Futurebuilders Evaluation:

Final Report

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Centre for Regional Economic and Social Research

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The evidence presented and conclusions drawn, however, remain the responsibility of the authors.

Terminology

There is a considerable range of terminology used around Futurebuilders. We have endeavoured to use the precise terminology and to use this consistently, even where shorthand may have been used. The term *Futurebuilders* relates to the policy and related fund; and FBE to the Fund Manager. Where appropriate we distinguish between FBE 1 (the first Fund Manager from June 2004 and March 2008 where the contract was held by a Consortium of Charity Bank, Unity Trust Bank, Northern Rock Foundation) and FBE 2 (the second Fund Manager from April 2008 where the contract is held by the Adventure Capital Fund Ltd, and since September 2009 was rebranded as the Social Investment Business Ltd. *Futurebuilders England* (FBE) is the not-for-profit organisation set up to deliver the fund. The term Futurebuilders' *investees* relates to all organisations in receipt of support from FBE. All terms relate to the implementation of Futurebuilders in England and not to the similar, but separate, Futurebuilders Scotland.

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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).[1] 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

[1] For example the default rate in the Small Firms Loan Guarantee Scheme has been found to be as high as 30-35 percent.

(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).

1

1. Introduction

1.1. Background

1.1.1. This is the Final Report of the evaluation of Futurebuilders. The evaluation assesses the impact of the Futurebuilders programme, guided by an overarching hypothesis, that:

> ***Futurebuilders increases the capacity of the voluntary and community sector to deliver public services**. At the same time the evaluation should be designed in such a way as to facilitate the discovery of any unintended consequences of Futurebuilders investments*
>
> *(from original Evaluation Specification, Home Office 2005).*

1.1.2. 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[2]. This final report represents the culmination of several strands of research to provide a summative assessment of the impact of Futurebuilders.

1.2. About Futurebuilders Policy

1.2.1. **Futurebuilders arose out of the Treasury's Cross-Cutting Review of the Role of the Voluntary and Community Sector in Service Delivery (HM Treasury 2002).** The review suggested that there was considerable potential for third sector organisations to play a bigger role in providing public services.[3] The third sector was thought to bring 'added value' through greater flexibility and responsiveness, trustworthiness, understanding need, local community involvement, closeness to customers and user involvement, specialist expertise and the contribution of volunteers.

1.2.2. However, **a number of barriers were identified preventing the development of an enhanced role**. This included access to finance, the importance of stable funding relationships and the recognition of 'full cost recovery' in service contracts, alongside questions of capacity within the sector: the skills, knowledge and resources available in order to promote the delivery of effective services.

1.2.3. Futurebuilders aims to encourage third sector organisations to take a greater role in the delivery of public services. New forms of loan financing, with additional capacity building support, are provided for organisations involved or seeking involvement in delivering public services across the wide spectrum of public sector activity.

1.2.4. **Futurebuilders is seen as a policy experiment**. As such it is seen as an opportunity by government to test how the third sector can be supported using loan

[2] Sheffield Hallam University (2008), Interim Evaluation of Futurebuilders (Sheffield: Centre for Regional Economic and Social Research)
[3] Throughout this report the term *Third Sector* is used.

funding to build its capacity to deliver public services and achieve social outcomes. A role which has been defined as social investment.

1.3. Managing the Futurebuilders Fund

1.3.1. Following the Cross-Cutting Review of the Role of the Voluntary and Community Sector in Public Services (2002) and consultation in 2003, Futurebuilders was launched by the Active Communities Unit in the Home Office in May 2004. Government responsibility for Futurebuilders transferred in May 2006 to the Office of the Third Sector, established within the Cabinet Office to lead the government's third sector strategy. **The Futurebuilders fund officially opened for applications in July 2004 and was fully committed and closed for new applications in January 2010**.

1.3.2. **The programme has been delivered under contract to government by two separate Fund Managers.** From 2004 to March 2008 it was delivered by a consortium (hereafter referred to as *FBE 1*), led by the Charity Bank and including the Unity Trust Bank, the National Council for Voluntary Organisations and the Northern Rock Foundation. From April 2008 onwards, following the outcome of a competitive re-tender exercise, it has been delivered by the Adventure Capital Fund which has since been rebranded as the Social Investment Business Ltd (hereafter referred to as *FBE 2*). The current fund management contract runs until March 2011, with an option to extend for up to three years.

1.3.3. The management of the fund by two separate organisations allows for some comparison between approach and performance to be made. Although the primary purpose of both FBE 1 and FBE 2 is to make loans to third sector organisations, they have been subject to different sets of targets agreed with the Office of the Third Sector, have had different structures and governance, and differing modes of delivery. These issues are explored further in Chapter 3.

1.3.4. **It should be stressed that Futurebuilders is a complex and experimental policy which seeks to effect not only an institutional change in the support for third sector organisations but also to work across different policy areas**. At the outset of Futurebuilders these specifically included health and social care, education and learning, children and young people, crime and community cohesion. However, from 2008 investments have been possible in other areas (for example, the environment and sport). The evaluation has adopted an approach that seeks to estimate impacts across these policy areas.

1.3.5. However, **Futurebuilders is primarily a loan fund, with organisations expected to repay loans**. Investees are therefore required to make a return on the investment. The policy is therefore very different from grant initiatives. This has implications both for how the funding is used by investees (in comparison to grants) but also the expectations FBE may have for the information provided by investees.

1.4. Structure of the Report

1.4.1. This report is structured around the following chapters:

- Chapter 2 outlines the **Evaluation Framework** used, the main research questions and the rationales or *theories of change* which underpin the Futurebuilders Investment model

- Chapter 3 provides the background to the **Evolution of Futurebuilders**, discusses the role of the fund manager and the portfolio of investments made. This also examines the use of Key Performance Indicators in the contract between Government and the Fund Manager
- Chapter 4 examines the **Organisational Development** of Futurebuilders investees and the effectiveness of Futurebuilders in developing the capacity of organisations
- Chapter 5 analyses the progress investees have made in **Delivering Public Services** and the effect of local procurement markets on this
- Chapter 6 makes an assessment of the **Social Outcomes** which Futurebuilders investments and investee organisations contribute to
- Chapter 7 assesses the overall **Impact** of Futurebuilders and its **Value for Money**
- Chapter 8 draws **Conclusions** as to the effectiveness of Futurebuilders in achieving its original objectives.

2

2. Evaluation Framework

Summary

This chapter outlines the evaluation framework and the following key elements:

- **Evaluation Hypothesis**: Futurebuilders increases the capacity of the voluntary and community sector to deliver public services
- **Logic Model for Evaluation:** seeks to understand the relative importance of Fund Governance, the Investment Model, Third Sector Organisational Development and Procurement Markets in achieving outcomes for organisations, public service delivery and service users
- **Market Failure:** evaluation considers the nature of investment market failures and whether Futurebuilders overcomes these.

2.1. Introduction

2.1.1. **The central rationale of Futurebuilders is that investment in the third sector can raise its capacity effectively to deliver public services**: more effectively in terms of cost, its reach (especially to hard-to-reach groups) and in terms of the quality in comparison to other providers. The Futurebuilders fund, delivered by a Fund Manager on behalf of Government, is intended to use a mix of funding and support to actively achieve these goals.

2.1.2. The design of Futurebuilders can be best understood by understanding its rationale or 'theory of change' as outlined in the following diagram.

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

2.1.3. The above diagram provides an initial theory of change or rationale for Futurebuilders. Futurebuilders is not intended to be a grant programme or replicate the role of commercial investment. It intervenes by providing a mix of funding (loan, grants and advice) provided in a *patient* and *engaged* way over a long time to increase the capacity of third sector organisations to deliver public services.

2.1.4. It involves the following:

- it has been established through Government contracting with **an independent Fund Manager**
- that Fund Manager **establishing an Investment Model** to deliver this contract (i.e. to market the Fund, attract and appraise applications, and then invest, support and monitor organisations)
- through investment to **develop organisations to deliver services** (Organisational Development and Procurement)
- **to achieve impacts in terms of organisational development, public service delivery and improved outcomes for service users**

2.1.5. As such, there may be further 'sub-theories'/questions which are of importance to the success of the policy. Examples of these include the following:

Governance

- **Has government's implementation of Futurebuilders' policy objectives been effective?** In particular, what benefits have been achieved from its three key elements: the establishment of a dedicated fund; the fund delivery organisation being independent of government; and the use of KPIs to enhance contract performance?

Investment Model

- **Is Futurebuilders' 'offer' (in scale and scope) appropriate to the needs of Third Sector organisations to achieve the overarching objective to increase the capacity to deliver public services?** In particular, where does Futurebuilders sit in relation to other (social) investors and how this market is served
- **Has the fund manager established effective processes and governance arrangements to achieve the following: more sustainable third sector organisations**; more public service delivery contracts; a financial return on its investment; and social returns

Organisational Development:

- **Which types of organisations are best able to build capacity to deliver public services** using Futurebuilders investment (across a range of criteria including organisational type, size and other variables)?
- **Which are the most significant organisational barriers and drivers to the Futurebuilders investment objectives being realised?**

Procurement

- What are the organisational and contextual variables which explain whether public sector contracts are secured and delivered? **Are there certain necessary conditions for effective third sector-commissioner relationships?**
- At what geographic scale is Futurebuilders investment most effective in supporting organisations to secure contracts (from local/neighbourhood to England-wide delivery)?

Outcomes

- **Do investments lead to organisations delivering more and better services?**
- **Are investees able to reach and support groups not served by other providers,** and also, address complex and 'wicked issues' in innovative ways?

2.1.6. These sub-theories are inter-related: for example, the setting of specific investment criteria (in the investment model) should affect the achievement of outcomes. The focus for the evaluation is whether Futurebuilders achieves its overarching objective (to increase the capacity of the third sector to deliver public services).

2.1.7. **Futurebuilders should also be understood in terms of overcoming failures in the investment market for third sector organisations**: that is there an inefficient allocation of investment to third sector organisations. Reasons for such market failure may be due to high transactions costs in lending to third sector or ‘information asymmetries’, for instance commercial banks have insufficient information on which to base lending decisions, and therefore reduce credit available to parts of the sector.

2.1.8. The questions raised in this chapter are used to frame the conclusions to the evaluation.

2.2. Key Assumptions and Hypotheses which Underpin Futurebuilders

2.2.1. Government funding of Futurebuilders is based on the following arguments:

- that the third sector is **better placed (than public or private sectors) to deliver public services**, especially around work with hard-to-reach groups
- that third sector organisations are **unable to sufficiently access credit markets**, despite having fundable investments (i.e. there is some form(s) of market failure)
- 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.

2.2.2. 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 and as such the fund manager can make larger investments and needs to manage a larger investment portfolio (by value and number)
- its focus is explicitly on **public service delivery**
- it assumes at the outset that surpluses generated on contract income will be sufficient to **repay the loan without having to rely on other sources of income** such as fundraising, grant income or even reserves
- **judgements are made in terms of financial and social returns** and risks, but returns on both are explicitly required before investments are made.

2.2.3. The central hypothesis drawn from these (around Futurebuilders increasing the capacity of the third sector to deliver public services) suggests the following testable hypotheses are examined:

- Futurebuilders is more effective (than other funding models) at **selecting organisations which increase public service delivery capacity**
- Futurebuilders is more effective (than other funding models) at **supporting organisations to realise returns**
- Futurebuilders investments generate **financial and social returns**.

2.2.4. A case for government investment in Futurebuilders is therefore that it can both overcome failures in the investment market (outline above) but also demonstrates the potential of a social investment market to commercial funders.

2.2.5. The next considers the research methods which generate evidence on each of these.

2.3. Summary of Methods

2.3.1. The evaluation has drawn on a wide range of methods over three phases of research. The methods can be summarised as follows:

- analysis of management information and performance data held by FBE as well FBE documentation (e.g. appraisal papers, Board minutes). This analysis was used to inform the assessment of Governance Arrangements and the operation of the Fund Manager (the Investment Model). Management and monitoring information was also drawn upon to set case study findings (below) and matched pairs analysis (below) in context
- analysis of Target (FBE 1) Key Performance Indicator (FBE 2) data required to measure performance against contracted targets with the Office of the Third Sector. This information was used to compare the operation of the two Fund Managers and to set in context the analysis of Futurebuilders' contribution to public service delivery
- case studies of 17 Investee organisations. The case studies informed analysis of the outcomes of Futurebuilders in terms of organisational development, public service delivery and social outcomes
- a Quasi-Experimental Matched Pairs Analysis using Charity's Financial Accounts. This analysis provides the strongest statistical test for the impact of Futurebuilders, whether in terms of the organisations selected or the impact of the investment
- interviews with staff and board members of both Fund Managers (FBE 1 and 2) and with other third sector stakeholders were undertaken, both to understand the rationale for particular strategies and processes or to explain changes in performance
- two specific research tasks were also undertaken, which included a comparative study of third sector funders to explore applicant and investee costs (to inform the value for money assessment) and an analysis of the initial impacts of the Key Performance Indicators introduced for FBE 2.

2.3.2. Futurebuilders is a policy experiment and as such the evaluation has sought to bring innovation to the evaluation of third sector funding policy: including the use of matched pairs analysis, the use of longitudinal case studies, and the use of monitoring and management information.

3. The Evolution of Futurebuilders

Summary

This chapter examines the Fund Management arrangements of Futurebuilders and how these have developed over time. The findings show:

- **Investments Made:** At the end of January 2010 a total of 375 organisations had agreed investments worth a total of £154.7 million, of which the total value of loan investment was £126.5 million
- **Focus of Investments:** Over 80 per cent of applications and investments are in the fields of Health and Social Care, Education and Learning, and Children and Young People
- **Development and Learning:** The change in Fund Manager and introduction of Key Performance Indicators has led to a streamlining of processes, clearer marketing and more tailored support packages
- **Achievements of KPIs:** The Key Performance Indicators are better aligned to policy objectives and have contributed to a faster rate of disbursement
- **Disbursement of Funding:** The average time from agreement to invest to the first drawdown is 315 days with this having fallen significantly from 448 days (FBE 1) to 125 days (FBE 2)
- **Converting Applications to Investments:** FBE 2 has received 236 full applications (including a business plan) compared top 509 full applications for FBE. However the conversion rate of full applications to investments has increased from 24 per cent to 40 per cent
- **Loan Terms:** The average payback period of loans has fallen from 14 years (FBE 1) to 10.8 years (FBE 2).

3.1. Introduction

3.1.1 This chapter examines the following facets of the management of the Futurebuilders fund: the Development of Futurebuilders; Fund Management; Profile of Futurebuilders' Applicants and Investees; and Assessment of Performance Management.

3.1.2 This chapter focuses on a comparison two Fund Managers: FBE 1 from May 2004 to March 2008 and FBE 2 from April 2008 to March 2011.

3.2. Futurebuilders development

3.2.1. **Since its inception in 2004 the Futurebuilders programme has evolved considerably.** During this period the fund has undergone major structural changes both internally, in terms of processes linked to funding application and portfolio management and externally, in terms of strategic governance and management by government. There have also been significant changes to the range of products offered and the way the fund is marketed and engages with the third sector.

3.2.2. **In 2008 a new Fund Manager was appointed following a competitive re-tendering process**. Between 2004 and March 2008 the fund had been delivered by a consortium, led by the Charity Bank and involving the Unity Trust Bank, National Council for Voluntary Organisations (NCVO), and the Northern Rock Foundation. From April 2008 onwards the fund has been managed by the Adventure Capital Fund (since re-branded as the Social Investment Business) who has a contract up to March 2011 with scope to extend beyond this date.

3.2.3. The Interim Report of the Futurebuilders Evaluation (Sheffield Hallam University 2008), which focused on the delivery of the Fund up until February 2007, raised the following concerns:

- only around 8.5 percent of applicants received some form of loan funding
- that application costs incurred by the applicant could be high and fell disproportionately heavily on smaller organisations (less than £100 thousand turnover)
- linked to the above points, that the application process could be slow, reflecting the level of applications being made
- that fund disbursement appeared slow: against a target for end March 2007 of between £31.7 million and £36.5 million, only £19.7 million had been drawn down.

3.2.4. Concerns were also raised in this report with the target framework agreed between the Fund Manager and the Government to oversee the fund. These concerns included:

- not distinguishing between full investments (with a loan element) and development grants (typically under £30 thousand) in a total target of 225-250 investments by the end of June 2007
- agreeing investment minima targets based on the type of Public Service Delivery areas, organisational size, whether the organisation was BME led, operated in a rural area or had received loan funding before. Whilst important aspects of Futurebuilders to monitor, these did not influence performance.

3.2.5. From 2008, following the re-tendering exercise, the Office of the Third Sector replaced the target framework with a **focus on three Key Performance Indicators around: disbursement of the Fund**; award of contracts to investee organisations; and customer satisfaction. The new contract also included a small performance-related element of £200 thousand payable over three years for achievement of the KPIs.

3.2.6. **In response, FBE 2 introduced a series of changes**. Underpinning these was a focus on delivering the fund more cost effectively (reducing management costs), in speeding up processing times of applications (for instance, saying 'no' more quickly to outline applications and through having discussions with potential applicants), and giving a greater focus to the development of higher quality applications.

3.2.7. These changes were underpinned by: introduction of specific funds to address sector needs (for example a Consortia Fund and a Tender Fund); changes to Board and Investment Committee membership (for example with applicants for funds over £350 thousand required to present to the Investment Committee) and internal restructuring to provide greater focus on generating better quality applications (for example, the creation of a Business Development team).

3.2.8. Two specific contextual points are useful before assessing the effectiveness of these changes:

- **scale**: the new Fund Manager has also secured the delivery of other government funded social investment programmes (including the Social Enterprise Investment Fund and Communitybuilders Fund) as well as the original Adventure Capital Fund
- **sector awareness**: there is probably a clearer understanding in the third sector as to how Social Investment or Patient Loan funding may work than there was in 2004. This will have brought benefits, especially in terms of better self selection by organisations as to whether this support is appropriate to them.

3.2.9. The following sections explore what effect these changes have had in terms of the delivery of Futurebuilders.

3.2.10. Following the re-tender exercise and the transfer of fund management arrangements from the Charity Bank consortium to the Adventure Capital Fund, FBE a number of significant changes to the structure, operation and processes of FBE.

3.2.11. FBE 1 provided two main forms of financial support: development grants and full investments. Applicants were invited across five public service delivery areas and applications were invited online. At the time of its launch the social investment market, and Government intervention in it, was relatively new. **On average, applicants to FBE 1 applied for approximately equal amounts of grant and loan funding – despite around 80 per cent on funding being for loans**. A consequence of this was that FBE attracted many unsuitable applicants which absorbed considerable assessment resources.

3.2.12. **FBE 2 has made significant changes to its marketing, assessment processes and structures**. Although the organisation provides similar forms of support to FBE 1, it gives clearer and quicker signals as to the appropriateness of organisations and their projects for investment. Notable changes have been the removal of a formal two stage application process (with a team dedicated to developing new loan applications), introduction of new products (e.g. the Tender and Consortia Funds of relatively small amounts of loan funding), and a strengthened investment committee role in decision making.

3.3. A Profile of Futurebuilders Applicants and Investees

3.3.1. This provides a summary profile of Futurebuilders' applicants and investees. It considers each in turn and highlights differences between the FBE 1 and 2. Table 3.1 compares the profile of applicants to Futurebuilders since April 2008 (FBE 2) with applicants to Futurebuilders between July 2004 and March 2008 (FBE 1).

3.3.2. In order to improve comparability between Fund Manager data, only applications to FBE 1 that applied for a full investment and reached stage 2 of the application process have been included in the analysis - this equates to 509 of the 1680 applications received by FBE 1.[4]

[4] Caution should be taken when drawing direct comparisons between the two Fund Managers. FBE 1 invited funding applications through three windows: window one was from July-October 2004; window two was from June-September 2005; the final window was open-ended from May 2006 onwards. By contrast FBE 2 operated an open window from April 2008 until the fund closed for applications in January 2010. In addition changes have been made to the way applications and applicant data are recorded under FBE 2.

