

The Futurebuilders Advisory Panel

Report to Ministers

December 2006

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ACKNOWLEDGEMENTS

The Panel¹ is grateful for the very high levels of cooperation it has received from the Board and staff of Futurebuilders England Limited, which has enabled the Panel to have an open and informative dialogue with the organisation that is delivering the Futurebuilders Fund on behalf of government. The Panel is especially grateful to Richard Gutch (CEO) and to Peter Wheeler (Chair).

The Panel is also grateful to staff at the Centre for Regional Economic and Social Research at Sheffield Hallam University, who are undertaking the independent evaluation of Futurebuilders under contract with the Research Development and Statistics Unit in the Home Office. The Panel is especially grateful to Dr Peter Wells and to Dr Rob Macmillan including for their papers and presentations to meetings of the Panel.

The Panel would specifically like to thank those organisations that were visited by members of the Panel, both for their time and for their openness in sharing their experiences of applying for an investment from the Futurebuilders Fund.

Considerable support has been provided by the evaluation research steering group and by officials in the Home Office and in the Office of the Third Sector in Cabinet Office. However the key messages, observations, and recommendations presented are the independent views of the Panel.

TERMINOLOGY

To reflect the establishment of the Office of the Third Sector in the summer of 2006, the Voluntary and Community Sector (VCS), inclusive of social enterprises, is now referred to by Cabinet Office as the third sector.

¹ The Futurebuilders Advisory Panel provides independent advice to Ministers on the Futurebuilders Fund

EXECUTIVE SUMMARY

1. This is the first report from the Futurebuilders Advisory Panel (Panel), which provides independent advice to Ministers on Futurebuilders². A summary of the Panel's advice to Ministers is provided in **figure 1**:

Figure 1: summary of advice to Ministers

The Futurebuilders experiment should be continued for a 2nd phase - aligned with the next spending period: Despite a slower start than originally anticipated, there have so far been 193 investment offers totalling £84 million. It is too early to assess impact on service delivery as the majority of the money is funding loans for capital investment projects that will, as expected, take some time to set up; but the early signs are encouraging.

The five public service strands should remain at the core of all Futurebuilders investments until the next spending period: to continue to focus on the public service areas where the third sector is in most need of accessible finance. Applications should be more proactively encouraged from a wider range of organisations and more cross-cutting projects, including partnerships and social enterprises. Applications should also be proactively encouraged from hard-to-reach areas in the current delivery strands.

The service delivery strands could then be expanded for the next phase of delivery: From April 2008 the service delivery strands could be expanded to include eligible applications from all areas of public service delivery. However the current delivery strands should remain at the heart of Futurebuilders.

Futurebuilders should contribute to the development of commissioning: at national, regional and local level in order to strengthen and improve commissioning processes, and Futurebuilders should be actively involved in implementing the Partnership in Public Services Action Plan. The inter-departmental Ministerial Group should continue to oversee improvements in commissioning and should encourage all commissioners wherever possible to consider third sector options for service delivery.

Futurebuilders should continue to provide development grants within its investment portfolio: development grants deliver significant benefits often at modest cost, irrespective of whether a full loan-based investment is eventually applied. Some development grants may well result in applicants obtaining funding from other sources, including trusts, Big Lottery Fund and commercial lenders – which is a good outcome for Futurebuilders and for the third sector.

The Office of the Third Sector should make full use of evaluation data: to compare and benchmark the outcomes of all its investment programmes, including considering the Social Return On Investment. Measurement of Futurebuilders should be balanced between targets for numbers and value of investments, and returns - both financial and social - on investments in the medium and longer term.

² The Futurebuilders Fund is a highly innovative demonstration programme providing accessible finance to third sector organisations that are delivering or seeking to deliver public services

2. The Panel is chaired by Baroness Pitkeathley and has terms of reference to:
 - 2.1. advise on progress, effectiveness and future developments relating to the [Futurebuilders] Fund;
 - 2.2. scrutinise and evaluate the activities of the Fund; and to
 - 2.3. influence the development of the Fund.
3. There have been eleven meetings of the Panel and two away-days so far. The direct costs of the work of the Panel to date are £135,786.
4. The purpose of the report is to engage with Futurebuilders at three levels:
 - 4.1. to advise Ministers of the views of the Panel about progress of the Futurebuilders programme;
 - 4.2. to raise questions in relation to the organisation that is delivering the first phase of Futurebuilders; and
 - 4.3. to offer views on the government policy context of Futurebuilders.
5. The report is presented in five main sections:
 - 5.1. **The first main section identifies the vision of success for Futurebuilders**, as being across three main areas: positive impact from the perspective of end users of public services – the consumers; positive impact on third sector organisations delivering or seeking to deliver public services – the delivery vehicles; and positive impact on financial markets in which Futurebuilders is seeking to fill the gap in access to finance at reasonable cost to the third sector – the providers of finance.
 - 5.2. **The next main section describes how the Panel analysed and interpreted the data and information it received.** Key sources of information to the Panel are: the delivery partner, Futurebuilders England Limited (FBE); the independent evaluators, Sheffield Hallam University (SHU); organisations that have applied to Futurebuilders and were visited by the Panel; and government officials. The Panel also receives anecdotal

comments both when undertaking their work relating to the Panel and when working outside of the activities of the Panel.

