



Evaluation of Futurebuilders

Interim Report - Summary

10 April 2008

Evaluation of Futurebuilders

Interim Report - Summary

**Futurebuilders Evaluation Research Steering Group
Office of the Third Sector, Cabinet Office**

Report Submitted by:
Futurebuilders Evaluation Team

Centre for Regional Economic and Social Research
Sheffield Hallam University

2008

Acknowledgements

Research for this report has been led by Professor Peter Wells and Dr Rob Macmillan at the Centre for Regional Economic and Social Research (CRESR) and Professor Gareth Morgan at the Centre for Voluntary Sector Research (CVSR) at Sheffield Hallam University. Support has been provided from across the evaluation team.

Julie Manning, Ian Wilson, Ros Goudie and Mike Foden (all CRESR) undertook the analysis of the progress of the Futurebuilders fund. Julie Manning also oversaw the quantitative data analysis aspects of the research and led the development of the Social Return on Investment (SROI) methodology and calculations.

Five 'theme teams' are undertaking fourteen case studies for the evaluation. The theme teams comprise:

- Children and Young People: Professor Janie Percy-Smith (independent consultant) and Elaine Batty (CRESR)
- Education and Learning: Professor John Coldron, Lesley Gornall and Nick Hodge (Centre for Education Research and Social Inclusion, SHU)
- Crime: Professor Paul Senior and Dr Simon Feasey (Hallam Centre for Community Justice, SHU)
- Health and Social Care: (Dr Liddy Goyder and Dr Lindsay Blank, Sheffield Centre for Health and Related Research, The University of Sheffield)
- Community Cohesion (Professor David Robinson, Dr Kesia Reeve and Dr Paul Hickman, CRESR)

Professor Gareth Morgan (CVSR, SHU) led the research into the Working Arrangements strand as well as the financial management of investments in fourteen case study organisations. Chris Hill and Allan Wallace (The Camberwell Project) undertook an analysis of the procurement and commissioning relationships in the case studies.

Considerable support and guidance was provided by the Cabinet Office and Communities and Local Government and in particular (former CLG member) Dr Andrew Zurawan, Amaryllis Elphick and (former OTS member) Steve Dunwell as well as other members of the Evaluation Research Steering Group.

We have found the staff and Board members of Futurebuilders England Ltd to be extremely generous with their time and open to discussions about the evaluation. This has greatly assisted the fieldwork. Specific thanks are due to Richard Gutch, Megan Meredith, Vandna Gohil (formerly at FBE), Sally Procopis, Peter Deans, Jane Hayes and Graeme Howe.

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 programme; *Futurebuilders England* is the specific term for the fund established by Government over which the Consortium of Charity Bank, Unity Trust Bank, Northern Rock Foundation and NCVO are responsible; and *Futurebuilders England Ltd* (FBE) is the not-for-profit organisation set up by the Consortium to deliver the fund. The term Futurebuilders' *investees* relates to both *full investees* (those organisations receiving some form of loan or non-grant support) and *development grant holders*. All terms relate to the implementation of Futurebuilders in England and not to the similar, but separate, Futurebuilders Scotland. Annex 3 sets out some of the key terminology in more detail.

Glossary of Terms

ALMO	Arms Length Management Organisation
B/E	Breakeven
BME	Black and Minority Ethnic
CC	Community Cohesion
CCU	Community Cohesion Unit
CVS	Council for Voluntary Service
CYP	Children and Young People
DAAT	Drug and Alcohol Action Team
DCF	Discounted Cash Flow
EL	Education and Learning
FBE	Futurebuilders England Ltd
HSC	Health and Social Care
LEA	Local Education Authority
LGA	Local Government Association
NCVO	National Council for Voluntary Organisations
NDPB	Non Departmental Public Body
NOMS	National Offender Management Service
NPV	Net Present Value
PbR	Payment by Results
PCT	Primary Care Trust
PSA	Public Service Agreement (target)
PSD	Public Service Delivery (area)
ROI	Return on Investment
RSL	Registered Social Landlord
SMART	Specific, Measurable, Achievable, Realistic and Time-bound (objective)
SORP	(Charities) Statement of Recommended Practice
SROI	Social Return on Investment
VCO	Voluntary and Community sector Organisation
VCS	Voluntary and Community Sector

Contact Information

For enquiries relating to the Futurebuilders evaluation, please contact:

Professor Peter Wells
Centre for Regional Economic and Social
Research (CRESR)
Sheffield Hallam University
Unit 10, Science Park
City Campus
Sheffield S1 1WB

Tel: 0114 225 4522

email:
p.wells@shu.ac.uk

Rosemary Mitchell
Futurebuilders Policy Manager
Office of the Third Sector
Cabinet Office
2nd Floor
35 Great Smith Street
London SW1P 3BQ

Tel: 020 7276 6039

email:
rosemary.mitchell@cabinet-office.x.gsi.gov.uk

Contents

Executive Summary	i
Futurebuilders Policy	i
About the Evaluation.....	i
Progress of the Fund	i
Working Arrangements	ii
Organisational Development.....	iii
Procurement and Commissioning	iii
PSA Targets, Outputs and Outcomes	iv
Social Return on Investment.....	iv
Conclusion.....	iv
1. Introduction.....	1
2. Progress of the Fund	2
Summary	2
Introduction.....	3
Public Service Delivery (PSD) Areas	4
Other Investment minima.....	5
Regional Variation	6
Conclusion.....	7
3. Working Arrangements.....	9
Summary	9
Introduction.....	10
Governance Arrangements	10
Processes.....	11
Cost Effectiveness of the Delivery of the Futurebuilders' Fund	15
Conclusion.....	17
4. Organisational Development.....	19
Summary	19
Introduction.....	19
Case Study Findings.....	20
Financial Management.....	23
Conclusion.....	24
5. Procurement and Commissioning	25
Introduction.....	26
Key Findings.....	26
Conclusion.....	29
6. PSA Targets, outputs and outcomes.....	30
Summary	30
Introduction.....	31
PSA Targets	31
Outputs.....	31
Additionality and Displacement.....	31

Conclusion.....	31
7. Social Return on Investment	33
Summary	33
Introduction.....	33
Main Findings	34
Conclusion.....	34
8. Overall Assessment	36
Annex 1: Futurebuilders Evaluation Model.....	39
Annex 2: Key Aspects of the Futurebuilders Investment Model.....	40
Annex 3: Futurebuilders Terminology.....	41

Executive Summary

Futurebuilders Policy

1. Futurebuilders arose out of the 2002 Treasury Cross-Cutting Review of the Role of the Voluntary and Community Sector in Public Services. The review suggested that there was considerable potential for the sector to play a bigger role in providing public services. This led to an initial £125 million being committed by government to the Futurebuilders programme. A delivery consortium, led by the Charity Bank and involving the Unity Trust Bank, the National Council for Voluntary Organisations and the Northern Rock Foundation was appointed in January 2004. Futurebuilders England was launched in May 2004 and began accepting applications in July 2004.
2. Futurebuilders is an innovative policy experiment designed to help inform government as to the most effective investment model(s) for building public service delivery capacity in the third sector. A key part of this policy experiment is an evaluation commissioned by the Home Office in 2005 and which reports to a research steering group. This is the Interim Report of the evaluation of Futurebuilders.

About the Evaluation

3. The evaluation aims to address the hypothesis that *Futurebuilders increases the capacity of the voluntary and community sector to deliver public services* and to address a central evaluation question, *how effective is the model of investment used by Futurebuilders?* At this interim stage of the evaluation it is possible to draw some early conclusions as to progress to date, but it is too soon to form strong view around the impact on services and service users. This report draws on data gathered up until March 2007 and is intended to provide an interim assessment of Futurebuilders.

Progress of the Fund

4. By the end of February 2007 Futurebuilders England Ltd (FBE) had received 1,300 applications and made 215 investments, of which 106 contain a substantial loan element. It was found that **application and appraisal processes** have developed since FBE's launch and appear to operate effectively. However, the **current conversion rate of applications to full investments of eight percent appears low**, with the conversion rate of applications to all investments (including development grants) 16.5 percent. This is both a cost to applicants and to FBE in time spent processing applicants. It should be noted though that more investments are longlisted in the current 'open' application window (70 percent) than in the earlier windows with submission deadlines (for instance 47.1 percent in window 1).
5. Surveys of unsuccessful applicants in 2006 and 2007 showed that the majority of applicants believed that they would obtain at least a 50 percent grant, despite FBE's eligibility criteria requiring applicants to confirm that they are primarily seeking a loan. A message from this finding is that publicity material and marketing for any future loan-based model for the third sector needs to be very clear as to eligibility criteria from the outset.
6. The **diversity of investments** was found to be significant in terms of investment size (from loans of less than £100,000 to two loans of £5 million and £10 million), across public service delivery areas and across different types of organisation (including many BME-led, rural serving or small organisations). However, it was found that

although a high number of applications were received from BME-led and small organisations, the success rate for the applicants was lower than average. This was partly due to the number of inappropriate applications in the community cohesion public service delivery area.

7. The **average repayment period** of FBE loans is 14 years. Around 60 percent of FBE investments are in physical capital and only in 40 percent of these does FBE have a charge on the assets. This is often because other lenders have the primary charge on assets and Futurebuilders is seeking to finance the gap to make a project viable. Some loans have repayment periods of 25 years, reflecting the serious undertaking organisations are making. The nature of FBE's investment book has short-term implications in terms of draw-down being slow (due to delays in completing capital projects) and long-term implications in terms of the replenishment and future management of the fund.
8. An indicator of FBE's effectiveness is the **default rate** of its investment book. To date FBE has withdrawn or decided not to proceed with a previously awarded investment in four organisations. In these cases, this decision was made at a very early stage of the investment (often before substantial commitments were made). This is not a true test of effectiveness: rather what will be of greater significance will be whether the financial returns anticipated in appraisal and outlined in contracts are realised. It is therefore too soon to draw conclusions as to FBE's true default rate.

Working Arrangements

9. The evaluation team has mapped out the **governance arrangements** of Futurebuilders which it considers to be strong. The policies in terms of frequency of meetings, managing conflicts of interest, the different levels of investment review and sign off, the skills audit of the Board, the quality of papers provided for Board decisions, and the arrangements for internal and external audit appear to be robust. We do not suggest that FBE's governance systems are operating perfectly and we have identified a number of issues of detail where the certain processes, or certain aspects of the relationship with applicants and investees could be smoother. However, we stress that even in such cases, the concerns are on issues of detail.
10. The evaluation has made an assessment of the **additionality of investments**: that is, the likelihood that they would have proceeded in a similar form without assistance from Futurebuilders. The evaluation finds that five out of 14 case studies would have proceeded in a similar way without assistance. A survey of investees highlights that 18 percent claim that they would have secured a loan anyway. A further 30 percent claim that if they had been unsuccessful in their application to FBE, that they would have applied for loan funding, although were not certain of securing the loan. It should be noted that although investees may be able to secure a loan elsewhere this may not necessarily be on acceptable terms to the organisation. These findings suggest that tighter screening of applications is required.
11. The evaluation has made some assessment of the **costs of Futurebuilders**, in terms of managing the fund and in terms of estimated financial costs to applicants. The **management cost** of the Fund in its first phase is likely to be around £10 million against a contract figure of £13.4 million (up until end June 2007). The composition of management costs is likely to shift in the subsequent phase of Futurebuilders away from application and appraisal activities and towards investee (or portfolio) management. However, the conversion rate for all investments of 16.5 percent and for full investments of 8.5 percent highlight that savings could have been made if fewer inappropriate applications had been made.

12. In terms of **applicant costs** it has been possible from survey and case study data to estimate the time applicants spend completing each stage of the application process, and from this to apply a notional daily cost. This analysis suggests that the cost of a stage 1 application is between £2,100 and £3,800 and for stage 2 of between £4,500 and £5,900. This suggests that the overall cost of this to the third sector has been between £4.36 million and £6.87 million. We are not suggesting that application should be costless, or that such costs represent 'time wasted': nonetheless, it provides an indication of the unintended impact policies such as Futurebuilders may have. Of particular note is that we find only a small difference between the application costs born by small and large organisations: for small organisations (less than £100 thousand turnover), application costs can quickly become a significant share of annual income. Later stages of the evaluation will estimate the costs to investees of managing their investments.

Organisational Development

13. Case study research around the **organisational capacity** of investees found that developing capacity for small and medium sized third sector organisations, often seeking to 'scale-up' an innovative service, is a key testing ground for the Futurebuilders investment model. We found FBE to be offering a range of support to organisations which is targeted effectively in response to organisational needs. However, a question remains as to whether this support will be sufficient for organisations to realise the sometimes transformational changes they are seeking. An area of specific concern was found to be around financial management capacity, and whether smaller organisations had the necessary skills and capacity to effectively manage loan finance and VAT issues. In some cases these skills were being built, but other organisations appear to be struggling.

