Understanding social investment policy : evidence from the evaluation of Futurebuilders in England

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Understanding Social Investment Policy: evidence from the evaluation of Futurebuilders in England

Abstract: The concept of social investment has attracted interest from policy makers, financial markets and not for profit organisations. It is an emergent notion which is multi-faceted and includes different market forms, policy responses, and institutional configurations. There is relatively little empirical evidence on the design, implementation and impacts of the various initiatives which have been perceived as falling within the field of social investment. This paper begins to address this gap. It draws on the national evaluation of Futurebuilders in England which was undertaken between 2005 and 2010. At the time Futurebuilders was one of the largest examples of a public policy initiative to support social investment; based on a policy model of government seeking to promote the use of loan funding to third sector organisations as part of a wider agenda of expanding the sector's role in the delivery of public services. The paper explores the effects of the programme on the third sector, on public service delivery and on service users. In conclusion the paper challenges some of the assumptions of this policy model, as well as the potential for 'impact investing' to become a framework for welfare provision.

Key words: social investment; Futurebuilders; evaluation; third sector

The emergence of social investment and the policy response

The concept of social investment has two broad meanings. The first concerns the promotion of a 'social investment state', a term coined by Giddens (1998) with a guideline for 'investment in *human capital* wherever possible, rather than direct provision of economic maintenance. In place of the welfare state we should put the *social investment state'* (Giddens 1998 117, emphasis in original). It is used both as a (normative) guiding principle and a pragmatic response to what are seen as contemporary challenges of welfare (Lister 2005 175), including garnering electoral support for redistribution (Midgley 2001 167). The second meaning concerns the provision of funding (and typically non-grant funding such as loans) for some form of societal benefit, with an emphasis on expressing such benefits in monetary terms as though they were returns on a financial investment (HM Government 2011). In this sense it has been used by private, public and third sectors. It may therefore include 'ethical investment' by institutional investors, the provision of finance by government to organisations delivering some form of benefit to society, or as a strategy of charitable foundations seeking a new focus for the distribution of grants. As Nicholls (2010 71) acknowledges, the 'definitional boundaries of what constitutes the "social" is […] problematic'. The concern of this paper is with the second meaning of social investment and broadly, but not exclusively, with the promotion by the state of loan funding to third sector organisations. Moreover, the paper provides an empirical assessment of investment-like models for funding social policies.

Nicholls (2010) notes that despite growing international policy interest in social investment, with the development of a considerable and fast growing grey literature (Bank of England 2003; HM Government 2011; Carrington 2005; J.P.Morgan 2010; Monitor Institute 2011), it has failed to attract much academic analysis or research. Exceptions to this include Nicholls' own work (Nicholls 2009; 2010) which has sought to conceptualise the social investment field and better define social entrepreneurship, community finance including institutional measures (GHK 2010; Affleck and Mellor 2006; Derban et al 2005; Pollinger et al 2007), the financial exclusion of businesses and individuals (Fuller and Mellor 2008), and the measurement of social and financial returns (Nicholls 2009; Arvidson et al 2011). Indeed, the fluidity and general pace of change around social investment has probably hampered the emergence of a body of academic research.

Nonetheless, since the mid-1990s social investment has become an important component of the policy maker's repertoire, ranging from normative guiding principles (Giddens 1998) to more pragmatic and instrumental action. This is true of government policy surrounding the funding of the third sector where debates have shifted from the primary position of grant-based models (Carrington 2005) to an emphasis on investment and the wide-ranging set of actions required of government, the third sector and private capital to enable such a change to take place (Funding Commission 2010; HM Government 2011). Internationally, the newly favoured policy has become known as 'impact investment' with an emphasis placed on recipient organisations demonstrating 'social returns' to funders, akin to the financial returns required in financial investment decisions (J.P.Morgan 2010; O'Donohoe et al 2010).

Nicholls (2010) highlights the range of investment logics which may be at play, ranging from pure social and environmental returns from grants or the emergent phenomenon of venture philanthropy (whereby philanthropists and foundations seek to invest money for 'social returns' and encourage entrepreneurship by not for profit organisations) through to finance made available on the basis of a full market return. In many cases therefore the social investment market landscape concerns the provision of loan funding and as such the requirement upon recipients to repay loan capital with some level of interest. The investment logic is that loans bring wider benefits both in terms of recycling funds, but also in changing the behaviours of loan recipients (HM Government 2011) and their financial capability (Funding Commission 2010), including the acceptance of financial risk.