5.3. **There then follows a summary of investments so far and a report on key messages**, including that the Panel congratulates Ministers for the far-sighted and highly innovative nature of the Futurebuilders Fund. £84 million of Futurebuilders investments have been offered³ so far to 193 third sector organisations, of which approximately half are development grants totalling £1.8 million. Key messages are that:

5.3.1. after a slower start than was envisaged, delivery is now gaining momentum and the investments so far are an exciting assortment; however levels of applications and investments in the Crime strand⁴ are below target;

5.3.2. the programme and delivery partner (FBE) are extensively scrutinised, however this is understandable given the large amounts of public money involved and the previously untried approach of the Fund;

5.3.3. the independent evaluation is progressing well. After some initial concerns the Panel is monitoring the model of measurement being used to assess the Social Return On Investment from the Futurebuilders investments; and that

5.3.4. the overall message from the organisations visited by the Panel is that Futurebuilders is very welcomed, and is addressing the financing needs of a wide range of front-line third sector organisations to enable them to deliver more public services.

5.4. **The fourth main section discusses questions about impact and delivery**, including the key question that Ministers have asked the Panel to review about whether to expand the programme to other service

³ This figure comprises c£73m of commitments and c£11m of ‘in principle’ offers that are subject to re-appraisal by the FBE Board when the applicant has met pre-conditions attached to the offer.

⁴ The five priority strands for Futurebuilders are: Community cohesion; Crime; Education and learning; Health and social care; and Support for children and young people

delivery strands. The Panel is concerned that opening up the Fund at this stage might signal to the sector that Futurebuilders is either failing to address the current five priority strands or that the strands are fully serviced. Also that FBE might need to develop new skills to assess applications from new areas and that an expansion might prompt legal challenges from previously rejected applicants. The Panel believes that the programme should only be expanded if the five current priority strands remain at the heart of all investments from the Fund, and suggests that the right time to expand the programme would be from the start of the next spending period, which would be at the start of the next phase of Futurebuilders.

5.5. The final section contains observations from the Panel about the policy context and overall shape of the programme, and a summary of the Panel's advice to Ministers. Observations are that:

5.5.1. the Panel believes it is too early to assess impact on service delivery or to decide whether to continue Futurebuilders in the long term. The Panel suggests that the 2nd phase of Futurebuilders should be for a further three years until March 2011, by which time sufficient evidence of impact should be emerging from which Ministers can consider the long term future of the Fund;

5.5.2. in addition to milestones for investing the Fund, the Panel suggests there should be clear targets and milestones established to measure performance in proactively encouraging investments across all of the current five strands, including cross-cutting projects and applications from partnerships and social enterprises;

5.5.3. the Panel believes that Futurebuilders should be actively involved in implementing the Partnership in Public Services Action Plan, and should contribute to the development of commissioning at national, regional and local level in order to strengthen and

improve commissioning processes. The Panel also believes that the inter-departmental Ministerial Group should continue to oversee improvements in commissioning and should encourage all commissioners wherever possible to consider third sector options for service delivery;

5.5.4. the Panel suggests that data from the evaluation of Futurebuilders should be compared and benchmarked against other investment programmes being sponsored and delivered by the Office of the Third Sector. In particular the Panel suggests that measurement of the Social Return On Investment from these programmes should form part of the benchmarking exercise. The Panel also suggests that a balanced approach should be used between targets for numbers and value of investments, and on the financial and social returns from the investments; and that

5.5.5. in addition to continuing its remit in relation to Futurebuilders, the Panel would be keen on taking forward a broader role to oversee the evaluation of investment programmes across the Office of the Third Sector.

6. A summary of the Panel's advice to Ministers is at **figure 1** (above).

INTRODUCTION

7. In summary the Futurebuilders Fund⁵ is a highly innovative demonstration programme, testing the theory that if third sector organisations can access investment finance at reasonable cost, they can then compete for and win public service delivery contracts, and that public service delivery will improve as a result. In total £84 million of Futurebuilders investments have been offered⁶ so far to 193 third sector organisations.
8. This is the first report from the Futurebuilders Advisory Panel (Panel). The Panel was established by the Home Office in March 2005 as an advisory Non-Departmental Public Body to provide independent advice to Ministers on the Futurebuilders programme. As part of the machinery of government change in the summer of 2006 in which the Office of the Third Sector was established, responsibility for Futurebuilders passed from the Home Office to the Cabinet Office. As a result the Panel now provides advice to Cabinet Office Ministers, to whom the report is submitted. The direct costs of the work of the Panel to date are £135,786.
9. The Panel is chaired by Baroness Pitkeathley and comprises the following appointed members:
 - Dr Mohammed Amran
 - Mr Imtiaz Farookhi
 - Ms Margaret Hyde
 - Mrs Pamela McHale
 - Mr Bhupendra Mistry
 - Ms Maureen Salmon
 - Ms Anna Southall
 - Mr Ted Unsworth
 - Ms Sarah Wood

⁵ Background on the Futurebuilders programme is at Annex A

⁶ This figure comprises c£73m of commitments and c£11m of ‘in principle’ offers that are subject to re-appraisal by the FBE Board when the applicant has met pre-conditions attached to the offer.

10. In addition, the Panel membership includes representatives from Departments with a policy responsibility for the public service delivery strands on which the Futurebuilders programme is focused:

Cabinet Office (previously the Home Office as the sponsor Department)

HM Treasury

Department of Health

Department for Education and Skills

11. Secretariat support to the Panel is provided by The Office of the Third Sector in Cabinet Office (previously by the Active Communities Directorate in the Home Office).

12. The terms of reference of the Panel are to:

12.1. advise on progress, effectiveness and future developments relating to the [Futurebuilders] Fund;

12.2. scrutinise and evaluate the activities of the Fund; and to

12.3. influence the development of the Fund.

13. In line with the remit of the Panel, the report is submitted to Ministers. The purpose of the report is to engage with Futurebuilders at three levels:

13.1. to advise Ministers of the views of the Panel about progress of the Futurebuilders programme;

13.2. to raise questions in relation to the organisation that is delivering the first phase of Futurebuilders; and

13.3. to offer views on the government policy context of Futurebuilders.