Procurement and Commissioning

14. Futurebuilders allows an opportunity to test out the relative demand, delivery capacity and outcomes of the third sector across five **public service delivery** areas: crime, community cohesion, health and social care, support for children and young people, and education and learning. The evaluation expresses some concern as to whether **community cohesion** should be treated equally alongside other PSD areas: unlike the other areas there is not a statutory obligation for community cohesion nor a significant funding stream. We found that even innovative and leading organisations are struggling to find significant demand for services.
15. Case study research and a review of investment appraisals, suggest that FBE is typically investing in organisations working with hard-to-reach groups or in meeting needs through an **innovative service**. It is this capacity which FBE invests in. In most cases FBE does not invest in areas where a service will duplicate current provision. However, case study research highlights that despite central government commitments to extend procurement opportunities to the third sector, local-level organisational, policy and funding changes have hampered progress by some case study investments. This has fed through as a contributory factor to a slower than anticipated rate of drawdown of loan funding.

PSA Targets, Outputs and Outcomes

16. It is too soon to make a judgement regarding the **outputs and outcomes** of Futurebuilders. All investments were found to contribute to PSA targets (on average each investment contributes to 3.6 PSA targets) although clearly their contribution is quite small. Moreover, it is actually the services delivered as the result of securing contracts which will contribute to PSA targets, not the investment itself. Rather, the investment will have either brought forward or made possible the contribution to a target. The evaluation finds that FBE is collecting **output** data through the annual review of investments, and this will inform our estimation of impacts in 2008 and 2010.

Social Return on Investment

17. The application of a **Social Return on Investment** methodology is an experimental and innovative aspect of the Futurebuilders evaluation. To date SROI has been estimated for 14 case study organisations (i.e. what will be the social return in five and ten years time). Except in ones case study organisation (which subsequent to the Futurebuilders investment went into crisis following the withdrawal of substantial grant), we expect loans in the other 13 cases to be repaid, if expectations and forecasts hold.
18. In eight of the case studies we find clear evidence of the potential savings to the public purse which investments may bring. However, in four cases it has not been possible with a significant level of certainty to estimate public purse savings. An example here would be of area-based provision of a community cohesion service. Similarly, some outcomes from an intervention (e.g. educational support to young people) may take more than ten years for social returns to be realised.

Conclusion

19. In conclusion, the strategic issues which appear to face the Futurebuilders model are:
 - Whether **organisational development capacity** can be successfully built through FBE's work as an *engaged funder* to realise the ambitions of investments;
 - Whether **innovative services** developed by the third sector can be 'scaled-up' through loan funding to secure sufficient service contracts to be sustainable; and critically,
 - Whether the **procurement and commissioning markets** within which investees operate are sufficiently stable to allow investments to be realised.
20. These are the main findings to date and will be investigated further in the remainder of the evaluation. Further substantive reports will be produced in October 2008 and October 2010.

1. Introduction

- 1.1. Futurebuilders arose out of the 2002 Treasury Cross-Cutting Review of the Role of the Voluntary and Community Sector in Public Services. The review suggested that there was considerable potential for the sector to play a bigger role in providing public services. Futurebuilders aims to build capacity in third organisations to take a greater role in the delivery of the following five public service areas: community cohesion, crime, education and learning, health and social care, and support for children and young people.
- 1.2. Following the cross-cutting review, and a consultation on the Futurebuilders fund in Spring 2003, the final proposal - "*Futurebuilders – An Investment Fund for Voluntary and Community Sector Public Service Delivery*" – was published in September 2003. A delivery consortium, led by the Charity Bank and involving the Unity Trust Bank, the National Council for Voluntary Organisations and the Northern Rock Foundation was appointed in January 2004. Futurebuilders England was launched in May 2004 and began accepting applications in July 2004.
- 1.3. Futurebuilders is an innovative policy experiment designed to help inform government as to the most effective investment model(s) for building public service delivery capacity in the third sector. A key part in this policy experiment is an evaluation commissioned by the Home Office in 2005 and which reports to a research steering group. Annex 2 outlines some of the key features of Futurebuilders.
- 1.4. This is the Interim Report of the evaluation of Futurebuilders. This report draws on data gathered up until March 2007 and is intended to provide an interim assessment of Futurebuilders. The evaluation aims broadly to assess 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.
- 1.5. The evaluation focuses on three strands of activity which explore: the working arrangements of Futurebuilders, its effect on organisational development in the third sector, and its impact on service users. The evaluation of Futurebuilders commenced in July 2005. Following a scoping phase between July and October 2005, the 'main phase' of the evaluation is currently underway and runs through to October 2010. Subsequent reports will be prepared in October 2008 and October 2010. Further details about the evaluation are set out in Annex 1.

2. Progress of the Fund

Summary

Background

This section outlines the progress made by Futurebuilders England Ltd (FBE) in administering and disbursing the Futurebuilders fund. It also assesses the progress of the fund towards agreed targets set between government and FBE, as well as outlining recommendations for improving fund management.

Application, Appraisal and Investment Processes

By the end of February 2007, Futurebuilders England Ltd (FBE) had received 1,300 applications and made 215 investments, of which 106 contain a substantial loan element. It was found that **application and appraisal processes** have developed since FBE's launch and appear to operate effectively. However, the **current conversion rate of applications to full investments of eight percent appears low**, with the conversion rate of applications to all investments (including development grants) 16.5 percent. It should be noted though that more investments are longlisted in current 'open' application window (70 percent) than in the earlier windows with submission deadlines (for instance 47.1 percent in window 1). The **diversity of investments** was found to be significant in terms of investment size (from loans of less than £100,000 to two loans of £5 million and £10 million), across public service delivery areas and across different types of organisation (including many BME-led, rural serving or small organisations).

Investment Book

The **average repayment period** of FBE loans is 14 years. Around 60 percent of FBE investments are in physical capital and only in 40 percent of these does FBE have a charge on the assets. This is often because other lenders have the primary charge on assets and Futurebuilders is seeking to finance the gap to make a project viable. The nature of FBE's investment book has short-term implications in terms of draw-down being slow (due to delays in completing capital projects) and long-term implications in terms of the replenishment and future management of the fund. An indicator of Futurebuilder's effectiveness is the **default rate** of FBE's investment book. To date FBE has withdrawn or decided not to proceed with a previously awarded investment in four organisations. In these cases, this decision was made at a very early stage of the investment (often before substantial commitments were made).

Progress towards Targets

The evaluation finds that FBE has met its key target for the **number of investments** it makes (between 225-250). However, it finds that the **investment minima** target for 10 percent of investments to be made in the public service delivery areas of crime and community cohesion have been missed. The evaluation also finds that only 49 percent of investments are to organisations with no experience of loan funding (against a target of 75 percent).

Introduction

- 2.1. The focus of this interim report is on Futurebuilders England Ltd's (FBE) delivery of the £125 million fund. The original Agreement (with Charity Bank, FBE and the Government) was for the delivery of this Fund until June 2007. According to the FBE 2006-07 Business Plan (June 2006), the allocation of this fund is as follows:

Table 2.1: Summary of the Futurebuilders Budget

Revenue	£m
Fund Management costs (agreed upper limit)	13.4
Home Office evaluation	1.0
Development grants	1.5
Other revenue grants	9.1
Sub-total	25.0
Capital	
Loans	84.0
Capital grants	16.0
Sub-total	100.0
Total	125.0

Source: FBE Business Plan 2006-07 (June 2006)

- 2.2. The table reveals that of the £125 million, £110.6 million is for direct investment in the sector. This includes *full investments* (including a substantial loan element) and development grants.
- 2.3. The **primary objective** set out in the Agreement with the Charity Bank, FBE and government is that FBE would make 250 investments (full investments and development grants), with a minimum of 225 investments, in its first phase (up to the end of June 2007). FBE Year End Progress Report (for April 2006-March 2007) shows that FBE had made a total of 209 investments totalling £89.1 million, with 102 investments being made in the last year. Around half of all investments contain a loan element and account, as intended, for the vast majority of commitments. Assuming FBE continues progress of 25 investments made per quarter it will fall within its target of making between 225-250 investments - probably achieving between 230-240 investments. In April 2007, FBE made its largest investment to date (£10.255 million). From the original funding allocation, FBE has less than £10 million of the original allocation for funding to commit to investments.
- 2.4. A **secondary objective** set in the Agreement is that FBE stimulates good applications. FBE ran application windows from July to October 2004, from June to September 2005, and from May 2006 has operated an 'open window' for applications. Data provided by FBE up to the end of February shows that it had received 1300 applications for a total of £1.053 billion. Since running an open application window the quality and fit with eligible investment activities has improved with a much higher proportion being long listed (66 percent instead of 50 percent across the first two windows). Analysis of reasons why applications were rejected suggests that this change is due to a fall in applications being made for non-eligible activities (e.g. falling outside the five public service areas) or being unlikely to make a significant contribution to public services. The reason for this appears to be that there is now a clearer awareness of what FBE will and will not invest in. Since its launch, FBE has continually developed its material for applicants (primarily with clearer web-based eligibility checks) and this is likely to have contributed to this change.

Public Service Delivery (PSD) Areas

- 2.5. FBE has agreed minimum targets of 10 percent for the proportion of investments it makes in each of the five public service areas. A summary of application and investments by PSD area are outlined in the following table.

Table 2.2: Applications and Investments by Public Service Delivery Area

Public Service Area	Applications % n = 1300	Development Grants % n = 109	Full Investments % n = 106	All Investments % n=215
Community Cohesion	15	6	6	6
Crime	5	5	10	7
Education and Learning	27	30	26	29
Health and Social Care	35	42	35	38
Support for Children and Young People	18	19	24	21

Source: FBE Data (February 28 2007)

Note: 12 full investments have been made to previous development grant holders.

- 2.6. The table reveals that the crime and community cohesion areas fall beneath the 10 percent investment minima, although 15 percent of applications are in the community cohesion area. Investment officers at FBE note that many applications in Window 1 under the community cohesion area were largely concerned with locally focused community development activities and outside the Home Office/LGA guidance on the areas covered by community cohesion. Such organisations were rejected, usually because of a lack of evidence of public sector income to sustain them. Case study research with an investee seeking to secure public service contracts in the community cohesion area reported that procurement opportunities in the community cohesion field were less than anticipated: despite the guidance to local government on community cohesion, this had not generated a significant public service area. Further reflections on this can be found in the section in this report on procurement. The evaluation questions whether the community cohesion area should have the same minima target as the other PSD areas.
- 2.7. Investment targets for crime applications have also been missed. Staff at FBE suggest, and our case study research and review of the procurement market provides some evidence to support this, that the delays in the national roll out of NOMS has meant that third sector organisations in the PSD area of crime have delayed investment decisions until the procurement and commissioning market become clearer. It may be expected that more applications from crime third sector organisations will come forward. A further reason for slow progress in the crime area is that there are fewer third sector organisations operating in this area, compared to for example health and social care, or education and learning.
- 2.8. Progress in the other three PSD service areas (all greatly exceeding minima targets) reflects, our research finds, more established and larger procurement markets.

Other Investment minima

- 2.9. FBE has set other investment minima targets for the proportion of investments in small organisations (20 percent into organisations with less than £100k turnover), local or regional organisations (50 percent), BME-led organisations (10 percent), organisations with a rural focus (10 percent) and proportion of investees who are new borrowers (75 percent), although the last target was not set in the investment Plan. FBE has met or exceeded all of these targets except that for new borrowers (only 49 percent of investees were new borrowers at the end of March 2007). This is an interesting finding and reflects that FBE has marketed itself to all organisations, whether with experience of lending or not. However, it should be noted that borrowing may take different forms and just because an organisation has borrowed, does not mean that it will not have further organisational development needs.
- 2.10. Some trends can also be observed: more applications from small organisations were received in the open window (47 percent) compared to a third in windows one and two. 38 percent of new investments (from the open window) are to small organisations, again up from the first two windows. Similar trends can be observed with rural organisations, with greater proportions of applicants and investments from the open windows in comparison to previous rounds. However, of particular note is the 'conversion rate' from applications to full investments, which provides an indication of the chances of a making a successful application.

Table 2.3: Conversion Rate of Applications (by category of organisation)

Type of Organisation	Number of Applications	Conversion Rates (%)		
		Development Grant	Full Investment	All
Rural	297	7.1	14.5	21.5
BME-led	348	7.2	4.3	11.5
Local/Regional serving	1047	8.9	7.6	16.5
Small	440	6.8	5.5	12.3
Medium	603	11.1	8.6	19.7
Large	257	4.7	10.9	15.6
All	1300	8.4	8.2	16.5

Source: FBE Data (February 28 2007)

Note: 12 full investments have been made to previous development grant holders. The conversion rate will rise as applications are still in the appraisal process – as at the end of February, there were 56 applications being appraised. If half of these are excluded, the conversion rate is around 8.5 percent.