The social investment policies of governments have tended to focus on addressing what are broadly termed issues of under-capitalisation (Haugh and Kitson 2007), and that such under-capitalisation leads to the third sector not realising its full potential (HM Government 2011). However, there appear to be different forms of the social investment policy model. The one considered in this paper, Futurebuilders, was an initiative of the previous, New Labour government to promote the use of loan funding in third sector organisations, as part of a wider strategy of government to increase the role of the third sector in the delivery of public services. By contrast the current Coalition Government places less emphasis on state action to achieve its wider policy aims and greater emphasis on the development of a social investment market that can help bring greater private capital (including from institutional investors) into the third sector. Moreover, as Nicholls with Pharoah (2008) show, such action by government needs to be seen within a wider landscape of social investment and in particular the relationships between the demand-side (including the panoply of different third sector organisational forms), the supply-side (including investors, tax payers and foundations), and intermediaries (including Futurebuilders, but also such diverse organisations as credit unions and stock markets).

This paper uses research undertaken as part of the national evaluation of Futurebuilders (Wells et al 2010) to explore the contribution of social investment to public service delivery, to the development of the third sector and to the consequent impacts on wider society and in particular in addressing societal problems. The paper is structured as follows, it considers the Futurebuilders policy initiative and outlines the main evaluation methods, and then considers each policy impact in turn (on third sector organisations, on public service delivery and on service users). In the discussion and conclusion the paper returns to the logics for government action in the arena of social investment. Three aspects are considered: the extent to which social investment provides a blueprint for restructuring welfare provision; whether it successfully addresses market failures; and finally the degree to which it changes the behaviour of third sector organisations.

Futurebuilders and its evaluation

Futurebuilders was an initiative of the New Labour government in the UK to promote the use of loan funding in the third sector in England. Although not labelled as such, Futurebuilders can be seen as one of the largest single interventions by a national government in the field of social investment. It can also be seen as informing social investment policies, for instance proposals for a social investment market made in 2011 by the UK's Coalition Government (HM Government 2011).

Futurebuilders arose out of the UK Treasury's Cross-Cutting Review of the Role of the Voluntary and Community Sector in Service Delivery (HM Treasury 2002). The review suggested that there was considerable potential for third sector organisations to play a bigger role in providing public services. The third sector was thought to have advantages over both the private and public sectors in terms of greater flexibility and responsiveness to social problems, trustworthiness, understanding need, community involvement, closeness to users, specialist expertise and the contribution of volunteers (Billis and Harris 1996). As such, Futurebuilders was emblematic of New Labour government policy making in that it sought to expand the mixed economy of welfare within a wider framework of improving the quantity and quality of public services. As will be shown, it relied on the joining-up of government action: namely expanding the capacity of third sector organisations through Futurebuilders went hand-in-hand with opening up public services for delivery by the third sector.

Futurebuilders was launched by the Home Office in 2004. A total of £215 million was allocated to the programme by government. In January 2010 Futurebuilders made its final investment. At this point 375 organisations had agreed investments worth a total of £154.7 million, of which the total value of loan investment was £126.5 million (the remainder being in grants) (Wells et al 2010). Investments were made to organisations working in five broad fields of public service delivery (health and social care, education and learning, children and young people, crime and community cohesion). By the end of January 2010, £91.4 million had been disbursed with the remainder of organisations with loan agreements still to draw down funding. Loan investments ranged in size from £20,000 to £6 million. Loans were made to both working and physical capital activities although the latter were more significant (93 per cent of loans by value were in physical capital). Reflecting this, the average repayment period for loan recipients was 13 years, with some loans being for a period of 27 years. Many organisations agreeing loans were clearly entering into long-term agreements.[i]

The evaluation of Futurebuilders was commissioned in May 2005 and the final report published in March 2010 (Wells et al 2010). Futurebuilders was a complex and multi-faceted programme designed around a relatively simple hypothesis: *Futurebuilders increases the capacity of the voluntary and community sector to deliver public services*. Figure 1 provides a theory of change or rationale for Futurebuilders and was used to guide the evaluation. Futurebuilders was not a grant programme nor sought to replicate the role of commercial investment. It was intended to intervene by providing a mix of funding (loan, grants and advice) provided in a patient and engaged way over a long time to increase the capacity of third sector organisations to deliver public services.

