Futurebuilders Learning Project

Data Deep Dive

June 2020

Presented by Social Investment Business (SIB) to the Department of Digital, Culture, Media and Sports (DCMS)

Social Investment Business

About us

- The Government Inclusive Economy Unit (GIEU) at the Department of Digital, Culture, Media and Sports (DCMS) has contracted Social Investment Business to conduct a 3-year (2019-2021) learning project on the Futurebuilders England Fund.

- The Government Inclusive Economy Unit (GIEU) is at the cutting edge of policymaking in a field where the UK leads the world. They work across Whitehall to help build a country where society's most complex social issues, such as homelessness and youth unemployment, are being addressed by private investment, responsible business, and social enterprises in partnership with innovative public service delivery.

- Social Investment Business (SIB) provides finance to create fairer communities, helping impact -led organisations improve people's lives. They do this by (i) Providing the **money** and **support** they need directly (ii) Working with **partners** to support them effectively and (iii) Using our knowledge to inform our own work and **influence** others

- SIB currently hosts the Social Economy Data Lab (SEDL) a newly-established data resource for the social economy. SEDL aims ***to support the social economy to access and make better use of data to inform decisions.*** The Futurebuilders Learning project datasets, analysis and recommendations will be made open and freely available (where possible) via the SEDL website.

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Referencing and data use:

Department for Culture Media & Sport

Social Investment Business

What's contained in the data deep-dive pack?

- Section A: Data methods and project background
- Section B: Futurebuilders fund descriptive stats
- Section C: Futurebuilders investee descriptive stats
- Section D: Futurebuilders fund performance analysis
- Section E: Futurebuilders investee performance analysis
- Section F: Futurebuilders investee economic impact
- Section G: Emerging recommendations and next steps
- Appendix (1-5)

Section A
Data methods and project background

Futurebuilders learning project: objectives

An ambitious project bringing **multiple stakeholders** together to enable **better social lending based on a shared understanding of what works** and **inform decision-making** by all partners seeking to build a prosperous and sustainable social economy.

- **Expanding the social investment evidence base:**
  - Articulating what makes social investment work
  - Explaining the difference to other forms of capital
  - Recommendations on how could it work better in future

- **Using the evidence base to inform better social investment fund design:**
  - Disseminate and share evidence with the social investment market openly
  - Supporting the translation of Futurebuilders learning and evidence into new social investment fund and programme design for social investment market players.

- **Using the evidence base to direct additional funding into social investment activities:**
  - Seek to lobby, through DCMS, for dormant assets to be leveraged for a potential Futurebuilders 2.0
  - Develop partnerships with other impact investors, or philanthropic funders interested in co-funding, given the expected financial and social returns evidenced.
  - Aim to share with the broader social economy, to work together in areas of focus for DCMS; for example, in ‘Children and Young People’

Futurebuilders learning project: approach

Workstream 1: Futurebuilders data deep-dive

- Quantitative deep-dive to evidence the performance of the Futurebuilders Fund and its investees
- Answering questions relating to the commercial social investment value proposition

Workstream 2: Futurebuilders stories

- Qualitative research into successes and critical lessons learnt (+/- 12 case studies, focus group discussions and interviews)
- Focusing on social impact at different levels, and situating FB investees within the changing social economy

Workstream 3: Social investment market building

- Evidence-sharing, awareness raising, market-building, policy and advocacy sector positioning.
- Ultimately informing a sector understanding of what a future social investment fund should look like

Futurebuilders learning project: data methods

Internal data reconciliation

- ❑ Salesforce
- ❑ IBS and Benefactor
- ❑ Sage
- ❑ Excel records and monitoring reports
- ❑ (Excluding MOD investments, tenders and guarantees)

Data set building

- ❑ Companies House data scraping at organisation level
- ❑ Sheffield Hallam BCG evaluation dataset
- ❑ ONS and BoE databases
- ❑ Charities Commission and 360Giving (matched pairs analysis)

Data analysis

- ❑ Fund-level: descriptive and performance
- ❑ Investee-level: descriptive and financial performance
- ❑ Comparisons: Communitybuilders investees (**see Appendix on fund descriptions)**
- ❑ Internal and external validation workshops

Data cleaning

- Unique identifiers
- Formatting and data inconsistencies
- Plugging gaps

Limitations

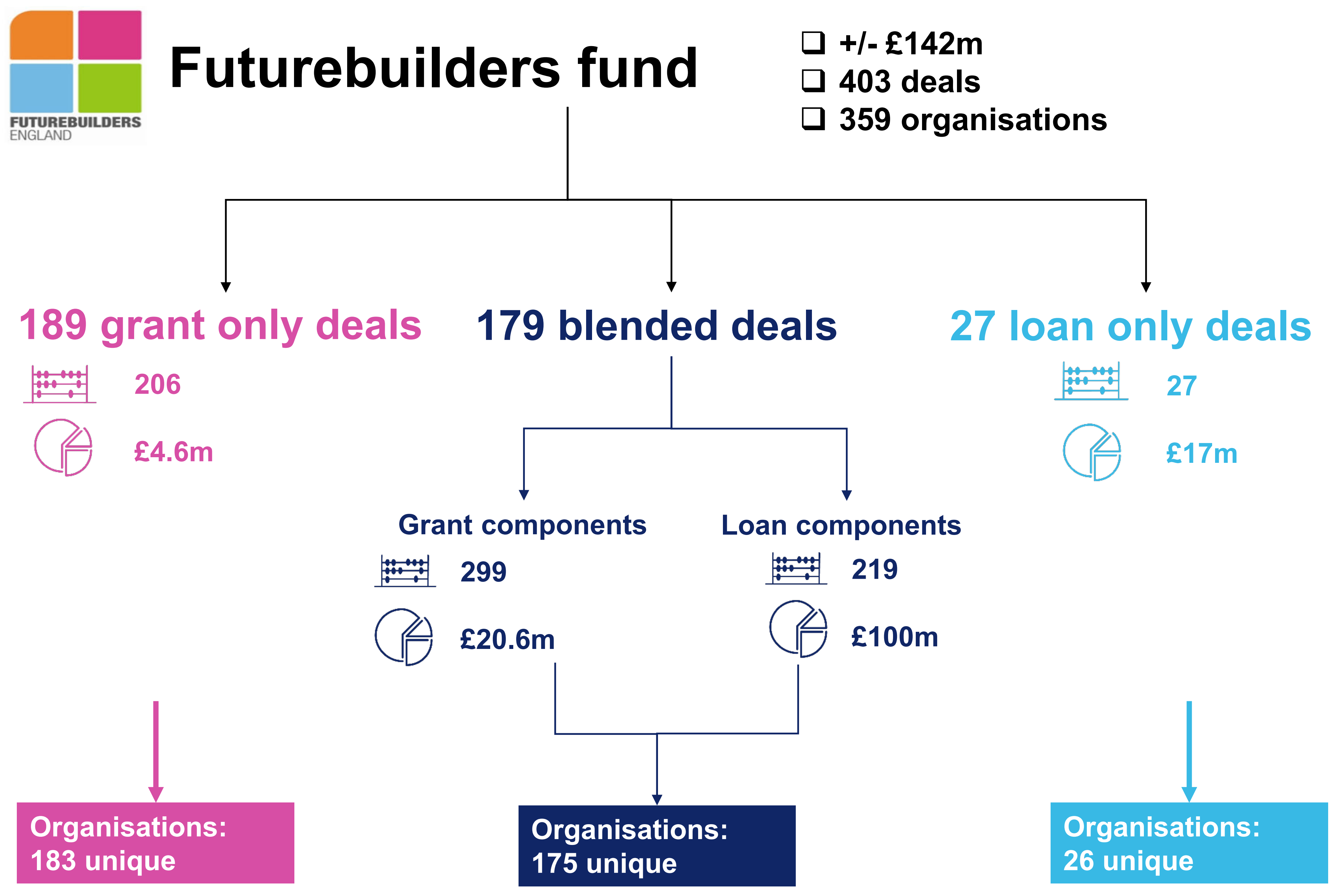
- ❑ Sample size:
  - ❑ Time-series datasets are much smaller at early and later time periods
  - ❑ Not all investees are on Companies House
- ❑ Data quality:
  - ❑ Missing figures for investee financials
  - ❑ Reported employment numbers and wage taken ‘as is’ from Companies House figures
- ❑ Data analysis:
  - ❑ Matched pairs groups (e.g the Communitybuilders and Social Enterprise Investment Fund investees) are not true counterfactuals, rather an indication for comparison
  - ❑ Qualitative data is not yet introduced to explain the impact trade-offs to the financial trends seen

Section B
Futurebuilders fund descriptive statistics

Futurebuilders fund: the background

The Futurebuilders England Fund was a **ground-breaking**, **Government-backed social investment fund** that provided **loan financing** to **social sector organisations** in England to help them **bid for, win and deliver public service contracts.**

- Futurebuilders arose out of the Treasury's Cross-Cutting Review of the Role of the Voluntary and Community Sector in Service Delivery (HM Treasury, 2002). **It ran between 2004 – 2010 with two disbursement phases,** the second of which was managed by SIB between 2008 – 2010; with loan book management services continuing to the present.
- **It disrupted the commercial capital market** by testing the use of repayable finance in social sector organisations using government funding.
- It played a **significant role in changing the mindset of the social sector;** introducing loans as a sustainable form of funding represented a significant departure from the traditional grant-based model.
- Futurebuilders aimed to **encourage third sector organisations to take a greater role in the delivery of public services**. The health sector was prioritised given the favourable commissioning environment at the time.



