where the defined cohort is people with a diagnosis of certain conditions and the desired outcome is reducing hospital usage in comparison with a control group. The Thrive programme in North-East Lincolnshire, which used community-based support tailored to individual needs, reduced secondary care attendance by 18.5 per cent compared to an increase of 16 per cent in the control group.<sup>16</sup>
- **Children’s services:** where the cohort is children identified as having a high number of risk factors of being taken into residential care and the desired outcome is that they are able to stay with their family for a defined period. The Positive Families Partnership in London followed this model and delivered superior outcomes at between 20 per cent and 50 per cent lower costs than comparator programmes, and has now been replicated in Suffolk

<sup>14</sup> Lowe, T. and Wilson, R. (2017). Playing the game of outcomes-based performance management. *Social Policy and Administration*, 51(7), pp. 981-1001.

<sup>15</sup> Hanley, E. (2024). Collaborating to Improve Local Services. In: Anastasiu, A., Carter, E. and Airolidi, M. (2024). *The Evolution of Social Outcomes Partnerships in the UK*. Government Outcomes Lab (GO Lab). Available at: [https://golab.bsg.ox.ac.uk/documents/The\\_Evolution\\_of\\_Social\\_Outcomes\\_Partnerships\\_in\\_the\\_UK.pdf](https://golab.bsg.ox.ac.uk/documents/The_Evolution_of_Social_Outcomes_Partnerships_in_the_UK.pdf)

<sup>16</sup> Big Society Capital (2023). *Social outcomes partnerships: Health*. Available at: [https://bsc.cdn.ngo/media/documents/Social\\_outcomes\\_partnerships\\_health\\_deep\\_dive.pdf](https://bsc.cdn.ngo/media/documents/Social_outcomes_partnerships_health_deep_dive.pdf)

and Norfolk.<sup>17</sup>

- **Homelessness prevention:** where the cohort is people either rough sleeping or at high risk of doing so, with the defined outcome being maintenance of a tenancy for an agreed period. The Greater Manchester Homes Partnership housed far more people than originally targeted, at a cost to the Combined Authority at half the cost per person of a similar service delivered through a traditional contract.<sup>18</sup>

## Use case two: Grant spend efficiency

Governments frequently use grants to subsidise activities or organisations where positive externalities of public benefit mean that the market alone will not lead to an optimal outcome. Grants can meet part or all of the costs of the subsidised activity. This use case revolves around situations where deploying that grant alongside investment capital can be a more efficient use of the money.

In some cases, there is little or no commercial income available to the organisation providing the public benefit, in which case traditional grant is likely to be the best way forward. The potential for investment capital comes in where there is an underlying revenue-generating business model, but pure market-rate capital is not suitable. Therefore, the use of grant is to alter the risk-return profile and thereby lever in additional investment.

It is simplest to illustrate this with a real example. Sports England has a long history of giving grants to establish or improve sports facilities, especially in locations or communities where they may be lacking. There is a clear rationale for this given the very clear public good benefits from increased physical activity and the significant capital costs involved, which will otherwise lead to undersupply. In 2019, Sports England worked with British Gymnastics and the fund manager Sporting Capital to create a different way of using grant funding for the establishment of gymnastics clubs. These clubs can be successful businesses and are viable investment propositions with the right cost of capital. However, that rate can often be below that the commercial market would set for the risk involved, especially for clubs in more disadvantaged communities. Therefore, rather than just supplying grant to a small number of clubs, Sports England used the same money to provide a first-loss layer in an investment fund, thereby reducing the risk to other investors and hence the cost of capital to the gymnastic clubs. This model therefore brought additional capital into the gymnastics sector, reached far more clubs than a straight grant model and has the potential to return some money to Sports England if the investment risks do not crystallise and some of their money is not needed to cover losses.<sup>19</sup>

<sup>17</sup> Better Society Capital (2024). *Outcomes For All – Redefining Public Service Delivery*. Available at: [https://bsc.cdn.ngo/media/documents/Outcomes\\_For\\_All\\_Redefining\\_Public\\_Service\\_Delivery.pdf](https://bsc.cdn.ngo/media/documents/Outcomes_For_All_Redefining_Public_Service_Delivery.pdf)

<sup>18</sup> Better Society Capital (2024). *Outcomes For All – Redefining Public Service Delivery*.