Table 3.1: Applications for Futurebuilders' Funding

	FBE 1		FBE 2		Variance	Totals	
	n	*%*	*n*	*%*	*% pt difference*	*n*	*%*
Public Service Delivery area:							
Children & Young People	104	20%	27	11%	-9	131	17%
Community Cohesion	49	10%	17	7%	-2	66	9%
Crime	37	7%	10	4%	-3	47	6%
Education and Learning	126	25%	71	30%	+5	197	26%
Health and Social Care	191	38%	93	39%	+2	284	38%
Other	2	0%	18	8%	+7	20	3%
Income Size							
Start-up/Small (Less than £100k)	146	29%	86	36%	+8	232	31%
Medium (£100k-£1m)	226	44%	86	36%	-8	312	42%
Large (More than £1m)	137	27%	58	25%	-2	195	26%
Unknown			6	3%	+3	6	1%
Amount requested:							
Under £100k	63	12%	70	30%	+17	133	18%
£100k-£1m	323	63%	126	53%	-10	449	60%
£1m plus	123	24%	40	17%	-7	163	22%
Geographic coverage:							
Local	273	54%	84	36%	-18	357	
Total	509		236			745	

Source: FBE Application Data (January 2010)
Note: FBE 2 data relates to the period 1 April 2008-31 September 2009

3.3.3. Key points to highlight from the data presented in this table are:

- **the significance of applications from organisations working in three areas**: Health and Social Care; Education and Learning; and Children and Young People. Less than ten percent of applications are from organisations working in the fields of Community Cohesion or Crime, respectively
- as might be expected, **a high proportion of applications are from small and medium sized organisations** (with turnovers of less than £1 million). This is the converse of the use of loan finance by all charities (i.e. commercial finance is overwhelmingly accessed by large charities)
- **the average amount requested is £843 thousand**, with 60 percent of requests for between £100 thousand and £1 million. There is no significant difference between FBE 1 and FBE 2.

3.3.4. There have also been some changes in the profile of applicants between FBE 1 and FBE 2. The most notable of these are:

- a fall in applicants from Children and Young People organisations (-9 percentage points)

- a rise in applications from small organisations (+8 percentage points) and a corresponding fall in applicants from medium sized organisations
- a rise in the demand for smaller pots of funding (+ 17 percentage points for amounts less than £100k), although what appears to have driven this is the greater use of new products (such as the Tender Fund) and a focus on turning round applications quickly to allow organisations to take up opportunities.

3.3.5. FBE 2 removed the formal two stage application process. For consistency, we have the data above compare organisations preparing full applications with a business plan (allowing some comparison between the two fund managers). This approximates to the Stage 2 application under FBE 1. Although the profile of applications for the two fund managers is relatively similar, the major change is that FBE 2 has had to process far fewer full applications – found to be a considerable cost both to the Fund Manager and to the Applicant (see Futurebuilders Interim Evaluation Report 2008). This appears an indicator of the success in making quicker decisions and effectively communicating what Futurebuilders will and will not fund.

Table 3.2: Futurebuilders Investment Summary

	FBE 1		FBE 2		Variation	Totals	
	n	*%*	*n*	*%*	*% pt difference*	*n*	*%*
Public Service Delivery area:							
Children & Young People	27	22%	15	16%	-6	42	20%
Community Cohesion	9	7%	4	4%	-3	13	6%
Crime	12	10%	5	5%	-5	17	8%
Education and Learning	31	26%	24	26%	0	55	26%
Health and Social Care	42	35%	43	46%	+11	85	40%
Other	0	0%	3	3%	+3	3	1%
Income size:							
Start-up/Small (Less than £100k)	19	16%	23	24%	+9	42	20%
Medium (£100k-£1m)	65	54%	41	44%	-10	106	49%
Large (More than £1m)	37	31%	30	32%	+1	67	31%
Investment size:							
Under £100k	15	12%	33	35%	+23	48	22%
£100k-£1m	83	69%	50	53%	-15	133	62%
£1m plus	23	19%	11	12%	-7	34	16%
Geographic coverage:							
Local	22	18%	16	17%	-1	38	18%
Regional	70	58%	60	64%	+6	130	61%
National	29	24%	18	19%	-5	47	22%
Total	121		94			215	

Source: FBE Investment Data (January 2010)
Note: FBE 2 data relates to the period 1 April 2008-31 September 2009

3.3.6. Table 3.2 compares the Futurebuilders Investment Portfolio according to the Fund Manager under whom the decision to invest was made (FBE 1 or FBE 2). It shows that similar to applications organisations working in the following three fields dominate the investment book in relatively similar proportions: Health and Social Care; Education and Learning; and Children and Young People. **The significant differences are around organisational size, where small organisations making applications are less likely than medium and large organisations, but applications for investments of over £1 million are less likely to be successful.**

3.3.7. These patterns are broadly similar across the two Fund Managers. The one exception is that applications for funding of less than £100 thousand were more likely to be successful under FBE 2 (reflecting the reasons given above).

3.3.8. **The most significant difference between the two Fund Managers is in the 'conversion rate' from stage 2 applications to full investments: this was 24 percent under FBE 1 but 40 percent under FBE 2.** This is likely to have driven some efficiency savings for the Fund Manager and also some significant cost savings for Third Sector organisations.

3.4. Managing the Investment Portfolio

3.4.1. **A key part of Fund Management is the management of a portfolio of investments**. As the previous showed Futurebuilders has invested in a wide spectrum of organisations and service areas with a huge array of funding amounts. Both Fund Managers established processes, overseen by an Investment Committee, to monitor performance and risk.

3.4.2. **Criteria used by the Fund Manager to assess risk** fall into the following areas: Public Service Delivery; Management and Governance (of the Project and Organisation); Relationship (with Futurebuilders); and Finance (of Organisation and Project). Each broad criterion is made up of further individual categories for scoring and assessment. Monitoring of performance is then considered on a consistent basis in the in the Stage 2 Project Application and through Annual Reviews. FBE 2 was also found to more actively update risk scores than FBE 1 using other information they receive (including management accounts, public service delivery contract information, as well as regular contact between investment office staff and investees.

3.4.3. As might be expected, there are inter-relationships between the criteria: so an organisation which has struggled to win contracts (the PSD criterion) is also likely to have weak project and investment finances.

3.4.4. The risk grading framework is used to identify investments which may be at risk: these are placed on a Cause for Concern list. These investments are monitored on a more regular basis (monthly) with papers discussed at the Investment Committee to agree recommended actions. These may range from agreeing to reschedule loan repayments (capital and interest), providing a range of business support to the organisation, restructuring the loan, through to taking steps to write the loan off. Cause for Concern is an important part of 'engaged' or 'patient' funding.

3.4.5. The following tables show the risk grading of Futurebuilders investments at two points: at the end of June 2007 (the baseline) and for the end of December 2009. The data show that the number of Cause for Concern investments has increased over time as a proportion of the investment book (9 percent to 12 percent). However, taking Cause for Concern and 'Red' scored investments together show that the proportion has fallen (from 34 percent to 28 percent). Similarly, analysing the data by the proportion of funds drawn, show that the proportion of Cause for Concern investments has fallen from 23 percent to 13 percent, and for Cause for Concern and 'Red' scored investments from 36 percent to 20 percent.

Table 3.3: Risk Grading Baseline (set at the end of 06/07)

Grade	Number	%	£m value	%	£m drawn	%
A (Green)	6	6%	£13.4	21%	£0.4	2%
B (Amber)	62	61%	£34.1	55%	£10.2	62%
C (Red)	25	25%	£10.5	17%	£2.1	13%
D (Cause for Concern)	9	9%	£4.3	7%	£3.8	23%
Total	**102**	**100%**	**£62.4**	**100%**	**£16.5**	**100%**

Source: FBE January 2010)

Table 3.4: Risk Grading (at 31 December 2009)

Grade	Number	%	£m offered	%	£m drawn	%
A (Green)	23	11%	£18.6	16%	£5.8	9%
B (Amber)	135	62%	£82.4	71%	£47.3	71%
C (Red)	34	16%	£6.4	5%	£4.3	7%
D (Cause for Concern)	25	12%	£9.3	8%	£8.7	13%
Total	**217**	**100%**	**£116.7**	**100%**	**£66.1**	**100%**

Source: FBE (January 2010)

3.4.6. The reasons for the changes are wide ranging but do include the persistence over time of a small number of investments on the Cause for Concern register.

3.4.7. The performance and monitoring approach of FBE use appropriate criteria for identifying organisations and investments which may be at risk. **For the market in which Futurebuilders operates it is necessary to actively identify and target support at organisations and investments at greatest risk or requiring support.**

3.5. From Targets to Key Performance Indicators: FBE 1 and 2

3.5.1. This considers the performance monitoring and management arrangements of FBE, and how these have changed since the appointment of the new Fund Manager. This is intended to provide the context for the assessment of the new fund management arrangements.

FBE 1: June 2004-March 2008

3.5.2. Under FBE 1 targets agreed with Government included:

i) a total of 225-250 investments to be made in third sector organisations operating across five public service delivery areas (outlined in the earlier tables)

ii) a total of 25 (10 percent of the total) investments to be made in each of the following: each of the five public service delivery areas; Black and ethnic minority led organisations; organisations directly concerned with rural issues.

iii) at least 50 investments (20 percent of the total) to be made in small organisations with an annual turnover of less than £100 thousand

iv) at least 126 investments (51 percent of the total) to be made in local and regional schemes

v) at least 75 percent of total investments to be made in organisations with no experience of loan funding.

3.5.3. In addition, following the departmental transfer of responsibility for Futurebuilders from the Home Office to the Cabinet Office, a further target relating to the disbursement of funds was introduced. This target was for the draw down of investments by the end of March 2007 to be between £31.7 million and £36.5 million. The Interim Report of the Futurebuilders Evaluation[5] found that of these targets, the 10 percent minima for the five public service delivery areas, the 75 per cent minimum for organisations with no experience of loan funding, and the fund disbursement target would be missed.

3.5.4. Subsequently, in February 2009, **a National Audit Office (NAO) report into Government funded third sector capacity building initiatives[6] was critical of these targets**, arguing that they were not adequately specified or directly linked to the objectives of the Futurebuilders programme. With the exception of the disbursement target, none of the other targets was related to the overall policy objective for Futurebuilders[7]. The targets set provided essentially descriptive management information. The NAO report also criticised the targets for providing slippage in the definition of an investment.

3.5.5. These criticisms raised a more complex issue for both Futurebuilders policy and the Fund Manager to address as to whether targets or performance indicators can be used to judge performance against outputs as well as outcomes. This issue has in part been addressed by the introduction of new KPIs since April 2008.

FBE 2: from April 2008

3.5.6. Following the re-tender of the Futurebuilders Fund Management the Office of the Third Sector introduced a series of Key Performance Indicators (KPIs) to address concerns raised over FBE 1. The KPIs are:

i) number of contracts with a value of at least £30k won by investees. This measure was introduced to provide a measure of FBE's impact on enabling third sector organisations to expand their public service delivery.

ii) proportion of funds disbursed within 2 years of their award. The slow disbursement rate was identified as a weakness of Futurebuilders under the fund management arrangements up to March 2007. The rationale being that without disbursing funds the Futurebuilders cannot be building capacity of the third sector to deliver public services.

iii) level of customer satisfaction. The KPI for customer satisfaction was included to ensure that FBE provide a consistent service to all applicants and investees. Without this KPI there may be an incentive for the fund manager to provide greatest support to organisations making the largest contributions to the other KPIs.

[5] Evaluation of Futurebuilders: Interim Report (Sheffield Hallam University, 10 April 2008)
[6] Building the Capacity of the Third Sector (National Audit Office, 6 February 2009)
[7] *The fund will provide strategic investment to modernise the sector in the areas of health and social care, crime and social cohesion, in education and children and young people* (Cross Cutting Review 2002).

3.5.7. *Prima facie* the new KPIs provided a starting point for the Office of the Third Sector to more effectively assess the performance of FBE than was the case under FBE 1. **The first two KPIs (disbursement and contracts won) are better aligned to the central policy objective of Futurebuilders: to increase the capacity of the third sector to deliver public services**:

- the disbursement target should provide an incentive for the Fund Manager to invest in organisations which can realise investments relatively quickly and therefore deliver public services
- the contracts won target should focus investment on organisations capable of winning contracts.

Conclusion

3.5.8. In summary, comparison between the performance management arrangements governing the two Fund Managers shows:

- marked differences between the targets used to monitor and measure performance
- targets or KPIs need to be assessed alongside two different approaches to fund management
- the KPIs introduced for FBE 2 appear to provide useful proxy measures for achieving policy objectives.

3.5.9. Any set of targets or KPIs may establish *perverse incentives* which lead to *unintended and unwanted consequences*. For FBE 2, these may for example involve a shift in focus towards working rather than physical capital investments or to organisations which win multiple medium sized contracts rather than one or two large contracts. The KPIs are also averages of Fund Manager performance: it may be possible to achieve each target through investing in two distinct types of investee: one which wins many contracts; and another which disburses substantial funding. In theory the KPIs should provide counter-balances to each other, for example the likelihood of investing in large schemes but which only secure a few contracts. This is something we explore in more detail later in this chapter.

3.6. Assessing the Impact of the New Fund Management Arrangements

3.6.1. This assessment draws on both a review of application and investment data, as well as qualitative data from interviews with a range of staff. Our interviews with FBE staff reveal changes in their operational behaviour and decision making which were attributed to the introduction of the new KPIs and organisation structure under the new Fund Manager.

Application and assessment process

3.6.2. It was suggested that the disbursement and contracts won KPIs have had impact on the way applications are assessed. There is an emphasis on identifying investments in organisations in which the chances of winning public service contracts are high, and organisations that will be able to draw-down the investment within two years. One outcome of this is that fewer property based capital investments are considered for investment as these tend to take longer to disburse and often provide less certainty around the number of contracts that could be won.

3.6.3. The new Fund Manager has established an Investment Committee with members largely new to Futurebuilders, although some do bring experience of the third sector and other social investors such as the Adventure Capital Fund. **It was reported that the new Investment Committee had brought new insights and approaches to assessing investments**: for example, requiring applicants to attend and present at meetings and for a committee member to lead discussion on investments.

Portfolio management

3.6.4. The day-to-day management and monitoring of investees' progress towards the contracts won and disbursement KPIs is the responsibility of the Portfolio Management Team and has had a significant impact on their approach to managing the investments. While new (i.e. post April 2008) investees have been engaged with the need to provide updates on their progress against the KPIs, it was noted that there has been a particular challenge to change the thinking of older (i.e. pre April 2008) investees. **Case study research with investees, reported later in this report, highlighted that the new reporting requirements for KPIs was a burden but not a significant one.**

3.6.5. It was noted that the transition from 'lifecycle' investment management to the new structure had resulted in a loss of in-depth knowledge on the Portfolio Management side, as Investment Officers now had a far larger number of investments to manage. In addition, much of the day-to-day contact between FBE and its investees was with the Investment Assistants rather than the Investment Officers. However, it was reported that these issues were secondary and that investees will not have experienced deterioration in service.

Performance Focus

3.6.6. **A common reflection was that FBE 2 brought a greater focus on the achievement of the core objectives of Futurebuilders**, and the achievement of the KPIs. It was noted in particular that this was reflected by the introduction of new products (and a willingness to introduce products to attract higher quality applications) and through streamlining key application and appraisal processes.

KPI performance to date

3.6.7. Since the introduction of the new KPIs FBE has produced seven quarterly performance reports for OTS. A summary of performance to date is summarised in tables 3.5-3.7 below.

3.6.8. Table 3.5 shows the proportion of funds disbursed within two years of the date investments are made. Baselines were set at the outset to reflect expected out turns from the investment portfolio, with the target set to by the Office of the Third Sector to improve performance.

Table 3.5: Proportion of funds disbursed within 2 years

Year	Baseline	Target	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
2008	60%	70%	-	80%	75%	97%
2009	65%	80%	63%	100%	89%	74%

Source: FBE Management Information (February 2010)

3.6.9. **Overall performance against the disbursement KPI has been positive**, with performance consistently exceeding the baseline and target figures. However, it does show some fluctuation between quarters and a dip in performance in the last quarter for which we have data, although with the annual average still above target.

3.6.10. Table 3.6 shows the number (the KPI target) and value of contracts won by investees. Achievement of this target is measured on an annual basis, hence an annual data is included. A cumulative total is included for information.

Table 3.6: Number of Contracts Won

Year		Baseline	Target	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Annual Total	Cumulative total
2008	No.	50-65	65	-	43	35	12	90	
	£		65	-	£6.0m	£8.2m	£2.2m	£16.4m	
2009	No.	80 -100	130	32	93	113	-	238	316
	£			£6.9m	£15.0m	£24.3m	-	£46.2m	£62.6m

Source: FBE Management Information (February 2010)

3.6.11. **Performance against the contracts won KPI is positive**, with annual targets exceeded in 2008 and 2009. Chapter 5 of this report explores public service delivery in more detail, for instance which organisations in which public service delivery areas have in been most successful. This later Chapter shows that although 43 per cent of investees have won at least one contract (by the end of December 2010), 20 percent of organisations contributed 80 percent of the value of contracts won. This is as might be expected given the wide profile of investment size and organisational size.

3.6.12. Table 3.7 shows performance against the Customer Satisfaction KPI. This is measured through a biannual survey with targets set on an annual basis. Data were not available to assess performance at the end of 2009.

Table 3.7: Customer satisfaction of Applicants and Investees

Year	Baseline (1st bi-annual survey)	Target	Year end (2nd bi-annual survey)
2008	74%	75%	79%
2009	74%	80%	-

Source: FBE Management Information (February 2010)

3.6.13. FBE customer satisfaction for three time points is shown in the table, with the first 2008 survey providing the baseline. **The most recent survey data shows that performance is below target.** It is unclear why this target has been missed, although case study research suggested that the requirement to provide data on contracts won to FBE had introduced additional monitoring requirements for investments made under FBE 1. This may have had a bearing on the achievement of this target.

3.6.14. The KPIs appear to have provided a point of focus for the Office of the Third Sector and Fund Manager to ensure that the performance of the fund and its investees is more closely in line with the original policy objectives, notably the target for contracts won.

Summary Assessment of New Fund Managements

3.6.15. There are some marked changes between FBE 1 and 2 in their respective profiles of applicants and investments. The variations observed within public service delivery areas may be an indication that applications to, and investments by, FBE 2 more closely reflect the procurement markets in which third sector organisations operate. The move to a larger proportion of smaller investments and more investments in smaller organisations is likely to be a reflection of a more targeted approach by FBE 2, particularly the introduction of investment products offering relatively small loans such as the Tender Fund.

3.7. Conclusion

Key Lessons for Fund Management

- **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
- **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

3.7.1. The main conclusions which can be drawn are:

- **the change of Fund Manager has led to streamlined processes**, clearer marketing and more tailored support packages (for instance the introduction of specific products)
- **to some extent these have been driven by changes to KPIs** which now better reflect policy objectives. KPI performance suggests that the processes FBE 2 has implemented have been effective
- **there have been some changes in the portfolio of applicants and investees**, notably around an increase in investments in small organisations and an increase in small investments
- **a significant change has been the fall in the number of full applications** – organisations submitting full business plans - **but a corresponding increase in the conversion of full applications to investments** (from 24 percent to 40 percent). This will have brought efficiency benefits for the Fund Manager.

3.7.2. Although the findings show that the processes to implement Futurebuilders have improved, and the KPIs have been of considerable benefit, two caveats should be made. Firstly, the **context for third sector loan funding has changed since 2004** with greater awareness of funding opportunities in general of Futurebuilders specifically. Secondly, and this is explored in the subsequent Chapters, **issues of organisational development and local procurement are to a large extent beyond the control of the Fund Manager**.

4

4. Futurebuilders Investees: Organisational Development & Capacity Building

Summary

This chapter explores outcomes in terms of organisational development and capacity building. The findings show:

- **Selection of Investments:** FBE has been effective at selecting strong organisations and that organisations perform well (in terms of their financial growth) compared to two samples of 'comparator organisations' drawn from the wider third sector and rejected Futurebuilders applicants
- **Characteristics of Investees:** 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
- **Patient and Engaged Funding:** 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 can be more vulnerable and FBE support (using revenue and grants in some cases) is not a guarantee of success.

4.1. Introduction

4.1.1. **The aim of this chapter is to explore outcomes in terms of organisational development and capacity building**. It draws on evidence from three sources:

- a matched pairs analysis: comparing investees with two comparison groups (a matched sample of third sector organisations and a sample of Futurebuilders rejected organisations). The purpose of this is to explore the financial performance of three sets of organisations against each other
- case studies of 17 investee organisations which explore the organisational development and effectiveness of capacity building activities of Futurebuilders. Eight of the case studies have a longitudinal element
- analysis of the annual reviews FBE undertakes of each investee organisation.