FUTUREBUILDERS ENGLAND
Futurebuilders fund
+/- £142m
403 deals
359 organisations
189 grant only deals
206
£4.6m
179 blended deals
Grant components
299
£20.6m
Loan components
219
£100m
27 loan only deals
27
£17m
Organisations: 183 unique
Organisations: 175 unique
Organisations: 26 unique

Futurebuilders fund: investment approach

- FBE followed an investment model for delivery – this included marketing, pipeline delivery, appraisal, investment, support and monitoring of investees organisations.

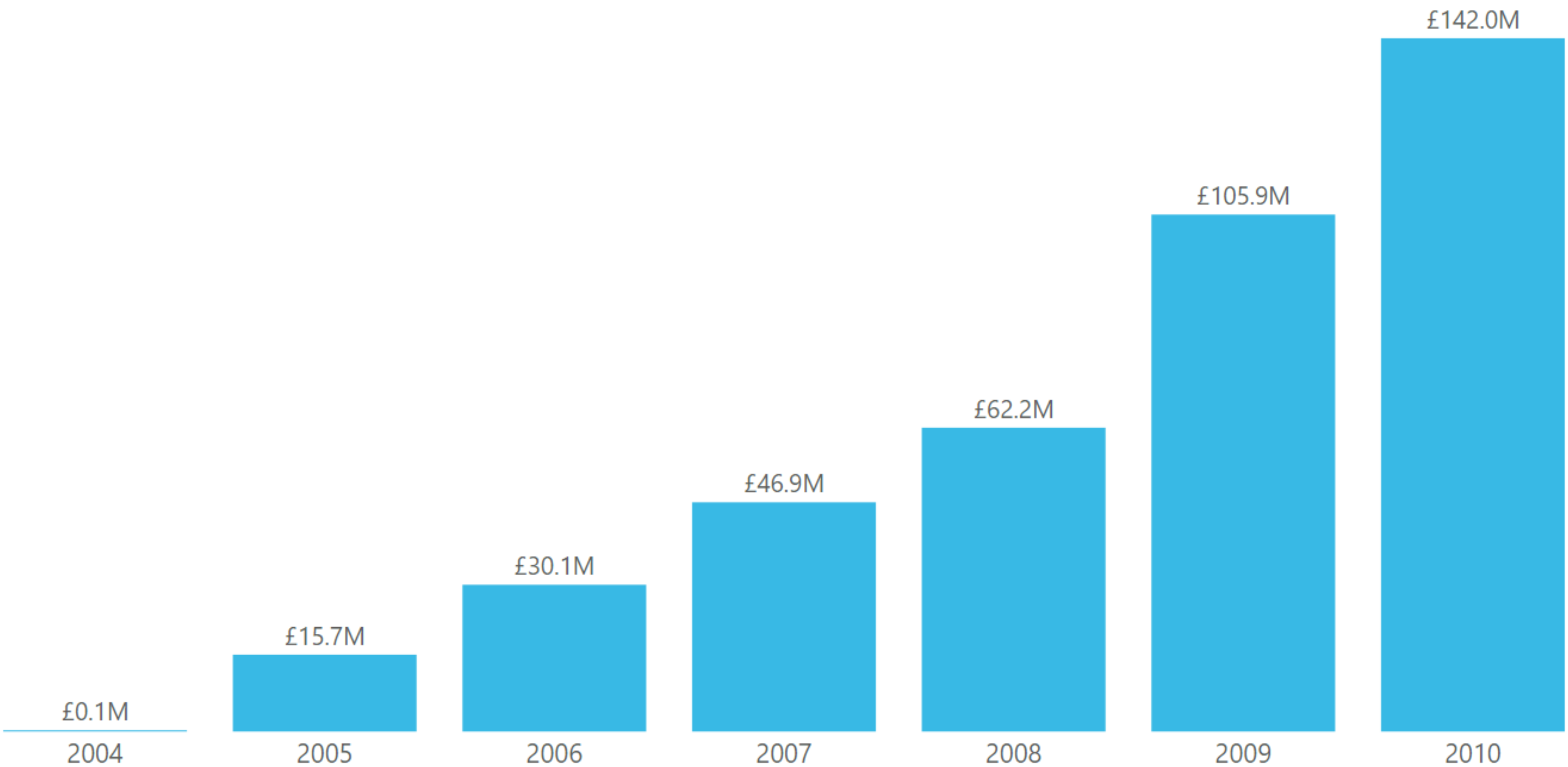
- Investment decision-making was governed by the overarching thesis that **'investment in the third sector can raise capacity for effective delivery of public services'**.
  - This included 3 specific outcome objectives – improved organisational development, more effective public service delivery and improved outcomes for service users
  - Support (grant) was allocated to develop organisations' ability to deliver services; ultimately so as to improve investment readiness and help access further financing opportunities (including from FBE again)
  - FBE financial KPIs related to default rates and disbursement rates; as FBE was specifically testing the ability of the third sector to take on repayable finance, **no specific portfolio financial return objective was set initially, although an objective of 75% minimum capital recovery was implemented some time after the Fund had been closed to new investments**.

- Following criticism from other lenders that the Fund was distorting the market, an expectation was introduced part way through the life of the Fund: that proposals would have been considered/declined by 'mainstream' (and other key social) lenders before progressing. Ensuring FBE came to be understood as **'investment in the unbankable'**.

- The portfolio has been **monitored according to risk ratings**, with investees evidencing distress receiving intensive relationship management support and, in a number of instances, paid-for professional intervention for specific specialist needs (an average of 3-5 days each). The Fund developed an approach of 'Engaged and Patient Investor' providing a variety of financial and non-financial variations. Decisions on the nature and extent of such support were framed against organisational sustainability and impact in addition to financial return.

- One of the lessons from FBE is that **social investment criteria needs to be open and transparent; with specific scoring and reasons for investment decision-making evidenced in useable ways.**
  - While FBE investment committees applied these social-financial return trade-offs in their discussions; it was not recorded in aggregable forms so as to provide useful investment-score evidence, which we are able to apply to our deep-dive 16 years later.

Futurebuilders disbursement by year



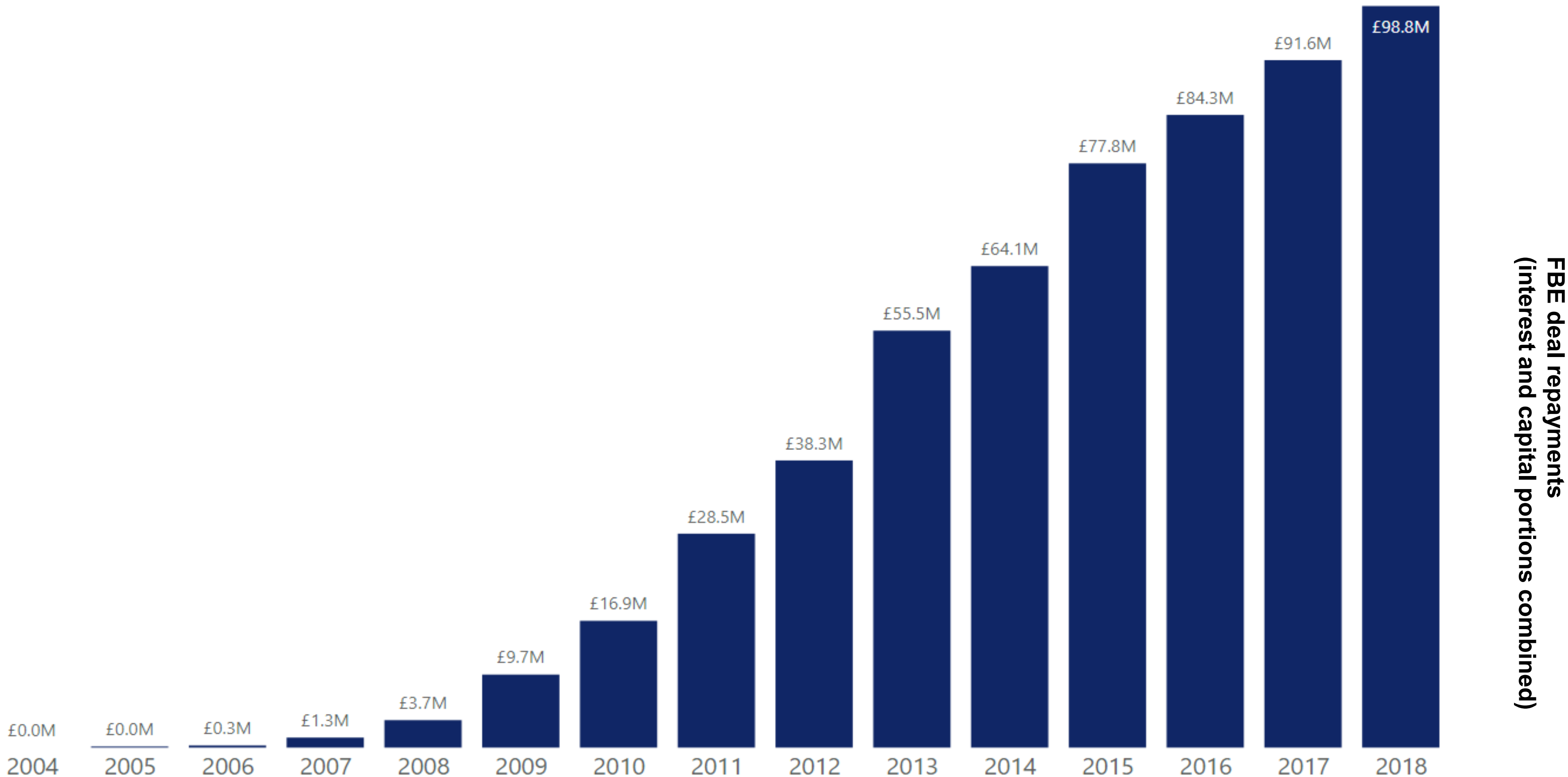
Phase 1: Managed by a consortium
(Charity Bank, Unity Trust Bank, Northern Rock Foundation and the National Council of Voluntary Organisations)