Figure 1: Futurebuilders Evaluation Strands and Logic Chain

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

Source: Wells, P. et al (2010), *Evaluation of Futurebuilders*

The following features of Futurebuilders are worth highlighting:

- it was established through government contracting with an independent fund manager (Futurebuilders England Ltd)
- the fund manager established an investment model to deliver this contract (i.e. to market the Fund, attract and appraise applications, and then invest, support and monitor organisations)
- support was provided to develop organisations' delivery of services (notably organisational development and procurement)
- Futurebuilders was intended to lead to three sets of outcomes in terms of organisational development, public service delivery and improved outcomes for service users

The evaluation focused on what may be seen as the three main outcome areas for Futurebuilders: on the third sector organisations in receipt of loans; changes in public service delivery; and changes for service users. These are the three categories used for the presentation of the main empirical findings in this paper. Although a variety of quantitative and qualitative research methods were used in the evaluation, this paper draws primarily on case studies of investee organisations. These are complemented with the analysis of monitoring data held by Futurebuilders and interviews with Futurebuilders' staff. Further information on the methodology is contained elsewhere (see Wells et al 2010).

Seventeen investee organisations were used as case studies during the evaluation. Case organisations were selected to provide a balance across three criteria: public service delivery area; size of investment; and size of organisation. Case studies were formally anonymised using identifier letters A-Q and a simple descriptive label for the purpose of the organisation or investment project. Each case and its identifier are outlined in Table 1.

Table 1: Case Study Organisations

Case Code	Activity	Public Service Delivery Area	Investment Size Band[2]	Turnover Band[3]	Case Study Wave[4]
A	Work-based support provided to ex-offenders	Crime	Small	Large	1 & 2
B	Stabilisation of drug-users	Crime	Medium	Large	1
C	Support to refugees	Education	Small	Medium	1
D	Support to children with a lifelong limiting condition	Education	Large	Large	1 & 2

Case Code	Activity	Public Service Delivery Area	Investment Size Band[2]	Turnover Band[3]	Case Study Wave[4]
E	Mental health support	Health	Small	Medium	1
F	Sheltered accommodation and support for older people	Health	Medium	Medium	1 & 2
G	Children's day care centre	Young People	Small	Small	1 & 2
H	Community cohesion projects	Cohesion	Medium	Medium	1
I	Health and social care project supporting sex workers and their families	Health	Small	Medium	1
J	Support facility for people with learning disabilities	Health	Medium	Large	1 & 2
K	Housing focused community reconciliation project	Cohesion	Medium	Medium	1
L	Education and inclusion through the arts for disadvantaged people	Education	Large	Medium	1
M	Prison-based education programmes	Crime	Medium	Medium	1 & 2
N	Counselling for young people	Children	Medium	Small	1 & 2
O	Support for people with physical and sensory disabilities	Health	Medium	Medium	2
P	Community development and inclusion for hard to reach communities	Cohesion	Medium	Large	2
Q	Social care accommodation for people with complex needs	Health	Major	Large	2

Notes: Public Service delivery areas expressed in full are: Crime; Education and Learning; Health and Social Care; Children and Young People; and Community Cohesion

[2] Size bands for Investments are: Small – up to £250,000; Medium - £250,000 to £1 million; Large – £1 million to £10 million; Major - Over £10 million

[3] Size bands for Turnover at the point of investment are: Small – up to £100,000 ; Medium - £100,000 to £1 million; Large – over £1 million)

[4] Wave 1 case study fieldwork took place in 2006/7; wave 2 in 2009

Of these 17, eight case studies were longitudinal with fieldwork undertaken at two or more time points with at least a year between site visits. It was also possible to draw on quite detailed records held by Futurebuilders, including quantitative monitoring information and notes from site visits by staff.

Case studies gathered data about the processes of securing and managing the investment, the organisational effects of the investment, particularly where the investment plan was to significantly grow and transform the organisation, and third sector relationships with funders. A case study workbook was used to combine the various types of data collected; a brief overview of the workbook provided in Table 2.

Table 2: Outline Structure of the Case Study Workbook

Heading	**Outline Content**
Organisational Characteristics	Numbers of staff and volunteers; history of organisation; legal status; income and expenditure
Futurebuilders Processes	Details of the interaction with Futurebuilders England Ltd including details of application process, contractual processes, investment monitoring, and additional support needs and whether these were met, and resolution of problems
Inputs	Details of all inputs into the project the investment was funding, including other external financial support, non-financial assistance, and the organisation's own resources
Organisational capacity	Assessment against a set of internal factors (including governance, management practices, human resources, financial management and service delivery and user involvement) and external factors (relations with stakeholders and funders)
Mapping and measuring of outputs	Measuring where possible the direct benefits of the investment (for instance, the increase in capacity)
Mapping and measuring of outcomes	Measuring the results of the outputs in terms of benefits to service users, the organisation itself and the contribution to various government targets for public service delivery

Further steps taken to ensure the validity and reliability of the data included: the keeping of field notes by case study researchers; ensuring that a range of staff (senior officers and frontline) as well as trustees were interviewed; conducting interviews with representatives of external organisations (typically the funders of the case organisations); collection and analysis of documentary evidence (such as contracts, local strategy documents, and where available locally commissioned evaluations); and monitoring data (including both output and outcome information if available). Qualitative material collected through the case study workbook was analysed using NVIVO and quantitative data analysed in spreadsheets. The case study research team met throughout the evaluation, for instance for briefings in the use of the workbook, recording and writing up of findings, and analysis of findings.