4.2. Capacity Building among Investees: an overview

4.2.1. This section reports the findings of the matched pairs analysis and the testing of the central evaluation hypothesis that: *Futurebuilders increases the capacity of third sector organisations to deliver public services*

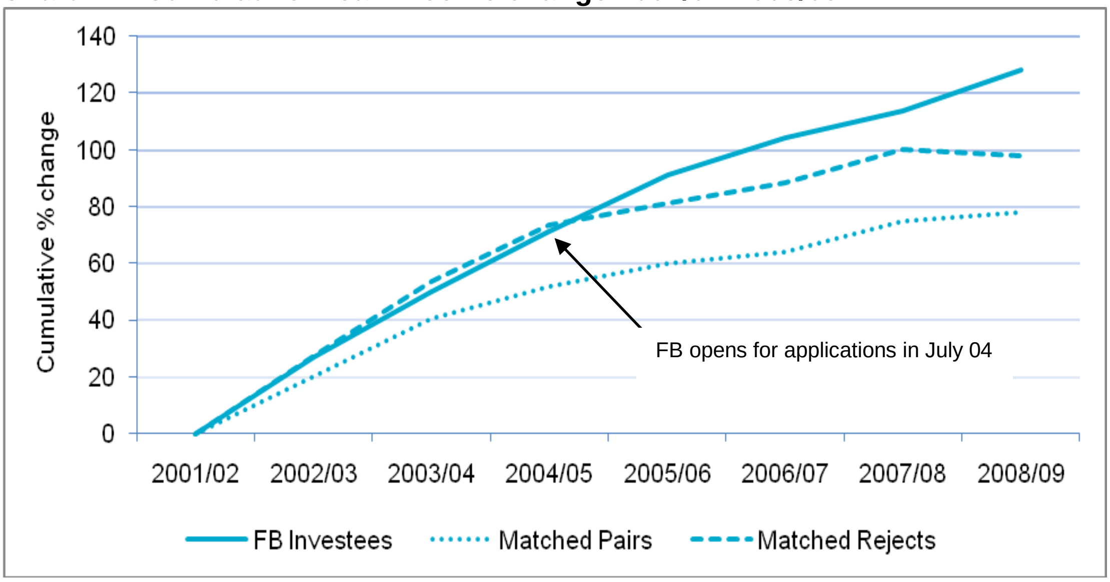
4.2.2. **Changes in income and expenditure in a sample of Futurebuilders investees that are registered charities were compared with two matched comparator samples**: the first sample (referred to as *'matched pairs'*) was drawn from the total population of charities; the second sample (referred to as *'matched rejects'*) was drawn from a group organisations who applied for Futurebuilders investment but were rejected at stage two in the application process. Together these comparator samples provided evidence of two counterfactual scenarios: the comparative performance of a group of organisations which exhibited similar characteristics to the sample Futurebuilders investees at the point of investment but did not apply for support; and the comparative performance of a group of similar organisations which did apply for Futurebuilders support but were not selected for investment.

4.2.3. Three stages of analysis were undertaken:

- stage one compared the mean year-on-year percentage change in mean income and expenditure of each sample between 2001/02 and 2008/09 to provide an overview of how their financial performance changed on an annual basis during the four financial years immediately preceding and following the implementation of Futurebuilders
- stage two compared changes between a pre-Futurebuilders baseline position and the four financial years following the implementation of Futurebuilders. The baseline position was calculated using average (mean) annual income and expenditure between 2001/02 and 2004/05 - these were the four financial years immediately prior to any Futurebuilders interventions taking place. The four year average was used to account for annual fluctuations in income and expenditure and provided an overview of financial performance during the period immediately prior to the start of the Futurebuilders programme
- stage three compared the change in income and expenditure in the years immediately prior to and following the *drawdown* of loan funding by the Futurebuilders investee.

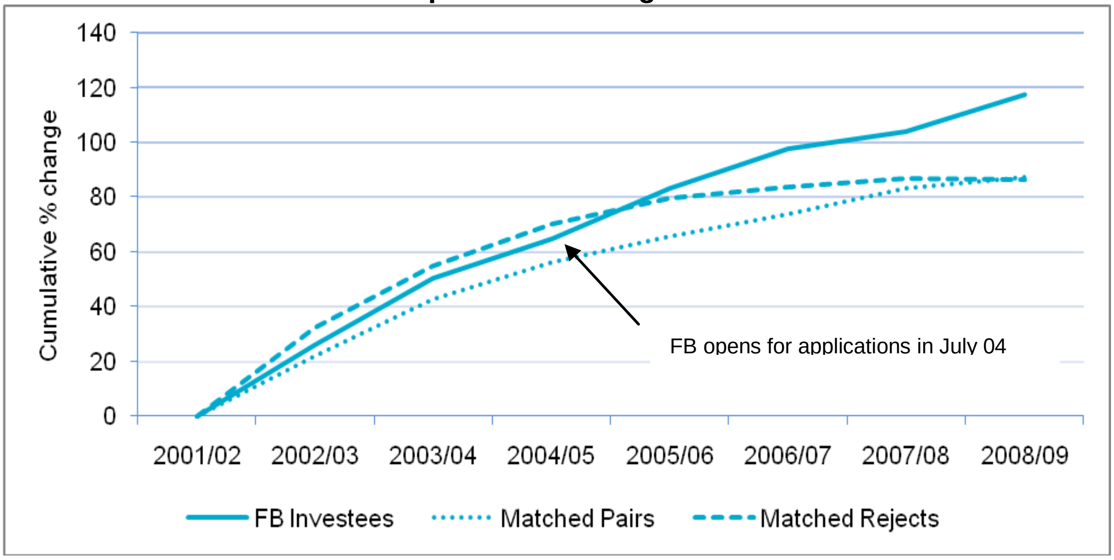
4.2.4. Results from stage one of the analyses are summarised in charts 4.1 and 4.2. Evidence from stage two of the analysis produces a series of very similar trends.

Chart 4.1: Cumulative mean income change 2001/02-2008/09



Source: CRESR/Guidestar UK/Charity Commission, February 2010

Chart 4.2: Cumulative mean expenditure change 2001/02-2008/09



Source: CRESR/Guidestar UK/Charity Commission, February 2010

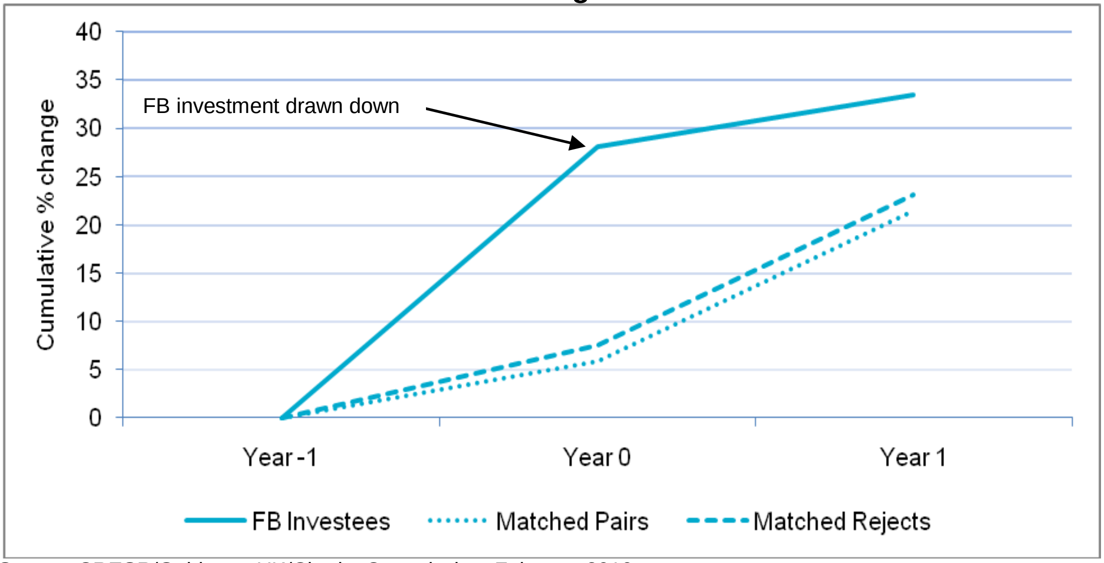
4.2.5. **The first two stages of analysis demonstrate that FBE has invested in high performing organisations (in financial terms) that have demonstrated strong growth prospects**, particularly in the years following the implementation of the Futurebuilders programme (2005/06 onwards) with the income and expenditure growth of the Futurebuilders sample outstripping that of both matched pairs comparator samples.

4.2.6. However, there is not sufficient data available through these approaches to indicate the extent to which this extra growth can be directly attributed to Futurebuilders interventions. This is in part because each investee received their main support (i.e. loan funding) from FBE at different points during the period considered.

4.2.7. The third stage of analysis took this factor into account by comparing the change in income and expenditure in the years immediately prior to and following the *drawdown* of loan funding by the Futurebuilders investee. For example, where a Futurebuilders investee had drawn down funding in 2006/07 (i.e. Year 0) change between 2005/06-2006/07 (i.e. Year -1 and Year 0) and 2006/07-2007/08 (i.e. Year 0 and Year 1) was compared.

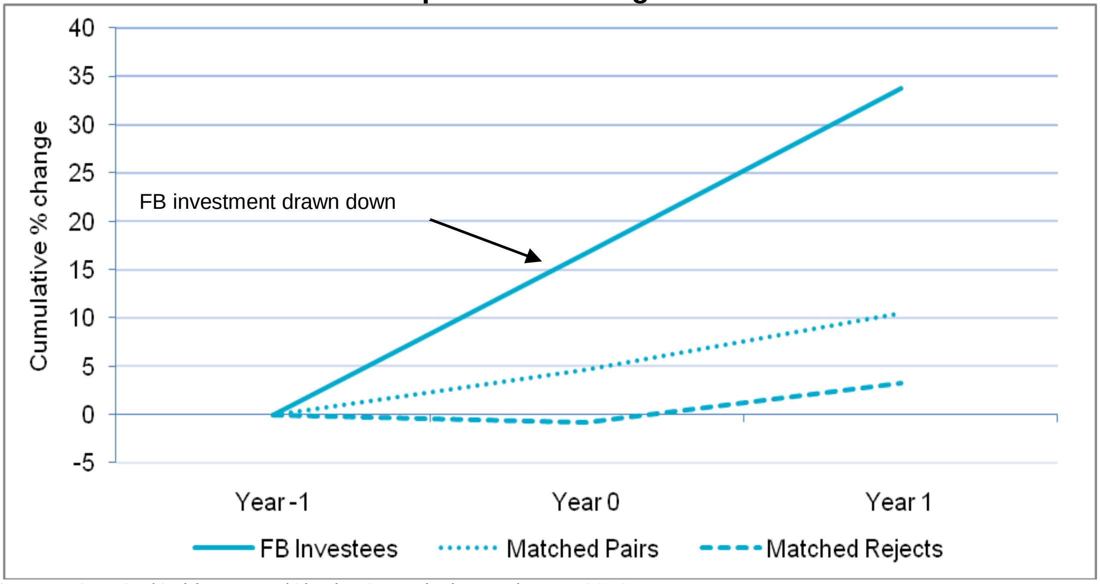
4.2.8. The findings from stage three of the analysis are summarised in charts 4.3 and 4.4. They demonstrate that over the financial years immediately prior to and following the drawdown of Futurebuilders loan funding the sample of Futurebuilders investees experienced i**ncreases in income and expenditure that were greater than those of both matched comparator samples**. However, when considered in isolation the data for the year immediately following drawdown paint a different picture. Compared to both comparator samples the mean income of the Futurebuilders sample increased by fewer percentage points. Despite this reversal the mean expenditure of the sample of Futurebuilders investees continued to increase at a faster rate than both matched comparators.

Chart 4.3: Cumulative mean income change Year -1 to Year 1



Source: CRESR/Guidestar UK/Charity Commission, February 2010

Chart 4.4: Cumulative mean expenditure change Year -1 to Year 1



Source: CRESR/Guidestar UK/Charity Commission, February 2010

4.2.9. **These findings reinforce the main finding from the stage one and two analysis that FBE has invested in high performing organisations at the point at which the investment was made**. They also provide an indication of what happens to investees following investment. In the first full year following investment the income growth of the Futurebuilders sample fell behind that of both matched comparator groups while expenditure continued to increase at a faster rate.

4.2.10. **The continued growth in expenditure is likely to reflect the investees spending funds received through their Futurebuilders loan and investing in greater service delivery capacity**, but the reduced income growth requires further exploration. It could be due to organisational pressure related to the delivery of the Futurebuilders funded activity: there is some evidence from the case studies to suggest that small and medium sized organisations can struggle with capacity issues in the short term following receipt of Futurebuilders investments.

4.2.11. This issue could be explored in more detail by comparing financial performance in subsequent years but at the moment the majority of Futurebuilders investees are not far enough into their investment activity for this to be possible.

4.3. Impact on Organisational Capacity

4.3.1. This section draws on findings from the case study research. Case organisations were selected to provide a balance of cases across criteria concerning: public service delivery area; size of investment, and; size of organisation. Case studies have been formally anonymised throughout the evaluation using identifier letters A-Q and a simple descriptive label for the purpose of the organisation or investment project. Each case and its identifier are outlined in table 4.1.

Table 4.1: Evaluation Case Study Organisations

Case Code	Activity	PSD Theme[1]	Investment Size Band[2]	Turnover Band[3]	Case Study Wave[4]
A	Work-based support provided to ex-offenders	C	Small	Large	1 & 2
B	Stabilisation of drug-users	C	Medium	Large	1
C	Support to refugees	EL	Small	Medium	1
D	Support to children with a lifelong limiting condition	EL	Large	Large	1 & 2
E	Mental health support	HSC	Small	Medium	1
F	Sheltered accommodation and support for older people	HSC	Medium	Medium	1 & 2
G	Children's day care centre	CYP	Small	Small	1 & 2
H	Community cohesion projects	CC	Medium	Medium	1
I	Health and social care project supporting sex workers and their families	HSC	Small	Medium	1
J	Support facility for people with learning disabilities	HSC	Medium	Large	1 & 2
K	Housing focused community reconciliation project	CC	Medium	Medium	1
L	Education and inclusion through the arts for disadvantaged people	EL	Large	Medium	1
M	Prison-based education programmes	C	Medium	Medium	1 & 2
N	Counselling for young people	CYP	Medium	Small	1 & 2
O	Support for people with physical and sensory disabilities	HSC	Medium	Medium	2
P	Community development and inclusion for hard to reach communities	CC	Medium	Large	2
Q	Social care accommodation for people with complex needs	HSC	Major	Large	2

Notes: [1] Abbreviations for PSD Theme are: C – Crime; EL – Education and Learning; HSC – Health and Social Care; CYP – Children and Young People; CC – Community Cohesion
[2] Size bands for Investments are: Small – up to £250 thousand; Medium - £250 thousand to £1 million; Large –£1 million to £10 million; Major - Over £10 million
[3] Size bands for Turnover (from Stage 2 Assessment reports) are: Small – up to £100 thousand; Medium - £100 thousand to £1 million; Large – over £1 million)
[4] Wave 1 case study fieldwork took place in 2006/7; wave 2 in 2009

4.3.2. We explore capacity through the areas of governance, management practices, human resources, financial management, service delivery, and external relations and procurement. **The case study research finds that the majority of the 17 case organisations (12 in total) can be judged to have increased organisational capacity since the point of investment**. The case research suggests two broad scenarios: firstly a group of well developed investee organisations that had largely developed capacity prior to the Futurebuilders' investment; and secondly a group investee organisations that needed to build capacity to realise the investment goals.

4.3.3. The role of the Futurebuilders' investment, and indeed FBE as an 'engaged and patient funder', varies within these scenarios. These issues will be explored in the following section.

Organisations that had largely developed capacity prior to FBE investment

4.3.4. At the point of investment, eight of the seventeen cases demonstrated the hallmarks of well developed organisations with significant infrastructure and delivery capacity. They were all judged - by both FBE at the stage 2 report on application and by the SHU evaluation team - to be well established (across criteria relating to governance, management practices, human resources, financial management, service delivery and external relations and procurement). They are typically larger organisations with annual incomes of approaching or over £1 million.

4.3.5. The case study research suggests that, **in seven out of the eight cases, there was little appetite for the investment as a catalyst for organisational development or capacity building (beyond physical infrastructure capacity)**. Futurebuilders investments thus had a limited impact on organisational development. Rather, the real value of the investments lies in the opportunities it provides for the organisations to expand service delivery capacity (through the expansion of existing or development of new accommodation).

4.3.6. **Often these (physical infrastructure) developments enable the cases to pilot *groundbreaking* projects that meet unmet needs and make significant additions to their service portfolios**. This positions the organisations well in terms of future capacity to respond to developing policy initiatives. An example here is the **Case D** investment, which involves the construction of a school which will act as a national centre of excellence in its particular field.

4.3.7. Because **these organisations are well developed in terms of their governance, management, human resource, financial management, service delivery, and external relations arrangements**, the investments (or rather the increase in scale of delivery resulting from them) typically provoke marginal adjustments to existing practices and/or structures. These adjustments relate to staffing structures and expansion (six cases), board composition (one case), cash flow projections (one case) costing models (two cases) and financial strategies (one case).

4.3.8. There are two cases that stand in contrast to these seven cases.

- in **Case Q** the Futurebuilders investment has had a significant impact on organisational development. Despite the organisation being a well established, national charity with significant infrastructure and delivery capacity, the investment has brought about radical changes to the organisation's operation, alongside some more minor adjustments (see Box 4.1). It is worth noting, however, that the scale and scope of impacts brought about by the Futurebuilders investment were not coincidental. In fact, the desire to become a transformational organisation pre-existed the investment

- from the outset, the FBE investment was seen as a catalyst for realising **Case Q**'s transformational agenda. The leadership in the organisation recognised the need to change and had the desire to transform; the investment allowed them to take the cultural leap they could not achieve through continuing to respond to public service delivery tenders.

Box 4.1: Investment as a catalyst for organisational transformation

Case Q is a well established charity providing residential services for people with complex needs, including those affected by drug and alcohol misuse, mental health problems and those with a learning disability. It increased its income from £4.9 million in 2004/05 to over £15.7 million in 2005/06, reflecting a growth in public contract income for service delivery. The Futurebuilders investment is to support the construction of five new purpose-built service centres.

Futurebuilders investments has impacted upon:

- ***Management Practices:*** The creation of a special purpose vehicle (SPV) has brought changes in organisational structure and roles, decision making and risk management.
- ***Human Resources (HR):*** The innovative service design within the new centres moves **Case Q** from a shift system to one with 19 support workers with three posts designated as zero contract hours. These three workers will do approximately 37 hours per week collectively, according to client needs, resulting in a more bespoke package of care. If effective, this model will provide the organisation with a 'blueprint' for the personalisation agenda, by building in flexibility and facilitating staff to continue to work with clients once they move into the community on an individual budget basis.
- ***Financial Management:*** Historically, clinical staff were responsible for pricing services in response to tenders, which often included property costs. Property pricing is now done effectively and has contributed to full cost recovery through involvement of the SPV team.
- ***Service Delivery:*** Currently **Case Q** operates block contracts, which can reduce the organisation's flexibility to vary service delivery. Within the new centres, the SPV is proposing the operation of block contracts for the first two years to achieve financial stability to achieve a record of delivery with commissioners, then a move to spot contracts. These will allow it to take on more expensive packages of support involving 'more high risk, difficult clients' who have traditionally only been offered 'in-house' provision from the NHS.
- ***External Relations and Procurement:*** The investment has affected the nature of **Case Q**'s relationship with funders and the way income is secured; they have shifted from a reactive (tender response) strategy to the proactive selling of already developed services. Interviews with senior staff at **Case Q** suggested that the Futurebuilders investment has given them credibility: 'We're not cold calling, we can sell the idea and we know we can deliver it and it cuts across all [**Case Q**'s] service areas, not just one. We have a building, we have a philosophy and we can wrap that around whatever client group the commissioners want'.

The organisation is stronger due to the Futurebuilders investment, which will have a significant impact on the sustainability of benefits for service users and its financial sustainability. From the outset, **Case Q** viewed their relationship with Futurebuilders as a strategic alliance and an enabler for them to do business differently.

4.3.9. It is, however, clear that large, **well established organisations are not immune to experiencing decreases in organisational capacity as a result of crises**. Notably, **Case A** was considered to be a relatively strong and stable organisation with significant capacity. Despite a major restructuring shortly before the point of investment as a result of the loss of significant funding streams, the organisation was seen by FBE to have responded positively by introducing a new, yet 'strong, proactive' senior management team (SMT), and pursuing a cost saving and restructuring strategy. However, **Case A** went through a second structural change in the form of a downsizing exercise as a result of a further funding crisis and the income generation potential of the project associated with the Futurebuilders investment not being realised. The staff team contracted from approximately 100 people to 36 and resulted in the loss of all members of the 'new' SMT - **Case A** is a now much smaller and perhaps more 'vulnerable' than it was at the point of Futurebuilders investment.