Phase 2: Managed by Social Investment Business
(previously the Adventure Capital Fund)

Futurebuilders revenue incoming by year

As of Jan 2019, **£98.8m has been received on Futurebuilders investments.**

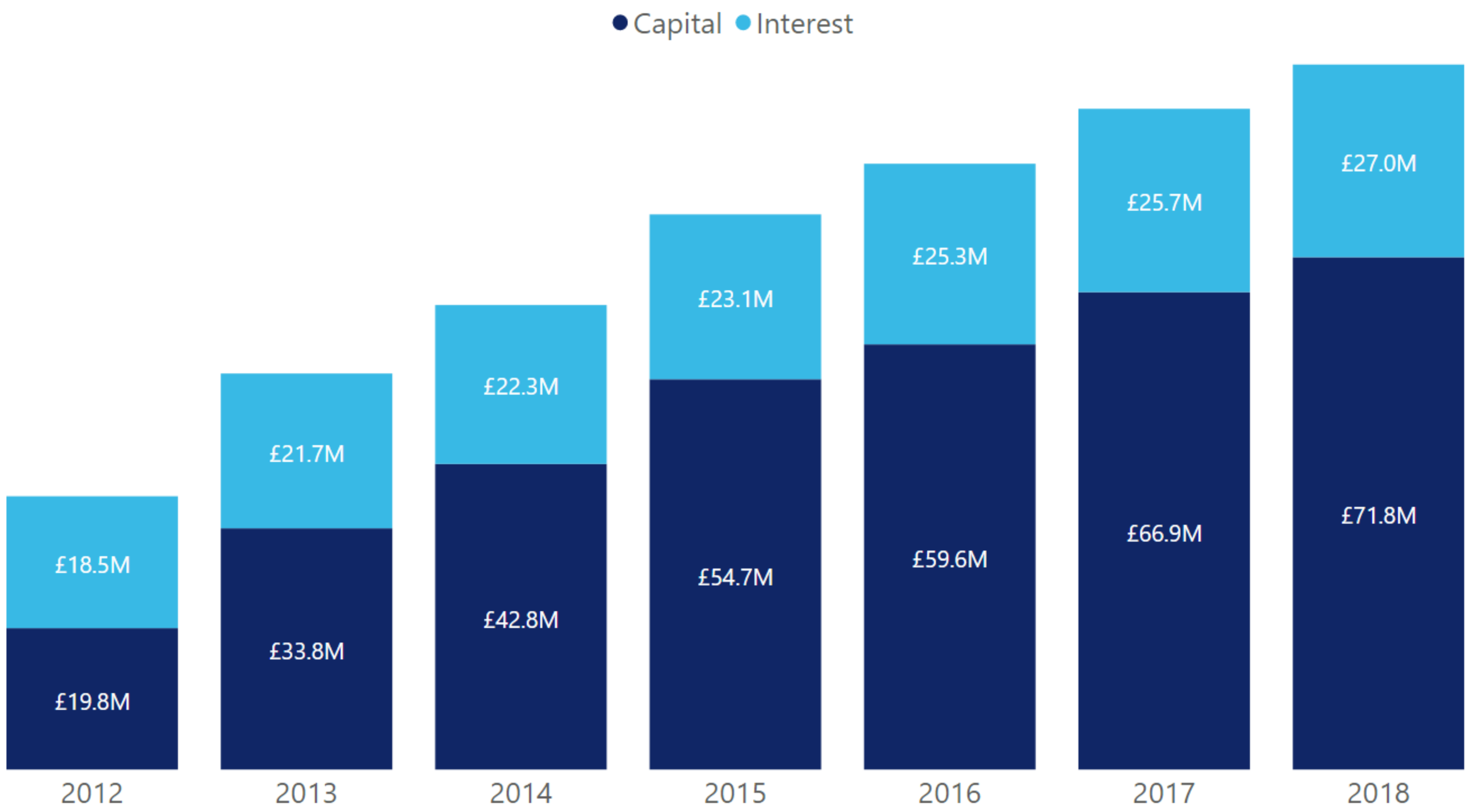
- This is 15 years after the first offer was made, with a minimum of 16 more years until the Fund's closure.



Futurebuilders revenue incoming by year

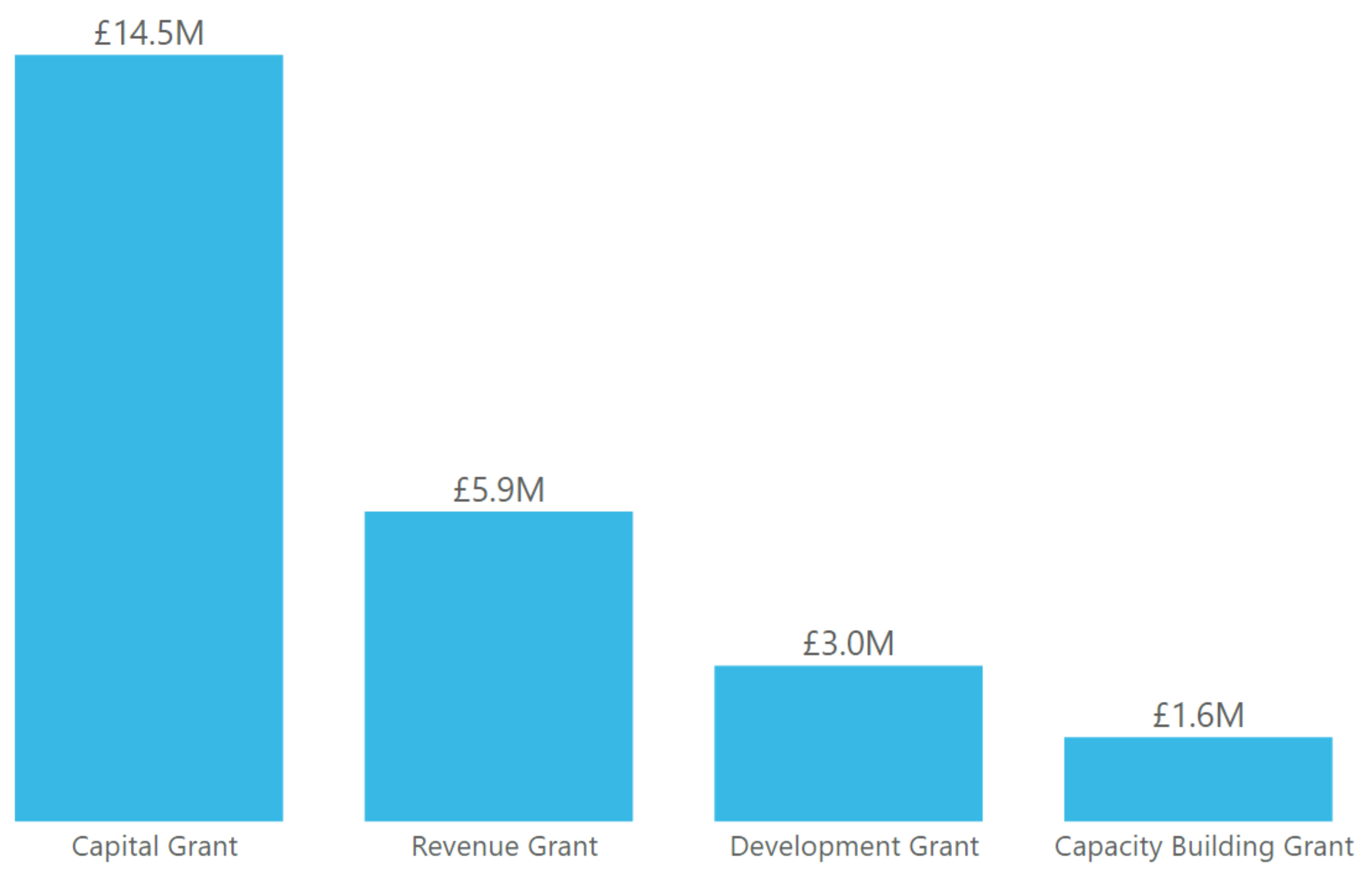
Breaking down by revenue type, we see that of the £116.6m that was repayable, £71.8m of that capital has been repaid.