- 2.11. Table 2.3 shows that 16.5 percent of applicants will receive an investment, and 8.2 percent a full investment with a loan element. The table reveals that small, BME-led or local-regional organisations are less likely than the average for all investments to receive a full investment. In contrast rural-serving organisations are more likely than the average to receive a full investment. Some of this difference is explained by applications from small BME-led organisations applying under the community cohesion PSD area, where there is not necessarily a clearly defined stream of potential public service contracts to secure. A further reason, given by FBE, is that BME-led organisations are likely to be at an earlier stage of development and therefore lack organisational capacity. As might be expected, large organisations have a higher conversion rate to full investments, but are less likely to receive a development grant: reflecting that many large organisations can be considered to have built capacity.

Regional Variation

2.12. FBE also monitors applications and investments on a regional basis; that is organisations which are primarily operating in a single English region (although it should be noted that regional targets have not been set). Organisations operating across regional boundaries are categorised as operating on an England-wide basis. Table 2.4 shows the distribution of applications and investments across the regions. The table reveals that the largest number of applications and investments are to organisations operating on the the London region. Six regions appear to be under-represented in terms of investments made (and with less than a ten percent share of investments).

Table 2.4: Proportion of Investments by Region Served

Region	Investments Made (%)			
	Total Applicants (No.)	Development grant approved	Investment approved	All Investments
East Midlands	90	8.3	5.7	7.0
Eastern	74	9.2	7.5	8.4
London	301	23.9	21.7	22.8
North East	73	8.3	2.8	5.6
North West	149	9.2	11.3	10.2
South East	139	10.1	5.7	7.9
South West	120	4.6	9.4	7.0
West Midlands	120	7.3	7.5	7.4
Yorkshire & the Humber	127	8.3	14.2	11.2
England wide	107	11.0	14.2	12.6
Total	1300	100.0	100.0	100.0

Source: FBE Data (February 28 2007)

Note: 12 full investments have been made to previous development grant holders.

2.13. The following table uses regional population data (from the 2001 Census) and data on charity location (from GuideStar) to compare whether the shares of investments between the regions (after excluding England-wide investments) are as expected. It shows that London has a disproportionate share of investments. The only region which appears significantly under-represented is the South East. However, it must be stressed that the comparisons are made on a small number of investments; two or three investments in each of the regions outside London would greatly change the pattern.

Table 2.5 Regional Share of Investments

Region	All %	Share of Investments	Regional Pop. Share	Difference +/-	Charity Share	Difference +/-
East Midlands		7.98	8.49	-0.51	8.22	-0.24
East of England		9.57	10.97	-1.40	12.48	-2.91
London		26.06	14.6	11.46	17.11	8.95
North East		6.38	5.12	1.26	3.38	3.00
North West		11.70	13.7	-2.00	10.13	1.57
South East		9.04	16.28	-7.24	18.44	-9.40
South West		7.98	10.03	-2.05	13.11	-5.13
West Midlands		8.51	10.72	-2.21	9.25	-0.74
Yorkshire and the Humber		12.77	10.1	2.67	7.86	4.91

Note: England-wide investments excluded from calculations. Positive differences show an 'over-representation' and and negative differences an 'under-representation'

- 2.14. 26 investments have England-wide locations (13 percent of all investments), of which 15 are full investments (14 percent of full investments): two of these organisations are small, 13 of medium size and 11 large. This is as might be expected.
- 2.15. Finally it should be noted that 80 percent of organisations have a local and regional focus. FBE's performance indicator is that 51 percent of organisations would have a local or regional focus.

Investment Book

- 2.16. A key Cabinet Office milestone for FBE is that by end March 2007, between £31.5 million and £36.5 million of investments would have been disbursed. FBE Year End data shows that only £19.7 million had been disbursed.
- 2.17. The below target rates of drawdown are due to the following: many investment offers are still relatively new and projects are yet to commence; much of FBE's investment portfolio is in the form of capital investments (i.e. new or refurbished buildings); and preconditions and milestones in the offer letters not being met. Evidence from case studies also suggests that investees only draw down loan funding when it is required and may also draw-down less of the loan than contracted: the rationale for this being to avoid interest repayments.
- 2.18. In terms of investment size, the investment book at the end of February 2007 shows that: 21 organisations have investment awards of over £1 million and these currently account for 60 percent of investments made; eight organisations have received full offers of less than £100,000; and the the majority of investments (77) are therefore for amounts between £100,000 and £1 million.
- 2.19. Finally, the **average repayment period** of FBE loans is 14 years. Around 60 percent of FBE investments are in physical capital and only in 40 percent of these does FBE have a charge on the assets. This is often because other lenders have the primary charge on assets and Futurebuilders is seeking to finance the gap to make a project viable. The long repayment periods also highlight that the replenishment of the Futurebuilders fund may, *prima facie*, take many years. However, FBE does have plans to begin to refinance those investments made in property.

Conclusion

- 2.20. From the assessment of the Progress of the Fund, conclusions can be drawn around achievement of agreed targets between government and FBE, implications and issues raised for the Futurebuilders model of funding the third sector, and recommendations for change in the future.

Achievement of Performance Indicators and Agreed Targets

- 2.21. The following progress has been made against agreed targets for the Fund (outlined in either FBE, 2006, *Futurebuilders England investment Plan 2006-07* and in *Futurebuilders England Ltd's Business Plan*):
- **FBE to award between 225-250 investments by end June 2007:** by the end of February 2007 215 investments had been made (including 12 development grant holders who were subsequently awarded a full investment). It is

anticipated that FBE will achieve between 230-240 investments by end June: **the target will be achieved.**

- **Award of at least 10 percent of investment in each of five PSD areas:** investment minima for the crime and community cohesion areas will be missed: **the performance indicator will not be achieved.**
- **Award of specified minima investments in BME-led (10 percent), rural-serving (10 percent) and small organisations with less than £100 thousand turnover (20 percent):** this performance indicator has been achieved.
- **Award of at least 75 percent of investments to organisations with no experience of loan funding.** As at end March 2007 49 percent of investees had no previous experience of loan funding: **this target will not be achieved.**
- **Draw-down of investments by end March 2007 of between £31.7 million and £36.5 million.** By the end of March 2007 £19.7 million had been drawn down: **this performance indicator has been missed.**
- **To make 51 percent of investments in organisations with a local or regional focus.** By the end of February 80 percent of investments had been made in organisations with a local or regional focus (75 percent of full investments and 85 percent of development grants): **this performance indicator has been achieved.**

Recommendations

2.22. The following recommendations can be drawn:

- It is recommended that government set separate targets for development grants and full investments.
- It is recommended that government consider reviewing the minima target for community cohesion, with a view to reducing it to five percent.
- It is recommended that government review the target 'no previous experience of loan funding' with a view to setting a more specific target.
- It is recommended that future government policy consider the implications of different 'conversion rates' for third sector investment programmes, and the cost implication of of this for the third sector and how conversion rates may be improved.

3. Working Arrangements

Summary

Background

This chapter of the report addresses evaluation question around the effectiveness of governance arrangements for the Futurebuilders Fund, the effectiveness of the processes established to deliver the fund, and the cost effectiveness of these processes, including an assessment of the costs borne by applicants.

Governance Arrangements

The evaluation team has mapped out the **governance arrangements** of Futurebuilders which it considers to be strong. The policies in terms of frequency of meetings, managing conflicts of interest, the different levels of investment review and sign off, the skills audit of the Board, the quality of papers provided for Board decisions, and the arrangements for internal and external audit appear to be robust.

Processes

The evaluation found that **application processes** were clearly set out and effectively implemented. However, a series of concerns are raised. The majority of applicants surveyed still believed that FBE was primarily a grant making organisation and would provide at least 50 percent of investment costs as a grant, although this perception has reduced over time. Furthermore, the time taken to progress applications to full investments was found to be excessively long. The evaluation has made an assessment of the **additionality of the investments**: that is, the likelihood that they would have proceeded in a similar form without assistance from Futurebuilders. Evidence from case studies and a survey of investees suggests that nearly 20 percent believe they may have secured a commercial loan (although not necessarily on such favourable terms).

Cost Effectiveness

The **management cost** of the Fund in its first phase is likely to be around £10.6 million (up until end June 2007). The composition of management costs is likely to shift in the subsequent phase of Futurebuilders away from application and appraisal activities and towards investee (or portfolio) management.

Applicant costs (calculated from survey and case study data) were found to be between £2,100 and £3,800 for stage 1 and for stage 2 of between £4,500 and £5,900. This suggests that the overall cost of this to the third sector has been between £4.36 million and £6.87. We are not suggesting that application should be costless, or that such costs represent 'time wasted', or that an organisation would not have incurred costs anyway as part of its investment planning process. Nonetheless, it provides an indication of the unintended impact policies such as Futurebuilders may have. Later stages of the evaluation will estimate the costs to investees of managing their investments.

Introduction

- 3.1. This section of the report addresses the governance arrangements of FBE, the processes it has established to implement the fund, and the cost effectiveness of these process.

Governance Arrangements

- 3.2. The governance arrangements for Futurebuilders operate as follows¹:
- The Home Office invited bids to manage the initial £125m programme, and the successful bidder was a consortium led by Charity Bank.
 - Subsequently, this consortium to manage the funds established Futurebuilders England Ltd (FBE), to carry out the operational delivery aspects of the contract.
 - The detailed arrangements are controlled by a three-way contract between the Home Office, and currently the Cabinet Office, Charity Bank and FBE under which Charity Bank acts as the *accountable body* for the funds, responsible for its stewardship, and FBE is responsible for the *management and delivery* of the fund.
 - FBE is a company limited guarantee and non-profit distributing, although it is not a charity and payments for the services of directors are made.
 - The company has four members: the members of the consortium (Charity Bank, NCVO, Northern Rock Foundation and Unity Trust Bank). Charity Bank is the 'A' member with additional rights; the others are 'B' members.
 - The Board comprises 11 directors: six are appointed by members of the Consortium and five independent directors (including the Chair).
- 3.3. Funds are advanced by the Home Office/Cabinet Office to a Charity Bank trust account over an agreed timescale between 2004-2007. These are held in a trust account until they are required by FBE Ltd. Funds are advanced to meet loan and development grant commitments and to cover administrative and operational costs.
- 3.4. Our focus for the evaluation has been on the internal governance arrangements of FBE. Based on detailed interviews with FBE Board members, senior staff, and partner organisations, plus a review of an extensive range of written materials from the Board and its committees, we believe the governance arrangements of FBE itself are working well.
- 3.5. Indeed, based on the specialist experience of members of the evaluation team in working with a wide range of not-for-profit organisations on governance issues, the governance of FBE could in many respects be considered very strong. The policies in terms of frequency of meetings, managing conflicts of interest, the different levels of investment review and sign off, the skills audit of the Board, the quality of papers provided for Board decisions, and the arrangements for internal and external audit appear to be robust.
- 3.6. We do not suggest that FBE's governance systems are operating perfectly and we have identified a number of issues of detail where the certain processes, or certain aspects of the relationship with applicants and investees could be smoother. However, we stress that even in such cases, the concerns are on issues of detail. But we have not identified any operational issues which appear to be of such

¹ The governance arrangements are extensively documented elsewhere: in the FBE Memorandum and Articles of Association, and in the three-way agreement between the Home Office/Cabinet Office, Charity Bank and FBE.

magnitude that they amount to any major criticism of the governance arrangements. Effective governance of any entity depends on its board delegating operational issues to staff and not seeking to micro-manage; from the evidence we have seen, this is working well.

Processes

- 3.7. The section is structured 'chronologically' – exploring evidence from each stage of the investment process, from how applicants became aware of Futurebuilders, the application and appraisal process, through to the monitoring of investments.
- 3.8. The section draws on surveys of unsuccessful applicants and investees, from 14 case studies of full investees and interviews with FBE investment officers. Some caution should be exercised in interpreting the survey data. The response rate to the unsuccessful applicant surveys was quite low (at between five and seven percent, varying across different questions). The response rate to the investee (successful applicant) survey was higher, as might be expected, at between 12.5 percent and 25 percent (varying across different questions). For these reasons we have provided results as counts (number of responses) and as percentages (proportion of responses). However, no substantial response biases were found, and more importantly, steps have been taken to triangulate survey findings with case study and investment officer interviews.

Awareness and Expectations of Futurebuilders

- 3.9. Applicants are increasingly likely to hear about Futurebuilders through FBE's own publicity (including its website), word-of-mouth and from other third sector organisations. This is in contrast to the period after the launch of FBE, when third sector publicity was likely to have a larger bearing. This suggests that FBE has established itself in the third sector funding market place.
- 3.10. However, there appears to remain confusion around the type of investments FBE makes. Findings from the 2007 survey reveals that 73 percent of unsuccessful applicants believed that would receive at least 50 percent of funding in the form of a grant, although FBE's eligibility criteria require applicants to confirm that they are primarily seeking a loan. As the financial out-turn data for FBE shows (see chapter 2 of the main report), the average proportion of grant funding applicants receive (for full investments) is 14 percent.