Organisations that needed to develop capacity for success of the FBE investment

4.3.10. **At the point of investment, nine cases had limited existing capacity on which to draw**, and needed to develop capacity to ensure the success of the Futurebuilders investment. Specific areas in need of development were identified by both FBE (at the stage 2 report on application) and by the SHU evaluation team in relation to these nine organisations, which are typically small to medium sized (with annual incomes of between £6,500 and £670,000).

4.3.11. Here, **organisational development and capacity building formed an explicit part of the Futurebuilders investment package**. In six out of these nine cases, the core purpose of the investment (and focus of the loan finance) included "increasing effectiveness and efficiency", "improvement of service delivery", "building capacity", and "development and professionalisation of services".

4.3.12. Moreover, **in the three cases where the purpose was to invest in a specific service or activity, the profile of the investment included funding for broad ranging organisational development activities, such as support for evaluation, implementation of an organisational review and appointment of an 'organisational developer'**. In these circumstances, Futurebuilders' investments attempt to contribute to building capacity across a number of areas, including governance, management practices, human resources, financial management, service delivery, external relations and, ultimately, sustainability.

4.3.13. The case study research finds that Futurebuilders investment has had significant impacts on organisational development within all but two cases (**C** and **G**). Specifically, development within the remaining seven cases has often centred on:

- diversifying the organisations' income base (three cases)
- acquisition of improved or new premises (two cases)
- expansion of services across geo-political boundaries (two cases)
- staff expansion and management (four cases)
- organisational restructuring (six cases)
- marketing strategies (one case)
- implementation of quality frameworks (one case)
- reconfiguration of services (one case)
- systematic monitoring and evaluation systems (two cases)
- financial management (five cases)
- the role of governance and board composition (three cases).

4.3.14. **These cases report that Futurebuilders investments have stimulated growth, efficiency and effectiveness**, which puts these organisations in a stronger position to bid for and deliver public services. Ultimately, this has resulted in the organisations re-orientating themselves in relation to service users and communities and/or statutory agencies, potential commissioners and other funders.

4.3.15. It should be noted that for **Case G**, which was a very small organisation at the time of investment (annual income was £24 thousand), the pre-implementation phase has caused extra pressures on a fragile infrastructure, where the trustees currently take responsibility for management tasks as well as organisational governance. Because the Futurebuilders investment is to fund a capital build, the director and trustees of **Case G** are unable to expand their staff team until there is a building from which to deliver services. Completion of the building should alleviate the burden on trustees, but there is a real danger of overload and burnout if the build suffers further delays.

4.3.16. **Four cases have been less successful in building capacity**, largely due to some form of organisational crisis, which has mitigated any attempt to significantly develop these organisations: attention has been diverted to short-term survival.

4.3.17. In **Case C**, serious questions were raised during the first phase of case study research in 2006 regarding financial management and oversight, and the overall vulnerability of the organisation. It is possible that the organisation may have been facing severe challenges and experiencing doubts regarding its long term viability. However, the ability of the organisation's consultant accountant to extract figures, present some semblance of order and to work closely with Futurebuilders business consultants and external auditors perhaps served to mask the poor financial management practices within the organisation. There was also evidence of historically poor contract monitoring arrangements, and the withdrawal of a core grant. This investment has now been 'written off' by FBE.

4.3.18. **The remaining three cases have all experienced periods of crisis as a result of the unplanned loss of key organisational members**. It is clear that staff discontinuity can and has affected Futurebuilders investments following approval, particularly in those organisations where there is a significant dependence on a few key individuals. These cases are now showing early signs of regaining stability and the potential for them to increase service delivery capacity remains.

4.3.19. Although the concept of capacity building may share similarities to the concept of organisational development, it is worth noting in relation to the case study findings that organisational development does not necessarily equate to a simultaneous increase in the capacity to deliver more services.

4.3.20. For instance, **Case E** experienced development in many areas including increases in the number of trustees, appointment of an HR advisor, involvement of service users in the planning and evaluation of public service delivery and new financial management strategies as a result of the FBE investment. Attempts to increase organisational capacity, however, were undermined by internal turmoil during the investment period, including the loss of a key staff member due to long term sickness, external events which diverted the leadership of the organisation, and competency issues with senior staff responsible for management of budgets. The organisational development experienced as a result of the Futurebuilders investment aided the stabilisation of the organisation rather than building capacity to deliver public services.

4.3.21. Conversely, **Case G** experienced limited organisational development across the identified areas (governance, management practices, HR, financial management, service delivery, and external relations/procurement) due to the investment being in a pre-implementation phase, but capacity was increased through the FBE grant freeing up trustees to focus on relationship/strategic development.

Financial management capacity of Futurebuilders investees

4.3.22. The FBE risk data suggests that financial management is a key area for development amongst a number of particularly small and medium sized investees. This was borne out through the case study research which explored financial management in some depth. It considered, in particular, the financial management capacity of investees, the extent to which they understood the full implications of taking on loan finance, and the impact this would have on the organisation's financial statements in future years.

4.3.23. **The research found that financial management capacity of the largest organisations (applies to all cases listed as 'large' but certainly Cases B, D, J) was well developed** with dedicated finance teams led by qualified accountants: for these, loan finance and its impact on the organisation's balance sheet were well understood. By comparison all but one of the medium and smaller cases were dependent on external accountants to prepare their financial statements. The financial management capacity of small organisations was particularly limited. For example **Cases G** and **N** had no member of staff with a financial management role and relied on input from trustees with responsibility for finance.

4.3.24. **Although some of the small and medium sized cases experienced some improvements in their financial management capabilities as a result of Futurebuilders support (e.g. Cases K and O), there was often a lack of appreciation of full implications of loan finance**. For example, the need to split loan repayments between interest charges (treated as expenditure) and capital repayments (leading to reduced liabilities on the balance sheet) was rarely appreciated at the outset. Furthermore, in two cases (**C and K**) there was insufficient understanding of the different accounting practices for grant and loan funding at the time of the initial Futurebuilders application.

4.3.25. **The research identified a particular issue in those cases where loans had been sought to provide working capital**, as there was a real risk of organisations appearing technically insolvent (i.e. with liabilities that are greater than assets) if the loan receipts were spent on salaries before any substantial new income had been won from public service contracts. However, in the implications of this do not appear to have been fully considered. The two smallest cases (**G** and **N**) and two of the medium sized case (**C** and **M**) each had loans primarily to cover items of revenue expenditure and only realised the full impact of this once the loans had been fully drawn. Once the consequences became clear, and where new revenue had not been achieved, these organisations were seeking to renegotiate the terms of their loans, with a view to getting them written off (i.e. converted to grants), sometimes leading to several years of frustration between the investee and FBE. In two cases the investments have now been written off – primarily because service contracts were not secured to cover the additional cost base and repay the loan.

4.3.26. **The research found that the VAT implications of service delivery created major financial management complications for many investees, especially for those undertaking contract work for the first time, or entering new areas of provision**. The VAT status of a service determines whether VAT costs can be recovered and hence a risk of very significant additional costs if the contract pricing had not allowed for this. Only the largest investees had considered VAT issues from the outset. Four cases had very significant VAT problems (**Cases A, D, I, L**) and three of these approached FBE for additional development grants for VAT advice. Even by the end of the research, we found VAT issues had still not been fully considered by some of the small to medium investees (e.g. **Cases K, N**) which were not VAT registered.

4.3.27. Finally, **we found that Futurebuilders investment had acted as a driver of changes and improvements in financial management practice.** This was particularly in relation to the pricing of services, the adoption of Full Cost Recovery and cost control. For example, **Case J** had reviewed its costing of services which had brought extensive change to internal management practice, especially in terms of the apportionment of indirect costs (overheads). The organisation reported that this had represented a cultural change but it had also meant it was better placed for managing contracts to support individual budget holders.

Setting the case study findings in context

4.3.28. **It is important to set the above case study findings in the context of the wider investment book**. An assessment of the organisational development status of all established Futurebuilders investees[8] has be made from the Annual Review data collected by FBE. The Annual Review process involves a risk assessment in which investees are graded (green, amber or red) according to a series of criteria linked to the progress of their investment. This includes an assessment of the *organisation:* how well run it is (management and governance etc) and its financial viability and the *investment proposal*: the success of delivery to date and whether it remains financially viable. An overview of this data from Annual Reviews carried out during 2009 is provided in Table 4.2.

Table 4.2: On Overview of FBE Annual Review Data 2009

Criteria		Green	Amber	Red
Organisation:	How well run?	86%	9%	5%
	Financially viable?	40%	39%	21%
Proposal:	Successful delivery?	72%	22%	4%
	Financially viable?	44%	44%	12%

Source: FBE Annual Review Data, December 2009

4.3.29. This suggests that the **organisational development status of most investees is generally positive** - across each of the four criteria more than three-quarters of investees are graded green or amber. However, there was concern about the financial viability of one in five investees. It is in these organisations it would be expected capacity building support to be focused and there is some evidence that this is the case - of the 21 investees graded red for financial viability, 12 had received either a development or capacity building grant. It should be noted that despite concerns about financial viability relatively few investees (four per cent) were graded red for the delivery of the proposal, suggesting that for most organisations investments remained on track.

4.3.30. The organisational development status of investee organisations can be explored in more detail by considering the distribution of 'red' grades by organisation size (see Table 4.3).

[8] This analysis draws on data contained within FBE Annual Reviews carried out during 2009. It therefore relates to the majority of investees that agreed their FBE investment before the end of 2008 (N=100).

Table 4.3: FBE Annual Review Data 2009 - red grades by organisational size

Criteria		Small	Medium	Large
Organisation:	How well run?	6%	8%	0%
	Financially viable?	38%	25%	7%
Proposal:	Successful delivery?	0%	6%	3%
	Financially viable?	13%	15%	7%

Source: FBE Annual Review Data, December 2009

4.3.31. **Small and medium sized organisations are considerably more likely to be graded red for financial viability than large organisations; echoing the case study findings.** This is an issue to which we will now turn in more detail through an exploration of the case study findings.

4.4. The role of FBE as an Engaged Funder

4.4.1. **The case study research finds that the role of FBE as an 'engaged funder' varies between investee organisations** that were well developed and had largely developed capacity prior to the Futurebuilders investment and investee organisations that needed to build capacity to realise the investment goals.

Organisations that had largely developed capacity prior to FBE investment

4.4.2. **The role of FBE in well developed organisations is not as central to the success of the investment as with organisations that do not have existing infrastructure and delivery capacity on which to draw**. Additionally, the profiles of the investments themselves are more heavily skewed towards the loan element. For example, proportion of investments comprised of grants among the eight well established investees ranges between one per cent and 25 per cent, with the average (mean) being 12 per cent. Seven of the eight cases received some form of grant support and five of the eight cases received capacity building support (one of which was a variation agreed after the point of original investment).

Table 4.4: Purpose of grant and capacity building investment elements in well established cases

Purpose of Grants (revenue and capital)	Purpose of Capacity Building
- Purchase of IT software/hardware - Equipping and furnishing buildings - Staff salaries and associated costs - Service development costs - Professional fees	- Support in contract negotiations - Development of full cost recovery (FCR) methodologies - Integration of various organisational plans and strategies - Development of user involvement methods - Support to challenge HMRC regarding VAT status of build project - Development of (soft) impact evaluation methodologies. - Development of risk assessment framework

4.4.3. Where grant or capacity building support is awarded in these cases, it tends to relate to very narrowly specified areas of activity rather than generic (but high impact) development (see table below).

Organisations that needed to develop capacity for success of the FBE investment

4.4.4. In the scenario where organisations needed to develop capacity to realise the intentions of the Futurebuilders investment, the role of FBE as an engaged funder is more central to the success of the investment (see Box 4.2). **In comparison to the well established organisations discussed above, the profiles of the investments themselves have a higher grant to loan ratio.** The proportion of investments comprised of grants among these nine investees ranges from 15 per cent to 55 per cent, with the average (mean) being 32 per cent (compared to 12 per cent for well established organisations). Eight of the nine cases received some form of grant support and seven of the nine cases received capacity building support.

Box 4.2: FBE as an 'engaged funder': An illustration

As part of the capacity building grant **Case I** received from FBE, a Business Consultant spent four days working with them to establish why they were having difficulty recruiting a dedicated finance officer - something that was of concern to one of their main commissioners and FBE alike. Due to these concerns, the recruitment of the finance officer was one of the conditions of the Futurebuilders investment. To aid recruitment to this post, an FBE staff member was involved in the interview panel and **Case I** was successful in recruiting a finance officer. The charity finance specialist within the SHU evaluation team considered this to be a strong appointment based on interaction with the post holder.

At the time of the annual review in 2008, **Case I** had drawn down the full revenue grant and capacity building support, but none of its loan or capital grant elements. The Futurebuilders loan was not drawn down due to internal issues preventing **Case I** from purchasing a property to expand its services. The Finance Manager felt that a bank or other commercial loan would have been withdrawn by now - and FBE could have considered withdrawing it as a result of the organisational issues but instead chose to proactively support the organisation.

For example, following a review of all drug support services by local commissioners, **Case I** won two large tenders and as a result its property needs changed. In autumn 2008 the Futurebuilders loan package was restructured to better support the new areas of work. The flexibility in FBE funding has proven a positive resource to **Case I** in contract negotiations with its purchasers and the level of support (both financial and advisory) has strengthened the business case submitted by **Case I** in current competitive dialogue. **Case I** suggests that the Futurebuilders investment acted as an informal quality mark in the eyes of commissioners.

4.4.5. Moreover, **where grant or capacity building support is awarded in these cases, it tends to fund generic, holistic developments that are likely to have a broad impact across the organisations concerned** (see Table 4.5). As discussed here and elsewhere in this chapter small third sector organisations could be particularly vulnerable to operational problems when they lost a key member of staff. In a number of cases the provision of patient funding, including rescheduling payments and offering additional revenue support, allowed organisations to continue to operate and regain a more stable position.

Table 4.5: Purpose of grant and capacity building investment elements in cases with lower levels of capacity

Purpose of Grants (revenue and capital)	Purpose of Capacity Building
- expand capacity - funding of set up costs - enable planning and development - salaries and associated costs - service delivery costs - removal costs	- outcomes audit - commission independent evaluations - review of financial systems/management - develop IT systems - develop monitoring systems - support implementation of an organisational review - support implementation and monitoring of a quality framework - training for staff & trustees

4.4.6. **The pattern of higher grant to loan ratios for small and medium sized investee organisations is repeated across the Futurebuilders investment portfolio.** The average proportion of grant funding for those with an annual income under £500,000 is 22 per cent, and for those with an annual income over £500,000 is 14 per cent. This further supports the case study findings and suggests that FBE is focusing grant and capacity building support in investees with lower incomes as this is where development needs are greatest.

4.5. Conclusion

Key Lessons for Organisational Development

- 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
- 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
- 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, the impact of working capital investments of the balance sheet.

4.5.1. **The level of capacity building required is found to vary considerably across the investee organisations and there was no guarantee in cases which were at risk that the support would be sufficient**. The main findings from this chapter 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 targets support accordingly**. However, organisations with further development needs are more vulnerable and FBE support (using revenue and grants in some cases) is not a guarantee of success
- **loans are also found to bring specific pressures on the financial and wider management of organisations**, in particular the implications of loan funding for working capital and the management of VAT issues.

4.5.2. **The evaluation found that investment selection and organisational development need to consider a combination of internal management and external relationship factors**: notably around external relations and financial management. Managing loan investments places new pressures on organisations and involves a strategic shift organisations need to make in relation to income generation and the delivery of public service contracts.

5

5. Futurebuilders Investees: Public Service Delivery and Procurement

Summary

This chapter explores outcomes in terms of public service delivery and the procurement markets in which investees operate. In terms of public service delivery the findings show:

- **Service Deliver Capacity:** Futurebuilders investments can quite quickly lead to additional public service delivery capacity
- **Contracts Secured** additional contracts are being secured and delivered but there is considerable variation in performance: the mean value of contracts secured is £122 thousand but 20 per cent of organisations contribute 80 per cent of contracts won by value. Large organisations (with turnover of over £1 million) received 46 per cent of all contract value
- **Key Procurers of Services:** local authorities awarded 51 per cent of contracts won by value; local health bodies (PCTs and Health Trusts) 16 per cent
- **Investing in Local Procurement Markets:** the procurement environments and markets in which investee organisations operate are significant drivers for the realisation of Futurebuilders public service delivery objectives
- **Public Sector Cost Savings:** from a small sample of organisations we find that investments have led to demonstrable public sector cost savings and evidence of the benefits of third sector delivery.

5.1. Introduction

5.1.1. **This chapter links the findings on organisational development (presented in chapter 4) with the achievement of additional capacity to deliver public services**. It considers the progress organisations are making in securing investments, and what appears to drive or inhibit the success of third sector investees in procurement markets[9].

5.1.2. This chapter draws on the results of the following research:

- analysis of FBE's Key Performance Indicator data on contracts won
- case study research with 17 investee organisations. The cases were selected partly because they provide evidence of third sector organisations operating in different configurations of procurement markets: for instance, through commissioning processes, through purchasing by individuals (including the use of individualised budgets) and competition in open markets
- valuation of public sector cost savings as a result of planned public service delivery. This provides evidence as to whether Third Sector organisations

[9] Procurement is 'the specific aspects of the commissioning cycle that focus on the process of buying services, from initial advertising through to appropriate contract arrangements'. Commissioning is the broader 'cycle of assessing the needs of people in an area, designing and then securing an appropriate service'.

deliver public sector services at lower cost, including areas of innovative delivery. The following chapter, on social outcomes, considers how such delivery can bring benefits to service users.

5.1.3. This chapter is structured around the findings from each research task.

5.2. Public Service Delivery among Investees: An Overview

5.2.1. A summary of the number and value of public service delivery contracts awarded to Futurebuilders investees between April 2008 and September 2009 is provided below.

5.2.2. In summary, during the 18 month period between April 2008 and September 2009 102 Futurebuilders investees won a total of 454 new attributable public service delivery contracts worth approximately £55.5 million. Overall, 43 per cent of full investees were awarded at least one public service delivery contract with the figure rising to 60 per cent when only those who have drawn down funds are considered.

5.2.3. **The mean value of these contracts was £122,000 but they ranged from less than £1,000 (11 contracts) to more than £1million (9 contracts)**. The largest contract was for £3.5 million with a local NHS Trust.

5.2.4. On average each organisation that was awarded at least one contract received income of £545,000 but the actual benefits ranged from less than £1,000 (two organisations) to more than £1million (12 organisations) - one organisation was awarded 18 contracts worth a total of £12.7 million - 23 per cent of the total value of contracts awarded to all investees.

5.2.5. It is worth noting, however, that public service delivery contracts are distributed unevenly between investees:

- **20 percent of organisations contribute 80 percent of contract value**
- **large organisations (turnover over £1 million) received 46 percent of all contract value**
- **small and start-up organisations received only 10 percent of contracts (by number and value)**.

5.2.6. These issues are now explored in further detail below.

Contract Value

5.2.7. An overview of the value of public service delivery contracts awarded to investees according to number and value is provided in Table 5.1.

5.2.8. This shows that although the largest proportion of contracts awarded were for less than £30,000 (47 per cent) and £30,000 to £100,000 (28 per cent) these contracts only accounted for 14 per cent of the total value of contracts awarded. Conversely, a far smaller proportion of the contracts awarded were for £500,000 to £1million (6 per cent) and more than £1 million (2 per cent) yet these accounted for 59 per cent of the total value. It was noted in Chapter 3 that the calculation of the KPI for contracts won is by number and not value: for the reason that a value based incentive would provide too great an incentive to target organisations delivering a few large contracts.

Table 5.1: Contracts awarded to Futurebuilders investees (Apr 2008-Sep 2009) according to contract value

	Up to £30,000	£30,000 to £100,000	£100,000 to £200,000	£200,000 to £500,000	£500,000 to £1m	More than £1m
Number of contracts awarded	214	129	47	26	26	9
Percentage of contracts awarded (by number)	47%	28%	10%	6%	6%	2%
Total value of contracts awarded	£1.9 m	£6.3m	£6.2m	£8.4m	£18.1m	£14.5m
Percentage of contracts awarded (by value)	3%	11%	11%	15%	33%	26%
Mean value of contracts awarded	£8,995	£48,878	£132,604	£323,766	£697,190	£1.6m

Source: FBE
Date: January 2010

5.2.9. The range of contract values awarded to Futurebuilders investees provides an indication of the scale of their service delivery activities. **That the majority of contracts were awarded at the lower end of the value spectrum demonstrates that most investees' service delivery is relatively small scale and piecemeal**. These organisations may therefore be more vulnerable should public sector bodies seek to improve their economies of scale by letting larger contracts in the future.