- **71.7% of the book is closed** (considering £71.8m in capital paid and the £9.2m written-off



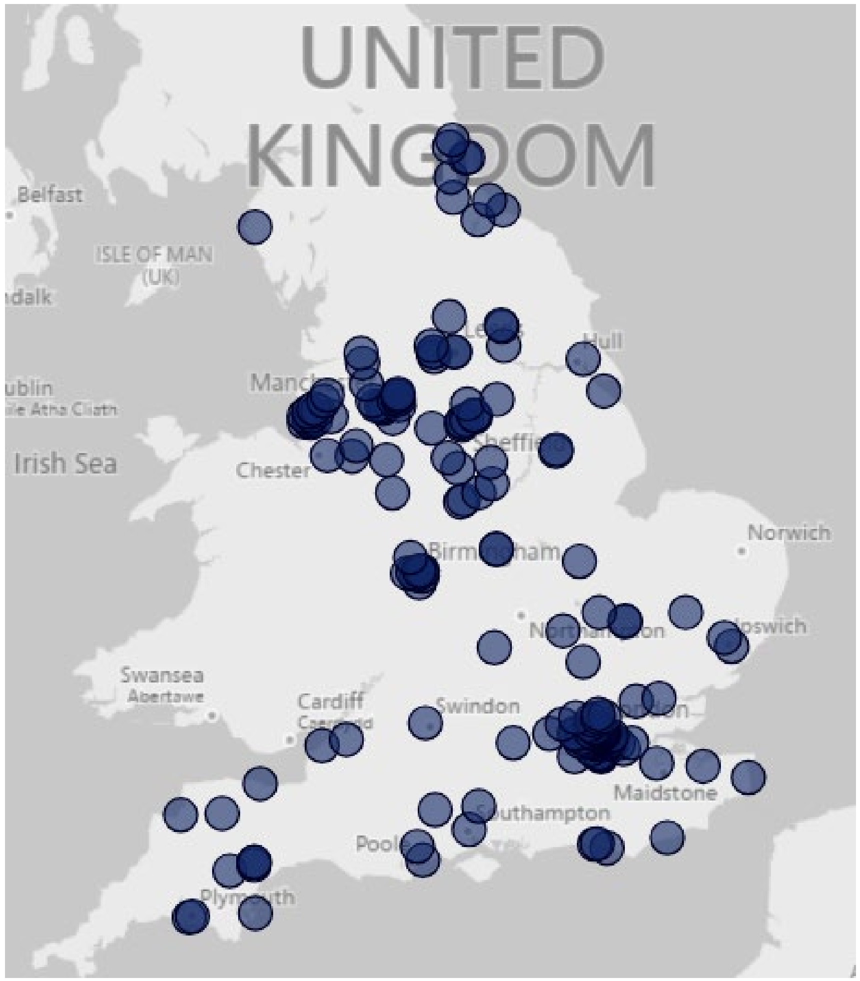
Futurebuilders purpose/project split

Of the £25m spent in grant (+- £5m pure grant, +-20m grant in a blended deal); the majority was allocated to projects whose purpose was 'capital'.



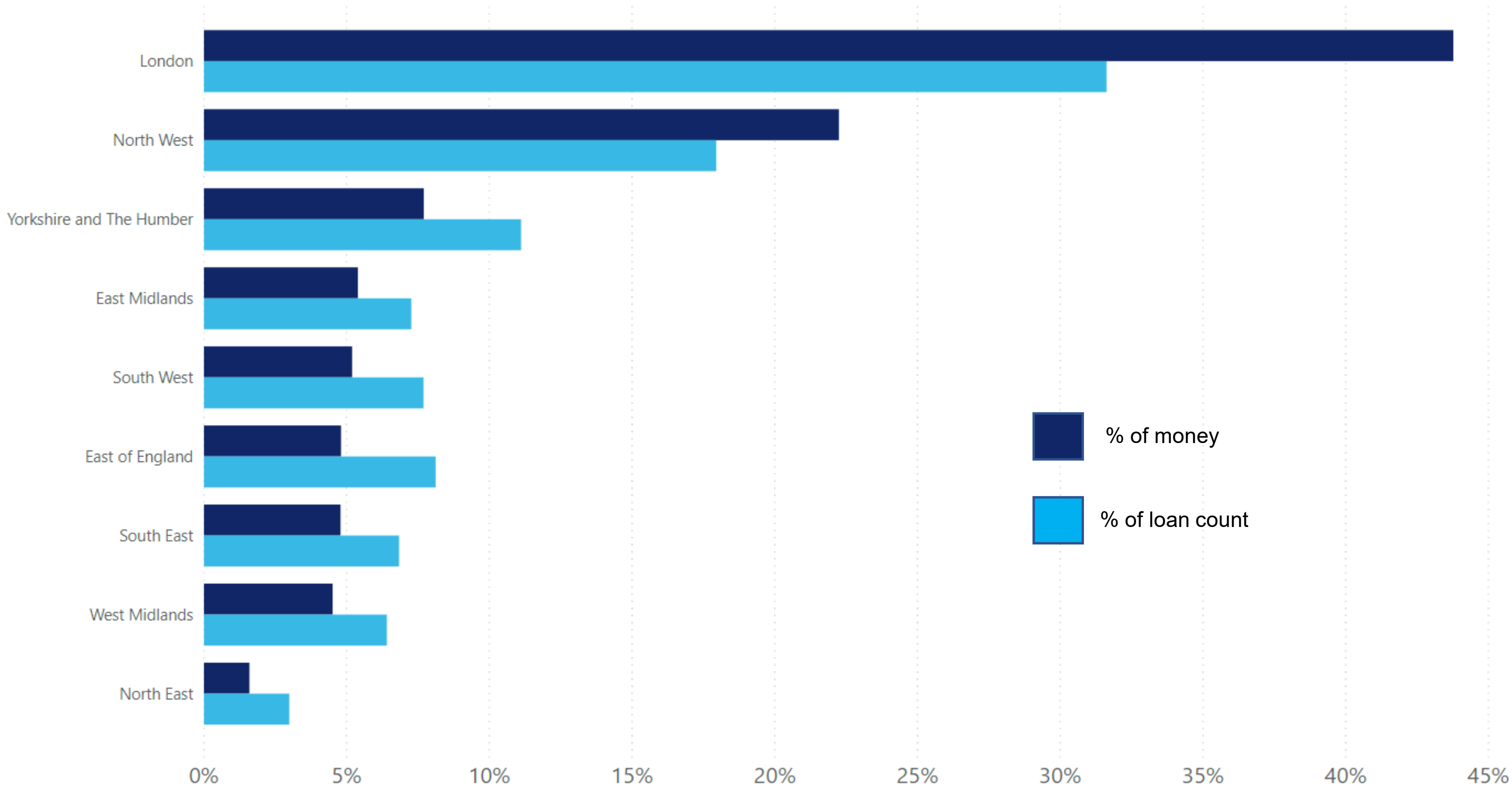
Futurebuilders investee locations

The fund had a national scope, with an increased concentration of investees in London, mainly due to HQ location being used for registered postcodes.



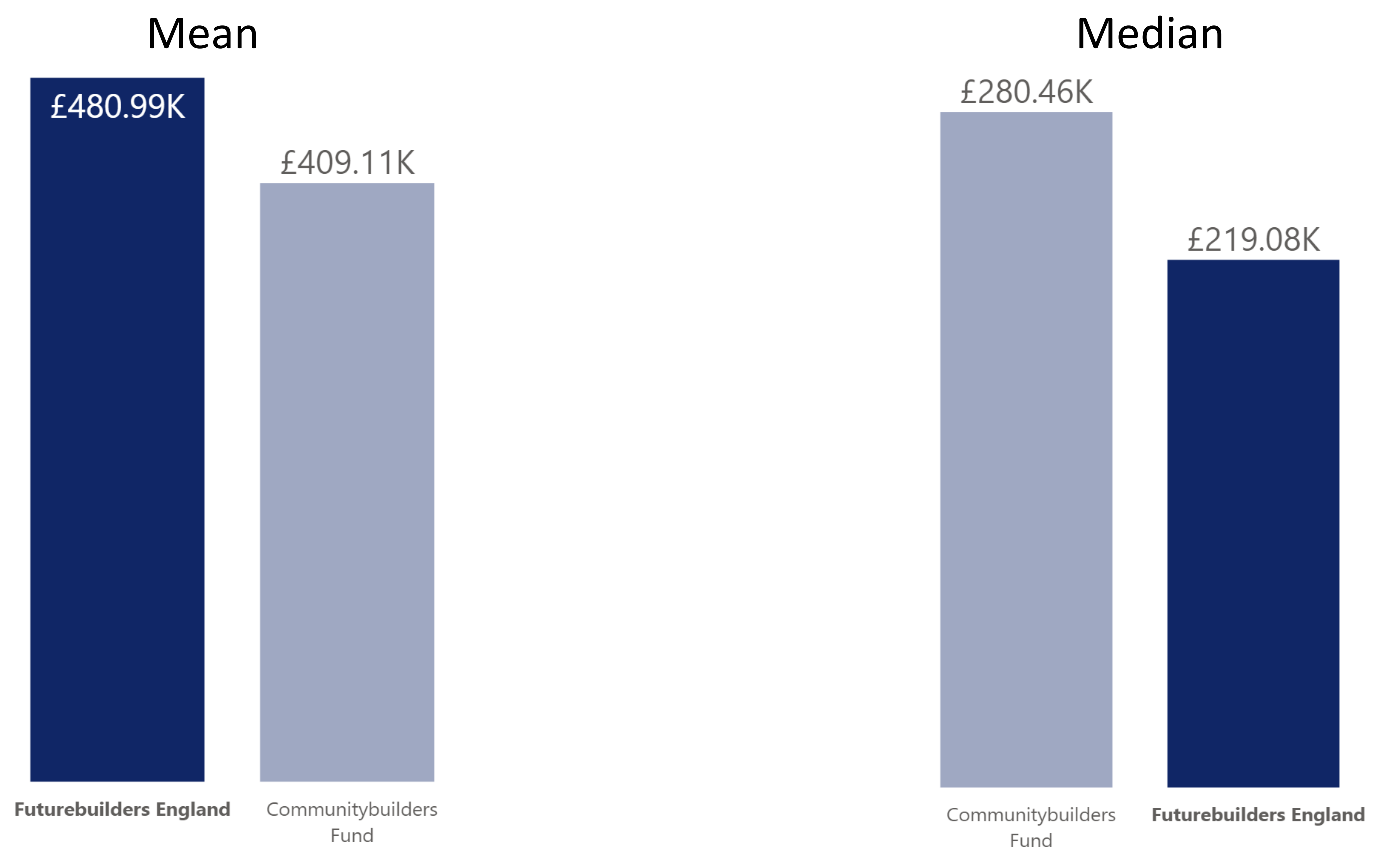
Futurebuilders investee locations

45% of total repayable finance distributed went to those in London; representing only **32%** of investees – illustrating higher average loan sizes in London. This was due to more capital investments being made in this area, as well as the HQ bias.