14. The report is presented in five main sections:

14.1. The first main section identifies what the Panel understands to be the vision of success for Futurebuilders, and how success will be measured. The section also sets out how the Panel endeavoured to maximise its learning in relation to the Futurebuilders programme.

- 14.2. The second main section identifies where and how the Panel has obtained its data and information, and how these have been analysed and interpreted by the Panel while forming its views about Futurebuilders. Sources of information include the delivery partner (Futurebuilders England Limited – FBE), the independent external evaluators (Sheffield Hallam University – SHU), and a number of the organisations that have applied for a Futurebuilders investment.
- 14.3. There then follows a section that summarises the position of the Fund so far in terms of numbers and types of investments. The section then presents the key messages so far; including that the Panel congratulates Ministers for the far-sighted and highly innovative nature of the Futurebuilders Fund, in offering a range of investment packages to the third sector including development grants, support, and loans. This message is echoed by the organisations that the Panel visited.
- 14.4. The fourth main section raises and discusses questions about the impact of the programme and about its delivery. Within this section the key question about whether to open the programme to other service delivery strands is discussed. Other questions discussed include: whether the current approach for inviting bids is sufficient; whether there is any measurable impact on the sector so far; and how well FBE is demonstrating that it is a learning organisation.
- 14.5. The final main section contains observations from the Panel about the policy context of Futurebuilders, and about the overall shape of the programme. Included in this final section are some suggested actions and priorities that Ministers might wish to consider in relation to Futurebuilders.

VISION AND MEASURES OF SUCCESS

15. This section sets out what the Panel understands to be the vision of success for Futurebuilders.
16. The vision of success for the outcomes of the Futurebuilders programme are across three main areas:
 - 16.1. positive impact from the perspective of end users of public services – the **consumers**;
 - 16.2. positive impact on third sector organisations delivering or seeking to deliver public services – the **delivery vehicles**; and
 - 16.3. positive impact on financial markets in which Futurebuilders is seeking to fill the gap in access to finance at reasonable cost to the third sector – the **providers of finance**.
17. The Panel understands that the independent evaluation⁷ will be evaluating success across these areas, guided by an overarching hypothesis that Futurebuilders will increase the capacity of the third sector to deliver public services. However the Panel identified risks underlying this hypothesis, including that some of the learning from the Futurebuilders programme might not be readily evident through a largely quantitative evaluation.
18. The Panel therefore decided from the outset to seek additional information from a variety of sources other than from the evaluation. In doing so the Panel was not questioning either the delivery of the evaluation or its model, but was seeking to obtain as rounded a picture as possible, both from a quantitative and qualitative perspective. The sources of information are detailed in the next section.

⁷ Background on the evaluation is at Annex B

INFORMATION OBTAINED BY THE PANEL

19. This section identifies sources of data and information that have been obtained by the Panel, and explains how the Panel has used this information while forming its views about the Futurebuilders programme.
20. One of the primary sources of data and information is Futurebuilders England Limited (FBE)⁸.
 - 20.1. In addition to monthly updates and quarterly performance reports that FBE provides to the contract manager⁹ and that are subsequently forwarded to the Panel, FBE has presented several informative papers to meetings of the Panel and has invited the Panel to attend conferences and seminars. The Panel also receives copies of all publications commissioned by FBE.
 - 20.2. The Panel is grateful for the very high levels of cooperation it receives from FBE. The Panel considers the data and information from FBE to be a clear and representative view of the delivery of the programme from the perspective of the Fund manager and delivery partner.
21. A further primary source of data and information is from the evaluation team at Sheffield Hallam University (SHU).
 - 21.1. In addition to reports on the evaluation from SHU that are copied directly to the Panel, SHU has also made presentations about the evaluation to meetings of the Panel. Additionally one member of the Panel is also a member of the research steering group that is guiding the evaluation.
 - 21.2. The Panel is grateful for the very high levels of cooperation it receives from SHU and from the research steering group. The Panel considers that the data from the evaluation is presented in a clear and informative manner.

⁸ FBE is managing the Fund under a three-year tri-partite Agreement with Cabinet Office and Charity Bank Limited; the current Agreement ends in June 2007.

⁹ The contract manager for the Futurebuilders Agreement is a policy official in the Office of the Third Sector in Cabinet Office

22. Information about Futurebuilders has also been obtained through the Panel undertaking a programme of visits to organisations that have applied to FBE for a Futurebuilders investment.

22.1. The purpose of the visits was to hear at first hand the experiences of front-line organisations that are delivering or seeking to deliver public services, and that have applied for an investment from the Futurebuilders Fund to help build their capacity and/or capability.

22.2. Most of the visits were to organisations that had been successful in applying for a Futurebuilders investment; however the Panel has also made a number of visits to unsuccessful applicants. The Panel was careful to select a broadly representative cross-section of applicants including in terms of geographical spread, size of project, type of investment, and public service delivery strand¹⁰.

22.3. The visits were in two phases, broadly coinciding with the application windows that were operated by FBE before the application process was opened on a continuous basis in the summer of 2006. In total 58 organisations were visited by the Panel, two examples being: a partnership between voluntary organisations, local councillors, and a Health Trust that are developing high quality services for disabled people; and a community organisation that is seeking contracts to provide services to promote health and education for refugees in England.

22.4. The Panel considers the programme of visits to be a very informative source of qualitative feedback from front line organisations seeking to increase the impact and effectiveness of their delivery of public services, and in particular feedback about their engagement with the Futurebuilders investment model and ethos.

22.5. The Panel is very grateful to all the organisations it visited, both for their time when meeting members of the Panel and for their openness in sharing their experiences of Futurebuilders.