Purchasers of Public Services

5.2.10. An overview of the purchasers of public service delivery contracts awarded according to number and value is provided in Table 5.2.

5.2.11. This demonstrates that **Local Authorities are by far the most important purchasers of services delivered by Futurebuilders investees**, accounting for 52 per cent of all contracts awarded and 51 per cent of the total value awarded. By contrast, other local purchasers such as NHS and PCT bodies (eight per cent of contracts, 16 per cent of value) and education providers (six per cent of contracts, one per cent of value) are less important. Central government departments are also of limited importance to Futurebuilders investees, awarding only four per cent of contracts and six per cent of total value.

Table 5.2: Contracts won by Futurebuilders investees (Apr 2008-Sep 2009) according to purchaser type

	Number of contracts awarded	Percentage of contracts awarded (by number)	Total value of contracts awarded	Percentage of contracts awarded (by value)	Mean value of contracts awarded
Local Authority	235	52%	£28.16m	51%	£119,831
Local NHS/PCT Bodies	35	8%	£8.96m	16%	£255,956
Central Government Departments	18	4%	£3.25m	6%	£180,625
European Social Fund	8	2%	£2.08m	4%	£260,031
Statutory Sector Education Providers	28	6%	£472,274	1%	£16,867
Learning Skills Council	10	2%	£2.91m	5%	£290,787
Probation Service	6	1%	£347,500	1%	£57,917
Housing Association	5	1%	£317,563	1%	£63,513
Other Public Sector	46	10%	£2.85m	5%	£61,850
Grantmaker	18	4%	£467,089	1%	£25,949
Unknown	43	9%	£5.63m	10%	£130,965

Source: FBE
Date: January 2010

5.2.12. It is however interesting to note that local authority contracts tended to be worth less in terms of value than those of some other providers. The average (mean) size of local authority contract awarded was £120,000 compared to £256,000 by local NHS and Primary Care Trusts, £181,000 by central Government departments and £291,000 by the European Social Fund. This may reflect the procurement of services by these organisations at larger geographic scales and through consortia based models.

5.2.13. Nevertheless, these findings highlight the **importance of local authorities as the primary purchasers of third sector services** and therefore the importance of local authority procurement and commissioning practices in creating an environment in which Futurebuilders investees can successfully tender for public services.

5.2.14. Related to the above, the case study research finds that investees take different roles in shaping their external operating environments, based on their competencies and capacity and environment they operate within. There are, for example:

- cases that see stakeholder relations as central to their success and actively aim to contribute to shaping the national and local policy landscapes in which they operate and, in some instances, create their own markets

- cases where policy environments and local commissioners' priorities are crucial to the organisation's success, but investees are much more passive and reactive in relation to changes in their environment. These organisations usually approach public service delivery through responding to tenders
- cases where organisations are the sole provider of services within a geographic locality and therefore occupy a favourable position with commissioners.

5.2.15. In any of the above circumstances, conditions for the success of investments appear to be more favourable in situations where there is a close alignment between local agencies' priorities (and often expressed in Sustainable Community Strategies or Local Area Agreement targets), strategies and service provision, and the offering of investee organisations.

Investment Size

5.2.16. An overview of number and value of public service delivery contracts awarded according to the size of investment received through Futurebuilders is provided in Table 5.3.

Table 5.3: Contracts awarded to Futurebuilders investees (Apr 2008-Sep 2009) according to investment size[10]

	Small	Medium	Large
Number of contracts awarded	73	271	108
Percentage of contracts awarded (by number)	16%	60%	24%
Variation on investment book	-10% pts	4% pts	10% pts
Total value of contracts awarded	£15.46m	£19.21m	£17.95m
Percentage of contracts awarded (by value)	28%	35%	32%
Variation on investment book[1]	2% pts	-21% pts	18% pts
Mean value of contracts awarded	£211,817	£70,897	£166,198

Source: FBE
Date: January 2010
Note: [1]. The row 'variation on investment book' indicates the difference between the proportion of investments of a particular size and the proportion of contracts by value being awarded to investments of that size (e.g. there are a greater proportion of contracts being awarded to large investments than would be expected).

5.2.17. Table 5.3 demonstrates that **large investments, comparatively, have been the most successful in securing new public service delivery contracts.** Collectively large investments secured 108 contracts worth £17.9 million (mean value £166 thousand) - 24 per cent of all contracts by number and 32 per cent by value even though they only account for 14 per cent of all Futurebuilders investments.

5.2.18. **By contrast the performance of small and medium investments was mixed**. Small investments were awarded comparatively fewer contracts but the value of those contracts was typically higher - they received 16 per cent of contracts by number but 28 per cent of contracts by value (mean value £212 thousand). Medium investments were awarded comparatively more contracts but the value was lower -

[10] A small investment is defined as one whose total value is less than £100,000; a medium investment is £100,000 - £1million; and a large investment is over £1million.

they received 60 per cent of contracts by number but only 35 per cent by value (mean value £71 thousand).

Income Size

5.2.19. An overview of number and value of public service delivery contracts awarded according to the income size of Futurebuilders investees is provided in Table 5.4. Organisations are categorised according to their annual income in the financial year immediately prior to their Futurebuilders application[11].

Table 5.4: Contracts awarded to Futurebuilders investees (Apr 2008-Sep 2009) according to income size

	Start-up/ Small	Medium	Large
Number of contracts awarded	43	280	131
Percentage of contracts awarded (by number)	9%	62%	29%
Variation on investment book	-10% pts	13% pts	-2% pts
Total value of contracts awarded	£5.60m	£23.99m	£25.73m
Percentage of contracts awarded (by value)	10%	43%	46%
Variation on investment book	-9% pts	-5% pts	15% pts
Mean value of contracts awarded	£130,310	£85,691	£196,431

Source: FBE
Date: January 2010

5.2.20. This demonstrates **start-up and small organisations have been the least successful at securing new public service delivery contracts** - although they account for 19 per cent of all investments they only accounted for 9 per cent of contracts by number and 10 per cent by value (mean value £130 thousand). The largest proportion of contracts by number was concentrated in medium sized organisations (62 per cent) but the largest proportion of contracts by value was concentrated in large organisations (46 per cent).

5.2.21. While larger organisations tend to receive higher number and value of contracts, **the case study research finds that organisational size and capacity at the point of investment are not always key determinants in securing public service delivery contracts.** Some larger organisations with existing capacity have experienced both a decline in capacity and increases in delivery capacity which have failed to or are struggling to translate into public service delivery contracts. Critical factors disrupting well established organisations' ability to increase capacity and realise the public service delivery intentions of the Futurebuilders investment include:

- withdrawal of significant (grant) funding streams (**Case A** - work to support ex offenders)
- reconfiguration of the commissioning and procurement environment resulting in loss of existing public service delivery income streams (**Case P** - community projects)

[11] A small organisation is defined as one whose total annual income is less than £100,000; a medium sized organisation has an income of £100,000-£1million; and a large organisation has income over £1 million.

- loss of key staff (**Cases A and P**)
- shifts in funding priorities within the wider policy environment leading to lack of demand from procurers (**Cases A, B-** residential provision and interventions to stabilise drug users **- and P**).

5.2.22. Equally, some smaller organisations, with little existing capacity on which to draw at the point of investment, have experienced growth and developed significant in-roads within their procurement markets. There are, of course, others that have struggled to develop capacity or secure sufficient public service delivery contracts.

5.2.23. **What does appear to be a significant driver or barrier for the realisation of Futurebuilders investments are the procurement environments and markets in which organisations operate**. There are, for example, some emergent patterns across public service delivery areas, with the markets for crime and community cohesion least developed.

5.2.24. The risk assessments made of all investments provide some support to this, with investments in the crime and community cohesion fields likely to have slightly higher risk scores than those for other public service delivery areas. This is not to say that all investments in crime and community cohesion are riskier than other PSD areas. Issues relating to policy environments and procurement markets are explored in further detail in section 5.3.

5.3. Policy Environments and Procurement Markets: their impact on Organisational and Futurebuilders Investment Success

5.3.1. **The circumstances - and success - of organisations, and Futurebuilders' investments in them, are influenced significantly by the environment in which they operate**. These factors are central to achieving greater understanding about the plausibility of the hypothesis: *Futurebuilders increases the capacity of the voluntary sector to deliver public services*.

5.3.2. The case study research finds that investees sell their services into three main market configurations: to individuals (for instance who use Housing Benefit to pay for residential care); to specific local commissioners who see them as providing a 'unique' or at least distinctive service, and; to an array of local markets (each with differing commissioning bodies). **What is particularly noteworthy is that the case research and analysis of FBE monitoring data highlights the weak performance of organisations working in the crime and community cohesion fields.** The policy and commissioning environments here continue to be unstable and difficult to sustain contract revenues for many third sector organisations.

5.3.3. An overview of number and value of public service delivery contracts awarded according to the main public service delivery areas of Futurebuilders investees is provided in Table 5.5.

Table 5.5: Contracts awarded to Futurebuilders investees (Apr 2008-Sep 2009) according to public service delivery area

	Children and Young People	Community Cohesion	Crime	Education and Learning	Health and Social Care
Number of contracts awarded	63	8	26	177	179
Percentage of contracts awarded (by number)	14%	2%	6%	39%	39%
Variation on investment book	-8% pts	-4% pts	-2% pts	15% pts	0% pts
Total value of contracts awarded	£3.41m	£303,032	£5.44m	£25.89m	£20.20m
Percentage of contracts awarded (by value)	6%	1%	10%	47%	36%
Variation on investment book	-15% pts	-5% pts	2% pts	23% pts	-4% pts
Mean value of contracts awarded	£54,172	£37,879	£209,420	£146,293	£112,822

Source: FBE
Date: January 2010

5.3.4. This shows that 78 per cent of contracts by number and 83 per cent of contracts by value were awarded for public service delivery in the areas of Education and Learning, and Health and Social Care despite the fact that they made up only 63 per cent of all investees. By comparison there were proportionately fewer contracts won by organisations working in the areas of children and young people (14 per cent by number, six per cent by value), crime (six per cent by number, ten per cent by value) and community cohesion (two per cent by number, one per cent by value).

5.3.5. The research suggests that organisations working in the public service delivery themes relating to education and learning, and health and social care have particularly favourable environments in which to succeed in public service delivery. This can be usefully explored further through the case study findings relating to investees within these public service delivery areas.

Cases with favourable commissioning and procurement environments

5.3.6. Table 5.6 shows the procurement markets the case study organisations operate in.

Table 5.6: Outline of Procurement Markets

Case	Public service delivery activity	(Potential) Procurement Market	Actual Market
A	Rehabilitation of ex-offenders	Local/regional through NOMS	Local Authorities Local Skills Council
B	Stabilisation of drug-users	Local/regional through NOMS	Local Authorities
C	Support to refugees	Local Authority/LSC	(Investment written-off)
D	Support to children with a lifelong limiting condition	Local Education Authorities	Local Education Authority
E	Mental health support	Social Services	PCTs, Local Authorities
F	Sheltered accommodation and support for older people	Social Services	Local Authorities
G	Children's day care centre	Local Education Authorities	Local Education Authorities
H	Community cohesion projects	Local Authority	Central Government (Home Office), Local Authorities
I	Health and social care project supporting sex workers and their families	Social Services	PCTs, Joint Commissioning Teams
J	Support facility for people with learning disabilities	Social Services	Local Authorities
K	Housing focused community reconciliation project	Local Authority and Housing Associations	Housing Association
L	Education and inclusion through the arts for disadvantaged people	Local Authority/LSC	Local Authorities, Local Education Authorities, PCTs, NOMS
M	Prison-based education programmes	Local/regional through NOMS	Local Authority, Youth Offending Teams
N	Counselling for young people	Local Education Authorities	Local Authorities, PCTs, Joint Commissioning Teams, PCTs
O	Support for people with physical and sensory disabilities	Social Services	PCTs, Local Authorities, Care Trust Plus
P	Community development and inclusion for hard to reach communities	Local Authorities	LSC, Local Authorities, Learn Direct
Q	Social care accommodation for people with complex needs	Social Services/PCTs	PCTs, Social Services, Local Authorities

5.3.7. Nine of seventeen case organisations provided services in the areas of Education and Learning (**Cases C**, **D**, and **L**) and Health and Social Care (**Cases E, F, I, J, O,** and **Q**). Within this group of organisations, there are three scenarios in relation to public service delivery:

- organisations that have increased their level of service delivery under contract from the public sector and are on track to realise the public service delivery intentions of the investment (seven cases)
- organisations that have increased their level of public service delivery but not at the scale intended (one case)

- organisations that have no long-term viability and in which the FBE investment has been written off (one case).

5.3.8. Within the first scenario - involving seven organisations that have increased their level of public service delivery and are on track to realise the intentions of the investment - four cases (**Cases J, L, O** and **Q**) were successful in building organisational capacity and offer specific services capable of being sold to a wide variety of public agencies.

5.3.9. Both cases that depend on individual take up of their services to achieve financial sustainability (**Cases D** and **F**) were successful in building organisational capacity and securing public service delivery contracts at the intended scale. Although individual take up of these organisations' services may well involve the help of government (through Working Family Tax Credit for example), their fate is nonetheless much more in their own hands than the organisations which rely on bulk contracts from public agencies.

5.3.10. The final case in this scenario (**Case I**) has been successful in increasing their level of service delivery by selling specific services into potentially broad markets, despite internal challenges that have mitigated any attempt to develop the organisation. This is, at least in part, due to the exceptional support from local commissioners in reconfiguring their services in response to the changing commissioning environment and internal turmoil. Again, highlighting the importance of the procurement markets in which organisations operate, and their relationships with commissioners and purchasers.

5.3.11. In the second scenario - increased public service delivery at a lower level than expected -**Case E** experienced an increase in public service delivery, but not at the level intended. This organisation sells services into very specific markets with clear budget holders. Case E has - up until the point of writing - been unable to build capacity as a result of internal crisis. It has nevertheless experienced a degree of progress in increasing its level of public service delivery. The service in which FBE invested has been accepted as part of a primary care mental health pathway from April 2008. Arguably, the internal issues have been critical factors hampering progress towards increasing service delivery in an area that has a favourable policy environment and increasing demand from service users.

5.3.12. The final scenario involves one organisation (**Case C**), which has little prospect of long-term viability or making repayments on the FBE investment. As such the investment has now been 'written off' by FBE. Serious questions were raised during the first phase of case study research in 2006 regarding financial management and oversight, and the overall vulnerability of Case C. It is possible that the organisation may have been facing severe challenges and experiencing doubts regarding the long-term viability of the organisation. However, the ability of the organisation's consultant accountant to extract figures, present some semblance of order and to work closely with FBE business consultants and external auditors perhaps served to mask the poor financial management practices within the organisation. There was also evidence of historically poor contract monitoring arrangements, and the withdrawal of a core grant post FBE investment.

5.3.13. **There appear to be a number of common features or 'enabling factors' within the operating contexts of these organisations, which arguably make for a favourable environment for success**. These include:

- **services are central to mainstream policy agendas and public agency budgets**

- **services are aligned with local agencies' priorities, strategies and service provision** (Cases D, E, F, J, L, O, Q)
- **demand for services outstrips supply** (Cases D, E, F, O)
- **established (two-way) relations between commissioners and case organisations, often spanning local and national levels** (Cases, D, F, I, J, L, O, Q).

5.3.14. Although derived from case study level observations these findings accord with those from the analysis of public service delivery contracts and risk management data (see Chapter 3). **The success of patient and engaged funding requires a careful understanding of how investee organisations operate within their procurement environment: both at present or as part of their future operations.**

Cases with challenging commissioning and procurement environments

5.3.15. Perhaps the most difficult policy environments for case studies to succeed in delivering public services relate to the crime and community cohesion agendas. There are six case organisations providing services in these areas (Community Cohesion **Cases K**, **H**, and **P**; Crime **Cases A**, **B** and **M**).

5.3.16. Similar to the group of organisations operating in favourable commissioning and procurement environments, there are three overarching scenarios. The difference between the two groups lies in the balance between the scenarios:

- one organisation out of six working within the crime and community cohesion themes has increased public service delivery, and is on track to realise the intentions of the investment
- three organisations have increased public service delivery, but not at the anticipated level
- two have experienced a decrease in public service delivery since the point of investment.

5.3.17. Despite an inability to increase organisational capacity due to internal turmoil, **Case K** has had some success in securing public service delivery contracts, and is on track to realise the PSD intentions of the investment at the time of writing. **Case K** has nonetheless faced a number of challenges presented by its operating context, as services failed to be purchased by the range of commissioners envisaged at the point of initial investment. It is unlikely case K would be in operation without the Futurebuilders investment, and arguably, local purchasers with a prior funding commitment to **Case K**'s existing and unique service have been instrumental in its survival. Whether there are sufficient markets to broaden service delivery out remains questionable.

5.3.18. Of the three organisations that have increased their level of service delivery, but not at the scale intended, two (**Cases H** and **M**) provide specific services capable of being sold to a broad range of purchasers and one (**Case B**) sells services into very specific markets with clear budget holders. All three cases are judged to have increased capacity to deliver public services, and this should be translating into securing contracts. Instead, **Cases B** and **H** are struggling to secure the number and size of public sector contracts they require; in effect, the contracts are not sufficient in scale or scope to service repayment of the organisation's loan. They have therefore been obliged to seek much more grant funding than originally planned. **Case H** had some success following the repackaging of their community cohesion services under the Preventing Violent Extremism agenda, but there is a question regarding whether the market for their activities is sufficient.

5.3.19. The FBE investment in **Case M** supported a pilot programme, which was arguably high risk, as there was no plan for roll-out, no immediate market and no procurement targets. For the past year, various criminal justice bodies have been paying for places on the programme. However, the agreed rate per place is calculated to cover the direct operating costs of the programme, but no contribution towards the running costs of the organisation as a whole. It is not, and has never been, the intention that case M will deliver the model that they have developed. Rather, they have developed a replicable model (although the business model has yet to be tested), which can be delivered by local partnerships with the support of case **M**.

5.3.20. Finally, there are two organisations (**Cases A** and **P**) that have experienced a decline in their level of public service delivery following FBE investment, both selling specific services into broad potential markets. **Case A** has recently secured a number of new contracts of significant value. However, they are in no way attributable to the FBE investment. Interestingly, case A was considered to be a relatively strong and stable organisation with significant capacity at the point of investment. Despite a major restructuring shortly before the point of investment as a result of the loss of significant funding streams, the organisation had responded positively by pursuing a cost saving and restructuring strategy.

5.3.21. However, **Case A** went through a second structural change in the form of a downsizing exercise as a result of a further funding crisis. Case A is thus a much smaller scale and more 'vulnerable' operation than it was at the point of FBE investment. Had the programme concept been successful in relation to income generation, it may have resulted in case A being in a much stronger position. Unfortunately this is not the case, and the programme no longer exists in its previous guise. However, the nature of its work is continuing, though on a smaller scale. The independent evaluation report highlights that there was an initial flaw in case A's replication of the programme model, resting on the "profound contextual differences" between the original model operating overseas, and Case A's operating model in the UK.

5.3.22. The Futurebuilders investment has come at a difficult time for **Case P**, primarily because the market it operates within changed considerably during 2008 as a result of shifts in Central Government's approach to procurement which has involved issuing key contracts to the largest providers only. This was just after the investment was made. Most of case P's work is now undertaken as a sub-contractor to these larger companies. Understandably, it took **Case P** some time to adjust and during this period of transition, the volume of the organisation's contracts and service delivery reduced. Positively, the organisation has recently secured a number of new contracts, and the organisation reports that the new Centre of Excellence (funded by the FBE investment) has 'undoubtedly contributed to securing several new contracts, primarily as a result of the confidence and credibility engendered by the additional physical capacity it has created'. Although, the volume of service delivery is currently substantially lower than in 2006/7 and 2007/8, there have been recent indications that, over time, the intentions of the Futurebuilders investment with regard to PSD may still be realised following **Case P**'s adaptation to its significantly different procurement environment.

5.3.23. For organisations working in the crime and particularly the community cohesion area, there appears to be no substantive 'commissioning environment'. The common factors that appear to be hampering organisations' (and investments') progress in these environments include:

- community cohesion, in particular, is not a mainstream policy and subsequent budget priority
- low level demand for services, on the part of procurers (case A, B, H, M, P)
- reconfiguration of commissioning and procurement environments (case P)
- impact of recession/budget cuts on non-mainstream service provision (B and M).

