Futurebuilders Evaluation:

Final Report
Executive Summary

March 2010

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Centre for Regional Economic
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Executive Summary

Introduction

1. Futurebuilders arose out of the 2002 Treasury Cross-Cutting Review of the Role of the Voluntary and Community Sector in Service Delivery. It is an innovative policy designed to support the third sector through venture capital style funding. It predominantly offers loans to the sector. The Government committed up to £215 million to the fund. **The Cross-Cutting Review emphasised Futurebuilders' role in increasing the capacity of the Third Sector to deliver public services**, and the sector's relative strengths in terms of specialist knowledge, expertise to reach hard-to-reach groups, bring innovation to services and the improvement of service outcomes.

2. **Futurebuilders is seen as a policy experiment**. As such it is an opportunity for Government to test how the third sector can be supported using loan funding to build its capacity to deliver public services and achieve social outcomes. A role which has been broadly defined as social investment.

3. **Futurebuilders is managed under contract to Government by a Fund Manager** (Futurebuilders England Ltd or FBE). There have been two separate Fund Managers. From June 2004 to March 2008 (FBE 1) and from April 2008 to March 2011 (with an option to extend for a further three years (FBE 2). As part of the re-tendering exercise which led to FBE 2, the Office of the Third Sector introduced into the contract with the Fund Manager a set of Key Performance Indicators.

4. The aim of this report is to provide an assessment of Futurebuilders, guided by the following hypothesis:

   Futurebuilders increases the capacity of the voluntary and community sector to deliver public services.

   (from original Evaluation Specification, Home Office 2005).

5. This is the final report of the evaluation of Futurebuilders. It considers the following:

   - the rationale for Futurebuilders and the **evaluation framework** (Chapter 2)
   - the **evolution of Futurebuilders**, and in particular the processes set up by the Fund Manager to deliver the fund, a profile of applications and investments, and the effectiveness of Key Performance Indicators (Chapter 3)
   - the outcomes from Futurebuilders in terms of **organisational development** for third sector investee organisations (Chapter 4), **procurement and public service delivery** (Chapter 5), and **social outcomes** (Chapter 6)
   - **impact and value for money** of Futurebuilders (Chapter 7)
   - a conclusion assessing Futurebuilders providing lessons for social investment policy (Chapter 8).

The Rationale for Futurebuilders and Approach to its Evaluation

6. The design of Futurebuilders can be best understood by understanding its rationale or 'theory of change' under three main evaluation streams, shown below.

Figure 1: Futurebuilders Evaluation Strands and Logic Chain

Evaluation Strand	Working Arrangements		Organisational Development		Impact	
Logic Chain	**Governance** Futurebuilders policy establishes a dedicated fund for the third sector: managed under contract to government	**Investment Model** Patient and Engaged funding primarily in the form of loans made in third sector organisations.	**Organisational Development** Support builds stronger third sector organisations better able to deliver public services	**Procurement and Public Service Delivery** The investee organisations are able to secure more public service contracts	**Outputs** organisational development; delivery of more public services; and increased numbers of service users	**Outcomes** third sector organisations are more sustainable; third sector organisations make a larger contribution to service delivery; social outcomes of service users are improved

7. In addition to this there are a series of key assumptions and hypotheses which underpin the Futurebuilders policy:

- **Targeting**: that the third sector is better placed (than public or private sectors) to **deliver public services, especially around work with hard-to-reach groups**
- **Overcomes a Market Failure**: that third sector organisations are **unable to sufficiently access investment markets**, despite having fundable investments (i.e. there is some form(s) of market failure)
- **Engaged and Patient Funding:** that the use of loan funding through an **engaged investor approach**, more than other funding approaches (i.e. grants and commercial loans), allows the third sector to expand capacity to deliver public services
- **Funds can be Recycled** and reinvested by Government.