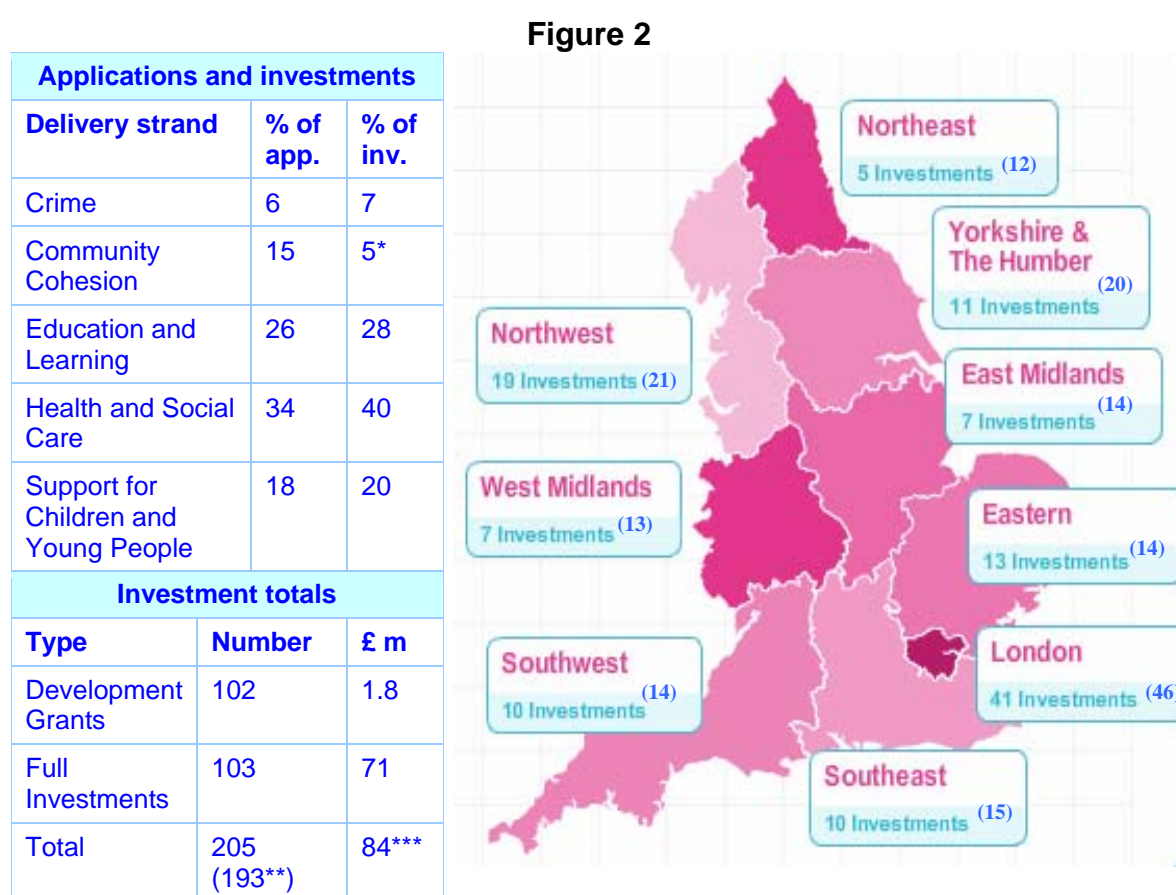
¹⁰ The five priority areas for Futurebuilders are: Community cohesion; Crime; Education and learning; Health and social care; and Support for children and young people

23. The Panel receives information from government officials who are working on Futurebuilders policy, both in terms of managing and sponsoring the Futurebuilders Agreement, and in developing the policy in light of learning from the programme and other developments relating to the third sector. The Panel also receives information from officials working in other areas of policy relating to the third sector, including policy on social enterprises and on public service delivery reform.
24. A further source of information is anecdotal comment, which members of the Panel receive both when undertaking their work relating to the Panel – for example when attending conferences hosted by FBE – and when working outside of the activities of the Panel. Although anecdotal comments are by definition unquantifiable, they are a useful source of views about Futurebuilders.
25. The above sources provide the Panel with a wide range of data and information that are discussed at meetings of the Panel and at its away-days.
 - 25.1. At the time of the report there have been eleven meetings of the Panel, which usually take place in London and last for approximately three hours. The Panel is very grateful to the Minister for the Third sector for meeting the Panel at its meeting in June 2006.
 - 25.2. There have also been two away-days at which the Panel has spent a full day looking at a broad range of aspects in relation to Futurebuilders. From its first away-day held in September 2005 the Panel produced a twelve-month action plan, on which progress was reviewed at the second away-day in October 2006. The away-days were held outside London.

PROGRESS SO FAR AND KEY MESSAGES

26. This section summarises the investments made from the Fund so far in terms of numbers and types of investments. After which, based on analysis and discussion by the Panel of the information it has obtained, the key messages about Futurebuilders so far are presented.

27. **Figure 2** shows a table and map¹¹ of Futurebuilders Investments to date; the latest figures for each region are shown in parenthesis and do not include the 26 investments that have been made in national (England-wide) organisations.



* FBE reports that some investments in all areas contribute to Community Cohesion (Crime 1%; Education & Learning 10%; Health & Social Care 2%; Support for Children and young People 3%)

**This net number of investments reflects the number of organisations that FBE has invested in - therefore if an organisation receives a development grant and then a full investment it will only be counted once in the net figure.

*** This figure comprises c£73m of commitments and c£11m of 'in principle' offers that are subject to re-appraisal by the FBE Board when the applicant has met pre-conditions attached to the offer.