Application Processes

- 3.11. A survey of unsuccessful applicants in 2007 showed (see table below) that there were high levels of understanding in terms of 'what Futurebuilders does', 'the application process' (for both, over three quarters of applicants stated that they were clear or very clear), and 'the type investment package available' (56 percent clear or very clear).

Table 3.1: Applicant Understanding of Application Process

Count (Percent)	What Futurebuilders does	The type of investment package available	The application process
Very clear	22 (31%)	10 (14%)	12 (17%)
Clear	38 (54%)	29 (41%)	42 (60%)
Unclear	8 (11%)	20 (29%)	11 (16%)
Very unclear	2 (3%)	11 (16%)	5 (7%)

Source: 2007 Unsuccessful Applicants Survey

Question: Before you started the application process, how clear were you about the following aspects of Futurebuilders?

Base: 70

Other Options Considered

- 3.12. Unsuccessful applicants were also asked what other options they considered at the application stage. The table reveals that most unsuccessful applicants were considering grant funding, although many were also considering different loan options (commercial or third sector loan provider).

Table 3.2: Other Funding Options Considered

	Grants	Loans from commercial lenders	Loans from other voluntary sector loan providers
Count	60	22	15
%	88	32	22

Source: 2007 Unsuccessful Applicants Survey

Question: Before applying to Futurebuilders, what other options did you consider to fund this activity?

Base: 68

- 3.13. The comparable figures for investees, when asked what they would have done if they had been unsuccessful, suggests that:
- 26 would have applied for loans (51 percent)
 - 45 would have applied for grants (90 percent)
- 3.14. However, of those who would have applied for loans nine applicants (35 percent) believed that they would have been successful, with 15 (58 percent) not knowing what the outcome would have been. Similarly, nine of those who would have applied for grants (20 percent) believed that they would have been successful, 22 (49 percent) suggest that they would have been partially successful, and 12 (27 percent) could not predict the outcome. The remainder either did not know or thought they would be unsuccessful.
- 3.15. The implications of these findings for the Futurebuilders model of funding are that the application process itself does appear to change the perceptions of some organisations towards loans. However, applicants are considering different options when applying to Futurebuilders and many are seeing it as one amongst a range of potential funders. That only around one sixth of investees believe they would have successfully secured loans elsewhere maybe a reasonable level given that at the application stage it is often unclear what the investment package might consist of, especially the balance between grants and loans.

Time to Prepare an Application

- 3.16. All the surveys (both unsuccessful applicants 2006 and 2007 and investees 2007) asked applicants how long they took to prepare their application for Stage 1 (where an online form is required to be completed) and stage 2 (where a detailed business

plan is required). Considering all responses together it has been possible to make an overall assessment of the time taken to prepare an application. This is shown in the following table.

Table 3.3: Time taken to prepare an application

Days	Stage 1	Stage 2	Total
Range			
0-4	39	7	46
5-9	31	14	45
10-19	19	14	33
20-29	11	10	21
30-39	5	4	9
40+	10	11	21
Average			
Small (<£100,000 turnover)	11	22	33
Medium (£100,000-£1 million)	13	18	31
Large (over £1 million)	14	20	34
All (Mean)	13	20	33
Median	7	15	22

Source: 2006 and 2007 Unsuccessful Applicants Surveys
2007 Investee Survey
Question: How long did it take you to complete the application?

- 3.17. The table shows that full investees commit on average 33 days to complete the stage 1 and stage 2 application processes. There was found to be some small variation in the time taken depending on the size of the organisation, although perhaps less than expected. Clearly, more significant factors are the scale and complexity of investments – small organisations did not solely apply for small loans. Median figures are included to highlight that the distribution of days spent across applicants are skewed – most organisations will spend less time than the average (mean) time. The median data suggests that the stage 1 application should take 7 days and the stage 2 application 15 days. However, the survey evidence does indicate some change over time: applicants to the open window appear to be taking considerably less time to complete the stage 1 process (7.7 days) than in window 2 (15.2 days). It is unclear why this difference is so great but reasons suggested by FBE are that web based application materials are now much clearer. This appears to be reflected in an increase in applicant quality (around 66 percent now being shortlisted in the open window, compared to 50 percent in window 2).

Analysis of Applicant Rejections

- 3.18. Applications rejected by FBE are given a rejection code. These provide an indication of why applicants were ultimately unsuccessful.
- 3.19. Analysis of reasons for rejection at Stage 1 (all windows) suggests that the main reasons for rejection are (see table 3.4 below): the application will make less impact on services than others; is either not predominantly funded by the public sector or not sustainable; or the organisation has not undertaken sufficient planning.

Table 3.4: Main Reasons for Stage 1 Rejection

Refusal code	Count	Percent
Less significant improvement in services compared to other applications	150	19
Not 50 percent public funded or not sustainable	152	19
Inadequate planning	133	17
Not leading PS delivery/ not accountable.	64	8
Does not appear to be exemplary	53	7
Not eligible	47	6
Viable financial deal cannot be made	47	6

Source: FBE monitoring data 28/02/07

Note: Rejection reasons are multi-coded. Table only shows refusal codes used in five percent or more of cases

Base: 432

- 3.20. It should be noted that BME-led organisations and rural organisations are more likely to be rejected for the reasons outlined above than other organisations. Again, this may reflect a focus on non-eligible activities around community/neighbourhood development which does not have a clear public service funding stream.
- 3.21. The reasons for rejection at Stage 2, where a full business plan is required, suggest that applications are rejected because of inadequate planning, that activities may not be predominantly funded from the public sector, and expected impacts are less significant compared to other applications. As at Stage 1, BME-led organisations are more likely to be rejected because of inadequate planning (44 percent). It should also be stressed that applications are rejected for multiple reasons.

Table 3.5: Main Reasons for Stage 2 Rejection

Refusal code	Count	Percent
Inadequate planning	86	36
Not 50 percent public funded/ not sustainable	54	23
Less significant implementation compared to other applicants	50	21
Not able to manage proposal.	38	16
Viable financial deal cannot be made	16	7
Not leading public service delivery / not accountable	12	5
Too high a proportion of grant to loan	11	5

Source: FBE monitoring data 28/02/07

Notes: Rejection reasons are multi-coded. Table only shows refusal codes used in five percent or more of cases

Base: 239

Monitoring Process

- 3.22. FBE has established standard monitoring requirements for all investees which may be varied due to specific characteristics of the investment. One of the case studies is typical of the requirements agreed. In addition to the requirement to submit audited accounts for 2004/05, it was required to:
- Submit bi-monthly written Monitoring Report detailing progress in achieving investment outcomes, progress in securing contracts with public purchaser and update on wider activities of the organisation
 - Hold quarterly monitoring visits from investment officers for the first year of the investment to gauge progress in achieving investment outcomes
 - Hold a bi-annual monitoring visit from year 2 onwards to gauge progress in achieving investment outcomes

- Submit annual externally audited accounts and management accounts for the next 12 months
- 3.23. Those case studies experienced in managing public funding contracts found that the FBE monitoring procedures were relatively straight forward to operate. Moreover, some reported that FBE had been willing to alter their requirements so as the organisation could harmonise their monitoring procedures. Smaller and newer organisations, however, perceived that monitoring could be burdensome and not necessarily part of what they would have been doing. It should be noted that FBE suggest that it is good practice for organisations to prepare management information on a regular basis and that in most cases they are only requesting copies of information produced on such a basis.
- 3.24. In terms of monitoring and financial control of investments, findings from evaluation case studies suggest that these are well set out and agreed in contracts between the investee and FBE. However, case study organisations did report two quite divergent experiences of the whole application and monitoring process. Organisations with a clear plan for what they wish the funding for and who appeared to understand the management of loan funding, seem to have progressed through the application process with relative ease. They also appear capable of monitoring the investment. However, newer and smaller organisations, perhaps lacking the capacity (such as financial management) have required much greater levels of ongoing support. In some cases FBE has used revenue grants to fund finance officer positions for a finite period (one-two years) where capacity is deemed to be lacking.

Cost Effectiveness of the Delivery of the Futurebuilders' Fund

Introduction

- 3.25. This section addresses the following requirement in the evaluation specification:
- An estimate of all inputs and costs involved in the establishment of Futurebuilders, in its activities and in the services it delivers. These must include not only the contribution from Futurebuilders, but also those of voluntary organisations. Costs must include, in particular, monetarised estimates of the time incurred.
- 3.26. Of the £125 million Futurebuilders fund, £110.6 million is for direct investment in the sector. This includes *full investments* (including a substantial loan element) and *development grants*. This section is concerned not with the investment funds, but the Fund Management costs (of up to £13.4 million) and associated costs to applicants and investees. At this stage in the delivery of the fund it is possible to assess delivery costs up to now (primarily concerned with promoting the Fund and processing applications), and the associated costs to applicants of applying. The section considers fund management costs before assessing costs borne by applicants.

Fund Management Costs

- 3.27. The original proposal submitted by the Consortium estimated that the initial phase of FBE (until April 2007) would cost £11.29 million to manage, or nine percent of the fund – lower than the agreed upper limit of £13.4 million. The actual out turn, based on agreed accounts and budget forecasts for this period is £10.57 million. This is based on a budget for the years up until 2007 (shown in the table below) together with an additional £721,000 for the management of an additional two months of the

agreement (May and June 2007). The outturn for the FBE management costs is set to be around 6.4 percent below the original proposal estimate, or 8.5 percent of the total fund value.

Table 3.6: Summary of Futurebuilders England Ltd's Costs

	2004-05		2005-06		2006-07		Total	
	£,000	% Total	£,000	% Total	£,000	% Total	£,000	% Total
Board	202	7%	245	8%	336	8%	783	8%
Management and Administration								
Staff Costs	574	20%	578	20%	983	24%	2,134	22%
Office Costs	412	15%	312	11%	390	10%	1,114	11%
Legal and Professional Fees	259	9%	272	9%	204	5%	736	7%
Total	1,245	44%	1162	40%	1577	38%	3,984	40%
Investment Operations								
Staff Costs	557	20%	926	32%	1353	33%	2,836	29%
Office Costs	431	15%	256	9%	294	7%	981	10%
Business Consultants	147	5%	162	6%	354	9%	663	7%
Legal Fees			0	0%	21	1%	21	0%
NCVO SLA	201	7%	176	6%	169	4%	546	6%
Other	35	1%	-1	0%			34	0%
Total	1,371	49%	1519	52%	2191	53%	5,081	52%
GRAND TOTAL	2,818		2927		4103		9,848	
<i>Annual Change</i>			4%		40%			

Source: FBE Management Accounts (2004-05, 2005-06, 2006-07)

Notes: Year 2005-06, includes (£1,384) under other for non grant capacity building; and investment operations office costs includes £12,539 consultancy costs

3.28. Initial assessment would suggest that Board and management and administration costs are high in comparison to FBE's investment operations. However, in practice these activities are deemed to contribute to investment activities, as analysis of FBE's internal breakdown and apportionment across four areas of activity show (budgeted for 2006-07):

- Pre-application: £0.803m (19%)
- Applicant support and assessment: £1.719m (40%)
- Portfolio management: £1.034m (24%)
- Wider impact: £0.771m (18%)

3.29. These figures provide an indication of the likely management costs in the future when: pre-application, and applicant support and assessment should reduce greatly, and the main focus will be on portfolio management. For example, in the 2004-05 year applicant support and assessment activities accounted for 46 percent of FBE's budget, whilst this is set to fall 26 percent in 2009-10. Similarly, portfolio management activities were estimated to be 11 percent in 2004-05, and are set to increase to 39 percent in 2009-10.

3.30. The current headcount of FBE Ltd is around 45 and this is expected by FBE to be its peak. This largely reflects the simultaneous need to manage the applications process and investment operations (including monitoring investments). As the change in the Grand Total line shows, FBE has grown rapidly over three years. These figures provide a baseline for comparison with the management of the fund in the future.