Data collection included interviews with senior officers within the case studies (directors and chief executives), board members and trustees, staff members concerned with the delivery of investment related projects, and external funders and stakeholders (for instance representatives from local authorities). The data collected also included investment and project documentation (for instance business plans and cash flow forecasts) and, importantly, locally held monitoring data on service users. In addition, Futurebuilders collected and made available a huge array of administrative and monitoring data. This included simple descriptive material about applicants and investees (e.g. organisational size and service area, numbers and size of contracts won) but also judgements presented in a common format about investee performance, notably around the risk of investments.

As indicated, Futurebuilders did not lend itself to a simple evaluation design. It was a complex programme that changed over time and involved relatively small numbers of investee organisations. Moreover, as investments made took time to have an effect, the focus needed to be on earlier investments and to some extent forecasts were needed as to the likelihood of eventual progress. These evaluation issues are well understood and are probably increasingly common in policy evaluation, as reflected in the evaluation literature on complexity (Sanderson 2006) and calls for more theory based and realist approaches (Pawson 2006). These issues are significant given the increasing interest of policy makers in social investment and the high profile given to social impact investing. The following sections outline the main research findings.

Change for Organisations

The case study research explored change for organisations primarily through examining how their organisational capacity changed as a result of the investment. Aspects of organisational capacity considered included (organisational) governance, management practice, human resources, user involvement, financial management, service delivery and external relations (typically with funders). Data was collected to common prompts in the case study workbook, from interviews with the case study organisation, with the officer in Futurebuilders responsible for the investment, and from documentation held by Futurebuilders and the case study organisation. Interviewees were required to be reflective (for instance in considering management capacity or relations with funders).

The 17 case study organisations fell into two broad groups: a set of eight large organisations (with annual incomes over £1 million) which had mainly built capacity prior to the investment, and a set of nine smaller organisations (with annual incomes of less than £1 million, including one with an income of less than £100,000) seeking to grow significantly based on the investment and which needed to develop organisational capacity (in the fields indicated in Table 1).

In the group of eight having built capacity prior to the investment, the effect of the investment was limited in terms of organisational development. The focus for these organisations was very much on the expansion of their operations, typically by the construction of an additional building through which to provide services. Only small developments were required to organisational capacity. These more narrow needs were recognised by Futurebuilders and in most cases some additional support provided (including grant based support).

However, these organisations were not immune to experiencing falls in capacity, typically as a result of a funding crisis. In one case in particular, shifts in public policy and in this case the delayed roll out of the National Offender Management System,[ii] greatly reduced anticipated funding opportunities. As a result, a relatively stable and well-developed organisation went through two rounds of staffing reduction and a rationalisation of activities, alongside having to draw on surpluses from its other operations to repay the loan funding.

The second group of nine organisations had limited organisational capacity at the point of investment, and a key component of investment support (using grants far more than the first group) was to develop and grow the organisation. In seven of nine cases the investment package included the following support:

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

Of the other two cases, one organisation lost a key funding source just after the investment decision and went into financial crisis which nearly resulted in its closure, and in the other a proposal to build a children's daycare centre and nursery became subject to extended planning permission problems, resulting in the organisation not developing the investment project in the period of the evaluation.

Of the seven cases of smaller organisations, support to build organisational capacity was largely successful. Nonetheless three of these organisations struggled as a result of the unexpected loss of key staff members. However, at the final visits to these organisations all were showing early signs of regaining stability (both in organisational and financial terms) and the potential to realise the aims of the investment to increase their capacity to deliver services. This helped highlight the benefits and role of a funding relationship that was engaged, supportive, and over a relatively long time.

These findings can be set in the context of an analysis undertaken by Futurebuilders of the annual reviews of 100 investments (largely, of the first 100 investments made) which included an assessment of organisational development. The annual review process involved a risk assessment in which investees were graded (green, amber or red) according to a series of criteria linked to the progress of their investment. A green rating indicated no concerns, amber some concerns needing further monitoring, and red indicating a requirement for further support and an investment at risk. The annual review included an assessment of the organisation (how well run it is, such as its management and governance, and its financial viability) and of its investment proposal (the success of its delivery to date and whether it remains financially viable). An overview of this data from Annual Reviews carried out during 2009 is provided in Table 3.