8. Furthermore, Futurebuilders also differs from other social investors (some government, some third sector backed). In brief, key differences between Futurebuilders and the other social investors include:

- **it is the largest social investment fund in England**. This, in theory, allows it to benefit from economies of scale and to have a higher profile. it also potentially allows it to have a more diverse portfolio of investments, by types of investment, organisations supported and levels of risk accepted
- its **focus is explicitly on public service delivery**
- it assumes at the outset that **surpluses generated on contract income will be used to repay the loan** (i.e. investees do not use fundraising, grant income or even reserves)
- **applicants for funding are appraised on both their demonstration of social and financial returns**.

9. The evaluation of Futurebuilders commenced in July 2005. Following a scoping phase between July and October 2005, the 'main phase' of the evaluation ran from late 2005 through to February 2010. A formative interim evaluation report was

published in April 2008. This final report represents the culmination of several strands of research to provide a summative assessment of the impact of Futurebuilders.

Evolution of Futurebuilders

10. **At the end of January 2010 a total of 375 organisations had agreed investments worth a total of £154.7m of which the total value of loan investment was £126.5m** (data from FBE, end January 2010).The distribution of funds according to funding type is summarised in the table below.

Table: Overview of the distribution of Futurebuilders Funds

	Total (£m)	Number	Average (£,000s)
Finance based:			
Loan	£126	250	£506
Guarantee	£2	23	£95
Sub-total	*£128*	*273*	*£471*
Grant based:			
Development Grant	£3	132	£24
Capital Grant	£15	141	£108
Revenue Grant	£6	96	£61
Capacity Building	£2	107	£16
Sub-total	*£26*	*476*	*£55*
Write-offs/Full Provisions	£3	15	£203
Total Investment Funds	***£155***	***375***	***£413***

Source: FBE (February 2010)

11. **Since its inception in 2004 Futurebuilders has evolved considerably**. During this time the fund has undergone major changes both internally (in terms of the processes linked to funding application and portfolio management) and externally (in terms of governance and management by government). However, its focus remains on investing in organisations which would not have access to commercial funding.

12. Whereas FBE 1 offered development grants and full investments (loans which may include a grant element), FBE 2 has introduced a series of investment products (such as a Tender Fund and Consortia Fund)

13. In terms of applications made to and investments made by Futurebuilders the following patterns stand out:

- **three public service delivery areas account for 82 per cent of applications and 84 per cent of investments** (Health and Social Care, Children and Young People and Education and Learning)
- **a rise in the demand for smaller amounts of funding** (for less than £100 thousand in FBE 2) and a rise in applications from small (less that £100 thousand turnover) organisations. It was also notable that applications for less than £100 thousand were more likely to be successful in FBE 2
- **a fall in the number of applications going to detailed application stage** (requiring a business plan) from 509 in FBE 1 to 236 FBE 2 (up to January

2010). **At the same time the conversion rate (of applications to investments) has increased from 24 percent to 40 percent.**

14. Overall the evaluation finds that:

- **the change in Fund Manager in 2008 and introduction of Key Performance Indicators has led to streamlined processes, clearer marketing and more tailored support packages (for instance the introduction of specific investment products)**
- **the Key Performance Indicators are better aligned to the policy objectives of Futurebuilders and have contributed to faster delivery of the funding**.

15. **The average time from agreement to invest to the first drawdown of funding is 315 days with this having fallen from 448 days (FBE 1) to 125 days (FBE 2)**. This is a significant shift and is reflected in shifts from physical capital to working capital investments and falls in the average size of investments (from £358 thousand under FBE 1 to £307 thousand under FBE 2). It also reflects a change in the processes used by the Fund Manager. Moreover, **the average payback period of loans, has fallen from 14 years for FBE 1 investments to 10.8 years for FBE 2 investments**. These terms are agreed through negotiation between the Fund Manager and investee

16. **The reduction in time for fund dispersal brings forward the time taken to put in place the capacity to secure Public Service contracts (from over one year to just over four months)**. For example, loans tend to be drawn on physical capital projects on the completion of each phase of a building.