Applicant Costs

- 3.31. Based on the assumptions for the numbers of days to complete each application stage, we find that that applicants incurred average costs at stage 1 of between £2,100 and £3,808 and between £4,500 and £5,938 at stage 2. Therefore for organisations making an application at stage 2 (including the preparation of a full business plan), the full cost of time incurred, whether ultimately successful or not, is between £6,600 and £9,740.
- 3.32. Together these figures provide a range of the likely total cost of applying to Futurebuilders. The total cost to the sector of the application process, is therefore between £2.73 million and £4.94 million for completing stage 1 applications, a further £3.06 million to £4.04 million for stage 2 applications, and a total cost of between £5.79 million and £8.99 million. This is based on the 1,300 applications submitted and the 681 longlisted by the end of February 2007. These figures therefore suggest that the cost of application is between 60-100 percent of the management costs of FBE.
- 3.33. Comment has been made on apparently low conversion rates of applicants to investees (for example 8.2 percent for full investments, based on data at the end of February 2007). Clearly, increasing the conversion rate would reduce the overall cost to the sector. Our estimates suggest that the total cost of applying to Futurebuilders to unsuccessful applicants (619 at stage 1, 466 at stage 2) is between £4.36 million and £6.87 million. For this time committed by applicants there is no immediate return, although applicants may revise business plans to approach others loan and grant funders: something which many appear to be doing.
- 3.34. Data is not presented here for costs borne by different size organisations, although our findings on time commitments suggest that small organisations spend slightly less time preparing applications (two days less than the average at stage 1 and the same at stage 2). For an organisation with a turnover of £100,000 the data suggest that the cost of applying is equivalent to between 6.6 percent and 9.7 percent of annual turnover: the decision to apply to Futurebuilders is therefore far more significant to the organisation's costs, proportionately, than a similar decision made by a large organisation with a £1 million turnover.
- 3.35. Finally, we are not suggesting that the application process should be costless. Most applicant organisations are aware, from experience, of the time required to apply for and manage external funding. Moreover, taking loan funding represents a significant organisational commitment and requiring substantial commitment by senior staff in applicant and investee organisations.

Conclusion

- 3.36. Expectations around FBE were found to vary: especially with respect to the size of organisations FBE should support. How FBE engages with different forms of third sector infrastructure (especially at a local level) was also raised.
- 3.37. The role of Futurebuilders and the investment package it offers were found, despite improvement, to be still not clearly understood, especially amongst applicant organisations. There remained an expectation from a majority of applicants that the majority of its funding would be in the form of grants.
- 3.38. FBE's processes for managing applications and appraisal were found to be sound and largely understood by applicants. However, evidence was found to raise concerns with the time applicants were spending on preparing applications: even for what should be the relatively straight-forward stage 1 of the application process.

Combined with a conversion rate of applications to full investments of 8.2 percent (based on data at the end of February 2007), this is placing an unjustifiably high cost on ultimately unsuccessful applicants.

4. Organisational Development

Summary

Background

This chapter of the evaluation addresses the organisational development of Futurebuilders investments, considering the effect of the investment on organisations and whether organisations are able to manage investments to realise increases in public service delivery.

Organisational Capacity

The evaluation found that Futurebuilders is investing in three distinct types of organisation, each with different support requirements. These included:

- *Relatively stable and strong organisations* which provided a relatively safe organisational context for an investment
- *Organisations undergoing significant transformation in scale, scope, structure and ethos* where the investment (and associated support) has provided an integral part of a *pre-existing* organisational transformation
- *Start-up or early stage organisations* where the investment is made at a much earlier stage and is integral to the realisation of an organisation's aims.

We also found investee organisations which for various governance or funding reasons had entered a period characterised as 'crisis', which was subsequent to the investment being made and unforeseen at the time of investment. In some of these cases, FBE is seeking to assist the organisation through this period.

Financial Management Capacity

Case study research is used to explore whether investees have sufficient financial management capacity to manage loan funding. In particular it was found that smaller organisations often lacked the necessary skills and capacity to effectively manage loan finance and VAT issues. In some cases these skills were being built, but other organisations appear to be struggling.

Introduction

- 4.1. The organisational development strand of the evaluation is concerned with two main questions:
 - Whether FBE has enabled funded organisations to secure more contracts, work collaboratively with funders, develop capacity and ultimately achieve sustainability?

- How well purchasers have responded to funded organisations?
- 4.2. This section focuses primarily on whether FBE has helped build capacity and secure sustainability in the funded organisations. Issues of procurement and commissioning are considered in section 5. The research draws on case studies of 14 investee organisations: across all PSD areas and with different organisational and investment sizes. The work to date has primarily developed a baseline of these organisations (prior to the investment) and the organisations' early experience of the investment.
- 4.3. We have found from research undertaken to date that there are different experiences and organisational development outcomes between:
 - Organisations which had largely 'built capacity' prior to the FBE investment: typically larger organisations (with annual incomes of over £1 million) where the investment, albeit quite critical, was one amongst a number, and
 - Organisations which could not draw on existing capacity, but which need to develop capacity for the success of the investment. These typically involve smaller organisations (with annual incomes of less than £250 thousand) where the investment is the basis for growth. These organisations face pressures similar to other small organisations attempting to grow quickly, not least in the areas of management capacity, governance, human resources and financial management.

Case Study Findings

- 4.4. Case studies in the evaluation have been anonymised and given a code (A-N).
- 4.5. At first sight, four organisational development scenarios appear to be operating amongst the case studies. The role of the Futurebuilders investment, and of Futurebuilders England as a more 'engaged' funding organisation, varies in these scenarios.
 1. *Relatively stable and strong organisations (Case Studies A, B, F, J and L)*
 - 4.6. Some organisations provide a relatively safe organisational context for a Futurebuilders investment. In such situations, the risk of the investment project being placed in jeopardy through weaknesses in organisational capacity is quite low. Here the additional support required from FBE, and its impact on organisational development, is likely to be minimal. It may, for example, be confined to fine tuning organisational systems, or to additional support in new or challenging areas such as negotiating procurement or commissioning relationships. Arguably **case studies A** (work-based support provided to ex-offenders), **B** (stabilisation of drug users), **F** (sheltered accommodation and support for older people), **J** (Support facility for people with learning disabilities) and **L** (Education and inclusion through the arts for disadvantaged people) fall into this category. Of course, although risks associated with organisational capacity may be relatively low, the risk of not realising anticipated social returns from the investment are only partly linked to capacity issues.
 2. *Organisations undergoing significant transformation in scale, scope, structure and ethos (Case Studies C, D, I, H, K and M)*
 - 4.7. In these case studies, the Futurebuilders investment has become an integral part of a *pre-existing* organisational transformation. The origins of these organisational change strategies may involve a relatively smooth plan in response to internal or

external developments, or may have arisen from moments of crisis, whatever their cause.

- 4.8. **Case studies C and K** fall into two categories: they are both trying to achieve a transformation, but for various reasons have also fallen into crisis (our fourth category) and are therefore discussed in more detail below.
- 4.9. **Case study D** (support to children with a lifelong limiting condition) is a relatively new charity but is seeking to establish itself as a national centre of excellence, providing specialist education, training teachers and undertaking a national role of policy development, influence and research. It is one of the largest FBE investments and is undergoing rapid development to take on a wide ranging role. Its governance, management practices and human resources were found to be excellent and consistent with those of a medium-large scale charity operating at a national level. Although a relatively new organisation it clearly already has many characteristics of a stable organisation.
- 4.10. **Case studies I** (health and social care project supporting sex workers and their families), **H** (community cohesion projects), **K** (housing focused community reconciliation project) and **M** (prison-based education programmes) are all medium sized organisations (turnovers of between £250 thousand and £1 million) but are seeking to grow rapidly: typically through providing more services at local and regional levels. These organisations typically have to establish more formal governance arrangements, to establish new more professional management practices and take on new staff, all at the same time as securing additional contracts. Along with the start-up organisations (discussed below) this appears to be a real testing ground for the extent of the engaged funder model.
- 4.11. For example, in **case study M** (Prison based education programmes), the Futurebuilders investment has partly become the means through which restructuring identified through an earlier organisational health check can be realised. The health check noted the need to move from what was a loosely structured organisation, to a more formally structured, business-like organisation with clearer staff roles and responsibilities. This was partly designed to overcome the reliance on a single member of staff. Although it comes after the health check, the involvement of FBE is regarded by the case study as consistent with its outcome and the overall path the organisation is taking.
- 4.12. A contrasting scenario is where difficulties are encountered by an investee organisation *after* a Futurebuilders investment has been approved. Such difficulties may or may not be precipitated by issues arising from the process of application and investment. In **case study I** (Health and social care project supporting sex workers and their families), a period characterised as a 'crisis' has occurred after a long period of sickness absence by the Chief Executive, and the loss of the existing Finance Director. This case is regarded as a potential test of the ability of FBE to provide flexibility and support through a challenging time.
- 4.13. At the time of the research (February 2007) the existing senior management team have been attempting to maintain the organisation and its range of services, but the support provided by FBE and other funders is seen by FBE as mitigating the crisis. It was suggested by FBE that a commercial lender would have pulled out of the investment by now. Instead, the focus of the investment (but not its overall aim) has been amended, and a more thoroughgoing organisational review is underway. The case study has been on FBE's cause for concern register but has recently come off following the recruitment of a new chief executive.

4.14. In these two circumstances, therefore, the impact of Futurebuilders on organisational development is seen by FBE and the organisation as working alongside, and potentially in synergy with, an existing process of organisational transformation.

3. *Start Up or early stage organisations (Case Study E, G and N)*

4.15. A third scenario evident in the case studies arguably involves a larger 'footprint' for FBE on organisational development. This is where FBE is involved at the start or at a very early stage in the development of an idea and an organisation. **Case Study E (mental health support)** was established to test out a concept of providing an enhanced service to GP patients requiring mental health support, and would thereby free-up GP time. If successful, the organisation running the project would roll out the service to other GPs. The organisation is growing rapidly as this service expands, although to date FBE has not provided extensive hands-on support, as the organisation is well run.

4.16. **Case study G (a children's daycare centre)** is similarly a relatively new organisation, although again relatively limited support has been required as the organisation is well run. It should be noted, though, that the organisation is still to move into its main delivery phase as it is still seeking planning permission.

4.17. **Case Study N** (Counselling for young people) is a relatively new umbrella consortium of eight front-line counselling agencies. The Futurebuilders investment proposed here involves working capital to employ counsellors to expand service delivery, but also to increase the scope for public service contracts by developing both the ability to negotiate contracts and a quality assurance framework. At such a formative stage for the organisation, the involvement of Futurebuilders England is likely to become part and parcel of the development of this organisation. This case study organisation is something of a test-bed because it is a consortium of smaller providers, each individually may in time require organisational development support if the consortium is to succeed.

4.18. Although it might be expected that FBE would provide more support to these start-up organisations than to the transformation organisations, this is not borne out by the case studies.

4. *Organisations entering a period characterised as 'crisis' (Case Studies C and K)*

4.19. This fourth investee scenario for organisations is rather different to the ones considered above, and is clearly not an intended outcome. Of the organisations deemed to be in 'crisis' both are relatively small (with annual turnovers of just over £250 thousand) and have been attempting to develop from being largely volunteer-led organisations. **Case study C** (support to refugees) had secured a grant from the Big Lottery Fund and was seeking to extend services to refugees in London, with support from funders such as Learning and Skills Councils and Job Centres Plus. It was on this basis that FBE invested in the organisation. Unfortunately, the funding from the Big Lottery Fund was withdrawn following the FBE investment. This was for reasons unrelated to the FBE investment. FBE have since sought to support the organisation through a period which threatens its existence. During this period, FBE has attempted to support the organisation to address gaps in its governance, management and finance arrangements. However, without the initial grant funding from BLF it is likely that the organisation will not realise its aims and also not drawn down its FBE investment.

4.20. In **case study K** (Housing-focused community reconciliation), for example, the organisation has already undertaken a three year capacity building project designed to enable restructuring and the development of a more business-like ethos and

approach. This was designed to shift the organisation away from reliance on grant funding, un-costed services delivered predominantly by volunteers, and doubts about service quality and reliability. The Futurebuilders investment was initially regarded by the case study organisation as part of a financial survival strategy, but was then reshaped as part of a growth strategy and has now become part of the process of transformation. The overall financial package has enabled further restructuring. However, this is not without its challenges. Not all trustees and staff appear to be in full support of the new direction, and the wider task of placing existing services on a costed basis when they have traditionally been provided 'for free' appears to be quite daunting. The organisation has also recently appointed a new chief executive and the coming months were reported to be critical for the long term survival of the organisation.

- 4.21. Both cases, provide an insight into the extent of FBE's support, and ultimately whether such organisations will deliver public services. In both cases, the potential social benefits from the delivery of services were deemed by FBE to be significant.

