



# Evaluation of Futurebuilders

## Interim Report Summary Briefing

10 April 2008

## About the Evaluation

The evaluation of Futurebuilders is undertaken by a consortium led by Professor Peter Wells at the Centre for Regional Economic and Social Research, Sheffield Hallam University.

This is a short summary of the Interim Report of the evaluation 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 [third] sector to deliver public services. At the same time the evaluation should be designed in such a way as to facilitate the discovery of any unintended consequences of Futurebuilders investments (from original Evaluation Specification, Home Office 2005).*

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 2010 with two key reporting milestones (2007 and 2010). This report draws on data gathered up until March 2007 and is intended to provide an interim assessment of Futurebuilders.

The evaluation model consists of three main strands, each addressing a distinct set of research questions:

- **Strand A: Working Arrangements** established to administer the Futurebuilders Fund, primarily the governance arrangements and processes used by Futurebuilders England Limited
- **Strand B: Organisational Development** of investee third sector organisations
- **Strand C: Impact** of investee organisations on service users.

Further information on the evaluation model is set out in Annex 1.

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## Achievement of Performance Indicators and Agreed Targets

1.1. 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: **this performance indicator has been achieved.**

## Progress of the Fund

- 1.2. 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 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).
- 1.3. 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.

## Working Arrangements

- 1.4. 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.

- 1.5. The evaluation finds that the **processes for managing applications and appraisal** are well established. However, the evaluation raises a concern that the majority of applicants surveyed believe that Futurebuilders will provide at least 50 percent of funding as a grant, although this perception has reduced over time. The actual outturn is that Futurebuilders is only providing around 14 percent of funding in the form of grants.
- 1.6. The evaluation has made an assessment of **additionality**, that is of the likelihood that investments would have proceeded in a similar form without assistance from Futurebuilders. 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. 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. Nevertheless, the finding does indicate that tighter screening of applications may be required.
- 1.7. The evaluation has estimated the **cost of organisations applying to Futurebuilders**. This 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 gives an overall cost to the third sector of between £4.36 million and £6.87 million. It should be noted that no judgment is made as to whether this is too high or too low, and that some of these costs may have been incurred as part of wider investment planning. The key point is that building capacity in the third sector to deliver public services is not a costless activity and can require considerable financial commitments on the part of the organisation.

## Organisational Development

- 1.8. 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. 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

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

## PSA Targets, Outputs and Outcomes

- 1.10. 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. It was found of a sample of 33 investment annual reviews, 18

investments had made progress towards achieving their output and outcome targets, although the remainder were behind schedule and as yet had made no progress.

## Conclusion

1.11. 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.

## Annex 1: Futurebuilders Evaluation Model

The following is an extract from the terms of reference and sets out the overarching issues the evaluation addresses. It is extracted from the original tender specification (RDS/04/291) issued by the Home Office in March 2005.

### *Key Objectives and Questions*

The main focus of the evaluation is outlined in Specification, where it is stated that it focuses on the hypothesis that:

*Futurebuilders increases the capacity of the third sector to deliver public services. At the same time the evaluation should be designed in such a way as to facilitate the discovery of any unintended consequences of Futurebuilders investments.*

In addition to this, the evaluation is also interested in discovering:

- Whether Futurebuilders funding has increased capacity and to what extent at any given point.
- Whether Futurebuilders' activities are likely in the future to increase capacity.
- How and amongst which parts of the voluntary sector Futurebuilders can be most successful.

To address these issues the Home Office has proposed an evaluation model with a set of subsidiary questions. These issues are based around:

1. 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.
2. The difference made by those inputs to the nature, volume and quality of the services provided (for example, the numbers of additional beds for drug rehabilitation, the provision of meals on wheels to a larger population, the provision of more meals per week to recipients of the service).
3. The outcomes that follow from changes in the nature, volume and quality of services provided (this amounts to an estimate of the change in the social return on investment (SROI) or other intermediate measures) monetarised where possible.

## 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?

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