Understanding the Outcomes of Futurebuilders

17. **Of £215 million originally allocated by government to Futurebuilders, funds committed to loans are £155 million (at end January 2010 when the fund was fully committed). As at the end of January 2010 £91.4 mil**lion had been disbursed**. Although the rate of disbursement has greatly increased, the assessment of outcomes achieved (assessed up to September 2009) is made largely on this basis with some analysis of likely future impacts**.

18. **A key message which comes through from programmes such as Futurebuilders is that the intermediate outcomes are largely defined in terms of organisational development and public service delivery with (final) social outcomes occurring in the longer term.** There is however a noticeable time lag between each stage of the Futurebuilders logic chain. These help inform the extent to which impacts have been achieved to date and the extent to which impacts still need to be forecast.

19. Social outcomes for service users will follow Public Service Delivery. **In some cases these may be quite short term (for instance the delivery of a neighbourhood mediation service) but in other cases will take far longer to realise (for instance the provision of specialist education to children with a limiting lifelong condition)**. In the latter example, full outcomes may not be realised until adulthood. However, as part of these there maybe more immediate benefits (e.g. better management of a health condition).

20. **Outcomes and impact from Futurebuilders therefore need to be considered over differing time periods**, for organisations, public service users and for service users.

Organisational Development Outcomes

21. Organisational development is an important outcome area for Futurebuilders and both Fund Managers were found to be identifying the necessary support organisations required. However, **the level of capacity building required varied considerably across the investee organisations and there was no guarantee in cases which were at risk that the support would be sufficient for investment success**.

22. The main findings from this section of the report show that:

- **FBE has been effective at selecting strong organisations and that organisations perform well** (in terms of their income growth) compared to 'comparator organisations' from the wider sector
- the case studies showed that **FBE tends to invest in two broad types of organisations, those which have already built capacity but are seeking to grow further and those which still require organisational development support**
- **FBE appears effective in identifying those organisations with further development needs and targeting support accordingly**. Furthermore, FBE's monitoring systems and processes appear appropriate in terms of identifying organisations which may be vulnerable or at risk during the course of an investment
- however, **organisations with further development needs are more vulnerable and FBE support (combining support and grants in some cases) is not a guarantee of investment success**.

23. The evaluation found that investment selection and organisational development needs to consider a combination of internal organisational management and external relationship factors. **Of these, external relations with funders and financial management are particularly important**.

24. We found that managing loan investments placed new pressures on organisations, not just in the narrow accounting for these loans (which we found had improved over time) but in the strategic shift organisations needed to make in relation to income generation and the delivery of public service contracts.

Public Service Delivery and Procurement

25. **What is a significant driver or barrier for the realisation of FBE investments at the case level, are the policy environments and procurement markets in which organisations operate**. The following appear common features of more favourable procurement markets for FBE investee organisations:

- services offered are **central to mainstream policy agendas** and public agency budgets
- **services are aligned with local agencies' priorities**, strategies and service provision requirements (for example, the services provided will contribute to a Local Area Agreement target)
- **demand for services outstrips (local) supply**
- there exist **established two-way relations between commissioners investee case organisations** often spanning local and national levels

26. **Against this backdrop there are particular challenges around the crime and community cohesion public service delivery themes** - either because available budgets are small (community cohesion) or there has been some uncertainty in the procurement opportunities for third sector organisations (crime). On the whole, this was not the case in the other areas of public service delivery.

27. **Organisational development and capacity is ever changing and not static**. We have seen that the capacity to deliver public services that has been built within organisations may possibly be reduced if the procurement markets in which they operate do not become more favourable in the short to medium term. Conversely, we also found organisations that have not built capacity due to crisis have the potential to do so in future.

28. The calculation of net public cost provides a useful indication of the extent to **public service delivery contracts won by investee organisations represent a net saving to the public sector purchaser**. Of six case studies presented, investment related activity for five organisations was found to result in net savings to the public purse of between £600 thousand and £5 million after ten years.