5.4. Public Cost Savings as a result of Futurebuilders Investments

5.4.1. **As part of informing the impact of Futurebuilders on Public Service Delivery, we have also attempted to estimate the present value of net savings to the public purse of investment related activities.** Potential savings have been adjusted for the likelihood that the benefits would have occurred anyway (deadweight) and whether the investment displaces either other service providers or users of similar services (displacement effects). The table below lists the wide range of outcomes and related savings to the public purse which have been identified across the six case study organisations. This is a relatively limited sample of case studies and was chosen because of readily available figures on public costs attributed to different interventions. In other areas this was found to be beyond the scope of the evaluation: for instance estimating costs resultant from different levels of community cohesion.

Table 5.7: Outcomes and Savings to the Public Purse

	Activity	Outcome	Saving to the public purse
D	Support for children with a lifelong limiting condition	- children at the school demonstrate a marked difference in their behaviour	- more children are able to stay with their families - longer term increases in income tax returns
F	Sheltered accommodation and support for older people	- residents in sheltered accommodation have improved health outcomes - they are able to live independently for longer - they receive more support compared to those at home	- reduction in the number of GP appointments - reduction in the numbers of older people requiring residential care provision - reduction in the number of inpatient nights
J	Support facility for people with learning difficulties	- service users gain employment - improved health outcomes	- reduction in benefits paid - increase in income tax paid - reduced health service costs - reduced LA service provision costs
Q	Social care accommodation for people with complex needs	- residents previously treated 'out of area' are treated 'in area'	- reduction in the costs associated with 'out of area' treatment
G	Children's centre	- improved education outcomes - employment rates of parents	- income tax returns - reduction in benefits
N	Counselling for young people	- improved mental health outcomes	- reduced health service costs

5.4.2. On the other hand, a number of the outcomes are associated with an increase in costs to the public purse, some examples of which are outlined in Table 5.8 below. However, it should be noted that although they produce 'negative' public sector saving (i.e. a cost), these outcomes may bring an overall ‘equity benefit’: that is a more disadvantaged group are benefiting or accessing a service for the first time. Furthermore, this service may bring additional benefits to those which were available previously.

Table 5.8: Outcomes and Costs to the Public Purse

Outcome	Cost to the public purse
The case study organisation receives 'income' from a public body (e.g. PCT) for delivery of the service	Cost of the service
An advisory service assists service users to make benefit claims	Increase in the numbers claiming benefits
Children with special needs receive appropriate specialist education	Increased Local Education Authority costs associated with providing a child with specialist education
Service users are 'signposted' to appropriate other service providers	Increased costs incurred by other service providers
Service users lives are stabilised	Increase in the numbers claiming benefits

5.4.3. The following table summarises the findings from the estimates of public cost savings.

Table 5.9: Net Effect on Public Sector Costs

	5 years		10 years	
	NPV [1]	ROI (for £1 invested) [2]	NPV [1]	ROI (for £1 invested) [2]
D	£1,569,446	£0.14	£5,051,573	£0.46
F	£330,542	£0.17	£976,516	£0.51
J	£244,920	£0.32	£600,923	£0.79
Q	£837,412	£0.31	£1,949,290	£0.71
G	-£69,389	-£0.55	-£140,500	-£0.55
N	£2,088,604	£4.12	£3,615,974	£7.13

Notes: [1] Net present value (NPV) or net present worth (NPW) is defined as the total present value (PV) of a series of cash flows over time. It is a standard accounting method for using the time value of money to appraise long-term projects.

[2] Return on investment (ROI), also known as, rate of return (ROR), rate of profit or sometimes just return, is the ratio of money gained or lost on an investment relative to the amount of money invested.

5.4.4. Of the six case studies presented, investment related activity for five organisations was found to result in net savings to the public purse of between £600,000 and £5million after ten years.

5.4.5. Only one organisation was found to generate investment related activity which represented a net cost to the public purse. **It is important to emphasise that a negative overall public sector cost does 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 to the public purse compared to alternative provision. Where these new services meet a gap in provision for complex needs, or where the quality or additionality of the service is improved, this may still represent a positive social outcome for beneficiaries.

5.5. Conclusion

Key Lessons for Public Service Delivery and Procurement

- **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)
- **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
- **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.

5.5.1. **A significant driver or barrier for the realisation of Futurebuilders investments at the case level, are the policy environments and procurement markets in which organisations operate**:

- **there are particular challenges around the crime and community cohesion public service delivery areas**
- even where organisations working in these arenas have built service delivery capacity, **they are often struggling to secure the level of service delivery contracts anticipated**
- **organisations working within the education and learning and health and social care themes appear to have particularly favourable environments** in which to succeed in public service delivery.

5.5.2. This Chapter raises implications for patient and engaged funding. It highlights the importance understanding the relationship between investees and their procurement markets (both current and intended). These aspects will always have attendant risks (funding priorities do change and are outside the control of third sector organisations). **The implications for fund management in the future are around:**

- **the assessment and monitoring of investee relationships in key procurement markets**
- **providing investment which is phased to allow organisations to build relationships within procurement markets**
- **the acceptance and management of risks associated with fluctuating procurement priorities and how these are best mitigated.**

5.5.3. Understanding investments within the context of their procurement markets, also suggests that there is a wider agenda around the optimum combination of service delivery in a given locality and an acceptance that this varies across service areas and between places.

6

6. Futurebuilders Investees: Social Outcomes

Summary

This chapter explores outcomes in terms of social outcomes. The findings show:

- **Long Term Outcomes:** Futurebuilders' contribution to outcomes for service users is largely indirect: it brings forward in time these outcomes - they are funded primarily through service contracts
- **Service Innovation:** The activities and support delivered by investee organisations was found to be addressing largely unmet needs or providing innovation in service delivery
- **Variable Practice of Outcome Monitoring:** The drivers of effective social outcomes monitoring in investee organisations were either because this was part of the organisation's mission or because it was a requirement of funders
- **Fund Manager Role in Monitoring Social Outcomes:** For the Fund Manager social outcomes were assessed at the point of investment, but then monitoring focused on achievement of milestones and outputs.

6.1. Introduction

6.1.1. This draws on evidence from 17 case studies around the contribution of Futurebuilders investments to outcomes for service users and more broadly the social outcomes from investments.

6.1.2. **In the evaluation model discussed in Chapter 2, Futurebuilders' investments lead to outcomes for organisations, for public services and for service users (social outcomes)**. At the outset it should be noted that loan funding enables organisations to expand capacity through which additional services can be delivered to achieve social outcomes. It should be stressed that it is the funding for service contracts which pays for the services which deliver social outcomes: what loan funding enables is the capacity to deliver social outcomes to be expanded or for the social outcomes to be brought forward in time. The ramifications of this distinction will become apparent in this chapter.

6.2 Nature of Outcomes Associated with Futurebuilders Investments

6.2.1. Outcomes are the net benefits which investments bring to individuals, groups or areas. Table 6.1 outlines the main outcomes the 17 case study investments are seeking to achieve. In most cases the outcome is specified as a change in the level of an occurrence (e.g. reductions in reoffending or increases in employment rates). **Futurebuilders investments typically bring increases in service delivery capacity, rather than funding activities which lead *directly* to outcomes**.

Table 6.1: Scope of Outcomes Sought in the Case Studies

	Activity	Outcomes Sought
	Crime	
A	Work-based support provided to ex-offenders	- Reductions in re-offending - Reductions in local crime rates - Increases in employment rates
B	Stabilisation of drug users	- Increase in employment rates - Reduction in drug dependency - Reductions in crime
M	Prison based education programmes	- Reductions in re-offending - Improved health outcomes
	Education and Learning	
C	Support to refugees	- Improvements in health - Increases in employment rates - Improved quality of life
D	Support to children with a lifelong limiting condition	- Increase education performance - Improved wellbeing - Wider acceptance of disability
L	Education and inclusion through the arts for disadvantaged people	- Improved quality of life
	Health and Social Care	
E	Mental health support	- Increased quality of life of patients - Savings in GP time - Savings in prescription costs
F	Sheltered accommodation and support for older people	- Increased quality of life for older people - Increase in life expectancy
I	Health and social care project	- Improved health outcomes for service users and their families - Reduction in drug use - Reduction in experience of violence - Reduction in offending
J	Support facility for people with learning disabilities	- Service users gain employment - Improved health outcomes
O	Support for people with physical and sensory disabilities	- Improved quality of life - Improved community involvement - Reduction of social isolation - Increased access to opportunities for learning, training and development
Q	Social care accommodation for people with complex needs	- Improved quality of life - Increased independent living
	Children and Young People	
G	Children's centre	- Increases of life choices of young people - Increase in employment of parents - Benefits to other childcare centres in area from learning - Safeguarding rural primary school
N	Counselling for young people	- Improved mental health outcomes
	Community Cohesion	
H	Community cohesion projects	- Reductions in racial tension - Increase in cultural awareness and tolerance of cultural differences - Increase in social responsibility and citizenship
K	Housing focused community reconciliation	- Reduced anti social behaviour - Reduced homelessness - Improved health outcomes
P	Community development and inclusion for hard to reach communities	- Improved levels of service user employment - Improved access to education - Reduce crime

Source: FBE Stage 2 Assessment Documentation

6.2.2. **In all of the 17 cases, FBE has made an assessment regarding the potential outcomes for beneficiaries associated (even if indirectly) with the investment**. In each case, the relationship between the activities stimulated by the investment and anticipated beneficiary outcomes is outlined. However, the extent to which the achievement of outcomes is systematically monitored varies greatly between cases. Demonstrating wider social outcomes would often require a sustained and comprehensive monitoring and evaluation programme, which many cases do not have.

6.3 Assessing the Social Outcomes of Futurebuilders Investments

6.3.1 The case study research and review of FBE monitoring information found practice in recording both outputs and outcomes across investment organisations to be variable. Futurebuilders generally required the investee organisations to set investment appropriate milestones (e.g. completion of a building). **Evidence of pre-investment baselines of outcomes or active collection of monitoring data and assessment of outcomes was found to be inconsistent among investees and FBE alike**. This was a concern for the evaluation. There was also some resistance by case studies to a lending organisation requiring monitoring more typically associated with grants.

6.3.2 However, of greater significance is that it raised questions around the capacity of investee organisations to demonstrate to funders that they were having an impact and to frame such impacts in the funding priorities of funders.

6.3.3 In relation to the 17 case organisations the social outcomes from investment related activities may take many years to be fully realised. Where social outcomes have been realised, the level of attribution to the Futurebuilders investment varies from case to case. These scenarios are now explored in further detail.

6.3.4 In respect of **Cases C** and **Q**, no beneficiary outcomes can be associated with the Futurebuilders investment at this time, but for different reasons. The stated purpose of the FBE investment in **Case C** was to enable the organisation to improve its service delivery by building its capacity to win additional contracts in the future. As such, no specific services or outcomes were directly attached to the Futurebuilders investment beyond those that relate to **Case C**'s core activities (which pre-existed the FBE investment). Given the organisation's current scale of operation, it is likely that the number of service users benefitting from its services has in fact reduced since the Futurebuilders investment. The anticipated outcomes should have been improved health, employment opportunities and quality of life for refugees.

6.3.5 With regard to **Case Q**, the investment is still in the pre-implementation phase. Progress toward outcomes will have commenced on completion of the first service centre in January 2010, and these will include improved quality of life and opportunities for independent living for individuals with complex physical and mental health needs.

6.3.6 Insufficient evidence existed on outcomes in nine of the 17 cases. While these organisations may have systems in place to monitor the outputs of their activities (e.g. number of people trained), practice varied as to the systematic capture of the wider social impacts of their work (e.g. increase in employment rates). In cases such as **D** the organisation was making a considerable investment in a research programme, but recognised that the full outcomes of its work with children may not fully emerge for over 20 years, when the individuals will be in their late 20s or early 30s. Indeed, they also reflected that ultimately their interventions (alongside other post-16 support other agencies needed to provide) were about lifelong benefits to individuals. A similar case was made by other organisations supporting children and young people.

6.3.7 The remaining six cases, could all - to some extent - evidence progress towards some of the stated investment outcomes. Often, the outcomes captured are done so as part of a one-off 'snap shot' evaluation and not an ongoing process of evaluation. The following provides a summary for the above six organisations, mostly based on such evaluative studies:

- **Case A** 'recruited' 930 clients, less than half (391, or 42 per cent) arrived on/participated in the programme. As at March 2008, 272 (of the original 391) offenders/ex-offenders had completed the programme, 53 had not completed (due to illness, arrest, major life event etc) and 66 were continuing on the programme. Of the 272 completers: 138 (51 per cent) went into employment; 97 (36 per cent) went into training/FE, and; 37 (27 per cent) went onto other personal development or support (e.g. rehabilitation). It should be noted, however, that the programme itself (and arguably its outputs and outcomes) was funded by a funder other than Futurebuilders. Although the stage 2 report on application states that the purpose of the Futurebuilders investment was to establish and pilot a support programme tailored to the needs of ex-offenders, the actual Futurebuilders investment was to pay for the refurbishment of a building from which the programme would be delivered. The Executive Director of case A reports that both the investment and the project would have gone ahead without the Futurebuilders investment for the refurbishment. Attribution of the outcomes to the Futurebuilders investment is therefore minimal
- **Case E** commissioned an independent evaluation of the service funded by Futurebuilders, which notes that "none of the participating [GP] practices had undertaken any formal monitoring of referrals in relation to patient activity post [Futurebuilders funded service] interventions to ascertain whether individuals were making less repeat visits to the practice or requesting less repeat prescriptions". That said, the service was ***perceived*** by professionals to have the following positive impacts on GP/clinical resources and overall health services:
    - frees up clinical time
    - patients referred to First Steps were seen less often
    - more appropriate and effective use of clinical time, knowledge and expertise
    - improved and more holistic service for patients
    - takes pressure off clinical resources particularly in dealing with increased numbers of referrals since the economic downturn
    - offers a more appropriate option for patients that prevents a knee-jerk reaction to prescribe
    - early indication of a reduction in prescribing levels
    - extremely valuable signposting service that ensures patients get more appropriate specialist advice and support which GP's recognise they lack the local knowledge to provide
    - prevents patients becoming more ill or getting into an 'illness role'
    - encourages patients to have greater interest in own personal wellbeing
    - creates a positive ripple effect in the community where peers see others' lives improve

- allows GP's greater choice in the triage of services for people with mental health and anxiety problems
- provides critical support in the implementation of national guidance for depression and anxiety
- early indication as a cost effective option that offers value for money.

6.3.8 The report also notes that within semi structured interviews, clients articulated a range of ways in which the service had positively impacted upon their lives:

- greater confidence and higher self esteem
- greater motivation and optimism
- feeling less isolated and improvements in social functioning
- greater direction and more focus in life
- feeling more relaxed
- practical solutions to and relief from problems.

6.3.9 Attribution to Futurebuilders is low at this time, as the service has not been rolled out due to internal turmoil within the case study organisation. The above outcomes thus relate to (pilot) activity that pre-existed the Futurebuilders investment. If the programme is successfully rolled out in future, a higher degree of attribution to Futurebuilders would be plausible.

- **Case F** is providing support for 36 elderly residents to live independently and remain in their own homes for longer in purpose designed accommodation, achieving a 30 percent increase in the total number of elderly residents. Arguably, the quality of life for residents has increased significantly - all now have purpose designed accommodation which better meet their long term needs. However, the impact such developments have had on health and well-being of residents is anecdotal and there is no evidence available (to the evaluation team) to make a judgement in this regard.
- **Case G** The outcomes relating to increasing life choices of young people, increasing employment among parents and learning benefits to other childcare centres are not being progressed at the current time due to the delay of the build project. However, with regard to safeguarding the rural primary school, case G's current provision has already safeguarded 20 pre-school places and 24 after-school places that would otherwise have been lost to the community. It is unlikely case G could have secured finance from an alternative source, so attribution to Futurebuilders is high.
- **Case M** collected data regarding reoffending rates within 12 months of completion of the (Futurebuilders funded) programme for one of their four cohorts. There was an expectation that 77 per cent of beneficiaries would re-offend within a 12 months period. The independent evaluation of the programme notes that the re-offending rate was 40 per cent (against an anticipated 50 per cent at the outset). Of the remaining 60 per cent they displayed declining 'gravity scores' (i.e. they committed less severe offences). These are positive outcomes, although a fuller assessment can only made over a longer period. There is no evidence to allow the evaluation team to judge progress towards health outcomes. The organisation reports that the project would have gone ahead regardless of Futurebuilders investment, albeit over a longer period of time.

- **Case O** can demonstrate progress towards increased access to opportunities for learning, training and development as footfall has increased from 18,000 per year to 30,000 and the building has been instrumental in enabling the organisation to increase the number of places on existing courses and deliver a much greater range of activities. However, the wider social impacts of these activities on improved quality of life, community involvement and reduction of social isolation is more difficult to assess, and it is questionable whether the necessary processes have been put in place to evidence such outcomes within case O. Case O is likely to have struggled to secure finance from an alternative source, so attribution to Futurebuilders is high.

6.4. Assessing the social return associated with Futurebuilders investment

6.4.1. This uses the methodological techniques associated with Social Return on Investment (SROI) [12] to produce an assessment of the potential social return associated with five case studies. SROI is a framework for measuring and accounting for the social, environmental and economic costs and benefits associated with an investment. It enables a ratio of benefits to costs to be calculated which can be expressed as a ratio of social value creation for every pound (£) invested.

6.4.2. For each case discussed below we have:

- identified the key outcomes associated with the Futurebuilders investment
- identified a suitable outcome indicator which can be monetised as a financial proxy to place a value on the level of social return
- considered issues of impact, including the potential lifetime of the outcome, deadweight, displacement, and attribution to the case organisation and the Futurebuilders investment.

6.4.3. Due to the limitations with outcome monitoring identified earlier in this chapter it has not been possible to evaluate the social return associated with many of the cases. We have therefore used what evidence there is to project the social returns that might be possible should the intended outcomes identified be realised.

Case A - employment support to ex-offenders

6.4.4. Evidence from Case A indicates that 138 ex-offenders completing their programme (51 per cent of all completers) went into employment. The social value associated with new employment can be monetised using each client's net wages as a financial proxy. As data about their actual wage does not exist it has been assumed that as a minimum employment was at national minimum wage for 2.5 days a week. This translates to annual social value of ***£5,580 per client*** moving into employment or ***£770,040 for all 138 clients*** who completed the programme.

6.4.5. However, the extent to which each example of new employment can be attributed to Case A, and in turn to the investment by FBE, is less clear. There is likely to be a degree of deadweight, as most ex-offenders receive more than one support intervention, and case A claims that the project interventions would likely have gone ahead without the Futurebuilders investment. Attribution of this social return to Case A is therefore likely to be quite high, but attribution to Futurebuilders is likely to be low.

[12] For more information see the SROI Network's 'A Guide to Social Return on Investment' available at http://www.sroi-uk.org/component/option,com_docman/task,cat_view/gid,29/Itemid,38/

Case F - sheltered accommodation and support for older people

6.4.6. Although there is no evidence available on the actual outcomes associated with Futurebuilders investment in Case F, projections about the potential social value accruing to its clients can be made by drawing on published evidence[13] about the health and well-being benefits associated with sheltered accommodation for older people. Residents in sheltered accommodation tend to experience positive health and well-being outcomes in comparison with other older people. Three main indicators provide evidence of this: number of visits to a GP per year, number of days spent in hospital per year, delay in moving into residential care.

6.4.7. The evidence suggests that residents in sheltered accommodation visit their GP on average 4.2 times per year compared with a national average of five times for those aged 65 to 74 and six times for those aged 75 and over. The average cost of a surgery based GP consultation is estimated to be £27-£35[14] so using a mid-point of 5.5 fewer GP visits and £31 per visit this equates to social value of ***£40.30 per client per year*** or ***£725 for all of the 18 additional residential units*** created through the Futurebuilders investment.

6.4.8. There is also evidence that each year 21 percent of sheltered housing residents receive in-patient hospital care compared with 17 per cent of the same age group nationally but remain in hospital for an average of 7.4 nights compared with 17 nights for the general population of the same age group. This suggests that the average sheltered housing resident will spend 1.3 nights fewer in hospital per year. The average cost of one night of inpatient care is estimated to be £270.64 so this equates to social value of ***£361.58 per client per year*** or ***£6,508 for all of the 18 additional residential units*** created through the Futurebuilders investment.

6.4.9. In addition there is an estimated saving of £15,000 to £25,000 for every year that a resident is delayed going into residential care. If it is assumed that the sheltered accommodation was not available, one in six of the additional residents would require residential care, using the mid-point this would result in savings equating to social value of ***£60,000 per year.***

6.4.10. This demonstrates that **Case F**'s new activity could result in social value equating to ***£67,233 per year.*** However, FBE's investment only contributed to a quarter of the total cost of the project, which suggests that only ***£16,808*** of the value can be attributed to the Futurebuilders investment. It is important to note that the evidence used in this projection could be applied to any sheltered accommodation provider, and therefore that this analysis does not capture the added value that Case F's qualitatively different service may provide.