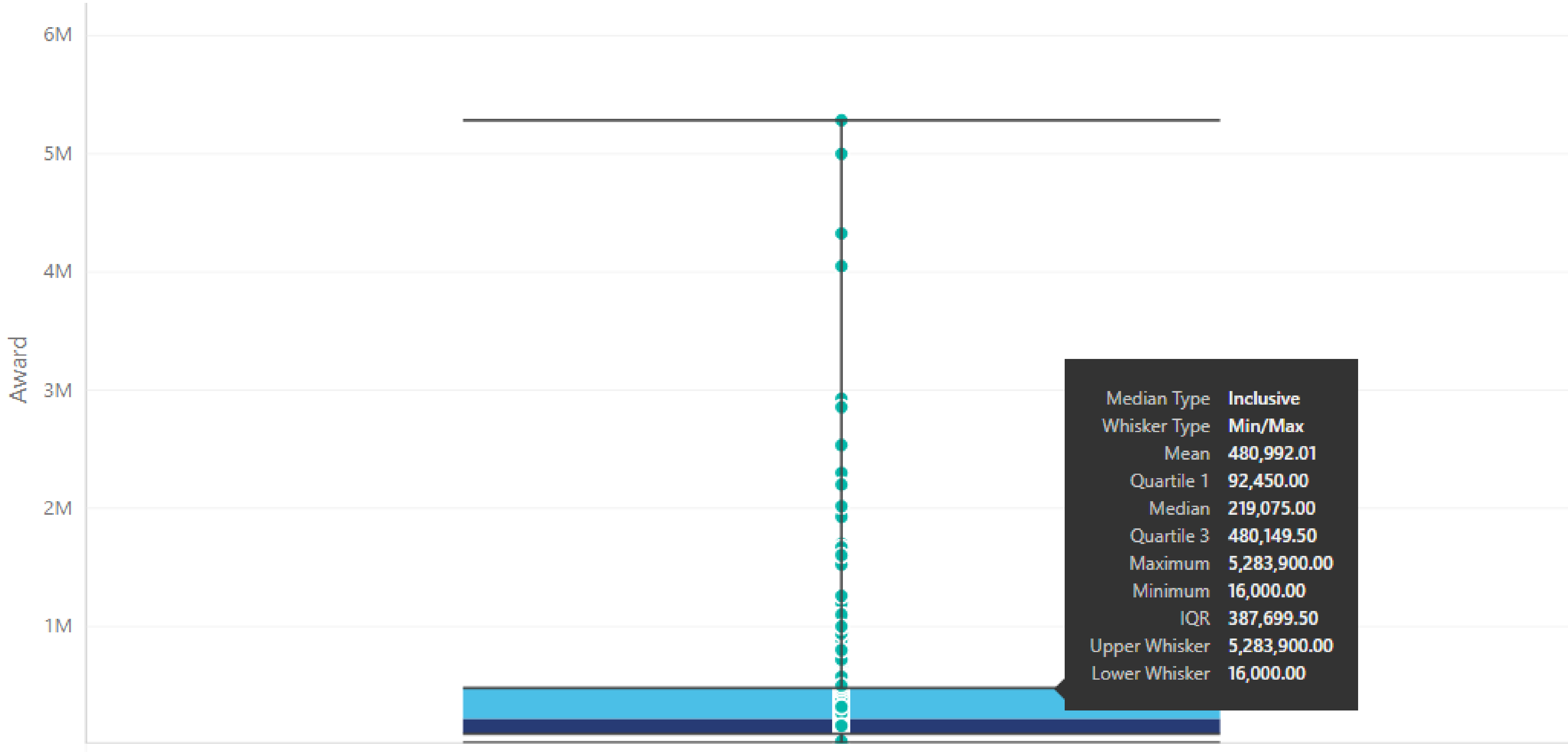
Average loan size

Larger than Communitybuilders, the Futurebuilders average size was **£481k**, although median was smaller at **£219k** *(see Appendix for a description of both funds)*.



Loan size distribution

The smallest loan was £16k, and the largest £5.3m; but **over 75% were less than £480k**. *This is substantially larger than loans currently offered through newer social investment funds (see Section G for more)*.



Futurebuilders blended deals

The Fund did **particularly well on blending grants and loans**. About £120m was spent on blended deals; and the mix proportion was heavily weighted to repayable.

- On average, when an offer was blended, the loan component of the offer was **£568,500** and the grant component was **£115,210**.

Grant mix on deal vs organisation size

Although somewhat expected, it is encouraging to see that organisations with **higher turnover** generally had **a lower portion of grant mix provided in their deal.**

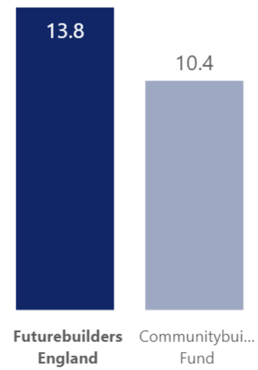
- Almost half (43.75%) of the organisations with over £5m turnover had no grant, whereas over **66% organisations with under £500k turnover had deals with at least 20% grant** portion (often reflecting a pre-investment development grant provided).

	<£100k	£100k-£500k	£500k-£1m	£1m-£5m	£5m+
0% Grant Component	0.00%	8.33%	0.00%	9.09%	43.75%
1-10% Grant Component	0.00%	4.17%	21.74%	21.21%	6.25%
10-20% Grant Component	20.00%	20.83%	17.39%	48.48%	31.25%
20-30% Grant Component	60.00%	33.33%	34.78%	6.06%	0.00%
30-40% Grant Component	20.00%	25.00%	17.39%	15.15%	12.50%
40-50% Grant Component	0.00%	8.33%	0.00%	0.00%	6.25%
50-60% Grant Component	0.00%	0.00%	4.35%	0.00%	0.00%
70-80% Grant Component	0.00%	0.00%	4.35%	0.00%	0.00%
Total	5	24	23	33	16

Note: sample shown reflects those that had Companies House turnover data at point of investment, thus not all FBE blended deals are reflected.

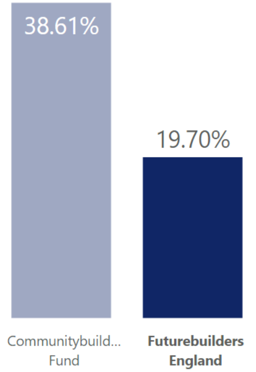
Comparative loan components

- *Note: these 2 funds were set up at different times, with unique ambitions, targeting different kinds of third sector organisations. This comparison is interesting to identify how the type of social investment deals varied in the market, but is not a true 'like-for-like' assessment (fund descriptions of Communitybuilders (CBF) can be found in the Appendix).*



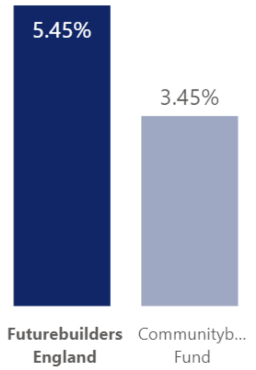
13.8 yrs

The average term of a loan under FBE is **substantially longer** than CBF.



19.70% grant

FBE had much smaller grant proportions in the offer CBF grant mix was almost double.



5.45% interest

The **average starting interest rate on a FBE loan was higher** than CBF, but taking the **macro-economic conditions into account** FBE was actually the cheapest (see upcoming slides).

In their initial offer, some loan investees were provided an option to move from 6% fixed rate to 3% variable (majority in 2014). Given the financial crisis, variable became a lot more attractive, and to ensure fairness, the Investment Committee also decided to extend this option to all investees. 37 loans changed to 3% variable as a result.

Section C:
Futurebuilders investee descriptive stats

Average Loan Recipient

* At point of initial investment (T=0)