29. However, **increased costs do not necessarily equate to an overall negative outcome**. It is simply an indication that the new services created through the investment activity represent a net cost compared to alternative provision and does not take into account of equity benefits which my occur as a result of the investment.

Social Outcomes

30. The direct outcomes from Futurebuilders lie primarily in terms of organisational development and in the delivery of public services. Social outcomes, for service users are indirect, being purchased by public sector organisations or by individuals (in the case of childcare provision and elder care). As such **Futurebuilders investments may have catalytic effects and may bring benefits which would otherwise have not occurred, or not occurred to the same extent.**

31. Difficulties in identifying and attributing outcomes were also compounded because:

- Futurebuilders investments may be made alongside other investment and grant funding
- outcomes may extend into the long term (e.g. in the case of childcare interventions)
- outcomes are difficult to attribute solely to one organisation (e.g. a complex intervention for the treatment of drug addiction which works across agencies).

32. **We found variable practice in the capture and monitoring of service benefits for users**. This ranged from organisations which had exemplary monitoring systems and extensive research programmes into the outcomes of supported individuals, to far more limited monitoring and evaluation systems. In part this reflects the scale and scope of the organisations concerned. However, it did raise concerns around how social benefits were evidenced at the investment stage.

33. **At this stage a comprehensive assessment of the social returns resulting from the Futurebuilders programme has not been possible**. This is due to the current evidence limitations and that many of the investment activities have not progressed far enough for outcomes for service users to have been realised. Nevertheless it has

been possible to project the potential social returns in a number of cases which demonstrate the potential for larger returns in the future.

Impact and Value for Money

34. The impact and value for money from Futurebuilders is assessed as follows:

- **in terms of cost efficiency, FBE is broadly comparable to other social investment organisations**. Indeed its management costs as a proportion of the loan book appear lower than comparable government backed social investment organisations. This may in part be due benefits from scale but also the market which Futurebuilders targets – it is typically working with established and not start-up organisations
- **the combined total costs incurred as a result of application and investment are broadly similar between social investors**. However, it was notable that investee costs are lower in successful organisations, but those requiring additional support, such as those on cause for concern, incur higher costs
- **Futurebuilders appears to be effective in making investments in strong organisations (relative to other applicants and similar organisations in the sector)**. Clearly, Futurebuilders can only invest in organisations which apply for funding but the findings suggest, at least at the point of investment, that on narrow financial criteria that it makes effective decisions
- **investments were found to be largely additional**. That is, the investee organisations would not have secured investment funding at the same scale and at the same time from commercial sources. Some investees noted that they may have secured funding but this would have been over a long time period, through for instance fund raising activities or from reserves
- **investee organisations were found not to be displacing existing services**. Service capacity was found overwhelmingly to be additional to existing provision, in terms of providing better quality of services, or meeting unmet needs and in one case providing a more comprehensive package of support and this was at a lower cost per service user (e.g. around supported volunteering instead or more passive support in a day care centre)
- **the outcomes experienced by beneficiaries were found to be additional** - either because beneficiaries were currently not receiving a service (i.e. wholly additional) or as was more likely they were provided with a better service.

35. **At this stage of Futurebuilders the rate of loan default is low** (3.3 percent of full investments). This suggests that there is considerable potential for recycling the fund. However, the evaluation highlights Futurebuilders investments have been made in a largely buoyant period of public expenditure: a more constrained environment will put greater pressure on investee organisations and also may prompt further engaged and patient funding support from the Fund Manger.

36. **Futurebuilders focus is on (commercially) unbankable investments**. The organisations most appropriate for more straightforward Futurebuilders loan funding are those with a viable strategy for securing and delivering Public Service Delivery contracts. Alongside this there were also organisations which required a more patient approach, and a combination of loan funding with a higher proportion of grant (up to 30 per cent of the total investment) and greater advice. The financial and social returns to this class of investment were longer term and risks were greater.

Conclusion

37. **It was found that Futurebuilders builds the capacity of the third sector to deliver public services**. However, there is considerable variation across the investment book of the Fund Manager in terms of the extent to which this was achieved.