Case G - children's day care centre

6.4.11. It is anticipated that Futurebuilders investment in **Case G** will enable parents in the rural community it serves to take advantage of enhanced childcare provision. For those that are currently unemployed due to lack of available childcare it may enable them to return to work. However, in the absence of detailed data on the employment and childcare circumstances of Case G's potential clients the social value of this outcome can only be projected.

[13] This uses the following study as a basis: McCarthy and Stone plc (2004). *A better life: private sheltered accommodation and independent living for older people*. Bournemouth: McCarthy and Stone. Similarly, a study for CLG found that the average direct costs (housing, social services, nursing, benefits) of one household in sheltered housing was £12,980, compared with £26,409 for residential care: a potential saving of £13,429 (see Ashton, T. and Hempenstall, C. (2009) *Research into the financial benefits of the Supporting People programme*, London: CLG)

[14] Curtis, L (2009) *Unit Costs of Health and Social Care 2009*, Canterbury: PSSRU.

6.4.12. If, for example, one of the 20 additional childcare places created by FBE's investment in case G enables a previously unemployed parent to return to work part-time for two and a half days a week on minimum wage, it would create social value equivalent to ***£5,579 per year.*** This figure will increase as the number and net wage of parents returning to work increases: five parents returning to work part-time for two and a half days a week on minimum wage would create social value of ***£27,898 per year***; if all found full-time employment it would create value of ***£48,120 per year.***

6.4.13. Attribution of this outcome to the Futurebuilders investment is likely to be high as there is limited deadweight and displacement apparent. The additional childcare capacity would not be created without the investment and there are no childcare alternatives in the surrounding area. However, although childcare availability is a critical factor parents' ability to find work may be limited by external factors such as the availability of jobs in the vicinity and their suitability for those jobs.

Case M - prison-based education programmes

6.4.14. Beneficiaries of Case M's service appear less likely to re-offend within the 12 months following completion of the programme compared to other ex-offenders. An independent evaluation of case M's Futurebuilders funded project has identified total social returns of ***£6.4 million - approximately £2.80 for every pound (£) invested***. This is based on public sector cost savings of £ 5.4 million and social cost savings to ex-offenders and their families of £1 million.

6.4.15. Although this represents an apparently large social return it is important to note that FBE provided only a small proportion of the funding required to implement the project. Of total project costs of £1.8 million Futurebuilders only contributed £114 thousand, and moreover elements of the project may have gone ahead anyway, suggesting that overall attribution to Futurebuilders is low.

Case O - support for people with physical and sensory disabilities

6.4.16. Through the training courses it runs and the volunteering opportunities it provides Case O hopes to support its beneficiaries into employment but the progress of beneficiaries into employment has not been systematically tracked. However, similar to Cases A and F assumptions can be made about the likely social return for each beneficiary that does find employment due to the opportunities created by training and/or volunteering. It can therefore be estimated that for every beneficiary moving into part-time employment for two and a half days a week on minimum wage, social value equivalent to ***£5,580 per year*** would be created***.*** This figure will increase as the number and net wage of beneficiaries finding employment increases: five people returning to work part-time for two and a half days a week on minimum wage would create social value of ***£27,898 per year***; and if all found full-time employment this would increase to ***£48,120 per year.***

6.4.17. Given that case O provides a unique service in its locality for its particular client group, and their assertion that it credits the Futurebuilders investment as a critical catalyst in the expansion of its services, overall attribution to Futurebuilders is high.

Summary of Social Outcomes

6.4.18. This has provided some examples and estimations of the types and level of social return that might be possible as a result of Futurebuilders investment. At the moment most projects are at an early stage in the implementation of their Futurebuilders funded activity and there is very little evidence of outcomes and the level of social value that has been created. There is also an issue of the extent to which social returns generated by Futurebuilders investees can be attributed to the actual Futurebuilders investment. For most investees FBE limited has provided investment for physical infrastructure (e.g. buildings, equipment) or organisational capacity rather than funding service provision *per se*.

6.4.19. Despite these methodological limitations the evidence does demonstrate that significant social returns are possible, and in many examples probable, from service delivery activities associated with Futurebuilders investment. The full estimation of Social Return on Investment requires a large amount of resource intensive research over a period of time pre and post investment, and is best embedded in the investment appraisal and monitoring process.

6.5. Conclusion

Key Lessons for Achieving Social Outcomes

- **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
- **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.

6.5.1. **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.

6.5.2. Identification and attribution of outcomes was also compounded because:

- Futurebuilders investments were made alongside other funders
- outcomes may be in 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).

6.5.3. **We also 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.

6.5.4. 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.

7

7. Impact and Value for Money

Summary

The following broad conclusions can be drawn from this chapter of the report:

- **Cost efficiency:** in terms of cost efficiency, FBE is broadly comparable to other social investment organisations
- **Cost to the Third Sector:** costs incurred by the third sector, in terms of application and investment monitoring are low and have become lower. The greatest costs are incurred by organisations which enter a period of crisis and require engaged support from the Fund Manager. These costs are appropriate to the objectives of Futurebuilders
- **Investment Selection:** the Futurebuilders investment model has been effective in making investments in strong organisations (relative to other applicants and similar organisations in the sector). These investments would not have occurred at the same time or to the same extent without the investment (i.e. they were highly additional)
- **Service Innovation**: new services developed were found not to displace existing provision: service capacity was additional to existing provision. This was in terms of providing better quality services, meeting unmet needs and in terms of cost savings in some cases
- **Social Outcomes:** the outcomes experienced by beneficiaries were also found to be largely additional to what would have occurred without support
- **Default:** at this stage of Futurebuilders the rate of loan default is relatively low (3.3 per cent of disbursed funds)
- **Long Term Commitment:** Futurebuilders is a long term commitment by Government: with some loan periods lasting up to 25 years
- **Recycling the Fund:** Interest rate policy and levels of default will determine the extent to which the Futurebuilders fund is recycled. Current performance suggests this is likely: however, a tighter public expenditure climate will place reduce recycling performance.

7.1. Introduction

7.1.1. This chapter draws together the evidence on the impact and value for money of Futurebuilders. There are a number of critical stages in the assessment of impact, and in particular from the investment model (how FBE makes investments which achieve financial and social returns). Essentially other outcomes follow from this in terms of organisational development (for the third sector), public service delivery (for government) and social outcomes for service users (for society).

7.1.2. There are also a series of value for money considerations to make in the assessment of Futurebuilders. These move from issues of cost efficiency (e.g. are its unit costs lower than other social investors) through to cost effectiveness (what outcomes are achieved for the investments made).

7.1.3. **At this stage it is possible to make some assessment of the likely impact of Futurebuilders, although recognising that as a loan scheme investing in third sector organisations many financial and social returns will not be realised until the long term**. As such they may be contingent on other factors, for instance continuing commitments to purchase services in a particular area, levels of public expenditure and local procurement priorities.

7.1.4. This chapter begins to establish what the impact of Futurebuilders looks like and what further steps are required to complete this assessment. It considers the following:

- the Additionality of Investments
- the Selection of Investments
- the Additionality of Outcomes (notably for organisations and service users) to Futurebuilders
- value for Money and Cost Efficiency of the Futurebuilders Model
- financial Returns on Investment and Levels of Default.

7.2. Additionality and Displacement

7.2.1. The assessment from the available data suggests Futurebuilders is investing in organisations which provide highly specific services which address genuine needs and do not directly duplicate existing public or private sector provision. This reflects the premise for the added value of the third sector. In making investments FBE applies a series of bankability and State Aid tests. This includes evidence of unsuccessful approaches to a retail bank, setting interest rates which are consistent with EU State Aid Rules and acting in conjunction with retail banks to make investments. In this latter case, we found that FBE would take a subsidiary position in case of default. FBE's interest rate also reflects this approach.[15]

7.2.2. Our assessment of each is based on interviews with the case study organisation and an assessment of the service market in each area. Each is considered in turn.

7.2.3. The assessments are made *a priori* to the investment being implemented. As stressed elsewhere, the evaluation of organisational development and public service delivery shows that social outcomes have not yet been realised.

Project (Financial) Additionality

7.2.4. **Of the 17 case studies undertaken for the research, projects in 14 cases would either have not gone ahead without the FBE investment or would have only been undertaken in the medium to long term** (through for example the organisation building reserves or through fund raising). In all cases this would have taken at least five years.

7.2.5. In three cases the organisation claimed that it would have accessed commercial funding although this was never fully tested (no application was made). In one case

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[15] The interest rate was initially set at 6 per cent to account, in part, for the State Aid Base Rate being just below or just above 6 per cent between 2004 and 2008. In 2008, the Base Rate started to decrease slowly and the way FBE calculate the discount in its loans changed to include the amount of risk in the investment – in particular taking into account the investee's financial health and the availability of collateral. The State Aid Base Rate is currently 1.16 per cent but due to the range of risk margins across investments, FBE is able to offer interest rate options between 0-6 per cent without breaking through the allowable aid thresholds set by the European Commission.

the eventual outcome was that a Futurebuilders' investment was made alongside a commercial loan.

Project (Service) Level Displacement

7.2.6. In exploring whether investments in organisations may lead to the displacement of services, we found that 12 of the 17 investees were providing a distinct service with no directly comparable service. In the other five cases investees noted that whilst there were comparable services, the organisation was either providing a better service or was providing something at a lower cost.

7.2.7. **These considerations largely reflect the strength of the organisations – they improve outcomes for service users; as long as procurement bodies are willing to purchase services from them**.

Economic Additionality

7.2.8. The case studies were also used to assess the extent to which beneficiaries from the investment related activities would have experienced outcomes anyway. This is one of the hardest aspects of deadweight and displacement to assess. In ten cases there is a degree of deadweight as either outcomes are enhanced (provision of better sheltered accommodation increases life expectancy) or a proportion of outcomes would have been achieved anyway (e.g. proportion of those on a drug rehabilitation programme would have found employment regardless of the intervention).

7.2.9. There are seven cases where little or no deadweight was identified: support to refugees, support of those with mental health or emotional needs; arts based education support to young offenders; the provision of community mediation services; the provision of arts based education; social care accommodation for people with complex needs; provision of training, support and advice to those with physical and sensory disabilities. **Groups benefiting from these services would not have accessed any similar service.**

Economic Displacement

7.2.10. Whether and to what extent service users or beneficiaries are experiencing an outcome at the expense of another group was also considered. In most cases this form of displacement is thought to be unlikely (these types of effect are more common in business support or employment support initiatives). The exceptions are where there might be rationing of services between similar groups: for example support of one form of sheltered accommodation over another provider; the support of education places in the case study organisation over a greater array of pupils with needs supported within mainstream education; or support of places in a service varies due to the policies and protocols of delivery organisation, meaning not always those displaying the greatest need received the intervention.

7.2.11. There may also be varying levels of displacement in all the case studies where beneficiary groups are targeted because they are in the most need: this benefit would be largely positive and represent an 'equity' gain. It could be argued that FBE may wish to focus attention on this area as it may bring the greatest social returns.

Conclusion

7.2.12. **The assessment from the available data suggest FBE is investing in organisations which provide highly specific services which address genuine**

needs and do not duplicate existing public, private or other third sector provision. This reflects the premise for the added value of the third sector.

7.2.13. **These findings are largely positive. However, two concerns are raised over the capture by organisations of service user benefits (outcomes)**. First, for some these are difficult and long term (especially many of the interventions with children and young people) but in other cases the lack of evidence available from investees raises questions over their capacity to demonstrate benefits to commissioning organisations, especially ones unfamiliar with the services provided (notably out of area). Second, as discussed in the chapters on organisational development and procurement, Futurebuilders' investments have not (yet) realised the originally anticipated outcomes and in two cases these are now unlikely to be realised.

7.3. Investment Selection

7.3.1. This has been discussed in Chapter 3. The findings from matched pairs' analysis show the **Futurebuilders fund manager to be effective in selecting strong organisations and organisations with strong income growth prospects**. However, this is not evidence of a Futurebuilders 'treatment' effect – the available series of financial account data does not include sufficient time post investment. Such a treatment effect may only become apparent over a longer time frame.

7.3.2. Put alongside the evidence that the investments would not have gone ahead (at the time of investment) without Futurebuilders support this shows that organisations are being selected which would not have obtained loans from banks.

7.4. Cost Efficiency

Introduction

7.4.1. This section sets out the findings largely from desk-based research aimed at identifying evidence in existing literature that might be used as a basis for comparison. Fund management and applicant costs are considered in turn.

7.4.2. It should be noted that there is a relatively small body of literature available on the value for money or cost-effectiveness of third sector funding, particularly that of finance based initiatives. What literature there is tends to focus on grant making (e.g. a recent NAO report) and microfinance lending (e.g. evaluations of Street UK and Aspire) but it is possible to apply some of the techniques used to third sector finance initiatives where financial data is readily available.

a) Fund management costs

7.4.3. A relatively simple way of comparing value for money is to look at total fund management costs as a percentage of overall expenditure or fund value. Overall Futurebuilders fund management costs between 2004 and 2011 are projected to be 15.6 percent of the total fund value and 18.5 percent of the gross loan portfolio.

7.4.4. The following discussion sets these proportionate costs against other funders of the third sector (including banks and grant makers). Futurebuilders as an engaged lender is clearly different to these others. However, the analysis seeks to show fund management costs relative to these other funders and to highlight the costs incurred in patient funding. It should also be stressed that the cost base of Futurebuilders has changed over time, reflecting: the shift from pre-award application and appraisal to post-award portfolio management; but also shifts in approach with the new Fund Manager.

7.4.5. Futurebuilders fund management costs can be compared to those of grant funders drawing on a variety of secondary data (e.g. NAO, 2008). Similar calculations comparing support costs and overheads to the investment book or total investments have been undertaken for organisations specialising in loans for TSOs based on analysis of their annual accounts. This analysis demonstrates that:

- the operating costs of high value grant programmes were between 2-5 per cent of total funding provided. For low value grant programmes this was as high as 46 per cent
- in 2006/07 Charity Bank had expenditure was 8 per cent of outstanding loan commitments (expenditure of £2.9 million against a loan book of £36.5 million, including loans to other backs and building societies of £20.1 million)
- in 2007/08 Key Fund Yorkshire's loan administration staff costs were estimated to be 21 per cent the total loan book (£2 million)
- Venturesome report that management costs equate to between 10-25 per cent of their total loan book
- in 2007/08 Adventure Capital Fund's management costs were 30 per cent of total programme related investments (of £3.5 million).

7.4.6. These findings can be interpreted in the following ways:

- **loan-type funding programmes are more costly to manage than traditional grant programmes but benefit from the recycling of funds** (through capital and interest repayments) in the longer term
- **there are scale economies from managing a social investment fund and these have benefited Charity Bank and FBE**
- the average size of Key Fund, Venturesome and ACF loans is much smaller (less than £50 thousand) and, typically, they have worked with smaller organisations requiring greater revenue support activities
- Charity Bank and FBE Ltd may be argued to have made safer investments, including a substantial proportion in property and taken security on property (in the case of Charity Bank).

7.4.7. A further consideration is that these costs will vary over time: it may be assumed that new schemes will have higher management costs and that these will reduce over time. But there will be fund management costs associated with social investment programmes for the lifetime of investments: **FBE has made loans which will need to be 'managed' for up to 25 years.**

7.4.8. An important caveat is that these conclusions are based on published secondary data and account information. Further comparative analysis of the investment books would be required to draw fuller conclusions.

b) Applicant costs

7.4.9. Another useful indicator of value for money is the cost to the applicant of applying for funds. The Futurebuilders Evaluation Interim Report found that applicants reaching stage 2 of the application process spent an average (median) of 22 days on their submission.

7.4.10. To estimate applicant and investee costs we have made estimates of the following:

- ***application activities*:** research into the fund; enquiry and follow-up discussion; preparation of an initial application form (where appropriate); preparation and involvement in assessment visits (where undertaken); development work required for a business plan; presentation and contract agreement
- ***monitoring activities***: involvement in monthly, quarterly or annual monitoring as required by the Fund Manager.

7.4.11. The following table reveals the cost range for successful applicants to five different schemes. All applicants are required to produce a business plan although in the case of Key Fund Yorkshire figures were found to be significantly higher due to higher levels of monthly monitoring than the other funders. However, as a grant-loan scheme, investees may offset some of these against development funding. The lowest cost for the other schemes was around £5,000.

7.4.12. FBE was the only organisation on which we had data on costs of making larger applications (applicants over £350,000 are required to present to the Investment Committee). We also note that there are additional costs incurred when an investee organisation is deemed at risk. FBE's investment and risk management processes, including the use of risk ratings and the Cause for Concern Register, were discussed in Chapter 3. This will substantially increases investee costs - of course these costs may be entirely necessary and in the long term should strengthen the organisation. Similar costs will be incurred by at risk investments funded by the other organisations, but on which data is not available.

Table 7.1: Successful Applicants - estimated costs incurred in application and investment

Scheme	Application/Investment Category	Cost per organisation (£)
Futurebuilders 2	<£350 thousand	£4,800
	>£350 thousand	£5,700
Adventure Capital Fund	Average for all investments	£5,700
Key Fund Yorkshire	No development required	£9,900
	Development required	£11,400
Venturesome	All investments	£4,950
Charity Bank	All investments	£4,950

7.4.13. For four of the five schemes (excluding Charity Bank) it was also possible to estimate costs incurred by unsuccessful applicants. The data suggest Venturesome and Key Fund Yorkshire efficiently reject applications at an early stage, although notably Key Fund has more detailed processes for its full application procedures, involving some organisational development support. Some of these costs can be met by revenue funding grant from the Key Fund. A**s discussed in Chapter 3, FBE introduced new products, such as a Consortia Fund and a Tender Fund (often involving smaller investment sizes) and it is likely that the costs incurred would be lower for all applicants.**

Table 7.2: Unsuccessful Applicants - estimated costs incurred

Scheme	Application/Investment Category	Cost per organisation (£)
Futurebuilders 2	Rejected due to ineligible/unfundable application	£600
	Rejected following a Futurebuilders visit	£1,800
	>£350 thousand (rejected after presentation)	£2,700
Adventure Capital Fund	Rejected at application form stage	£1,200
	Rejected after assessment visit	£2,400
	Rejected after presentation	£3,300
Key Fund Yorkshire	Rejected due to ineligible/unfundable application	£450
	Rejected at application form stage	£1,500
	Rejected after assessment visit	£2,700
	Rejected after development work	£4,200
Venturesome	Rejected due to ineligible/unfundable application	£450
	Rejected after meeting	£2,550

7.4.14. Some caveats should be made around applicant and investee cost information:

- the data is drawn on estimates of how long processes take to complete drawn from information provided by the organisations. Except for Futurebuilders, these have not been tested with applicants and investees
- the data are estimates of the value of the time spent in each process. As the Futurebuilders interim evaluation report found, there can be considerable variation around the median application or investment costs. Regardless of the design of different processes it is difficult to control for this, except in giving applicants indications of what application and investment processes might involve
- higher costs should not necessarily be judged unfavourably, either for successful or unsuccessful applicants. Higher costs may lead to stronger performing and better managed investments or rule out investments which may ultimately default.[16]

7.4.15. Application and monitoring procedures appear to be improving across all fund managers and this should help reduce costs.

7.4.16. As reported in Chapter 3, the number of applications to FBE has fallen but the ‘conversion rate’ of full applications with business plans to full investments has increased. Although not necessarily changing the cost to applicant, this will have reduced costs incurred by the sector as a whole (due to fewer applicants).

7.4.17. Futurebuilders monitoring requirements are relatively light as they do not require detailed monitoring returns from investees (in comparison to grant funders). The main data requirement is financial. Annual review processes tend to place a greater obligation on Futurebuilders. However, what has been lost is a systematic approach to monitoring social outcomes.

[16] Forster , S., Lederman, E., Mayshak, J. and Mercer, T. (2006), Aspire – Microloans for Business: Operational and Funding Lessons for the Future of Microfinance in the UK, (London: Esmée Fairbairn Foundation)

Conclusion

7.4.18. This section has provided estimates of the cost efficiency of social investment and grant schemes. FBE's management, application, and monitoring costs were similar to or lower than comparable schemes. This is a function of being the largest social investment fund and the greater opportunities for economies of scale it has. **However, there is quite considerable variation between applicants and investees in the costs incurred in engaging with FBE, and probably with other social investors. Giving clearer signals, for instance the creation of clear products, should reduce inappropriate and poor applications.**

7.5. Financial Returns

7.5.1. This section draws on analysis of the financial return on investment in six investee organisations. This is clearly a small sub-set of the total of Futurebuilders investments. It is intended to show the level of returns *directly* generated by investment related activities.