Financial Management

- 4.22. Investees have a range of, and multiple, legal forms including those of a charitable company, charitable trust, company limited by guarantee. Some investees are also considering becoming community interest companies. We did not find any strong relationship between particular organisations facing greater organisational development constraints than others. However, organisations operating as social enterprises (and registered as companies limited by guarantee) tended to be smaller organisations and appeared to resemble commercial businesses in their operations, albeit they were not profit distributing and had a social purpose.
- 4.23. Financial management capacity (staff and systems) varies considerably depending on the size of organisation. Financial management capacity has been a specific focus of the evaluation in its first phase. Where organisations did not have previous experience of loan funding, it was found that they needed to develop systems rapidly to account for loans, their repayment and the repayment of interest. In three cases we found evidence that the loan had been incorrectly treated as income, and advised the investee and FBE accordingly.
- 4.24. However, follow-up interviews undertaken 12 months after initial fieldwork with six cases suggests that understanding of how the loans should be accounted for had improved. Despite this, management accounts in three organisations still put the loan receipts as income and left final reconciliation of accounts to external accountants at the year end. FBE are aware of these concerns and they are being addressed: however, it is an indication of a need for further capacity building around financial management in small and medium-sized third sector organisations.
- 4.25. Similarly, VAT issues appear a real burden to investees, with clarification required around the service areas on which VAT is charged and the levying of VAT on construction costs. Errors in this area will be a cost to organisations and may also mean that full costs are not recovered. This has been identified as an issue by FBE who have signposted organisations to expert VAT advice. Concerns around VAT are well documented in third sector studies. In some cases there is a likelihood that VAT will be irrecoverable and place a burden on the organisation.
- 4.26. In a number of the smaller cases there appeared to be considerable financial management problems – and even confusion between the finances of different legal entities – which did not seem to have emerged during the FBE assessment process. None of the assessments made in return visits were of smaller organisations, however, we consider that the issues raised initially are still justified.

- 4.27. In other cases, FBE was aware of weaknesses in financial capacity, and sought to provide help through Business Consultants and/or Development and Capacity Building Grants, but it is not clear how successful this has been.
- 4.28. Three broad sets of conclusions can be drawn:
- *Organisations with limited financial capacity.* FBE has sought to support such organisations through providing consultancy and grant support. This may lead to the recruitment of a finance worker. However, despite this there are clearly some investee organisations with what appears to be far too little capacity to take on loan finance without considerable additional support.
 - *Trading Subsidiaries.* Two of the case study organisations have established trading subsidiaries for reasons which are not clear. There are considerable complications in terms of the relationship between the entities, for example where FBE make a loan to a charity but the service is delivered by a separate subsidiary company. This makes for complex financial management and may increase the risks to FBE.
 - *VAT.* Delivering services under contract raises considerable VAT issues. VAT registration may be required in some cases. In other cases, organisations may assume that commercial VAT rates apply, but find that the service would be VAT exempt (e.g. in healthcare and welfare services). This would leave them with substantial amounts of irrecoverable VAT.

Conclusion

- 4.29. We find that it is too soon to determine whether Futurebuilders has made investee organisations more sustainable.
- 4.30. Findings from the case study research suggest that this is a difficult and complex process requiring a range of high level organisational and management skills. Whilst investee organisations appear to have sound proposals for service delivery, they may at the outset of their plans lack the management capacity to realise them. FBE has established processes (for appraisal, annual review, cause for concern) which seek to identify where such needs lie. However, it is too soon to discern whether this support is sufficient to enable organisational transformation and sustainability.

5. Procurement and Commissioning

Background

This chapter addresses evaluation questions around whether investee organisations have been able to secure more contracts as a result of Futurebuilders funding and how funders have responded. The chapter also provides some evidence on the different procurement and commissioning contexts in which investee organisations are operating.

Public Service Delivery Areas

Case study evidence and a review of the five **public service delivery** areas questions whether **community cohesion** should be treated equally alongside other PSD areas: unlike the other areas there is not a statutory obligation for community cohesion nor a significant funding stream. We found that even innovative and leading organisations are struggling to find significant demand for services.

Types of Procurement Relationship

Three broad types of procurement relationship were found:

- Those involving contracts with individual service users, although supported by public assistance (e.g. Housing Benefit claimants)
- Those organisations which negotiate contracts with a procurement organisation or consortium in 'closed' market, where for instance participation in partnerships and consortia is essential
- Those organisations which tender for contracts in an 'open' market and which involves competition, where the strength of the third sector is in its provision of innovative or 'leading edge' services.

Investee Progress

Case study research and a review of investment appraisals, suggest that FBE is typically investing in organisations working with hard-to-reach groups or in meeting needs through an **innovative service**. It is this capacity which FBE invests in. In most cases FBE does not invest in areas where a service will duplicate current provision.

The evaluation finds that despite central government commitments to extend procurement opportunities to the third sector, local-level organisational, policy and funding changes have hampered progress by some case study investments. This has fed through as a contributory factor to a slower than anticipated rate of drawdown of loan funding.

Introduction

5.1. The preceding chapter addressed internal organisational development issues. This chapter is concerned with how organisations secure procurement contracts. It therefore addresses the following questions set in the evaluation specification:

- Whether FBE has enabled funded organisations to secure more contracts, work collaboratively with funders, develop capacity and ultimately achieve sustainability?
- How well purchasers have responded to funded organisations?

Key Findings

5.2. The following table summarises the 14 case studies and highlights the organisations identified as the main commissioning bodies.

Table 5.1: Case Study and Prospective Service Purchasers

Case Code	Activity	PSD Theme	Case Study Wave	Purchasers
A	Work-based support provided to ex-offenders	C	1	Jobcentre Plus; local authorities
B	Stabilisation of drug-users	C	1	Drug Action Advisory Teams (DAATs)
M	Prison-based education programmes	C	2	Probation Service, Youth Offending Teams
C	Support to refugees	EL	1	PCTs, Jobcentre Plus, LSCs
D	Support to children with a lifelong limiting condition	EL	1	Local authorities, Individual parents, DfES
L	Education and inclusion through the arts for disadvantaged people	EL	2	Local authority, LSC
E	Mental health support	HSC	1	Primary Care Trusts / GPs
F	Sheltered accommodation and support for older people	HSC	1	Individuals (with housing benefits paid by local authorities)
I	Health and social care project supporting sex workers and their families	HSC	2	Local authority social services, PCTs, LEA
J	Support facility for people with learning disabilities	HSC	2	Local authority social services dept
G	Children's daycare centre	CYP	1	Individual parents, local authority, PCT
N	Counselling for young people	CYP	1	Local authority social services, PCTs
H	Community cohesion projects	CC	1	Local authorities
K	Housing focused community reconciliation project	CC	2	Housing management: RSLs, local authorities, ALMOs

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. Research for Wave 1 case studies was undertaken in Spring 2006 and Spring 2007; research for Wave 2 case studies was undertaken in Summer 2006.

5.3. It is too early to make a comprehensive assessment as to the success of investee organisations in securing public sector contracts. However, from analysing FBE's annual reviews and through case studies we find that in many cases, organisations have not made as much progress in securing contracts as anticipated at the point of investment award. This is for a variety of reasons including: institutional and policy changes affecting the commissioning environment (e.g. the roll out of the National Offender Management Service); smaller procurement budgets than anticipated (e.g.

fewer local contract opportunities around community cohesion); and over optimistic assumptions made by the investee organisations around service demand.

5.4. FBE investee organisations are operating in three different types of procurement market:

- Providing services to individuals (often part-funded by Housing Benefit or Working Families Tax Credits)
- Seeking procurement contracts through negotiated relationships
- Seeking procurement contracts in open markets, often in competition from private sector organisations.

5.5. FBE's annual reviews and the evaluation case studies suggest that investee organisations have not made as much progress as expected, whether in both closed and open procurement markets. The annual review process uses a risk assessment system to judge progress towards public service delivery, management and governance, and finance. Of far greater concern (organisations being rated red - at risk, or amber - of concern), were issues to do with finance: in particular to do with securing income for service delivery. Of 36 reviews examined, finance issues were of concern in 15 cases or at risk in 13 cases (in one case the investment has subsequently been withdrawn). Case study research supports these findings and suggests that it is in more competitive tendering situations where progress has been slowest.

5.6. A review of the policy context, FBE evidence and case studies, suggest that slow progress is often due to unanticipated levels of change in commissioning arrangements. This is having an adverse effect on both 'closed' and 'open' procurement market arrangements. Study of the procurement contexts within which case study organisations operate suggest that across all five public service delivery areas there is a clear commitment to increase the role of the third sector but that this is not being realised. This is illustrated by the following examples from the case studies:

- *Health and Social Care:* the four case study organisations highlight the difficulty of translating overall policy of support for the third sector to establishing new provision. In two cases it was found that local funding changes had occurred and led to problems in securing contracts. For example, in one case, shifts from Primary Care Trust to Practitioner Based Commissioning had jeopardised carefully established service delivery plans which now needed to be renegotiated. In another case the target group for the third sector (providing training and employment support to individuals with low and medium level mental health support needs) were a second order priority for the local social services commissioning body because resources needed to be maintained for those with high level mental health needs. In another case, a commissioning body (social service department) had continued to support an organisation whilst it went through a period of reorganisation and envisaged contracting with it in due course.
- *Children and Young People:* One of two case studies is developing a children's centre to provide day-care and after-school support. It had not progressed over 12 months because it needed to resubmit a planning application. In another case, where a consortium of organisations provides a comprehensive counselling service, the local authority commissioning body was cautious about commitments to long-term funding.
- *Education and Learning:* Three cases were considered. In one case the evaluation found that the investee organisation had established excellent links

with LEAs and local authorities to provide both education support and training (to teachers) around support to children of school age with a life-limiting condition. This organisation appeared confident that it would build its reputation to provide these services. In a further case, which provides a range of educational opportunities around arts and creativity education to hard-to-reach and disadvantaged groups, the organisation had only recently moved into new premises and was working across a range of funding streams (public services and grants) to provide support. The third case study had effectively gone into crisis following the withdrawal of a major grant funder. This could not have been anticipated at the loan offer stage by FBE.

- *Crime*: Two well established organisations had found difficulties securing the originally anticipated and informally agreed levels of funding. In both cases, reasons of shifting funding priorities were given, although in one case it also appeared that the specific project for which funding was received had not achieved anticipated demand. In a third case, which was a pilot project to demonstrate the value of a new service concept (providing creative and educational support to young offenders), demand was as anticipated.
- *Community Cohesion*: Two cases were examined. One organisation had a national profile as a leading third sector organisation in its field. It had sought to roll out community cohesion programmes in local areas across the North West and Yorkshire and the Humber regions. These sought to develop and scale up work it had undertaken following the disturbances in Oldham and Burnley in 2001. Although local authorities were supportive, they would not commit to the scale of programmes offered, preferring to contract bespoke training services of around one tenth the size. In the other organisation, providing community mediation in conjunction with housing services, less than expected progress had been made due to the merger of arms length housing organisations in its locality. This process had also led to a reduction procurement opportunities and it was seeking to diversify its service offer.

- 5.7. An alternative viewpoint would be that applicant organisations and/or FBE were overly optimistic about the speed and scale of service delivery. With hindsight this appears to be the case. However, at the time of application and appraisal, we only found limited evidence of over optimistic assumptions being made by FBE, and that often FBE investment officers adjusted assumptions downwards at the business planning stage of appraisal.
- 5.8. Given this balance of evidence, we suggest that changing commissioning and procurement environments, at a local level, have had an adverse effect on the investments reviewed. This may change as commissioning frameworks become clearer and more established, or because organisations secure other funding. However, it demonstrates some problems in predicting future service markets, especially where provision addresses a niche or is highly innovative.
- 5.9. The case study research reveals that investees are typically attempting to increase the scale of a service which is innovative or which effectively meets the needs to a hard-to-reach group. Because of the innovative and often novel nature of this service, mainstream lenders are less interested in supporting the organisation, and FBE appears to be responding to this market-gap: that is developing and building capacity in service areas which have demonstrated effectiveness at a small-scale, often through the use of grant funding. The challenge FBE and investees have faced is in securing long term contracts to support the greater level of delivery capacity.
- 5.10. Finally, greatest procurement opportunities appear to be in the health and social care field and this is reflected in the number of investments FBE has made. The opportunities in community cohesion are very limited and of a scale much smaller

even anticipated by investees and FBE, and less than the other service delivery areas. This is reflected by case study evidence.

Conclusion

- 5.11. A year after undertaking initial baseline work with case studies the typology of different types of market remains appropriate. However, progress which might have been expected in 'closed-market' arrangements where organisations had expected to secure long-term contracts have not necessarily materialised. The reason given in many such cases is that change in public service contracting (changing institutional arrangements and funding priorities) has not led to the level of contracts anticipated. Many of the FBE investees (from the case studies and annual reviews) had developed innovative services which appear to fit well with national policy agendas and targets, but which as yet do not have a viable local market. Other factors appear also to have slowed progress in securing contracts, such as internal change in organisations undergoing transformation (for example from volunteer led to professional led third sector organisations).
- 5.12. The evidence gathered to date suggests that it is too early to suggest whether funded organisations have secured sufficient volumes of contracts to become more sustainable. Progress appears slower than anticipated and this is partly due to policy and institutional changes in the commissioning environment and in some cases because of reductions in funding available.