Turnover: £712k

Employees: 30

Total assets: £498k

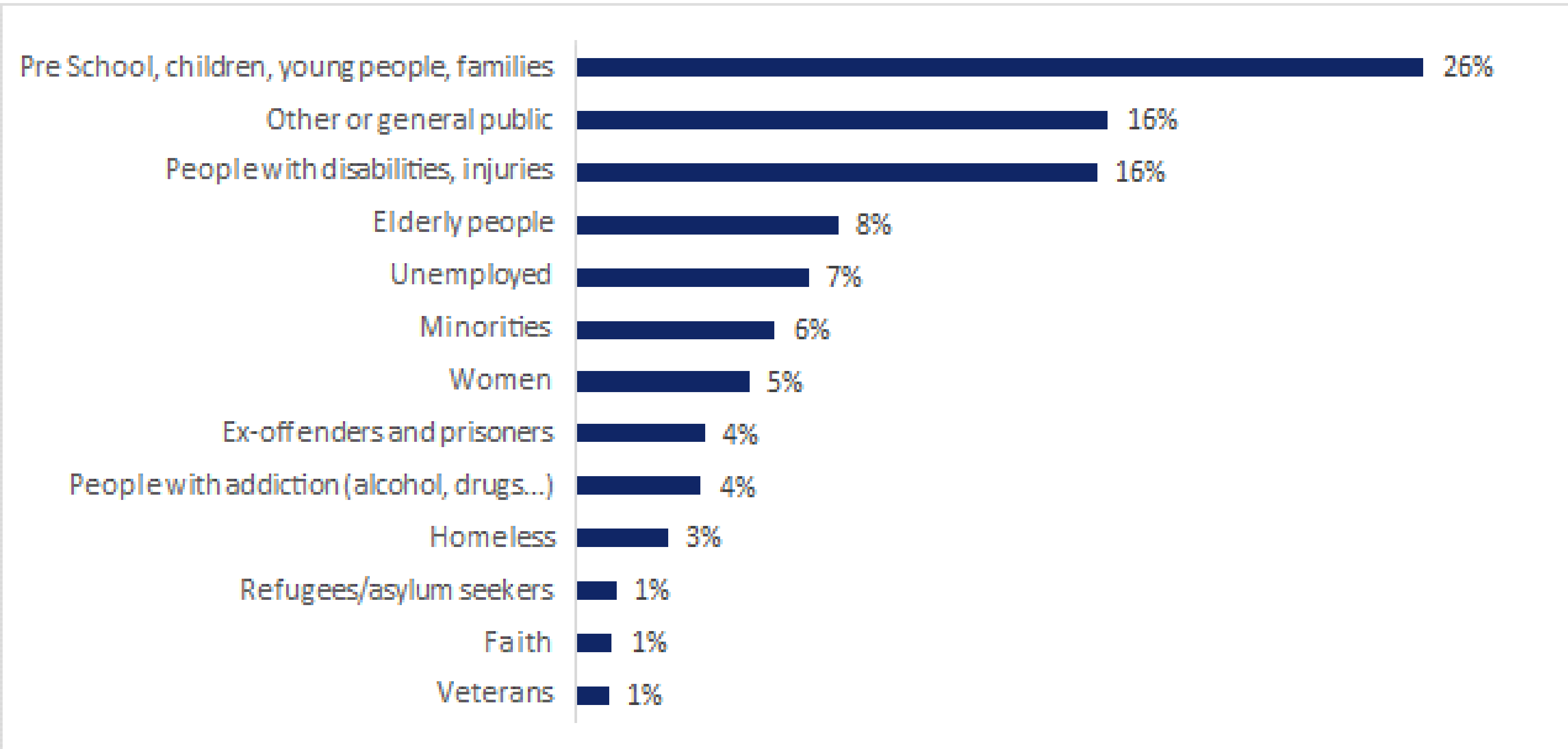
Cash: £110k

Profit: £14.5k

Total liabilities: £133k

Beneficiary groups

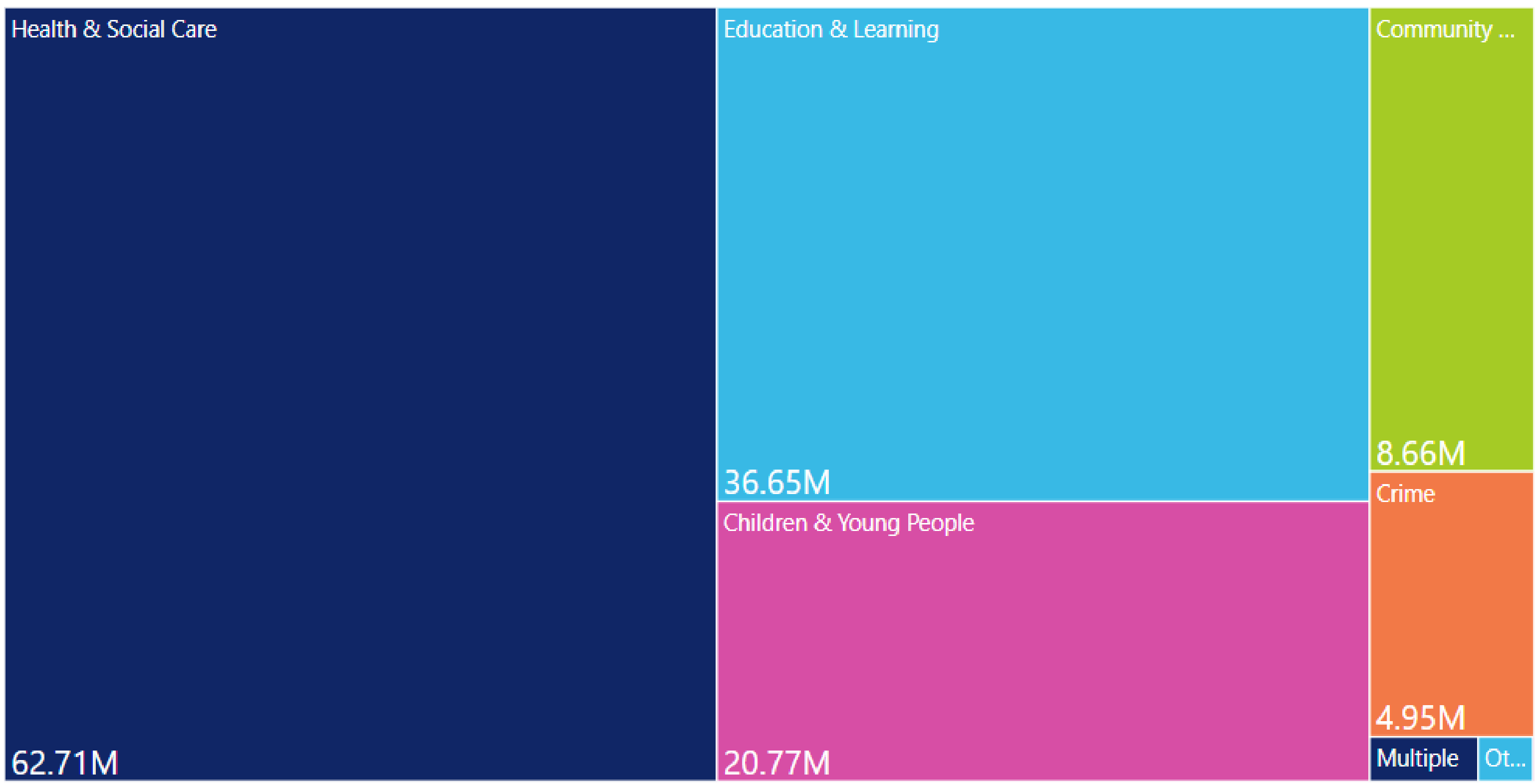
26% of Futurebuilders investees work with *'Pre school, children, young people and families',* although many would report working across multiple beneficiary groups.



Fund disbursement values by sector

Health & Social Care received proportionately larger amounts from the Futurebuilders Fund – **47% of the total Fund value** when representing 40% of the book size.

- This was a priority sector of FBE given the favourable commissioning environment at the time, and Fund objectives to spur third sector delivery of public service contracts.



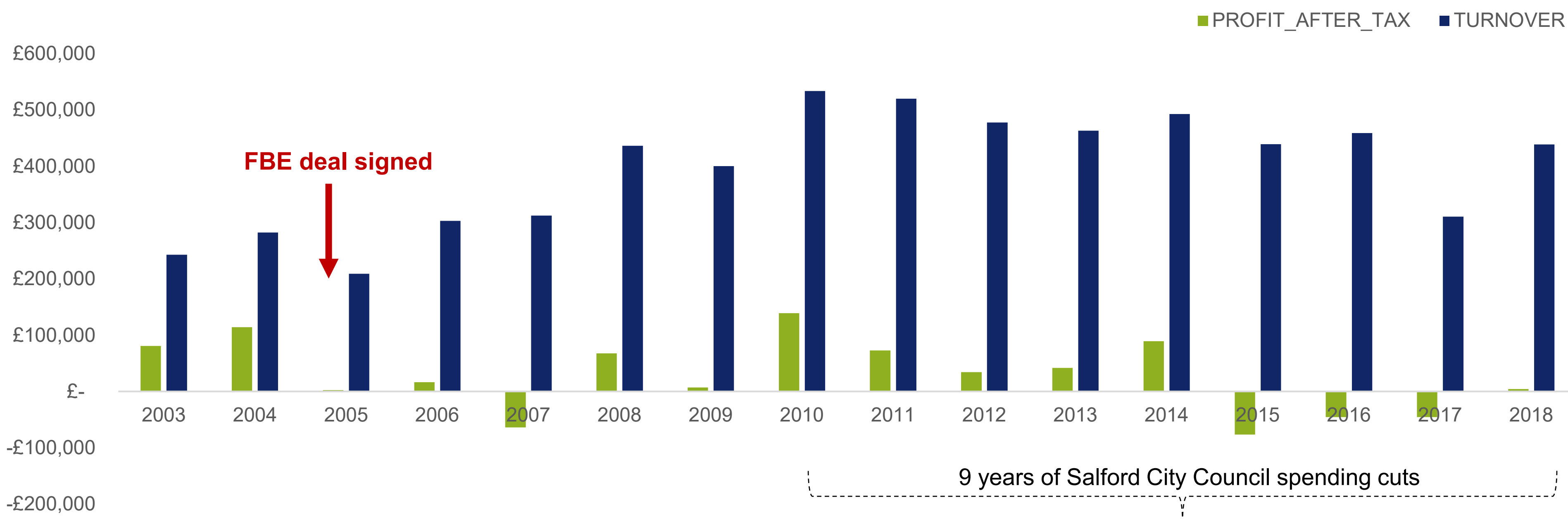
Deep-dive case study: health and social care

BASIC is based in Salford, where City Council cumulative spending cuts tally **£211m since 2010**. Critical to this has been a cumulative cut of **53% in core government funding.**

- Cuts are reportedly coming to an end with none planned for 2019/20 budgets (after £13.05m cut in 2018/19)

The health and social care sector was an attractive growth sector during early Futurebuilders investment decision phases – historically, the growth in UK public spending on healthcare allowed for **reliable commissioning contracts with generous profit margins,** thus health organisations were an **attractive investment opportunity** for social investors.