7.5.2. It provides an indication of the extent to which the new activity attributed to the Futurebuilders investment, in particular that from public service delivery contracts, is able to generate additional revenues for the case study organisations. For the Futurebuilders model to be considered effective, it would be expected in most cases that these additional revenues are more than sufficient to meet FBE's repayment requirements.

7.5.3. Table 7.3 presents the summary of findings from this work. The table shows the net present value of investments (the discounted return), the return on investment (expressed as a ratio of the return to each £1 invested) and the payback period (the time taken for the initial investment to be paid back by the returns).

7.5.4. **It should be noted that negative financial returns are not indicative of the organisation's ability to repay the FBE loan**. NPV and ROI calculations exclude cash flows not related to the investment but investee organisations may choose to repay FBE using operating surpluses generated through their wider activity, or use funds set aside as reserves. Although this is not consistent with the policy aims of Futurebuilders, it does nonetheless help avoid loan default. This raises a wider issue around the pricing of services by investee organisations. If organisations are using Full Cost Recovery models which include costs for loan repayment (capital and interest) then positive financial returns would be much more likely. This issue is addressed in Chapter 4.

Table 7.3: Return on Investment (excluding volunteer time)

	5 years		10 years		
	NPV	**ROI (for £1 invested)**	**NPV**	**ROI (for £1 invested)**	**Payback**
D	-£10,640,337	-£0.97	-£9,816,517	-£0.90	*
F	-£3,401,595	-£0.94	-£2,942,682	-£0.92	*
J	-£465,158	-£0.62	-£151,605	-£0.20	13 Years
Q	-£1,799,515	-£0.66	-£441,853	-£0.16	12 Years
G	-£230,675	-£0.90	-£169,299	-£0.66	32 Years
N	-£257,174	-£0.51	-£302,382	-£0.60	#

Note: * - investment only repays in the long term; # - investment does not repay

7.5.5. The following paragraphs outline the financial return on investment findings for the six case study organisations.

Organisation D - Support for children with a life long limiting condition

7.5.6. The findings presented in Table 7.11 indicate that although the school based investment activity made a positive contribution to cash flows once the new school was open, they will not enable the project to breakeven except in the very long term. After ten years, NPV is minus £9.8 million, a negative return on investment of 90 pence for every £1 invested.

7.5.7. The negative long-term ROI associated with organisation D's investment activity does not mean they will be unable to repay the loan - they may choose to use these existing sources of income, including surpluses generated by all school related income, to repay the loan. Indeed, organisation D's most recent financial return to the Charity Commission (financial year 2007/08) indicates an unrestricted operating surplus of £300 thousand. However, it also indicates that at the end of the financial year organisation D held no 'free' reserves, but outlined an intention to achieve free reserves of £720 thousand by the end of the current financial year (2008/09). If this objective is achieved they will have more than sufficient resources to meet their loan repayments to Futurebuilders and their commercial lender.

Organisation F - Sheltered accommodation and support for older people

7.5.8. For organisation F the investment related income is generated by the additional residential capacity resulting from the rebuild of two pre-existing buildings. The findings indicate that although the investment activity undertaken by organisation F begins to make a positive contribution to annual cash flows in year four of the project, because of the magnitude of the initial capital expenditure (£3.7 million), cumulative discounted cash flows (or net present value) is projected to be negative.

7.5.9. As mentioned above this does not mean that the loan will not be repaid - initial assessments undertaken by FBE, in December 2004, indicated that after loan repayments, the whole of organisation F should generate a cash surplus and that occupancy levels would need to fall below 75 per cent before the organisation was unable to meet their repayments. Case study work undertaken in July 2009, and the most recent cash flow forecasts, both suggest that organisation F will continue to generate surpluses sufficient to repay the loan ‘on time’.

Organisation J - Support facility for people with learning difficulties

7.5.10. For organisation J the investment related income is generated through new service delivery contracts and direct payment purchases related to the volunteering project, and income from the rental units and meeting space. The return on investment calculations assume that these income levels will remain the same throughout the period of the investment. The impact of changing levels of service delivery and rental income is explored through sensitivity analysis. Table 7.3 illustrates that large positive cash flows will mean that organisation J's investment activity will break even in year 13.

Organisation Q - Social care accommodation for people with complex needs

7.5.11. Although organisation Q is part of a larger national organisation the investment is being managed by a wholly owned subsidiary company set-up for this project. The return on investment calculations indicate the organisation begins to make positive cash flows in year three of the project, with a positive cumulative discounted cash flow (NPV) recorded in year 12 when the project will theoretically breakeven. This means that the cash surplus generated by the investment activity will be sufficient to repay both FBE and the commercial provider by 2019-20 - eight years earlier than the actual loan term.

Organisation G - Children's centre

7.5.12. The calculation of Return on Investment is based on a revised cash flow projection provided by organisation G in July 2009, along with other previous documents. It assumes that income and expenditure occur as predicted in the 2009 cash flow projection and that without the investment, income and expenditure would have continued at the same rate as in 2008/09 - anything over and above this is counted as additional income/expenditure resulting from the investment. The return on investment calculations in table 7.3 indicate the organisation begins to make positive cash flows in year three of the project, with a positive cumulative discounted cash flow (NPV) recorded in year 32 when the project will theoretically breakeven.

Organisation N - Counselling for young people

7.5.13. The calculation of Return on Investment is based on a revised cash flow projection provided by organisation N in June 2009. It assumes that income and expenditure have occurred and will occur as predicted in the 2007/08, 2008/09 and 2009/10 cash flow projections; income and expenditure will continue at 2009/10 levels, in the absence of any up-to-date projections for subsequent years; without the investment, income and expenditure would have continued at the same levels as in 2006/07; anything over and above this is counted as additional income/expenditure resulting from the investment

7.5.14. The Return on Investment calculations in table 7.3 indicate the organisation will not make positive cash flows and so the project will never break even. This is not to suggest that the loan will not be repaid.

Conclusion

7.5.15. ROI provides a measure of excess cash generated as a result of investment related activity. **It therefore provides a useful indication of the extent to which the new activity attributed to the Futurebuilders investment, in particular income from public service delivery contracts, is able to generate additional revenues for the investee organisation.**

7.5.16. Of the six ROI case studies presented five were found to be capable of generating positive cash flows from investment related activity after 10 years but only two will have generated enough cash to repay the investment within 25 years. One organisation will have generated sufficient cash to repay the investment after 32 years but another two would only pay back in the long term.

7.5.17. One organisation was found to generate negative cash flows from their investment activity and therefore will never generate sufficient income from the investment to repay the loan. It should be noted that negative ROI values are not indicative of the organisation's ability to repay the FBE loan. ROI calculations exclude cash flows not related to the investment but investee organisations may choose to repay FBE using operating surpluses generated through their wider activity, or use funds set aside as reserves.

7.6. Investment Leverage and Co-funding

7.6.1. **There are a number of examples where Futurebuilders has provided co-funding for projects**: this is usually in partnership with commercial lenders but there are examples of Futurebuilders funding being used in conjunction with funding from other bodies such as the Department of Health Social Enterprise Investment Fund, a local authority, or as match funding for the European Regional Development Fund. To explore the potential of co-funding in more detail we examined the make-up of the 72 full investments made by FBE between April 2008 and July 2009. Some key figures associated with co-funded investments made during this period are highlighted below:

- **during this period FBE was involved in investment packages worth £57.4 million of which £40.8 million was provided by FBE and £16 million by co-funders (the remaining £600 thousand was provided by investees themselves)**
- **14 of the 72 full investments involved some form of co-funding**
- **in six investments co-funding was from a commercial lender (including Charity Bank), and such lending totalled £9.1 million. All investments were in physical capital**
- **FBE's contribution ranged from 17 per cent to 84 per cent of the total investment**
- **for every £1 invested FBE was able to lever 39p from co-funders; of which 22p was from commercial lenders**
- for co-funded investments the average (mean) FBE contribution was £975 thousand compared to £1.14 million by co-funders
- FBE provided a smaller proportion of funding than the co-funders in 8 of the 14 co-funded deals.

7.6.2. **In addition, the case study research identified an important role for FBE as a co-funder in providing investment for the 'un-bankable' part of an investment.** For example, a proportion of the investment in **Cases Q and F** was provided by commercial lenders but the level of risk involved meant they were not prepared to invest the full amount required. FBE investment was used by **cases Q and F** to bridge the gap between the amount the bank was prepared to lend and the amount required to complete the project. If this funding at not been provided **cases Q and F** would have had to obtain the necessary funding from other sources, most likely fundraising activity and/or grants: something which would have delayed their projects significantly.

7.6.3. **Co-funded investments appear to be an important testing ground for social investment policy more generally, as it demonstrates the ability of social investment to lever additional investment into third sector organisations.** However, only six of 72 investments over the period examined included commercial loan funding, albeit when banks did lend alongside FBE it was for large sums in capital projects. In all cases where FBE alongside a commercial lender, the bank has the first charge on assets, with FBE taking a subsidiary position.

7.7. Self Sufficiency and Fund Recycling

7.7.1. An important element of the Futurebuilders investment model is that it can recycle the fund through capital repayments and generate returns through interest repayments. The extent to which the Futurebuilders fund will be recycled or repaid over time has been considered in some detail by FBE. The current predicted level of capital and interest repayment of funds up to March 2024 is set out in table 7.4; although potentially loans will be being repaid in 2034.

Table 7.4: Futurebuilders fund repayments 2004-2024

	Mar 2011	Mar 2019	Mar 2024
	£m	*£m*	*£m*
Total Capital Repaid	£10.6	£70.7	£114.2
Total Interest Received	£8.3	£39.7	£47.4
Total Repayments	£18.9	£110.3	£161.5

Source: FBE Ltd (February 2010)

7.7.2. The table shows that £18.9 million is predicted to have been repaid by March 2011 (the current end of the Futurebuilders programme), with £110.3 million repaid by 2019 and £161.5 million repaid by March 2024. Of the total repayments made by 2024 £114.2 million will be capital (i.e. initial HM Treasury funds) and £47.3 million will be interest accrued on investment over this period. Although the actual repayment figure will be affected by factors such as changes in interest charged and the rate of default this nevertheless provides an indication of how long the fund will take to replenish itself.

7.7.3. Of course the fund will continue to incur management costs until the full amount is repaid but it does appear that these costs will at least in part be met by the interest that is payable. An important point to note here is that fund management costs would be reduced considerably if further because the Fund Manager will only be managing the existing portfolio.

7.7.4. Key drivers in the repayment of capital and payment of interest are the assumed levels of default (loans written off) and interest rates charged. A**t this stage default (and provisions made for possible future default) is relatively low at £3 million (3.3 per cent of disbursed funds) but long-term default rates are unpredictable and likely to be influenced by a number of external factors, including**:

- public sector expenditure cuts resulting in reduced income streams for investees
- shifting public sector policy agendas meaning investees are no longer ideally positioned to deliver service
- increases in interest rates or inflation leading to increased organisational expenditure and reduced financial margins for investees
- organisational failure or crisis, potentially following any of the above.

7.7.5. It is also difficult to predict the specific point at which individual investees will default - in theory this could occur at any point during the lifetime of an investment and the total amount of default will depend on the level of repayment up to that point. **Of the investments that have defaulted up to this point, the majority have done so at a relatively early stage in the investment with a large proportion of investment still to be repaid.** The factors which might lead to default (particularly over the longer term) cannot always be predicted at the outset of an investment and FBE's role as an engaged funder will be important in the identification of investees with the potential to default and supporting investees through crises which might otherwise result in default.

7.7.6. **In comparison to other initiatives the level of default from Futurebuilders (at less than five per cent) appears low.** For example, the latest evaluation of the

Small Firms Loan Guarantee (SFLG) found current default to be 26 per cent having been as high as 45 per cent in the past[17].

7.7.7. A further consideration with regard default is the extent to which FBE can recover defaulted funds. For asset based investments a commercial provider would typically have a charge on that asset to cover the risk associated with default. However, FBE does not have a charge on all of the assets it has invested in (particularly where these are co-funded with commercial lenders) and an increasing number of investments are being made in working capital.

7.7.8. **Operational self-sufficiency (e.g. percent of operational costs covered by interest or fee income) is a key indicator of lending organisation's cost-effectiveness and their ability to continue operating without further capitalisation**. As a variation on this the two percent annual premium charged by SFLG was designed to cover default costs but fell someway short - the programme has an annual net deficit of more than £15m. Following from this, consideration could be given to the question of whether, as a minimum, **Futurebuilders interest and fee income covers the cost of default/write-offs, although as revealed in the review of the social investment market** (earlier in this Chapter), comparable indicators for default in different market segments are at an early stage of development.

7.8. Conclusion

Key Lessons for Impact and Value for Money

- **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
- **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.

7.8.1. The following broad conclusions can be drawn from this Chapter of the report:

- **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 to benefits from scale but also the market which Futurebuilders targets – it is typically working with established and not start-up organisations
- **Applicant and Investee Costs**: these are broadly similar between social investors, with larger investments incurring higher costs. It was notable that investee costs are lower in successful organisations – those requiring additional support, such as those on cause for concern, will incur higher levels of costs, albeit a proportion of these will be necessary
- **Investment selection**: investments were found to be being made in strong organisations (relative to other applicants and similar organisations in the

[17] Cowling, M, (2010) Economic Evaluation of The Small firms Loan Guarantee (SFLG) Scheme, (London: BIS)

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 it makes effective decisions

- **High additionality**: investments were found to be largely additional. 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 through increasing reserves
- **Low displacement of services**: there were also significant findings from the case studies in terms of the displacement of services. Service capacity was overwhelmingly found to be additional to existing provision, in terms notably of providing better quality or services, or meeting unmet needs and in one case providing a better service in terms of outcomes but at a lower cost
- **Service user outcomes**: the outcomes experienced by beneficiaries were also found to be additional, although only in seven of 17 case studies were these wholly additional (i.e. the beneficiary was not currently receiving this level of support).

8

8. Conclusion

Summary

This Chapter returns to the evaluation hypothesis that Futurebuilders increases the capacity of the Third Sector to deliver public services and key requirements for this to be achieved. The key findings are:

- **Investment selection:** Futurebuilders has largely invested in strong organisations which, at the time of investment, had good prospects for income growth
- **Overcoming Market Failure.** investee organisations would not have accessed investment markets to the same extent without Futurebuilders support; this is an indicator that a market failure has been addressed
- **Patient and Engaged Funding:** patient, engaged and flexible funding is found to be crucial to the success of many investments; although not a guarantee of success
- **Procurement Markets:** procurement markets can undergo considerable change and that despite organisations having the potential to address unmet needs; this did not necessarily mean that there was a readily available purchaser of services. These are both risk factors.

8.1. Introduction

8.1.1. **This Chapter sets out the key findings from the evaluation and assesses whether Futurebilders has increased the capacity of the Third Sector to deliver public services.** Futurebuilders should be seen as a policy experiment which has tests the applicability of patient loan funding to third sector organisations. This model of social investment comprises the following elements where funds are:

- **targeted** at third sector organisations to expand their capacity to deliver public services - with the returns in the form of strong third sector organisations, better service delivery and enhanced social outcomes
- **recycled through loan repayments** which can be reinvested by government
- **provided on a patient and engaged basis** which support the development of third sector organisations.

8.1.2. **The rationale for Government support of this model of social investment is that they address a market failure**; in particular that commercial investment funding does not provide sufficient funding to the third sector to fully realise its role in the delivery of public services. Insufficient commercial loan funding is provided because banks lack information around risk and returns from social investment, the transaction costs of lending to an underdeveloped market are high, and additional support (the patient and engaged funder role) is required to realise returns.

8.1.3. **The final case for social investment is that the returns from social investment comprise both financial returns (to repay capital and make interest payments) and social returns (benefits which accrue to Government and to society)**. The following outlines the key findings from the evaluation.

8.2. Key Findings

Key Lessons for Social Investment Policy

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

8.2.1. The key findings from the evaluation are outlined below.

Fund Management

8.2.2. **Investment Selection**. FBE (the Fund Manager) has been effective in selecting strong organisations and organisations that perform well in terms of income growth compared to 'comparator organisations' from the wider sector

8.2.3. **Patient Funding**. A key role of Futurebuilders (which is not met by grant or commercial loan funding) is the provision of *patient funding* - there was found to be a role for longer term support for organisations through periods of change and growth. However, this support whilst necessary is not a guarantee of investment success

8.2.4. **Breadth of Investment Portfolio**. FBE invests in a broad spectrum of organisations with varying development needs. FBE is effective at identifying these needs and providing appropriate support, although as noted this does not guarantee investment success

8.2.5. **Performance Management**. The evaluation found that careful consideration needs to be given to target setting and ensuring that these are aligned with policy objectives, with caution shown that they do not create perverse incentives. The Key Performance Indicators set for the second fund manager were found to be appropriate and to improve performance

8.2.6. **Fund Recycling**. Futurebuilders was expected to recycle investment funds and interest payments. The current level of default (where investments are written off) was found to be less than five percent of the current investment book and highlights the potential for fund recycling. However, this assumes the maintenance of the status quo in models of public service delivery and public expenditure: default may increase significantly in areas experiencing significant reductions in public expenditure or where procurement markets change (for instance a shift from local to regional and national procurement contacts)

Organisational Development and Procurement

8.2.7. **Financial Management** issues (including understanding of VAT, managing loans, cost control and the pricing of services) were critical to the success of the investment and the organisation; and were common development needs in smaller investee organisations

8.2.8. **Organisational Development** is an important part of social investment: this included improvements to governance and management, stronger financial management (including cost control and pricing of services) and excellent relationships with funders. Together these factors made third sector organisations more competitive

8.2.9. **Procurement Markets**. The Procurement Markets into which investee organisations provided services were found to vary considerably (by service area and locality) and to be key drivers and barriers to the success of investments. Local authorities were found to be the main funders of half of all services delivered by investee organisations

Outcomes

8.2.10. **Shorter Term Outcomes**. The main outcomes of Futurebuilders were the organisational development (of investee organisations) and the increase in public service delivery capacity

8.2.11. **Longer Term Outcomes**. Futurebuilders' contribution to outcomes for service users is largely indirect: it brings forward in time these outcomes - they are funded primarily through service contracts

8.2.12. **Assessment, Monitoring and Measurement of Social Outcomes**. The drivers of effective social outcomes monitoring in investee organisations were either because this was part of the organisation's mission or because it was a requirement of funders. For the Fund Manager social outcomes were assessed at the point of investment, but then monitoring focused on achievement of milestones and outputs. However, monitoring social outcomes across a diverse investment portfolio is challenging

Impact

8.2.13. **High Additionality of Investments and Low Displacement of Services**. The investments Futurebuilders funded were assessed to be highly additional: they would not necessarily have occurred at the same time or same scale without Futurebuilders support. It was found that the services provided by investee organisations did not directly displace existing provision: they offered an improvement in service and in some cases cost savings to funders. These benefits often came through organisations working closely with funders to improve services

8.2.14. **Providing Improved Services**. We also found that a high proportion of service users would not have experienced the same level of service without support from the investee organisation. Investee organisations were often supporting vulnerable groups which had previously not had their needs met

8.2.15. **Value for Money**. Cost efficiency of Fund Management was found to be broadly comparable to other social investment organisations, and management costs as a proportion of the loan book less than other Government backed social investors. This assumes that support needs will diminish over time as investment activities are completed and new or expanded models of service delivery become established.

Social Investment Policy

8.2.16. **Setting up Social Investment Programmes**. Social investment programmes such as Futurebuilders have considerable set-up periods: the policy was announced in 2002 and the Fund was closed for new applications in January 2010. Setting-up includes the development of capacity in the Fund Manager and the development of a market for social investment

8.2.17. **Long Term Commitment**. Futurebuilders will also require a long term commitment by Government into the future: the current loan book of Futurebuilders will last for up to 25 years (with the average loan repayment period at 12 years).

8.3. Conclusion

8.3.1. **As a model of social investment Futurebuilders is found to be largely effective in investing in the third sector to increase its role in the delivery of public services**. This model of social investment was found to strengthen the organisational development of third sector organisations and their relationships with funding bodies.

8.3.2. **Social investment involves a long term commitment by Government –** both in terms of establishment and oversight of funding. The evaluation finds that organisations have become stronger and better placed to secure public service contracts.

8.3.3. However, **Futurebuilders investee organisations have to date operated in the context of increasing public expenditure and greater opportunities for third sector delivery**. Key challenges will be around continuing this development under conditions of public expenditure restraint and contraction. This has implications for investee organisations (how they sustain, evolve and develop their services), the role of the continuing provision of engaged support by the Fund Manger, and by Government in terms of long term commitment to social investment.