38. **Local procurement markets played an important part in shaping the success of investments**. These factors could not always be anticipated at the outset of an investment. However, where investees had high level commitments to provide services or a strategic commitment to a particular procurement approach or policy area, then it was found to be more likely to be successful.

39. **The design of Futurebuilders, notably through the KPIs, focuses the Fund Manager on investments which are most likely to secure Public Service Delivery contracts**. This is an important element of Government supporting social investment.

40. **There were found to be limitations in the assessment and monitoring of social outcomes**. There is scope to develop a model of social investment which focuses more on social outcomes and understanding the often long timescale over which they are achieved.

Lessons for Social Investment Policy

41. The following lessons can be drawn from the evaluation for social investment policy:

Fund Management

42. **Investment selection** needs to consider factors such as organisational capacity (including financial management), the quality of the service being provided, the demand for services and the relationship of the investee organisation with funders.

43. **Patient and Engaged Funding**. A role of social investment in the third sector was found to be identifying areas of greatest need and providing appropriate support. This could involve supporting organisations through periods of change, growth and crisis.

44. **Breadth of Investment Portfolio**. Futurebuilders demonstrates that it is possible to manage a diverse investment portfolio, operating in different public service areas, different localities and regions, and with different organisation and investment sizes.

45. **Fund recycling**. Social investment based on loan funding has the potential for funds to be recycled (capital repayments and interest payments). There is scope for greater understanding of the management of risk in this process and investment in areas of greatest social return. The main risks to fund recycling are around levels of public expenditure across areas of service delivery but also local commitments to procure services from the third sector.

Organisational Development and Procurement

46. **Third Sector Organisational Development.** Social investment is not a replacement for grant funding and it places different demands on third sector organisations. These demands include issues of governance, financial management, marketing, user involvement and the management of risk - all of which can be positive to the investee organisation but need to be considered at the outset.

47. **Financial Management.** Loan funding - for both working capital and physical capital investments - raises a wide range of financial management issues for organisations, but which may also drive change in organisations. Key issues were found to be around the management of VAT (especially for physical capital investments), the pricing of services and cost management, and the impact of working capital investments on the balance sheet.

48. **Procurement Markets.** The procurement markets in which applicant organisations operate need to be carefully assessed in the investment process, in terms of the opportunities for third sector organisations generally but also the relationship the applicant has with funders (current and prospective).

Outcomes

49. **Organisational Development and Public Service Delivery Outcomes:** building organisational capacity is an important outcome but not an end in itself - it needs to lead to an increase in contracts secured.

50. **Social Outcomes.** Futurebuilders was found to be effective in investing in service capacity which had the potential to bring social outcomes in the future. However, the full social returns to investments are often realised in the long term.

51. **Assessment, Monitoring and Measurement of Social Returns**. Futurebuilders was found to be effective in selecting (financially) strong organisations and monitoring financial performance. Investment for social returns, the heart of social investment, requires the consistent monitoring and measurement of social returns.

Impact

52. **Investing in Service Improvement.** A key focus for Government funded social investment is around the support of organisations which provide services which address currently unmet needs amongst vulnerable groups.

53. **Value for Money.** The recycling of funding provides considerable opportunities for social investment to provide value for money for Government. However, it is contingent on the Fund objectives being combined with long term commitments to support the third sector's role different areas of public service delivery.

Social Investment Policy

54. **Setting up Social Investment Programmes.** Attention in the setting up of social investment programmes needs to be given to the market for the initiative (including the stimulation of demand) and the necessary competences of the fund manager. The current Fund Management arrangements appear appropriate in this respect.

55. **Long term commitment by Government**. Loan programmes, especially in physical capital (typically buildings) can involves a long term commitment by Government until loans are repaid.

56. **Key Elements of Social Investment** were found to include the effective targeting of funding to achieve policy objectives (the selection of investments), the provision of an engaged or patient approach to funding, and the use of loan funding (to recycle funds and to engender a behavioural change in investee organisations).