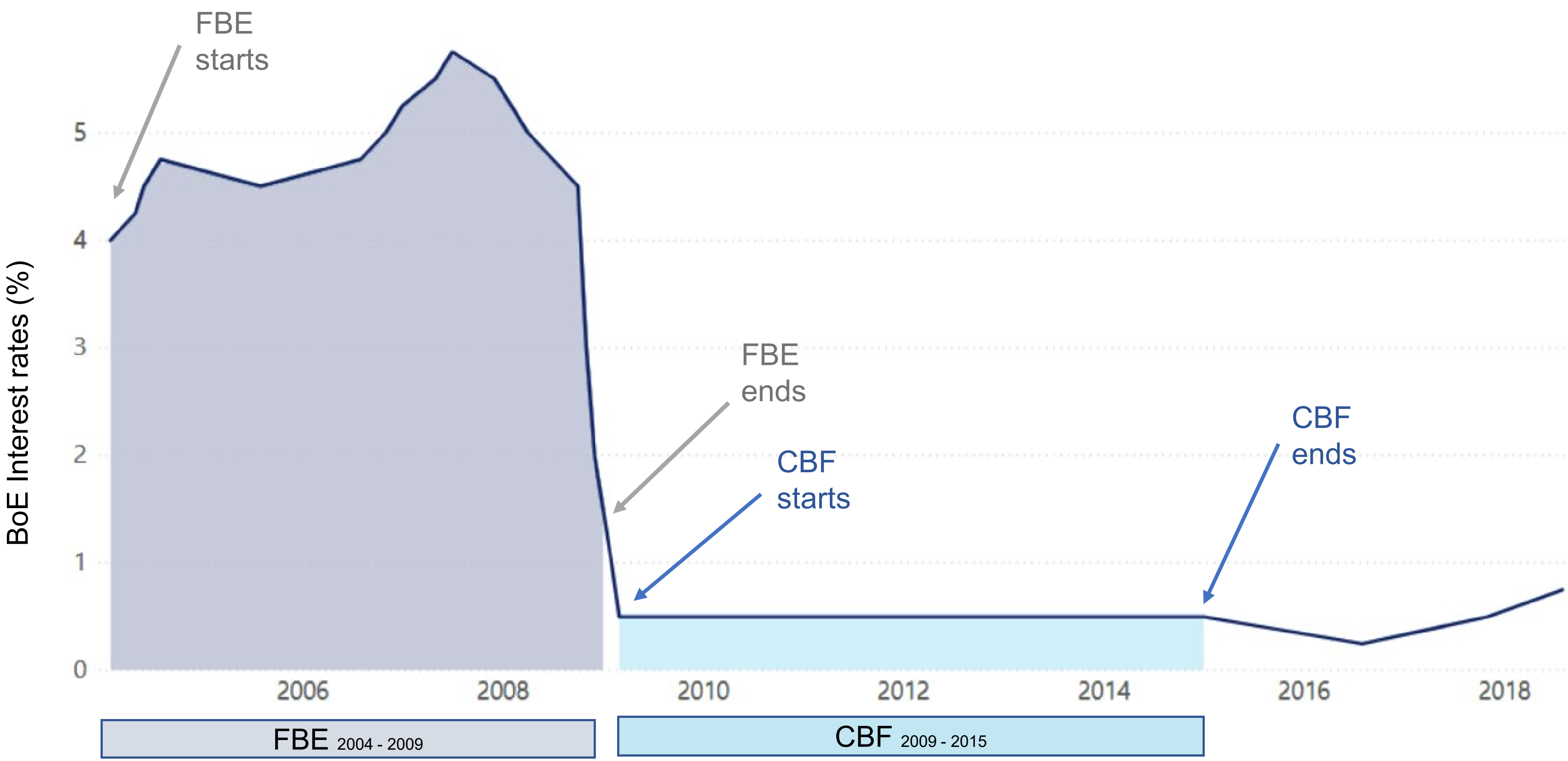
Over the last 10 years however, commissioning contracts have squeezed profit margins and health sector investee financial models have been effected. Such is the case study of **Futurebuilders investee – BASIC (brain and spinal injury charity)** below. Despite higher turnover figures post 2008, margins remained small and uneven compared to those in 2003 and 2004.



Section D
Futurebuilders fund performance analysis

Macroeconomic conditions

BoE interest rates were much higher during the Futurebuilders disbursement phase, with the financial crisis of 2007-2008 triggering substantial BoE rate cuts.



Affordability of Futurebuilders loans

Although FBE had the highest overall interest rate they are comparatively more affordable - the average FBE rate given out over BoE rates at time of offer was **2.14%**, slightly less than CBF.

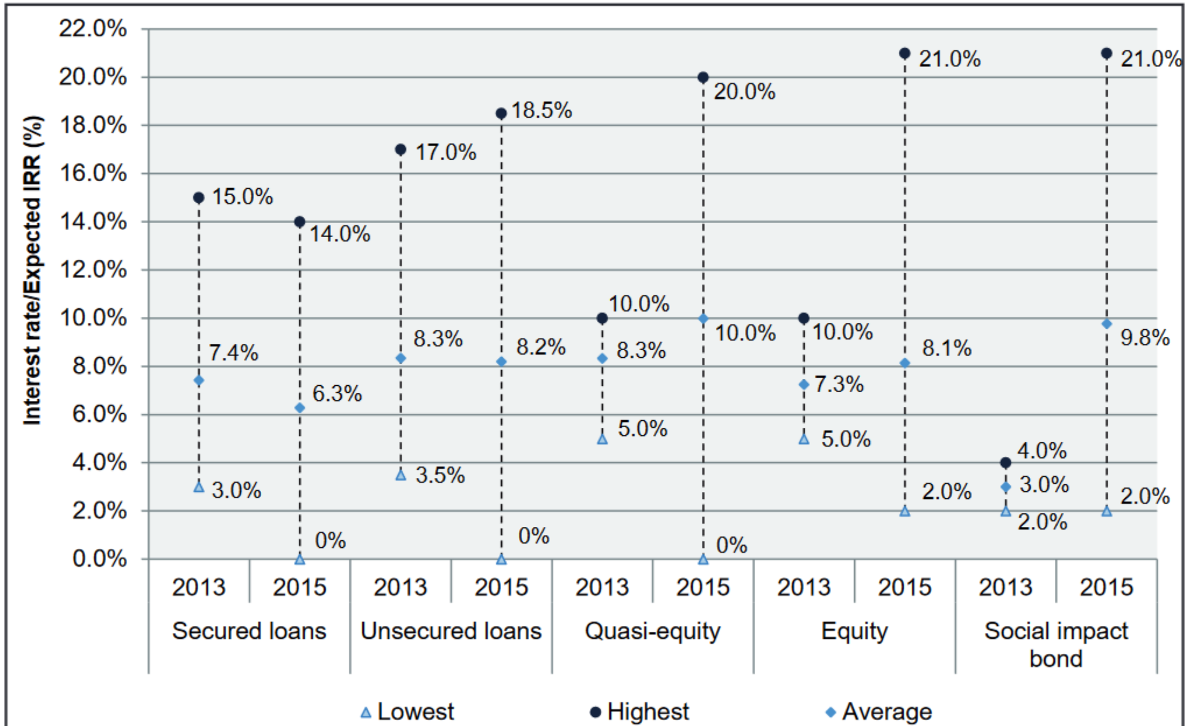
Market context: how did FBE interest rates compare to the broader social investment market?

A 2016 report carried out by ICF Consulting for the Department for Work and Pensions on SIFI social investment found:

- Average interest rates charged by SIFIs on debt finance ranged from **6.3%** (secured loans) to **8.2%** (unsecured loans).
- Large SIFIs (making at least £1m of social investments in a year) charged the **highest average interest rates** on debt finance in 2015 – 7.4% on average for a secured loan, and 9.2% for an unsecured loan.

In comparison Futurebuilders was much more affordable with a starting interest rate of 5.45%, even though the comparative BoE rates at time of Futurebuilders offer were much higher than rates in 2013 and 2015 (post the financial crisis).

Figure 2.7 Interest rate and expected IRR on social investment products offered by SIFIs (2013 and 2015)

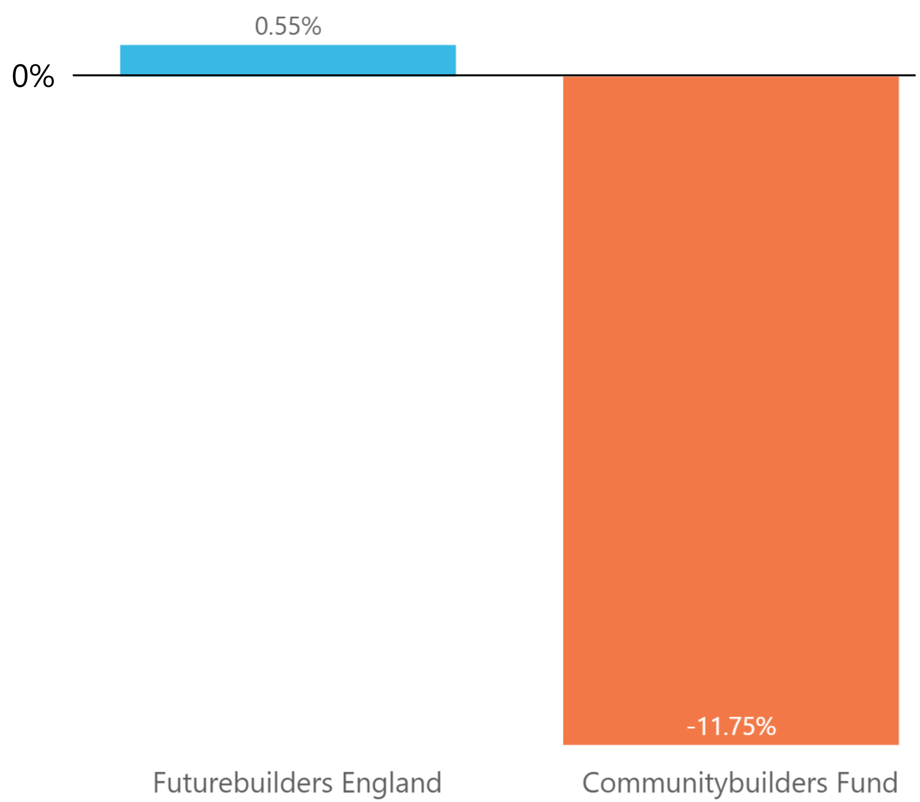


Source: 2013 data – ICF GHK (2013).
Base: 29 SIFIs (2013); 25 SIFIs (2015).
Note: Data relate to the point at which SIFIs responded to the survey, not financial years.