Table 3: On Overview of Futurebuilders England Annual Review Data 2009

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

Source: FBE Annual Review Data, December 2009

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

The organisational development status of investee organisations can be explored in more detail by considering the distribution of 'red' grades by organisation size (see Table 4).

Table 4: Futurebuilders England Annual Review Data 2009 - red grades by organisational size

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

Source: FBE Annual Review Data, December 2009

Table 4 reveals that small and medium sized organisations (with a turnover of less than £1 million) are considerably more likely to be graded red for financial viability than large organisations, echoing the case study findings.

A role of social investment is not just the provision of finance but also engaged support, as reflects the wider literature on the exclusion of individuals and organisations from loan finance; for instance as Stiglitz (1990) shows there are risks of bad debts because borrowers know more about their circumstances and therefore risks to the debt than lenders (what is referred to as asymmetric information). The case studies and monitoring information showed that Futurebuilders was identifying the more vulnerable organisations and providing greater support for these, through grants and business support. However, and this is the critical issue for social investment policy, the support provided was not a guarantee of success, although the case study evidence suggests that loan finance with other support had improved organisational development practices. This issue is returned to in the conclusion.

Change for Public Service Delivery

Futurebuilders had a very clear remit to expand the public service delivery capacity of third sector organisations. Social investment programmes supported by government in the future are likely to have similar goals, as part of a wider marketisation of public service delivery (Alcock 2010), as the promotion of a mixed economy of welfare, or for the ideological preference for supporting not for profit and community controlled organisations over state provision. Futurebuilders made its first investments in 2004 and final investment at the beginning of 2010. The majority of investments were in physical capital. Increases in public service delivery capacity may take considerable time to be realised. This section draws on two main sets of data, an analysis of monitoring data about the public service contracts secured by investees and the experiences of the 17 case study organisations.

Data on public sector contracts secured was collected by Futurebuilders over an 18 month period from April 2008 to September 2009. In this period, 102 investees had secured 454 public service delivery contracts that were linked in some way to the Futurebuilders investment. These contracts were worth approximately £55.5 million. Overall, 43 per cent of full investees (those organisations receiving funding with some element of loan funding) were awarded at least one contract with the figure rising to 60 per cent when only those organisations drawing down their loans were considered. Although the mean value of contracts was £122,000, they ranged from less than £1,000 (11 contracts) to more than £1 million (nine contracts). The largest contract was for £3.5 million with a local NHS Trust. Contract awards were distributed unevenly: exactly 20 per cent of organisations contributed 80 percent of contracts by value. Large organisations, with turnovers of over £1 million, received 46 per cent of contracts by value, and medium-sized organisations 44 per cent. Small and start-up organisations received only 10 per cent of contracts by value. Moreover, although 47 per cent of the number of contracts were for amounts less than £30,000, contracts priced at over £500,000 made up 58 per cent of contracts by value. The implication is that it is the larger organisations may be in a preferential position vis-à-vis smaller organisations in terms of their market position and therefore loan repayment. A longer series of data is required to confirm that this is the case.

By far the most significant purchaser of services from investees was found to be local authorities (52 per cent of the number of contracts and 51 per cent of the value of contracts) followed by health organisations (eight per cent by number and 16 per cent by value). The significance of local authorities is important given subsequent findings about relations between investees and funders. In particular, the case study research revealed that an understanding of local context was vital to understanding the variation in performance across investees. There were for example:

- cases that see stakeholder (funder) relations as central to their success and actively aim to contribute to shaping the national and local policy landscapes in which they operate, and, in some instances, effectively 'create their own markets' (for instance an organisation which develops an innovative and therefore market leading service)
- cases where policy environments and local commissioners' policies are crucial to the organisation's success, but investees are much more passive in relation to changes in their environment. These organisations usually approach public service delivery through responding to public procurement tenders
- cases where organisations are the sole provider of services within a geographic locality and therefore occupy a favourable position with local commissioners.

In any of the above cases, conditions for the success of investments appear to be more favourable in situations where there is a close alignment between local agency priorities, strategies and service provision, and the offerings of investee organisations.

The nature of policy environments and the scale of procurement markets had a key bearing on the success of investees. Across the five areas of public service delivery organisations operated in, least progress was in the fields of community cohesion (one per cent of contract value), children and young people (six per cent of contract value) and crime (ten per cent of contract value). The procurement environments for education and learning (47 per cent of contract value) health and social care (36 per cent of the value of contracts) appeared far more favourable.

Case study organisations successfully securing contracts appeared to have several enabling factors that arguably made them more likely to succeed in securing contracts:

- the services offered were central to mainstream policy agendas and public policy budgets
- services were closely aligned with local authority priorities, strategies and service provision
- demand for services outstripped supply
- there were established relationships between commissioners and case organisations, often spanning local and national levels.