<sup>19</sup> For more detail of this specific example, see: <https://clubcapital.co.uk/partners/>

In theory, it could have been possible to achieve the same effect by giving a small amount of grant to each of the clubs and allowing them to use that to reduce their financing need so the cost to them came down to the same level. However, it is likely that this would have been less efficient, for two reasons. First, any over-generous risk mitigation would accrue to the club themselves (potentially leading to private gain) rather than being recycled back to the public sector for re-use in the fund model. Second, creating a single fund with a focus on providing finance to this particular type of organisation significantly reduces transaction costs and ought to lead to better credit decisions than would be made by dispersed lenders being approached separately by lots of small organisations operating a niche business model.

Another example of this type of approach makes the possibility of recycling unused money back to the government more explicit by deploying a low-cost loan rather than a grant. In this case the Scottish government provided a loan at a sub-commercial rate into a fund set up to build and manage affordable housing targeting key public service workers in high-cost areas of Scotland. The low-cost loan reduces total cost of capital so that the resulting homes can be more affordable than would otherwise be possible, while still bringing in the same external investors (such as pension funds) for the additional capital needed. Usually, affordable housing of this sort in the UK is funded with a straight grant contribution from the public sector.<sup>20</sup>

A further variation is where the government does not commit upfront money at all but instead deploys a guarantee to have the same effect of reducing the cost of capital for investments with a clear public benefit. A common way this works is that the government guarantees that a proportion of any losses made by investors in a fund meeting the necessary criteria will be compensated. There is a long history of using this kind of approach in international development.<sup>21</sup> Within the UK context, guarantees have started to be used more, for example to support business lending during the Covid-19 pandemic (the Covid Business Interruption Loan Scheme, or CBILS) and more broadly to support lending to small or micro-businesses in areas and communities that struggle to access mainstream lenders. Social impact investors have been able to use such schemes to enable lending to social enterprises and charities that face similar financing challenges but generate clear public benefit – for example, the Recovery Loan Scheme operated by the Social Investment Business.<sup>22</sup> The value of supporting charitable organisations through such guarantees has been recognised by the British Business Bank (the guarantee operator) by relaxing some particular eligibility criteria that would be a barrier for charities.<sup>23</sup>

<sup>20</sup> For more details of this particular scheme, see: <https://www.thrivinginvestments.co.uk/funds/new-avenue-living/>

<sup>21</sup> Mirabile, M., Benn, J. and Sangaré, C. (2013). *Guarantees for Development*. OECD Development Co-operation Working Papers, 11. OECD Publishing.

<sup>22</sup> See: <https://www.sibgroup.org.uk/funds/recovery-loan-fund/>

<sup>23</sup> In particular, the requirement about percentage of income derived through trading activities: <https://www.british-business-bank.co.uk/finance-options/debt-finance/growth-guarantee-scheme/frequently-asked-questions>



## Use case three: Cornerstone/early mover

A different market failure sits at the heart of the third use case: a co-ordination failure. There are cases where there is an investment proposition with positive social impact that is commercially viable in terms of risk and return if it can reach a certain scale. However, the model and/or the fund manager seeking to operate it may be new, relatively untested and lack access to the networks needed to raise large sums of capital. Private investors are often willing to invest if the proposition reaches the necessary scale, but are unwilling to move early with the significant commitments that are needed to get to the fund to that scale in the first place. So-called ‘cornerstone’ investors – the investor who commits early to being a significant percentage of the fund – are particularly critical and hard to obtain for newer managers and or more unusual investment propositions.

Away from the pure social impact space, the UK government has recognised this issue for some time and responded by equipping the British Business Bank (BBB) with the Enterprise Capital Fund (ECF). The ECF aims to increase the supply of equity finance to smaller UK companies, and specifically to lower the barriers to entry for new fund managers seeking to supply such finance. Through the ECF programme the BBB is able to commit to being a large proportion – up to 60 per cent – of an investment fund, giving a great deal of reassurance to private investors that the fund will reach a viable scale.<sup>24</sup>

The ECF has now been employed to support some funds with a strong social impact purpose consistent with the wider aims of the programme (for example, funds run by Eka Ventures, Bethnal Green Ventures and Zinc.vc). In these cases, the BBB has invested in partnership with Better Society Capital, which has a long record of taking similar cornerstone positions in a wide range of social impact funds.