¹¹ Source: Futurebuilders England Limited, 31 December 2006

28. The key messages the Panel is hearing in relation to **delivery and management** of the Futurebuilders Fund are that:

- 28.1. Ministers should be congratulated for the creation of the Futurebuilders Fund, which is widely perceived as being 'ahead of its time' and highly innovative;
- 28.2. staff at FBE are committed to making Futurebuilders a success, and FBE has satisfactorily met the terms of the Futurebuilders Agreement to date;
- 28.3. applications for investments from the Fund are encouraging both in terms of numbers of applications received and the type of finance being applied for, including for loans-based investment. The quality of applications has also improved over time;
- 28.4. overall numbers of applications across the five strands¹² have been variable and in some cases below target, in particular within the Crime strand. The spread of applications across the strands may well reflect the scale and scope of opportunities for third sector organisations to bid for contracts in each strand;
- 28.5. after a slower start than was envisaged when the Fund was created, delivery (measured by £ committed) of the Fund is now gaining momentum - as a result of more proactive approaches by FBE as their confidence in delivery has grown, and of increasing awareness of Futurebuilders in the sector and across government;
- 28.6. the investments made so far are an exciting assortment that utilise a range of innovative tailored investment packages; including a £629,000 investment for a pilot project in Plymouth providing day centre rehabilitation support for men and women affected by alcohol and drug problems. The investment comprises two loans with repayment holidays, a capital grant towards refurbishment, and a capacity building grant for an organisational review and training for staff, including in full cost recovery.

¹² The five priority areas for Futurebuilders are: Community cohesion; Crime; Education and learning; Health and social care; and Support for children and young people

Further examples include: an organisation in North London for Asian people with disabilities that will use a £16,000 development grant to develop plans for a new centre in which to deliver increased and new services; and a community trust in Liverpool that is using a £1,000,000 investment to create a state-of-the-art skills centre in one of the most deprived areas of the city. The Futurebuilders portfolio also includes unsecured revolving loans that, within the overall limit, may be drawn down, repaid and redrawn at any time during the multi-year term of the loan;

28.7. understandably for such an innovative programme that is investing a large amount of public money using a previously untried model, the programme and FBE are extensively scrutinised. Scrutiny has however been useful in enabling the programme to be modified in light of early learning – for example by re-phasing allocations to the programme in light of evolving projections of demand for investments; and that

28.8. in line with expectations, disbursement of the funds is taking some months after the investments are approved - as many of the investments are for capital projects that take time to get up and running and only draw down the funds when they are needed. Pace of disbursement is now starting to gain some momentum with £16.9 million of the Fund disbursed so far. It is too early in the programme to speculate about levels of default as disbursement is still in its early stages.

29. The key messages the Panel is hearing in relation to the **evaluation** are that:

29.1. overall the evaluation is progressing well against the agreed model, and two initial reports¹³ have been delivered that, as expected, largely contain statistical data; and that

29.2. the initial reports from the evaluators suggest that key considerations for the Fund in the future are likely to be around sustaining progress in disbursement of the Fund, and in managing an investment book where

¹³ A final report from phase 1 of the evaluation is due in April 2007. The focus of the evaluation from 2007 to 2010 will increasingly be on outcomes and impact

the average repayment period, as was expected, is more than ten years in many cases.

30. The Panel has noted some concerns raised about the model of measurement being used by SHU to assess the Social Return on Investment (SROI) from the Futurebuilders investments; the concern being that potential SROI did not form part of the assessment by FBE of applications to the Fund and that the results may risk being misinterpreted when published in the evaluation reports. The Panel is aware that SHU and FBE are addressing these concerns and that FBE is considering using the SHU measurements on occasions as part of its assessment of applications in the future.
31. The Panel will continue to monitor SROI in relation to Futurebuilders, and also notes that measurement and reporting of SROI has implications for other government-sponsored programmes and action plans that are investing in the third sector and public service delivery.
32. The following key messages are a summary of the independent views as expressed by **organisations that the Panel visited**. The Panel is very grateful to all the organisations it visited, both for their time and for their openness in sharing their experiences of Futurebuilders. The key messages are that:
 - 32.1. applicants were overall very positive about their experience of applying for a Futurebuilders investment, particularly about the approach used by FBE in providing Investment Officers to work closely with applicants. Messages were more mixed regarding the use and engagement of the Business Consultants that work alongside the Investment Officers; concerns including cases where the level of questioning for a relatively small amount of money was very intense, and cases where advice was inconsistent;
 - 32.2. most of the organisations that had their application rejected were also very positive about their interaction with FBE, including that the process had been useful in helping them obtain funding from alternative sources;

- 32.3. in several cases there was an apparent perception that the nature of the relationship that had developed between the applicant and the Investment Officer was key to the relationship with FBE – and in some cases to the outcome of the application process;
- 32.4. in some cases applicants felt restricted by the process being paper-based and arms-length, and a small number said that the decision making process took too long and was confusing; also that FBE encouraged them to have high expectations of success; and that
- 32.5. in a number of cases, despite the proactive work of FBE in engaging with commissioners and procurers, recovering the full costs of delivering a public service was cited as a key issue – however, the view of the Panel is that in some cases this seems to have been based on confusion about how full costs should be calculated and recovered, and on a historical precedent that full costs of delivery are not paid.
33. The Panel noted from its visits that, in line with the aims of the Fund, several of the investments have been made at a very early stage in the development of the ability of the organisation to win and deliver public service contracts. Also, during a small number of visits, that some of the realities of loans-based investment did not appear to have been fully factored into business plans, specifically the need to generate a consistent surplus from which to repay the loan. There was also some cases of apparent variation in interpretation by applicants of the eligibility criteria imposed by FBE that at least 51% of the revenue from a project funded by a Futurebuilders investment must come directly or indirectly from the public purse – with some investees possibly facing a situation where they decide to use reserves to repay the loan in the absence of sufficient revenues from the funded project.
34. The overall message from the visits is that Futurebuilders is a very welcomed programme that is addressing the finance needs of a wide range of front-line third sector organisations to enable them to deliver more public services.