The case studies included third sector organisations operating at local and national levels, some focused solely on one local authority area, some with a goal to operate beyond a single local authority area, and national organisations serving both multiple localities and national commissioning bodies. The local organisations seeking to expand out of a single local authority customer base were on the whole the least successful, suggesting that their previous success had been contingent on a set of local relational factors.

An important finding was that whilst investee organisations had viable proposals at the point of investment, many were hampered by changes in the public procurement environment, or conversely a lack of progress to change. A rationale of Futurebuilders set out in the Treasury's Cross Cutting Review (HM Treasury 2002) was that, alongside the programme, there would be far-reaching changes to the procurement and commissioning of public services. This would require new policies across government and, critically, implementation at a local level. The key barrier for many investments had either been due to insufficient progress being made at a local level in implementing national policy reforms to procurement and commissioning practice (for instance in the health and social care area) or subsequent changes to national policy agendas which rendered the original rationales for investment obsolete. This is a lesson for social investment policy in the future and a wider reflection on the limitations of joined-up government (Clark 2002).

Change for Service Users

Change for service users was understood to be the outcomes that are net benefits brought by investments for individuals, groups and areas. Futurebuilders funding typically developed the capacity for services to be delivered; it did not directly fund the services which brought outcomes for service users. Table 5 describes the outcomes sought by each of the case study investments.

Table 5: Scope of Outcomes Sought in the Case Studies

	Activity	Outcomes Sought
	Crime	
A	Work-based support provided to ex-offenders	- Reductions in re-offending - Reductions in local crime rates - Increases in employment rates
B	Stabilisation of drug users	- Increase in employment rates - Reduction in drug dependency

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

P	Community development and inclusion for hard to reach communities	- Improved levels of service user employment - Improved access to education - Reduce crime

Source: Futurebuilders Assessment Documentation

At the investment decision stage, Futurebuilders made an assessment of the *potential* outcomes from the investment, however indirect this relationship was. Investment milestones however were based on outputs (buildings completed, numbers of service users) and not in terms of measuring change to individuals. It was also found that few case organisations had the resources to undertake much more than rudimentary output monitoring. The exceptions here were larger organisations typically working at a national level: for this group the wider demonstration of outcomes was an essential part of maintaining their reputation, and often a national influencing role.

Given the timescales required to realise many of the investments, the outputs, let alone outcomes, may take many years to be realised. In nine out of 17 case study organisations, insufficient evidence was collected on outcomes. In a further two cases, one organisation had effectively ceased operation (resulting in no outcomes achieved) and another was still to deliver services. In the remaining six cases it was possible to find a mix of qualitative and quantitative evidence to demonstrate outcomes.

Attribution of outcome change to Futurebuilders was difficult and indirect because the direct benefits of Futurebuilders lie primarily in terms of organisational development and in the delivery of public services. Social outcomes for service users are indirect, being purchased by public sector organisations or by individuals (in the case of childcare provision and elder care). As such, Futurebuilders investments may have catalytic effects and may bring benefits which would otherwise have not occurred, or not occurred to the same extent. Identification and attribution of outcomes was also compounded because:

- Futurebuilders investments were made alongside other funding
- outcomes may be in the long term (for example in the case of support to children, where outcomes are not realised to adulthood)
- outcomes are difficult to attribute solely to one organisation (for example a complex intervention for the treatment of drug addiction which works across agencies)

Variable practice in the capture and monitoring of service benefits for users was also found. This ranged from organisations which had exemplary monitoring systems and extensive research programmes into the outcomes of supported individuals, to far more limited monitoring and evaluation systems. In part this reflects the scale and scope of the organisations concerned.

Finally, debates around social investment have gone hand-in-hand with approaches to measuring social impact, with the emergent methodology of social return on investment garnering considerable policy attention in the UK (Cabinet Office 2009). The findings presented here at the very least indicate problems with attributing outcome change to loans; their benefit is largely around allowing activities to be brought forward in time, rather than as directly attributable benefits.

Discussion

Futurebuilders was announced in 2002, launched in 2004 and closed for new applicants in 2010. Eight years is a long time in contemporary public policy, and perhaps more so in an emergent field such as social investment. Notably, the commitment and then disbursement of the Futurebuilders fund was slower than anticipated; most investments were made from 2008-10. This reflects a variety of factors, including the time taken to progress the opening up of procurement to the third sector, notably at a local level; the availability of other funding and especially grants during much of this period; and some risk aversion by third sector organisations to taking on loans. More broadly, and as the findings here suggest, the fund may have been committed sooner had there been better targeting of segments of the third sector, rather than a more general sector-wide approach.