6. PSA Targets, outputs and outcomes

Summary

Background

This chapter of the report explores PSA Targets, outputs and outcomes of FBE investments. It uses data from the 14 case studies, from FBE annual reviews and from FBE stage 2 assessments.

Background

It is too soon to make a judgement regarding the **outputs and outcomes** of Futurebuilders. All investments were found to contribute to PSA targets (on average each investment contributes to 3.6 PSA targets) although clearly their contribution is quite small. Moreover, it is actually the services delivered as the result of securing contracts which will contribute to PSA targets, not the investment itself. Rather, the investment will have either brought forward or made possible the contribution to a target. The evaluation finds that FBE is collecting **output** data through the annual review of investments, and this will inform our estimation of impacts in 2008 and 2010.

Progress towards Output Targets

Annual Review evidence of 33 investments finds relatively mixed performance in the achievement of output targets. 11 investments were found not to have made any progress, with one of these having an investment withdrawn. Four investments were progressing towards achieving intermediate outcomes (e.g. completion of a building) and 18 were contributing to outcome targets: however, of these only nine were on target. The evaluation concludes that the time taken to achieve targets may have been over optimistic, and delays typically resulting from late running construction projects.

Additionality and Deadweight

Assessment is made as to whether case study investments would have proceeded without the FBE investment. It was found that five out of 14 case studies organisations would probably have secured some form of loan funding elsewhere. This reflects findings in the chapter on working arrangements. More positively, the evaluation finds that the investments are unlikely to displace other services: most are providing a new or qualitatively different service, compared to what is already available in the relevant locality.

Introduction

- 6.1. At this interim stage of the evaluation it is difficult to provide evidence as to FBE's impacts: as the preceding sections have suggested, many of the investments are at a very early stage. In most cases (except for pilot or demonstrator projects), FBE is funding the expansion of capacity through which other grant and contract funds will be used to support individual beneficiaries. Impacts achieved by FBE investee organisations will not therefore be wholly attributable to FBE.

PSA Targets

- 6.2. It was found that all FBE investments are contributing to PSA targets and government department strategies. FBE investments intend to contribute to an average of 3.6 Public Service Agreement (PSA) targets each with a range from one PSA target (13 investments) to 13 PSA targets (one investment) out of 91 full investments considered. However, the investments are unlikely to make a huge contribution to a nationally set PSA target, just an indication that investments are aligned to key policy agendas.

Outputs

- 6.3. The outputs collected and set by FBE provide a useful starting point for output monitoring. However, there are some problems in the setting of targets, in particular: baselines are not always clear; targets are not necessarily specific and time-bound; and the intensity of FBE's support varies. Of 33 FBE annual reviews of investments considered, these show that 18 investments are on target to achieve specified outputs or have made some progress towards them. Others are behind schedule, typically because of slow progress in securing contracts or because of delays in construction projects.

Additionality and Displacement

- 6.4. Exploration of additionality and displacement issues for the case study organisations revealed that five would have probably gone ahead anyway, and in the remainder, investments were either enhanced, brought forward or deemed crucial. Moreover, the intensity of investments ranges markedly: in some cases there may be as few as 10 beneficiaries per year (for instance in a high intensity and comprehensive residential care) whilst another investment is seeking to reach over eight million people with an information campaign. Whilst for the former group the level of additionality is likely to be very high, for the latter it will be of marginal direct benefit.
- 6.5. The assessment from the available data suggests that Futurebuilders is investing in organisations which are providing highly specific services which address genuine needs and which do not duplicate existing public or private sector provision. This reflects the premise for the added value of the third sector. Of some concern though is whether investments would have proceeded anyway: here the evaluation finds evidence from the case studies (and earlier from survey data) that a significant share of investments would have secured loan finance from the commercial sector. There was not found to be any discernible pattern across the PSD areas.

Conclusion

- 6.6. This section explores the outputs, outcomes and impacts which fourteen case study investee organisations seek to achieve. It should be stressed that FBE investments

support a wide array of activities and service areas: which will make an aggregation of outputs and outcomes difficult. We have therefore sought to make a summative assessment on the basis of whether or not investments are making progress.

- 6.7. It is the measurement of outcomes and their attribution to investments which will provide the initial insight into the wider economic and social benefits of FBE. Many of these (e.g. improvement in health) may however only be achieved over the long term; nevertheless as case study organisations complete investments (e.g. a building to provide a new service), then it should be possible to precisely define the scope and scale of outcomes.
- 6.8. Some caution needs however needs to be exercised in assessing impact. FBE is typically investing in service delivery capacity and in some cases helping to bring forward activities which would otherwise be only possible at a smaller scale and following fund raising activities. That is, the progress towards outputs is largely an indicator that procurement contracts have been secured.
- 6.9. Finally, the evaluation raises some concern with the extent to which investments would have proceeded without Futurebuilders support. We found that five out of 14 case studies claim that they would have secured loan funding anyway or may not need to draw on the Futurebuilders loan. The chapter of the report on working arrangements, which draws on survey data of investees, suggests that around 18 percent of investees claim that they would have secured a loan anyway. A further 30 percent claim that they would have applied for a loan if unsuccessful with their FBE application although were not certain of securing the loan.

7. Social Return on Investment

Summary

Background

This chapter provides forecasts of the likely social return on investment (in monetary terms) of Futurebuilders investments.

The application of a **Social Return on Investment** methodology is an experimental and innovative aspect of the Futurebuilders evaluation. To date SROI has been estimated for 14 case study organisations (i.e. what will be the social return in five and ten years time).

Key Findings

Except in one case study organisation (which subsequent to the Futurebuilders investment went into crisis following the withdrawal of substantial grant), we expect loans in the other 13 cases to be repaid, if expectations and forecasts hold.

However, we find that investment-related activities alone may not generate sufficient revenue to repay the total investment (FBE investment plus other funding). In some cases this will mean that surpluses from investment-related revenues alone will not be enough to repay the loan. The organisation will need to fund repayments from other sources, such as fundraising. This is the strategic choice of trustees and managers and maybe taken for reasons around increasing the scale of the organisation quickly in lieu of fund raising.

In eight of the case studies we find clear evidence of the potential savings to the public purse which investments may bring. However, in four cases it has not been possible with a significant level of certainty to estimate public purse savings. An example here would be of area-based provision of a community cohesion service. Similarly, some outcomes from an intervention (e.g. educational support to young people) may take more than ten years for social returns to be realised.

The subsequent phases of the evaluation, in 2008 and 2010, will provide evidence on actual savings and assess how accurate these forecasts have been.

Introduction

- 7.1. This section seeks to address the question set in the evaluation specification:
 - What was the social return on investments and support provided by FBE?
- 7.2. Estimating the Social Return on Investment by FBE is an innovative and experimental part of the Futurebuilders evaluation.
- 7.3. Social Return on Investment (SROI) is a methodology to capture the full benefits generated from an organisation's investment activities in a single figure. It is a development of traditional cost-benefit analysis and utilises the underlying methodology associated with Net Present Value. NPV is the discounted value of a

stream of benefits and assumes that an investor would be willing to pay more for returns which occur now than in the future.

- 7.4. Social Return on Investment has been estimated for all 14 case study organisations at the level of the investment rather than the whole organisation. Some caution is required in interpreting the results because: our calculations are **forecasts** of likely financial and social returns; some social returns are difficult to place a monetary value on (e.g. community cohesion); organisations will achieve other social returns beyond financial savings to the public purse; and some successful projects may lead to increasing costs to the public purse (e.g. greater levels of benefit claimed) but at the same time lead to equity gains.

Main Findings

- 7.5. The main findings from the work to date are:

- Except in one case study organisation (which has gone into crisis following the withdrawal of Big Lottery Funding) we expect loans in the other 13 cases to be repaid, if expectations and forecasts hold. Moreover, some organisations may not draw down the full loan if demand appears less than anticipated.
- However, we find that investment-related activities alone may not generate sufficient revenue to repay the total investment (FBE investment plus other funding). In some cases this will mean that surpluses from investment-related revenues alone will not be enough to repay the loan. The organisation will need to fund repayments from other sources, such as fundraising. This is the strategic choice of trustees and managers and maybe taken for reasons around increasing the scale of the organisation quickly in lieu of fund raising. Moreover, this may bring forward in time a range of social benefits. Where a one-off grant has been used to fund the investment, this would clearly not need to be repaid. The SROI calculation here merely tells us that if the grant were also in the form of a loan, that there would be insufficient returns to repay it.
- We find that eight of the organisations will bring savings to the public purse. However, in four of the other cases it has not been possible to identify in monetary terms significant public purse savings. This is either because the evidence does not exist (e.g. in the case of community cohesion) or because returns are likely to be in the very long term (especially in the case of investments in children and young people or education and learning). In these as in all cases other positive social outcomes will be achieved.

Conclusion

- 7.6. By applying SROI at an investment level (and consistently with accepted investment appraisal methodology) in many cases we define the boundary of an investment to be wider than the Futurebuilders loan. Partly as a consequence of this, our findings cast a more negative light on some investments than an approach focused solely on the loans (as FBE need to do). Despite this discrepancy there is some scope for SROI approaches to be used to inform FBE's investment decision making process, even if, the same detailed calculations are not used for all loans.

- 7.7. SROI could therefore be used in a number of different ways:

- For larger investments (for example those over £1 million).

- To make decisions between investments with apparently similar returns; for example, deciding between achieving higher returns later than small returns sooner by comparing NPV and ROI figures.
- To inform investment decisions where it is possible to place clear monetary values on specified social returns (e.g. reductions in re-offending or job creation amongst hard-to-reach groups).
- To build capacity in the sector to enable it to make better investment decisions.

7.8. The steps involved in calculating SROI reveal the level of different financial and social returns. Through sensitivity analysis it is also possible to show the extent to which the assumptions in SROI would need to change by to bring about so that investment only breaks even.

8. Overall Assessment

- 8.1. The evaluation aims to address the hypothesis that Futurebuilders increases the capacity of the third sector to deliver public services and to address a central evaluation question, how effective is the model of investment used by Futurebuilders? At this interim stage of the evaluation it is possible to draw some early conclusions as to progress to date and to the working arrangements of the fund, but it is too soon to form strong view around the impact on services and service users.
- 8.2. FBE has to date received 1,300 applications and made 215 investments, of which 106 contain a substantial loan element. It was found that **application and appraisal processes** have developed since FBE's launch and appear to operate effectively. However, the current conversion rate of applications to full investments of eight percent is very low, and even when it rises slightly as current applications in appraisal are concluded, it suggests that FBE has attracted too many inappropriate applications. This is both a cost to applicants and to FBE in time spent processing applicants. Over time the conversion rate has increased and far more applications are now being long-listed. Our survey of unsuccessful applicants in 2006 highlighted that the majority of applicants believed that they would obtain at least a 50 percent grant. A message from this finding is that publicity material and marketing for any future loan-based model for the third sector needs to be very clear as to eligibility criteria from the outset.
- 8.3. The evaluation has made some assessment of the **costs of Futurebuilders**, in terms of managing the fund and in terms of estimated financial costs to applicants. The **management cost** of the Fund in its first phase is likely to be around £10.6 million (up until end June 2007). The composition of management costs is likely to shift in the subsequent phase of Futurebuilders away from application and appraisal activities and towards investee (or portfolio) management. However, the conversion rate for all investments of 16.5 percent and for full investments of 8.5 percent highlight that savings could have made if fewer inappropriate applications had been made.
- 8.4. In terms of **applicant costs** it has been possible from survey and case study data to estimate the time applicants spend completing each stage of the application process, and from this to apply a notional daily cost. This analysis suggests that the cost of a stage 1 application is between £2,100 and £3,800 and for stage 2 of between £4,500 and £5,900. This suggests that the overall cost of this to the third sector has been between £4.36 million and £6.87 million. We are not suggesting that application should be costless, or that such costs represent 'time wasted': nonetheless, it provides an indication of the unintended impact policies such as Futurebuilders may have. Of particular note is that we find only a small difference between the application costs born by small and large organisations: for small organisations (less than £100 thousand turnover), application costs can quickly become a significant share of annual income. Later stages of the evaluation will estimate the costs to investees of managing their investments.
- 8.5. The **diversity of investments** was found to be significant in terms of investment size (from loans of less than £100,000 to two loans of £5 million and £10 million), across public service delivery areas and across different types of organisation (including many BME-led, rural serving or small organisations). However, it was found that

applications from BME-led or small organisations (a turnover of less than £100,000) were less likely to be awarded an investment than the average conversion rate for all investments. This was partly due to the number of ineligible applications in the community cohesion public service delivery area.