While these examples of the BBB and Better Society Capital are of non-governmental or arms-length investors playing this catalytic role, it is also an option for central government or local government themselves, either investing directly or through one of these existing investors. In an example of the latter, the (then) Department for Housing, Levelling Up and Communities provided £25m for Better Society Capital to invest on their behalf, in order to provide scale and catalyse other investment into funds providing homes for people who would otherwise be in high-cost and low-quality temporary accommodation. By using this money as cornerstone commitments, the programme was able to lever in additional private finance of £138m alongside.<sup>25</sup>

The fact that this approach is suited to occasions when there is an

<sup>24</sup> For this and more details on the terms of the ECF, see: <https://www.british-business-bank.co.uk/for-finance-providers/equity-finance/enterprise-capital-funds/key-features>

<sup>25</sup> Bourne, G. (2024). Incorporating recommendations from the social housing inquiry. Better Society Capital, 14 August. Available at: [https://betersocietycapital.com/latest/incorporating\\_recommendations\\_from\\_the\\_social\\_housing\\_inquiry/](https://betersocietycapital.com/latest/incorporating_recommendations_from_the_social_housing_inquiry/)



underlying viable investment model with the issue just being one of scale does, of course, limit its use to a subset of policy challenges. However, this limit is also a source of an important positive feature: if done well, this kind of intervention can lead to financial returns for the public sector as well. The ECF is, across its lifecycle, providing positive returns for the BBB. The homelessness example above is structured so that when the initial investment plus return comes back it will be recycled into further investments tackling homelessness.

## Use case four: Building organisations more broadly

Governments sometimes take the view that building a vibrant, diverse and resilient set of non-governmental organisations in a given sector is a desirable policy objective. This may be because such organisations are seen as in some way intrinsically valuable: this could apply to some community organisations or cultural bodies. Alternatively (or as well), it could be that the relevant part of government feels that such an ecosystem of organisations will be the best way to promote and deliver a set of policy goals. The experiment with free schools is one high-profile example, grass-roots sports and leisure organisations (with a health policy objective) is another.

Clearly government can and does provide grant funding to support such groups of organisations, and this is often necessary. However, as with the models discussed under Use Case Two above, grant funding alone may not be the most efficient and sustainable model. In particular, grant funding is easily stopped by a future government with different budgetary priorities or ideological leanings, and it naturally leads to a particular kind of relationship with government that may not help the sector to thrive.

The potential addition to grant funding is using some public support and subsidy to create other sources of finance, for example accessible small loans, that are more sustainable and support organisations to develop their own revenue models beyond grant funding in the longer run. While not possible everywhere (especially if the underlying organisations have no realistic prospect of economic activity that generates meaningful income) this tool does have potential where social enterprise is part of the system that policymakers are trying to build.

So far in the UK we have only a few, relatively small-scale, examples of policymakers taking this kind of approach. One is that the Scottish government has decided that having more social enterprises – viable businesses with a social purpose – is a desirable outcome in itself. They have therefore provided support (alongside other investors) to the Social Growth Funds run by Social Investment Scotland.<sup>26</sup> These provide loan finance to social enterprises who may struggle with mainstream lenders understanding and supporting their business model. The aim is that

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<sup>26</sup> See: <https://www.socialinvestmentscotland.com/investment/scottish-social-growth-fund/>

these loans enable the social enterprises to grow and become more self-sustaining. A similar regional example is the Bristol City Funds initiative, managed by Bristol and Bath Regional Capital and supporting social businesses in Bristol and nearby. Bristol City Council was a key supporter and cornerstone investor into the funds.

There is potential to move beyond these valuable initiatives focused on regional social enterprise development, and to look at where developing a vibrant sustainable set of non-government but socially focused providers could be critical to delivery of a major national policy priority.