Across the three areas examined, positive change was both modest and variable. Many investments had struggled, the likelihood of default on loans is probably high and with this is the prospect of bad debt. At the time the evaluation was completed, the level of default for the entire Futurebuilders investment book was low at only 3.3 per cent, although many investments were still at a very early stage. The full evaluation (Wells et al 2010) also found positive findings around investment selection: Futurebuilders appeared to be selecting organisations with the capacity to grow strongly compared to rejected organisations or the wider third sector.

The evaluation was undertaken prior to significant public expenditure cuts announced in the UK Government's 2010 Emergency Budget and subsequent Spending Review. The environment for many investee organisations will be difficult as a result, although clearly there will be differential effects: some organisations may be well placed to attract new opportunities, others far less so and be operating in areas which are no longer public policy priorities.

This raises the question as to whether social investment warrants policy attention. The Futurebuilders evaluation suggests that the success of the programme is at best mixed. Futurebuilders was a particular model of social investment, tied closely to wider government objectives around public service delivery. There are other models which include regulation (for example the Community Reinvestment Act in the US), a simpler institutional approach to establish a new bank (such as Big Society Capital in the UK), specialisation at a particular spatial scale, specialisation by sector, or through smaller scale initiatives (such as community development finance institutions). In this respect Futurebuilders was emblematic of New Labour in its interest in social investment and the third sector, but more importantly in its attempts to join up complex policy agendas (Clark 2002).

Futurebuilders was a large third sector programme, although in comparison to the government's ChangeUp initiative (concerned with infrastructure support to the full array of third sector organisations), Futurebuilders was far more focused. Out of 171,000 charities (Clark et al 2010) in the UK, it made loans to 215 organisations. A total of 745 organisations prepared business plans for funding (although probably in excess of 2,000 organisations enquired about funding or made outline applications). A more appropriate approach may have been to establish Futurebuilders as a pilot or perhaps a set of pilots.

Both Futurebuilders and the more recent proposals for social investment (HM Government 2011) stress the importance of cultural and behavioural change in the sector, in particular around the desire to create a more enterprising and business-like sector. Moreover, there is a concern that third sector organisations are 'grant dependent' (Macmillan 2007) and that loan finance in some form will drive the desired change and bring the perceived benefits of loan capital. The evidence from Futurebuilders is that loan finance is not a simple panacea, nor does it necessarily correct all the perceived problems in the sector. There is an assumption that innovative, dynamic organisations generating considerable social benefits for the most disadvantaged will be at the front of the queue for social investment. The evidence from Futurebuilders is that this is not the case. Markets, including those for social investment, are beset with imperfections and 'market failures' which cannot be easily addressed. Critical here is the capacity to capture, quantify and 'monetise' social returns or societal benefits in a way that gives clear signals to social investors. The findings from Futurebuilders suggest that, despite considerable policy attention, the measurement of outcomes is incredibly difficult for many third sector organisations. Moreover, this undermines the notion that it is realistic to expect monetised indicators of social impact to correct a market failure (HM Government 2011; Zerbe and McCurdy 1999)

The Futurebuilders evaluation suggests that it was relatively successful in supporting a set of organisations to increase their capacity to deliver public services. These organisations were already strong in terms of their income growth. However, increasing capacity is not the same as securing income, delivering contracts and achieving a social impact. The results about contracts secured suggest that performance was far more uneven - a relatively small group of organisations secured the majority of contracts.

Conclusion: prospects for social investment policy

The use of social investment dates from the mid-1990s (Giddens 1998) and in particular the political economy of welfare. Its second meaning, around the provision of finance for social welfare outcomes, emanates from the mid-2000s, although there are widespread international prototypical examples of social investment practice from earlier activities (Okagaki and Moy 2001). Moreover, it is only in the last few years that the use of the term in relation to finance has gained currency (Nicholls 2010). Its clearest articulation by national policy makers is the publication of the UK Coalition Government's green paper Growing the Social Investment Market (HM Government 2011). Social investment debate has clearly shifted, with notable differences between the New Labour government's approach and emphasis on the third sector as a deliverer of public services on behalf of the state, and the Coalition government's emphasis on a more independent third sector accessing finance in a social investment market. The preface to the UK green paper on social investment is revealing in this respect, as its two ministerial proponents in government highlight:

> "… this is not about handouts - it is about encouraging a new, self-sustaining market to grow, free of state interference … Change in this market will not take place overnight, but it will be transformative in allowing social ventures to scale up and take on new challenges. We will do all we can to make it happen" (Maude and Hurd 2011). Foreword to Growing the Social Investment Market (HM Government 2011).