QUESTIONS ABOUT DELIVERY AND IMPACT

35. This section raises questions about the delivery of the programme and about its impact when measured against the policy intentions of the Fund. A specific question that Ministers have asked the Panel to review is whether the remit of the Fund should be expanded to include other service delivery strands.

36. Should the programme be continued into a 2nd phase after the current phase ends in June 2007? And if so, should the priority strands be expanded beyond the current five?

36.1. Whether to continue the programme is clearly a decision for Ministers, but feedback so far strongly indicates that the policy is robust; that there is a continuing demand for Futurebuilders investments; and that the Fund is enabling a growing number of third sector organisations to build their capacity to win and to deliver public service delivery contracts.

36.2. The Panel believes there is very little evidence that any changes are needed to the policy, this is largely because the programme is still in its early stages of achieving impact as measured by effect on end-users. However, the visits to investees gave the Panel a clear impression that Futurebuilders is already having an impact on organisations that have received a Futurebuilders investment.

36.3. In particular the Panel believes that development grants are playing an important positive part, as these grants are enabling organisations to explore and develop their plans to deliver public services and to build their capacity through use of loans-based finance. In some cases these development grants may not result in full Futurebuilders loans, as the organisation may obtain finance from other sources, including trusts, commercial lenders and other lending bodies such as Big Lottery Fund. The Panel believes this would be a good outcome for both Futurebuilders and for the third sector, in line with the visions¹⁴ of Futurebuilders.

¹⁴ Visions are to have a positive impact on: the users of public services; the third sector delivery organisations; and on finance markets to address the gap in accessible finance for the third sector

- 36.4. The proposal to expand the programme beyond the current five priority strands is largely based on research¹⁵ commissioned by FBE in response to a request from Cabinet Office and Treasury to explore the operational implications of adding an additional delivery strand in relation to the environment. The research concluded that opening the Fund to other areas would not result in a major increase in numbers of applications, but that some additional demand would arise from within the areas of 'leisure and sports' (specifically leisure trusts) and from 'waste and recycling'.
- 36.5. The Panel is concerned that opening up the Fund to other areas at this stage might signal to the sector that the programme is either failing to address the current five priority strands, or that the strands are fully serviced – which they are clearly not, as is demonstrated by the lower than anticipated levels of applications and investments in the Crime strand¹⁶. The Panel is also concerned that FBE might be distracted by the need to develop new skills to assess applications from new areas, and that the expansion might prompt legal challenges from previously rejected applicants.
- 36.6. FBE has expressed its view to the Panel that expanding to all public service delivery areas would simplify one aspect of the assessment process and could result in some innovative investments. However FBE has also noted to the Cabinet Office that if the expansion were announced, careful handling would be needed to counter the perception (observed by the researchers during their interviews) that the expansion was mainly motivated by need to stimulate applications.
- 36.7. The view of the Panel is that there are potential advantages of expanding the programme but, in light of the changed environment in which Futurebuilders is now operating, there is also latent opportunity within the current strands and Futurebuilders should be more proactive in

¹⁵ The research was undertaken by New Philanthropy Capital using a 'funnel approach' of first looking at all areas of government spend, then excluding areas irrelevant to and areas already covered by Futurebuilders, and then selecting five areas which looked most promising for Futurebuilders investment. The five areas were housing, legal aid, sport and leisure, waste and recycling and land management and conservation.

¹⁶ 6% of applications received are within the Crime strand

encouraging applications from a wider range of organisations and from cross-cutting projects, including from partnerships and from social enterprises.

36.8. The Panel therefore suggests that Ministers should consider the expansion during the design of the 2nd phase of the programme, and that any expansion should not be undertaken at the cost of any reduction in focus on the current five strands.

37. Should investments continue to be made in a largely reactive fashion?

37.1. The Panel fully supports the current drivers for committing the Fund as being the milestones that were implemented to measure performance of FBE in investing the Fund, and that the Fund needs to be invested into the sector before it can start having any real impact on service delivery. The Panel is also aware that FBE's overall approach is to advertise the Fund and to invite applications, with the more recent introduction of proactive approaches by FBE to engage with commissioners and procurers.

37.2. FBE has reported that it is pursuing two types of proactive approaches. The first approach is targeted at third sector providers that FBE has identified as having particular potential for benefiting from Futurebuilders investment. Examples include national networks such as Crossroads where it is hoped that, as a result of a development grant to the national association, up to 15 local Crossroads schemes will apply for full Futurebuilders investments. The second approach is targeted at public sector commissioners that want to do more business with the third sector and are therefore interested in working with FBE to identify third sector organisations in need of capacity building. Examples include Wakefield Metropolitan District Council and Portsmouth City Council.

37.3. The Panel considers that a key question at this stage is whether the current FBE approach is sufficient, as there are areas within the five strands (e.g. NOMS in the Crime strand) that may require more focused and specific attention. The Panel suggests that FBE should be asked to

identify these 'cold spots' in its Investment and Business Plans for 2007-08 and to propose a plan of action to proactively encourage more applications in these areas.

38. Should there be a further allocation to the delivery programme?

38.1. It is difficult for the Panel to comment at this stage on resources that might be needed to meet future demand for Futurebuilders investments, as projections for the Fund are at best speculative, and as c£25 million of the current allocation of £125 million remains unspent at this stage. The Panel suggests that this should be kept under review.

39. What is the likely impact of Futurebuilders on the third sector, and over what time period? Does the sector like the impact?

39.1. As Futurebuilders is in its early stages of delivery, the Panel believes there is insufficient information at this stage from which to evaluate impact; however the establishment of the Office of the Third Sector offers a good opportunity to take this forward within the wider context of policies relating to the third sector.

39.2. To ensure that the voice of end-users of services will also be heard and taken into account, the Panel suggests that the Office of the Third Sector should ensure that the evaluation is balanced between measuring impact on end-users and on the organisations that are delivering the services.