A potentially promising area is residential care for children. This system is creating both very poor outcomes for vulnerable children and huge fiscal costs in the UK: the 2021 independent review of children's social care 'conservatively estimates these adverse outcomes [of the current care system] as costing England £23bn a year'.<sup>27</sup> One contributing factor is the prevalence of expensive private-equity owned provision of residential care, which has tended to drive up costs without a corresponding increase in quality of care.<sup>28</sup> There are already a few children's residential care businesses with different ownership structures and the goal of delivering excellent services alongside a more modest (though sustainable) long-term financial return. For example, Juno is a residential care provider based in Liverpool and set up as a community interest company. It has been backed by social impact investment including from two public sector bodies (Wirral Metropolitan Borough Council and the Liverpool City Region Combined Authority).

There could be opportunities for the government to promote these kinds of models, including by supporting the growth of suitable sources of social impact investment to finance them, to shift the balance of the market and therefore the costs and outcomes of the system. There are signs that such a move may be on the way: in the November 2024 press release announcing changes to children's social care, the Secretary of State said 'Not-for-profit providers and those backed by social investment are being called on to come forward to set up homes to strengthen the system'.<sup>29</sup>

<sup>27</sup> MacAlister, J. (2022). One: Reset children's social care. In: The independent review of children's social care. Available at: [https://webarchive.nationalarchives.gov.uk/ukgwa/20230308122940mp\\_/https://childrensocialcare.independent-review.uk/wp-content/uploads/2022/05/Reset-childrens-social-care.pdf](https://webarchive.nationalarchives.gov.uk/ukgwa/20230308122940mp_/https://childrensocialcare.independent-review.uk/wp-content/uploads/2022/05/Reset-childrens-social-care.pdf)

<sup>28</sup> Children's Commissioner (2020). Private provision in children's social care; Sen, R., Ulybina, O.A. and Holmes, L. (2024). Charting the 21st Century Rise of For-Profit Residential Child Care. *Youth*, 4(1), pp.272-287.

<sup>29</sup> Department for Education (2024). Biggest overhaul in a generation to children's social care. 18 November. Available at: <https://www.gov.uk/government/news/biggest-overhaul-in-a-generation-to-childrens-social-care>



# Conclusion

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Social impact investment is not a magic bullet for policymakers, or applicable in all policy areas. As is clear from the discussion above, the use cases have specific characteristics. However, if government is interested in exploring the potential further, there are some steps that should be considered.

## Specialist capability

This report has set out just some of the examples of social investment supporting policy delivery that are already underway. Many of them are small and attached to specific government agencies at different levels and geographies. There is not widespread knowledge or capability across the public sector to expand these examples, and what is needed to implement them successfully does not simply read across from existing capabilities. Specific understanding of investment structures, the risk, return and impact appetite of potential investors, and delivery through social purpose organisations are all needed. It will be hard to develop these at scale across the whole public sector, so central government should consider a centre of expertise to support others (as has been done before, for example with Partnerships UK for private finance in the late 1990s).

## Integration with the spending review process

Given the potential for some of these policy uses to drive greater efficiency in the deployment of public expenditure (such as by swapping grants for contributions to a blended finance investment structure) there is a strong reason for the Treasury to pursue them as part of the public spending allocation process. Departments could be required to consider these models in areas where there is already evidence of examples that are delivering credible evidence of value for money.

## Sub-national collaboration

As noted above, some Combined Authorities and devolved administrations have already made good use of social impact investment. There is clear potential for the various devolved levels of government to compare experience, learn from one another and potentially collaborate to create some larger-scale (but still locally driven) initiatives.

## Integration with regulatory change

A powerful development of the fourth use case would be for government to explicitly combine the creation of an investment environment suitable for nurturing new forms of delivery organisation with regulatory changes that

also promote them. The children's residential care example is a good one: regulatory standards increasing the relative attractiveness of alternative socially owned providers would increase the viability of investment to support them. In turn, if more investment was therefore available, supply could increase further, creating more space for regulation to tackle poorer performers, in a potential virtuous circle.

As with any policy tool, especially one as relatively under-developed as this, there are risks and mistakes will be made; learning from them and delivering improvements will be a crucial research agenda in the future. What is increasingly clear, however, is that this tool does have potential value around some of the most intractable domestic policy challenges: supporting cohorts of people with complex needs and poor outcomes, building alternative but values-aligned providers of public services, overcoming systematic underinvestment in certain areas by the commercial mainstream, and more. Policymakers and social investors need to work together to develop and improve the innovative interventions of the future.



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