- 8.6. The **average repayment period** of FBE loans is 14 years and this reflects that investments are typically in physical capital (e.g. new or refurbished buildings) and loans awarded on mortgage-type arrangements. Some loans have repayment periods of 25 years, reflecting the serious undertaking organisations are making. The nature of FBE's investment book has short-term implications in terms of draw-down being slow (due to delays in completing capital projects) and long-term implications in terms of the replenishment and future management of the fund.
- 8.7. The evaluation has made an assessment of the **additionality of the investments**: that is, the likelihood that they would have proceeded in a similar form without assistance from Futurebuilders. The evaluation finds that five out of 14 case studies would have proceeded in a similar way without assistance. A survey of investees highlights that 18 percent claim that they would have secured a loan anyway. A further 30 percent claims that if they had been unsuccessful in their application to FBE, that they would have applied for loan funding, although were not certain of securing the loan. These findings suggest that tighter screening of applications is required.
- 8.8. Case study research around the **organisational capacity** of investees found that developing capacity for small and medium sized third sector organisations, often seeking to 'scale-up' an innovative service, is a key testing ground for the Futurebuilders investment model. We found FBE to be offering a range of support to organisations which is targeted effectively in response to organisational needs. However, a question remains as to whether this support will be sufficient for organisations to realise the sometimes transformational changes they are seeking. An area of specific concern was found to be around financial management capacity, and whether smaller organisations had the necessary skills and capacity to effectively manage loan finance and VAT issues. In some cases these skills were being built, but other organisations appear to be struggling.
- 8.9. Futurebuilders allows an opportunity to test out the relative demand, delivery capacity and outcomes of the third sector across five **public service delivery** areas: crime, community cohesion, health and social care, support for children and young people, and education and learning. The evaluation expresses some concern as to whether **community cohesion** should be treated equally alongside other PSD areas: unlike the other areas there is not a statutory obligation for community cohesion nor a significant funding stream. We found that even innovative and leading organisations are struggling to find significant demand for services.
- 8.10. Case study research and a review of investment appraisals, suggest that FBE is typically investing in organisations working with hard-to-reach groups or in meeting needs through an **innovative service**. It is this capacity which FBE invests in. In most cases FBE does not invest in areas where a service will duplicate current provision; this reflects FBE's application of criteria to test state aid rules and that investments be in 'exemplary' activities. However, case study research highlights that despite central government commitments to extend procurement opportunities to the third sector, local-level organisational, policy and funding changes have hampered progress by some case study investments. This has fed through as a contributory factor to a slower than anticipated rate of drawdown of loan funding.
- 8.11. It is too soon to make a judgement regarding the **outcomes and impact** of Futurebuilders. All investments were found to contribute to PSA targets (on average

each investment contributes to 3.6 PSA targets) although clearly their contribution is quite small. Moreover, it is actually the services delivered as the result of securing contracts which will contribute to PSA targets, not the investment itself. Rather, the investment will have either brought forward or made possible the contribution to a target. The evaluation finds that FBE is collecting **output** data through the annual review of investments, and this will inform our estimation of impacts in 2008 and 2010.

- 8.12. The application of a **Social Return on Investment** methodology is an experimental and innovative aspect of the Futurebuilders evaluation. To date SROI has been estimated for 14 case study organisations (i.e. what will be the social return in five and ten years time). Except in one case study organisation (which subsequent to the Futurebuilders investment went into crisis following the withdrawal of substantial grant), we expect loans in the other 13 cases to be repaid, if expectations and forecasts hold.
- 8.13. In eight of the case studies we find clear evidence of the potential savings to the public purse which investments may bring. However, in four cases it has not been possible with a significant level of certainty to estimate public purse savings. An example here would be of area-based provision of a community cohesion service. Similarly, some outcomes from an intervention (e.g. educational support to young people) may take more than ten years for social returns to be realised.
- 8.14. An indicator of Futurebuilder's effectiveness is the **default rate** of FBE's investment book. To date FBE has withdrawn or decided not to proceed with a previously awarded investment in four organisations. In these cases, this decision was made at a very early stage of the investment (often before substantial commitments were made). This is not a true test of effectiveness: rather what will be of greater significance will be whether the financial returns anticipated in appraisal and outlined in contracts are realised. It is therefore too soon to draw conclusions as to FBE's true default rate.
- 8.15. In conclusion, the strategic issues which appear to face the Futurebuilders model are:
- Whether **organisational development capacity** can be successfully built through FBE's work as an *engaged funder* to realise the ambitions of investments;
 - Whether **innovative services** developed by the third sector can be 'scaled-up' through loan funding to secure sufficient service contracts to be sustainable; and critically;
 - Whether the **procurement and commissioning markets** within which investees operate are sufficiently stable to allow investments to be realised.
- 8.16. These are the main findings to date and will be investigated further in the remainder of the evaluation. Further substantive reports will be produced in October 2008 and October 2010.

Annex 1: Futurebuilders Evaluation Model

Futurebuilders (FBE): Working arrangements

- How has FBE managed its relationships with funded organisations?
- How has FBE worked with partners including the Home Office?
- How has FBE managed its relationships with other funders and purchasers of services?
- What does the governance structure of FBE look like? Is it appropriate to the job it is being asked to do?
- How has it conducted negotiations with organisations, whether funded or rejected?
- How effective is the model of investment used by Futurebuilders?
- Has Futurebuilders obtained a reasonable financial return on its investment (e.g. were loans repaid on time)?
- Is the process of allocating funds transparent, predictable and consistent with achieving allocation objectives?
- Are application procedures consistent with helping VCS organisations frame proposals without spending undue time or resources on preparation?
- Are activities such as marketing and financial control of projects effective and well managed?

The VCS: Organisational Development

- Has FBE investments and support enable funded organisations to:
 - secure contracts for the provision of services from purchasers?
 - work collaboratively with other funders, purchasers of services and other providers of services?
 - achieve sustainability?
 - develop capacity?
 - expand its client base?
- How well did purchasers respond to organisations funded and supported by FBE?

Futurebuilders: Impact

- What difference did FBE investments and support make to users of services provided by funded organisations?
- Do users have access to more services as a consequence of FBE investment and support in funded organisations?
- Do users have access to more diverse services as a consequence of FBE investment and support in funded organisations?
- Do users have access to better services as a consequence of FBE investment and support in funded organisations?
- What was the social return on investments and support provided by FBE?
- What impact have FBE-funded organisations had on the achievement of PSA targets?
- Has FBE investments and support enable funded organisations to provide more and better public services in the five key areas?

Annex 2: Key Aspects of the Futurebuilders Investment Model

Key aspects of Futurebuilders	What further evaluation questions does this raise?
<p><i>Independence of government</i> FBE established as a freestanding organisation outside Home Office, Treasury and NDPBs.</p>	<p>What are the net benefits of establishing an independent organisation in comparison to other models (i.e. within government or contracted to a private provider)?</p>
<p><i>Single investment fund</i> FBE is a single investment fund with its own loan and equity facilities</p>	<p>How does FBE perform in comparison to other loan initiatives which work through mainstream financial organisations (e.g. CDFIs, SFLG, venture capital funds, local/regional investment funds)?</p>
<p><i>Investment fund for the VCS</i> FBE operates to overcome barriers VCS organisations face in accessing capital markets with an 'engaged' investment model</p>	<p>FBE operates to overcome a series of market imperfections and market failures which have hitherto been barriers to VCS organisations accessing capital markets.</p>
<p><i>Investment fund to increase VCS role in the delivery of public services</i> FBE links investments to delivery of key public services (as identified in PSA targets).</p>	<p>FBE provides capital on the basis of financial and social returns.</p>

Annex 3: Futurebuilders Terminology

This note has been prepared by the Home Office in 2005. It should be noted that in May 2006 government departmental responsibility for Futurebuilders policy and the Futurebuilders fund moved from the Home Office to the newly created Office of the Third Sector in the Cabinet Office.

The purpose of this note is to present clear and unambiguous terminology to describe different aspects of the Futurebuilders Programme. The intention is for the definitions set out below to be used in all future publications and press releases that make reference to Futurebuilders. Example lines are included with each definition.

Definitions

- 'Futurebuilders' is the generic term for referring to the concept and programme:
'Futurebuilders was one of the initiatives recommended in the 2002 HMT Cross Cutting Review of the role of the VCS in public service delivery'.
- The 'Futurebuilders [England] Fund' is the fund originally established by the Treasury as a result of the Cross Cutting Review, but which now comes under the Home Office [since transferred to the Cabinet Office]. A separate Fund has been established in Scotland by the Scottish Parliament. The Futurebuilders Scotland Fund has different objectives and administrative arrangements to the Futurebuilders England Fund. Funds with broadly similar objectives, but not using the Futurebuilders name, have also been established in Wales and in Northern Ireland:
'The Futurebuilders [England] Fund provides loan and grant finance to help VCOs develop the capacity to deliver public services; the Futurebuilders Scotland Fund provides investments for social enterprises'.
- The Futurebuilders England Fund was originally £125million, but is now £215million following the announcement of an additional £90million for the Fund in March 2005. The Home Office plans to decide on arrangements for managing the additional £90million by December 2005:
'A decision on arrangements for delivery of the additional £90million announced by the Home Office for Futurebuilders is planned for December 2005'.
- The 'Consortium' or the 'Futurebuilders England Consortium' is the group of organisations which won the contract to run the £125million Futurebuilders England Fund in December 2003. The consortium is led by Charity Bank and includes the National Council for Voluntary Organisations (NCVO), the Northern Rock Foundation and Unity Trust Bank (sometimes referred to as the consortium 'partners' or 'members'). The consortium is not a legally constituted body:
'The Futurebuilders England Consortium, led by Charity Bank, won the tender to manage the £125million Futurebuilders [England] Fund'.
- 'Futurebuilders England Ltd ' (FBE) is the company established by the consortium to manage the Futurebuilders England Fund. FBE is not a registered charity, but has not-

for-profit objectives, although its members comprise 1 x profit (Unity Trust Bank) and 3 x non-profit (Charity Bank, NCVO, and Northern Rock Foundation,) organisations:

'The £125million Futurebuilders [England] Fund is managed by Futurebuilders England Ltd'.

- The 'Futurebuilders Agreement' or 'Agreement for the Futurebuilders [England] Fund' is the tri-partite agreement between the Home Office [since transferred to the Cabinet Office], The Charity Bank, and FBE. The Futurebuilders Agreement runs from June 2004 until June 2007 and relates to the £125million Futurebuilders [England] Fund:

'Under the Terms of the Futurebuilders Agreement, Charity Bank is the Accountable Body responsible for stewardship of the £125million Futurebuilders [England] Fund. FBE is responsible for the operation of the £125million Futurebuilders [England] Fund'.

- The 'members' of FBE are Charity Bank (the 'A' member) and NCVO, Northern Rock Foundation and Unity Trust Bank (the 'B' members). The members have particular roles and responsibilities under the Memorandum and Articles of FBE:

'The members of FBE have the power to wind up FBE'

- The 'directors' of FBE comprise three directors appointed by Charity Bank (the 'A' directors), three directors appointed by NCVO, Northern Rock Foundation and Unity Trust Bank (the 'B' directors) and five non-connected directors (the independent directors) appointed by the members:

'The directors of FBE are responsible for the governance of FBE'.

- The 'Accountable Body' and the 'Accountable Officer' for the £125 million Futurebuilders England Fund are Charity Bank and the Chief Executive of Charity Bank respectively. They are responsible for the 'stewardship' of the £125 million Futurebuilders England Fund:

'The Accountable Officer is required to sign-off FBE's Annual Accounts together with the Chair and Treasurer of the FBE Board'.

- The 'Responsible Body' and the 'Responsible Officer' for the £125 million Futurebuilders England Fund are FBE and the Chief Executive of FBE respectively. They are responsible for the 'management' and 'delivery' of the £125 million Futurebuilders England Fund:

'Under the terms of the Futurebuilders Agreement with the Home Office and Charity Bank, FBE is responsible for making at least 250 investments from the £125million Futurebuilders England Fund'.

- The 'Futurebuilders Advisory Panel' (FAP) is a Home Office [since transferred to the Cabinet Office] advisory NDPB set up to provide advice to Ministers on the continuing objectives, priorities and governance of the Futurebuilders programme.

The Futurebuilders Advisory Panel is a Home Office advisory NDPB established to provide advice to Ministers on the continuing objectives, priorities and governance of the Futurebuilders programme.

- £1million of the initial £125 million has been set aside for an 'Independent Evaluation' of the impact and effectiveness of the Futurebuilders programme. The Home Office Research, Development and Statistics Directorate (RDS) [since transferred to Communities and Local Government] has commissioned Sheffield Hallam University to conduct the Independent Evaluation. RDS has also established a 'Research Steering Group' to oversee the evaluation.

'The Home Office has commissioned Sheffield Hallam University to carry out an independent evaluation of the Futurebuilders programme. £1million of the £125million Futurebuilders [England] Fund has been allocated for this purpose by the Home Office'.