40. Should Ministers have expectations of levels of default on investments?

40.1. The Panel believes that the level of default will be an important part of the overall learning from the programme, and that Ministers currently have sufficient controls in place to set expectations as the evidence emerges. The controls are within the contract, whereby FBE annually submits its Investment Plan¹⁷ for approval, which includes its strategy for managing investment risks.

¹⁷ The current Investment Plan identifies two particular types of investment risks: lending ahead of income sources being verified; and lending unsecured. The Plan states that FBE will manage these risks through

40.2. The Panel believes that there is an important related factor that should be considered; which is that many development grants may well not turn into full investments as organisations may decide not to take on the loan element if they can obtain finance from an alternative source at lower cost. The Panel suggests that this eventuality should be viewed as a good outcome for Futurebuilders and for the third sector, as the visions of the Fund include having a positive impact on financial markets to increase the availability of finance to third sector organisations at reasonable cost.

41. Is FBE a learning organisation?

41.1. The Panel applauds FBE for taking this stance and for publicly stating that it is a learning organisation, particularly in light of the need to design and implement new processes as a start-up organisation. The Panel has noted that FBE is learning from its experiences at an operational level, and plans to continue to develop the role of its Investment Officers in light of this learning. A perhaps more challenging review for FBE would be of its strategic approach and structure in light of learning about the Futurebuilders Fund within the overall public spending framework.

41.2. The Panel is aware of strong commitment within the FBE Board, Senior Management, and operational teams, but the Panel has observed some apparent minor hiccups in communications between these levels about strategic government policy in relation to Futurebuilders. The Panel is impressed by the overall skills of the Board, but has observed that in order for full use to be made of these skills, the Board would benefit from having a member with knowledge of government spending processes.

41.3. Although having offices in more than one location is by no means a unique arrangement, the Panel has also observed that splitting functions between offices in London and Newcastle may be affecting communications within FBE.

having effective assessment processes, including direct contact with the purchasers involved in any scheme, and through intensive levels of monitoring and support for high risk investments. Also, that at this stage it is difficult to judge what an acceptable loan default rate might be, but that FBE aims to keep it to a minimum.

41.4. The Panel has met with FBE to provide input into the development of the role of Investment Officers. The Panel has suggested that the role of the Business Consultants should be included as, in light of feedback from the visits the Panel made to applicants, the input and engagement of the Business Consultants seems so far to have been a missed opportunity.

OBSERVATIONS AND SUGGESTIONS FROM THE PANEL

42. This section presents further observations and suggestions from the Panel about the overall shape of the programme. The Panel is conscious that the environment in which Futurebuilders is operating has changed since the programme was started in 2004, and suggests that Ministers should be aware of the following when considering the wider policy context in which Futurebuilders exists. The section concludes with a summary of the Panel's advice to Ministers.

43. The first observation relates to the length of the programme:

43.1. Futurebuilders was originally established as a three-year action research programme, with options for continuation if Ministers so decided. Despite a slower start than originally anticipated, the programme is now making progress and by June 2007 more than £100 million worth of investments will have been offered from the Fund¹⁸.

43.2. The Panel believes it is too early to assess impact on service delivery as the majority of the investments from the Fund are capital loans for projects that will, as expected, take some time to set up. The Panel also believes it is too early to decide whether to continue Futurebuilders as a long-term Fund sponsored by government.

43.3. The Panel is aware that Ministers are expecting Futurebuilders to be aligned with government spending periods. To reflect this, the Panel suggests that the 2nd phase of Futurebuilders should be for a further three years from April 2008 until March 2011, by which time sufficient evidence of impact should be emerging from which Ministers can consider the long term future of the Fund.

43.4. The Panel is aware that the timetable for the evaluation is until October 2010. The Panel suggests that the evaluation should be extended as required to be in line with the timetable for the 2nd phase of Futurebuilders.

44. The second observation relates to the focus of the Fund:

¹⁸ Provided that FBE continues to meet its delivery milestones

- 44.1. Although investments will have been made across all the five priority strands, numbers of applications and investments in some areas are lower than originally anticipated as a result of what could be described as a largely reactive approach.
 - 44.2. In addition to milestones for investing the Fund, the Panel suggests there should be clear targets and milestones established to measure performance in proactively encouraging investments across all of the current five strands, including cross-cutting projects and applications from partnerships and social enterprises.
45. The third observation relates to commissioning and procurement:
- 45.1. The Panel believes that the level of take-up of Futurebuilders in some areas is due in part to the complexities of changing from an ethos of grants to a culture that is more accepting of loans-based finance. Also, that the Fund would have benefited significantly if from the outset the programme had been more focused on changing commissioning and procurement practices as, with the benefit of hindsight, commissioners were clearly not ready for such a forward-thinking and innovative Fund at the time when Futurebuilders was launched.
 - 45.2. The Panel congratulates Ministers for the recently published 'Partnership in Public Services' Action Plan, as the implementation of this plan will address many of the current bureaucracies and barriers evident in commissioning and procurement practices, and will reduce the administrative burdens on third sector organisations involved in delivering public services.
 - 45.3. The Panel has noted that FBE is starting to be more proactive in engaging with commissioners, but the Panel considers that a more varied approach is now needed. In addition to being actively involved in implementing the action plan, the Panel believes that Futurebuilders should contribute to the development of commissioning at national, regional and local level in order to strengthen and improve commissioning processes. The Panel also believes that the inter-departmental Ministerial Group should

continue to oversee improvements in commissioning and should encourage all commissioners wherever possible to consider third sector options for service delivery.