In conclusion it is possible to reflect briefly on some of the underpinning arguments advanced in support of social investment.

The first argument is that social investment provides a future blueprint for restructuring welfare provision, akin to proposals by Giddens in the 1990s but advanced most strongly by proposals to dramatically transform and/or reduce the role of the state. The suggestion here is that a market for welfare provision will be created in which a complex of agendas are married: the efficiency of private sector delivery (Chapman et al 2008; Blank 2000; HM Government 2011), the reach and innovation of the third sector (Billis and Harris 1996; HM Treasury 2002), and the currency of returns on investment for social outcomes (Arvidson et al 2010; Nicholls 2009). The evidence from Futurebuilders points to some very pragmatic problems with these logics. The most notable, and the one pointed to by Pharoah (Pharoah 2011), is that the choices of private individuals, institutions and by extension social investors are often at odds with the requirements of the state and society for welfare. Even where the state is able to set the remit for a social investor, as is the case in Futurebuilders, it is far from clear whether capacity was developed to best meet social needs. Indeed, it is arguable that the Futurebuilders' investments which struggled the most were those working in the most challenging areas in terms of the complexity and severity of social needs.

The second argument is that social investment will be a success only if a series of market failures are corrected. This is the central position of the HM Government Social Investment green paper and is a common normative position for government intervention (Zerbe and McCurdy 1999). The most relevant market failures concern the asymmetric information (between lenders and borrowers), more generally imperfect information (in particular about common measures of returns) and transaction costs (Stiglitz and Weiss 1981; Zerbe and McCurdy 1999). The concern here is that the effect of these market failures leads to an under-capitalised third sector (Haugh and Kitson 2007; HM Government 2011; SQW 2007). These issues are worthy of further empirical exploration. This paper suggests that the issue of under-capitalisation is not simply one of a lack of finance. The findings point very strongly to the need to fully understand organisational and contextual factors as reasons for investment performance. This may prompt not the further provision of capital, but instead the provision of advice and support or wider changes to the operation of local procurement markets. The common concern with the market failure thesis in social investment is about asymmetric information and the attendant risks of moral hazard and adverse selection (Zerbe and McCurdy 1999; Rhodes 2010). In these areas Futurebuilders provides a model of how these issues may be addressed, but critically not without significant transaction costs (for organisational support) that a private investor would probably not bear. The implication is that the use of standardised measures of social impact, whilst seeking to address these issues, are likely to have differential effects across the third sector and probably different areas of social policy. The reasons are twofold and concern the costs associated and the virtual impossibility of reducing some outcomes to simple monetised measures.

The third argument is that social investment will lead to behavioural change on the part of the third sector. Such behavioural change is intended to include overcoming a lack of business skills but more broadly to address risk aversion where success would be manifested through shifting financing away from grants. Futurebuilders sought to address these barriers by combining loan financing, to realise a new project or to expand a particular area, with advice and grant support aimed at remedying organisational weakness. The evaluation found that some weaknesses could be easily resolved often in larger organisations with already well developed organisational forms; however, the demands of realising often complex investments which required organisations to grow substantially (often several fold) could not be addressed simply with small grants or advice. Whilst the social investor, Futurebuilders, correctly identified the problem, this was no guarantee of success. More broadly, since the mid 2000s there has been a shift in the discourse of third sector funding. On the one hand a growing policy discourse has sought to problematise grants whilst highlighting the virtues of investment. But on the other hand, as Macmillan (2007) highlights, in response to contributors such as Unwin and Carrington (Unwin 2004; Carrington (2005) who have advocated a greater use of non-grant funding as part of building a stronger third sector: 'to date no references have been found which provide research evidence of the existence of "grant dependency"' (Macmillan 2007 p. 34). The findings from the Futurebuilders evaluation suggest that grants, contract income and loan finance are not substitutes but rather have separate, distinct and necessary purposes.

A final concern rests with issues of risk, expectation and public sector funding. Many Futurebuilders investments were made prior to the financial crisis of 2008 and all were made prior to the austerity package or deficit reduction programme of the UK Coalition Government from 2010. Many investees probably made decisions on the basis of an anticipated steady state in public finance. This is no longer the case and suggests that the overall effects of the Futurebuilders social investment policy experiment will only be fully revealed in the long term.

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[i] Throughout this paper the term Futurebuilders is used to mean both the policy initiative and the organisation managing the fund (in full, Futurebuilders England Ltd).

[ii] The National Offender Management System is the UK Government approach to commissioning adult offender custodial and probation services in England and Wales. Although formally established in 2004 it was not full rolled out until 2008.