46. The fourth observation relates to the portfolio of investments from the Fund:

46.1. The gradual change from a grants ethos to a culture in the sector that is more accepting of loans-based finance is clearly being facilitated by Futurebuilders; however the Panel believes that grants should continue to be an integral part of Futurebuilders. In particular development grants are still needed as these grants deliver significant benefits often at modest cost, irrespective of whether a full loan-based investment is eventually applied. As noted earlier in the report, some development grants may well result in applicants obtaining funding from other sources – which is a good outcome for Futurebuilders and for the third sector.

47. The fifth observation relates to use of evaluation data:

47.1. The Panel believes it is clear that the outcomes of Futurebuilders will not be fully known until some time after the delivery contract(s) have expired, and that evaluation of outcomes is a key aspect of the programme.

47.2. During the next phase of Futurebuilders the evaluation will be generating data on Futurebuilders investments that the Panel suggests should be compared and benchmarked against other investment programmes being sponsored and delivered by the Office of the Third Sector. In particular the Panel suggests that measurement of the Social Return On Investment from these programmes should form part of the benchmarking exercise.

47.3. The Panel also suggests that a balanced approach should be used between targets for numbers and value of investments, and on the financial and social returns from the investments.

48. The final observation relates to the Panel's view of its own future:

48.1. The Panel believes that having an independent body monitoring Futurebuilders has made a beneficial contribution to the delivery and

development of the Fund. Specifically the Panel has contributed productively, if unexpectedly, to speeding up the pace of delivery and in channelling communications at a strategic level. The Panel finds it useful to have representatives from government Departments attend and participate in meetings.

48.2. In addition to continuing its remit in relation to Futurebuilders, the Panel would be keen on taking forward a broader role to oversee the evaluation of investment programmes across the Office of the Third Sector. The Panel would welcome the opportunity to meet with Ministers to discuss how this might be undertaken.

49. In summary, the Panel's advice to Ministers is that:

49.1. **the Futurebuilders experiment should be continued for a 2nd phase;** of three years – aligned with the next spending period;

49.2. **the current five public service strands should remain at the core of all Futurebuilders investments until the next spending period;** to continue to focus on the public service areas where the third sector is in most need of accessible finance. Applications should be more proactively encouraged from a wider range of organisations and more cross-cutting projects, including partnerships and social enterprises. Applications should also be proactively encouraged from hard-to-reach areas in the current delivery strands;

49.3. **the service delivery strands could then be expanded for the 2nd phase;** to include all areas of public service delivery. However the current delivery strands should remain at the heart of Futurebuilders;

49.4. **Futurebuilders should contribute to the development of commissioning;** and should be actively involved in implementing the Partnership in Public Services Action Plan. The inter-departmental Ministerial Group should continue to oversee improvements in commissioning and should encourage all commissioners wherever possible to consider third sector options for service delivery;

- 49.5. **Futurebuilders should continue to provide development grants within its investment portfolio;** with the expectation that some may well result in applicants obtaining funding from other sources, which should be considered a good outcome for Futurebuilders and for the third sector; and that
- 49.6. **the Office of the Third Sector should make full use of evaluation data** to compare and benchmark the outcomes of all its investment programmes, including considering the Social Return On Investment.
50. The Panel would welcome the opportunity to meet with Ministers to discuss the report and to provide a further update on progress.

ANNEX A: BACKGROUND ON FUTUREBUILDERS

The Treasury's 2002 Cross-Cutting Review of the Role of the Voluntary and Community Sector (VCS) in Service Delivery identified several obstacles that need to be overcome if the sector is to develop its public service role and fully support the Government's wider vision for public service reform. It recognised important financial obstacles including the lack of capital investment in the sector, the lack of flexible funding, especially for smaller organisations, and access to development funds.

In the 2002 Spending Review the Government announced the establishment of the £125 million Futurebuilders Fund (Fund) with the aim of tackling these obstacles. The Futurebuilders Fund has three objectives:

- To overcome obstacles to efficient VCS service delivery;
- To modernise VCS service delivery organisations for the long term; and
- To increase the scale and scope of VCS delivery

Following a competitive tender, a consortium led by Charity Bank, including the National Council for Voluntary Organisations, the Northern Rock Foundation and Unity Trust Bank, won the contract to run the Futurebuilders Fund in December 2003. On 8 March 2004 the consortium formed Futurebuilders England Limited (FBE) as a company limited by guarantee to manage and deliver the Fund under a three-year tri-partite Agreement that ends in June 2007.

The tri-partite 'Agreement for the Futurebuilders Fund' was set up between the Home Office, The Charity Bank Ltd, and FBE, in which Charity Bank is the Accountable Body responsible for stewardship of the Fund and FBE is responsible for the operation of the Fund. Responsibility for Futurebuilders passed to the Cabinet Office in the summer of 2006.

ANNEX B: INDEPENDENT EVALUATION

The Futurebuilders programme is the subject of an independent evaluation that is looking at: the working arrangements of Futurebuilders England Limited (FBE); the effect of Futurebuilders on organisational development in the voluntary and community sector (now referred to as the third sector); and the impact of Futurebuilders on service users.

The research aim is to assess the impact of the Futurebuilders programme, guided by an overarching hypothesis that Futurebuilders increases the capacity of the third sector to deliver public services.

Following a competitive tender, the contract to undertake the evaluation was awarded in 2005 by the Home Office (Research Development and Statistics - RDS) to the Centre for Regional Economic and Social Research at Sheffield Hallam University. RDS chairs a research steering group that is guiding the evaluation within the terms of the contract.

The evaluation started in July 2005 with its first phase running to April 2007, at which time a report will be submitted to Ministers. In recognition of the need to measure the impact of Futurebuilders over a longer time period, the contract with SHU includes options for update reports in autumn 2008 and autumn 2010.

THE 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 FBE conducted negotiations with funded or rejected organisations?
- 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 third sector 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 third sector: 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?
- Have FBE investments and support enable funded organisations to provide more and better public services in the five key areas?