Subsidised loan rates

It is most helpful to reflect social investment interest rates which **takes into account the level of subsidy provided (i.e. the interest rate over the full offer).** Often social investment is seen to be ‘too expensive’ based on the loan interest rate figures, but when that is spread across the grant blend, the subsidised rates give a much more appropriate figure (which may then still be too expensive, but is a better data point to consider when making that assessment).

- For FBE subsidised interest rates were **0.55%**, this was far higher than CBF due to the comparatively small grant component provided in FBE offers.



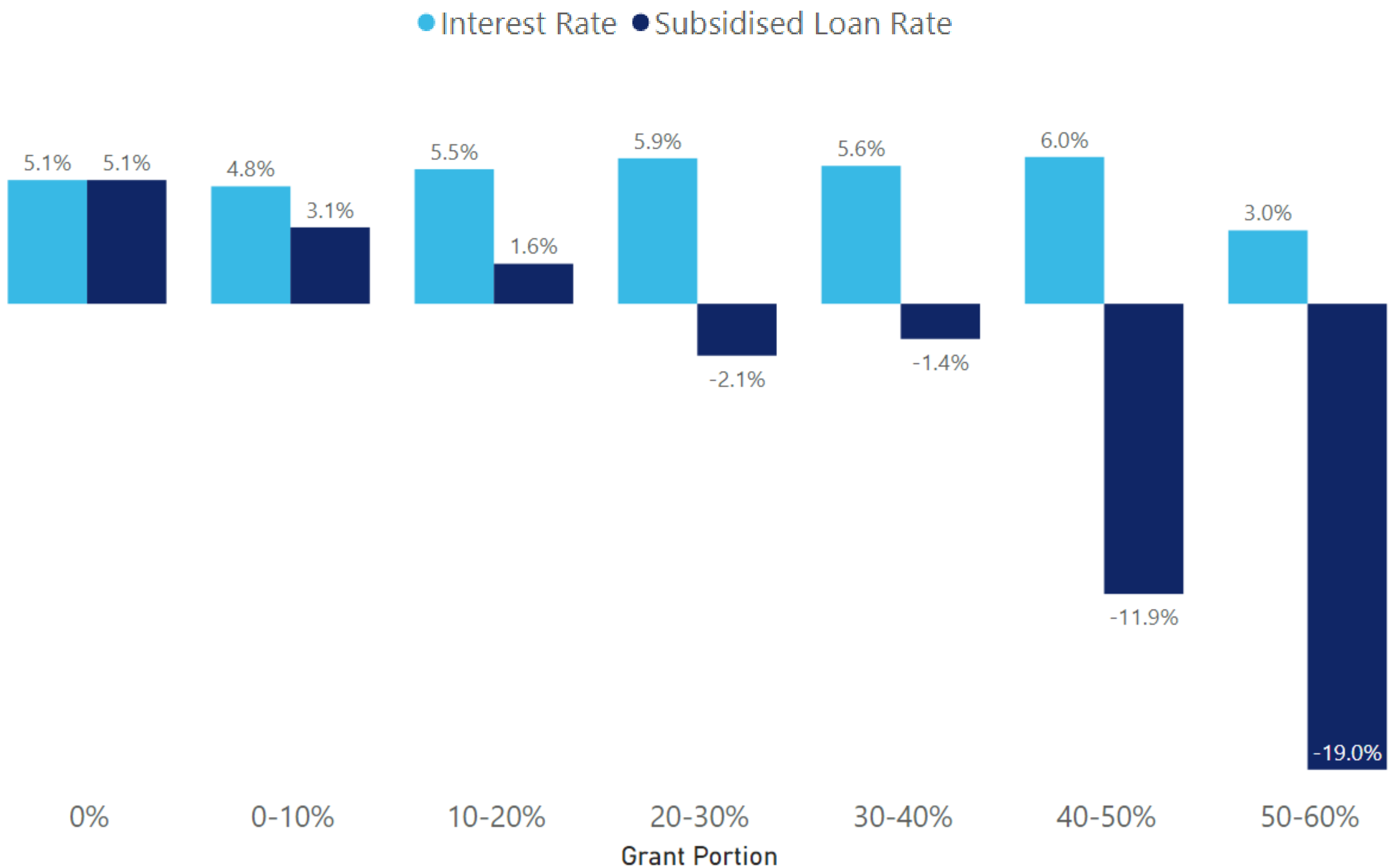
Components influencing the subsidised loan rate –

1. ↑ Loan term length: ↑ Subsidised rate
2. ↑ Grant proportion: ↓ Realised rate
3. ↑ Loan interest rate: ↑ Realised rate

Charities and social enterprises don’t always understand the depth of subsidy offered through social investment deals; how can social investors better convey this in future?

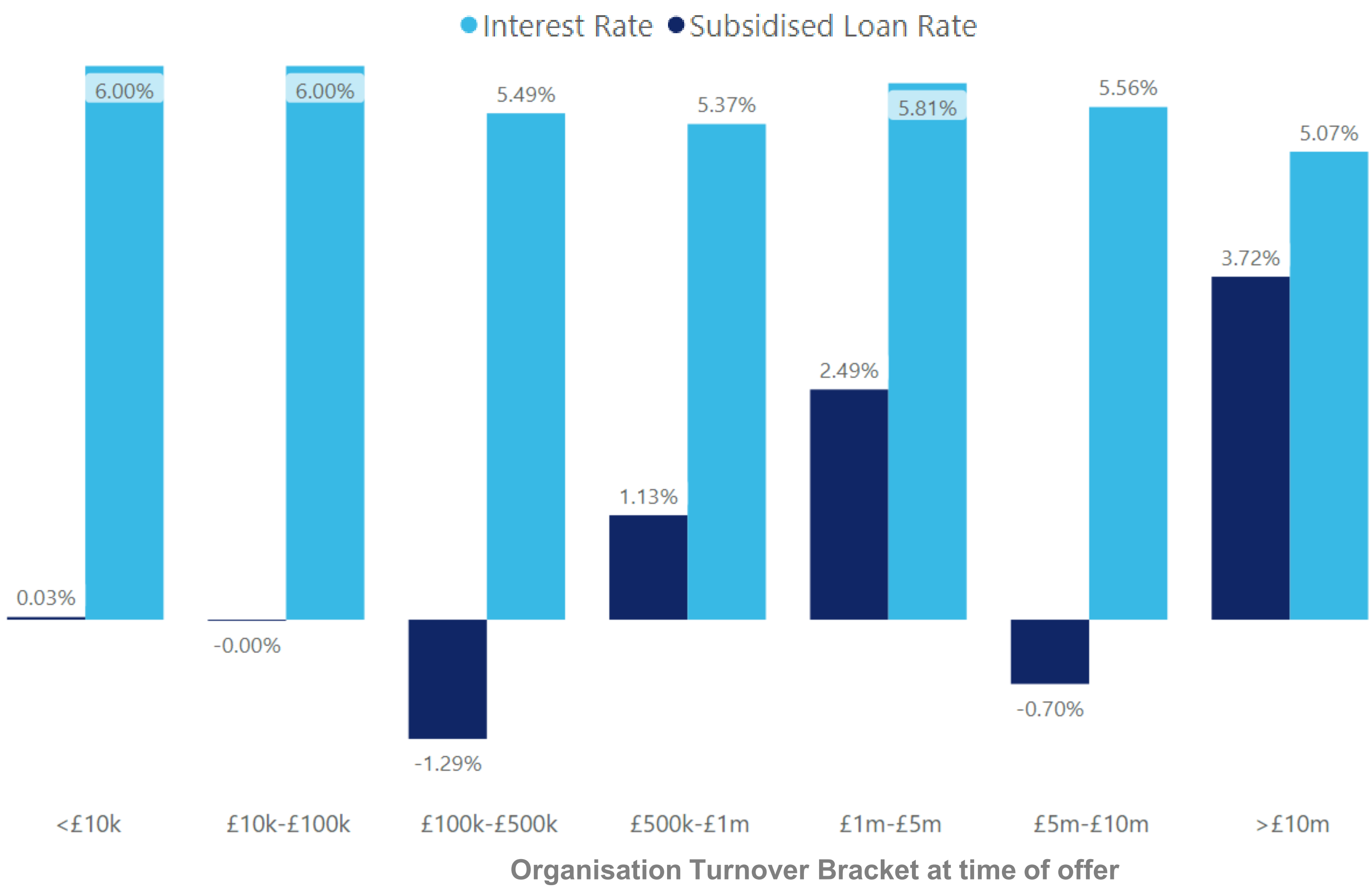
Interest rates vs. grant blend

The definition of subsidised loan rate allows us to include the grant portion into the interest rate quoted, the graph below illustrates this: i.e. for investees receiving 50-60% grant in their offer, it is more accurate to indicate interest is **-19%** (the subsidised rate), than **3%** (the rate on only the loan component).



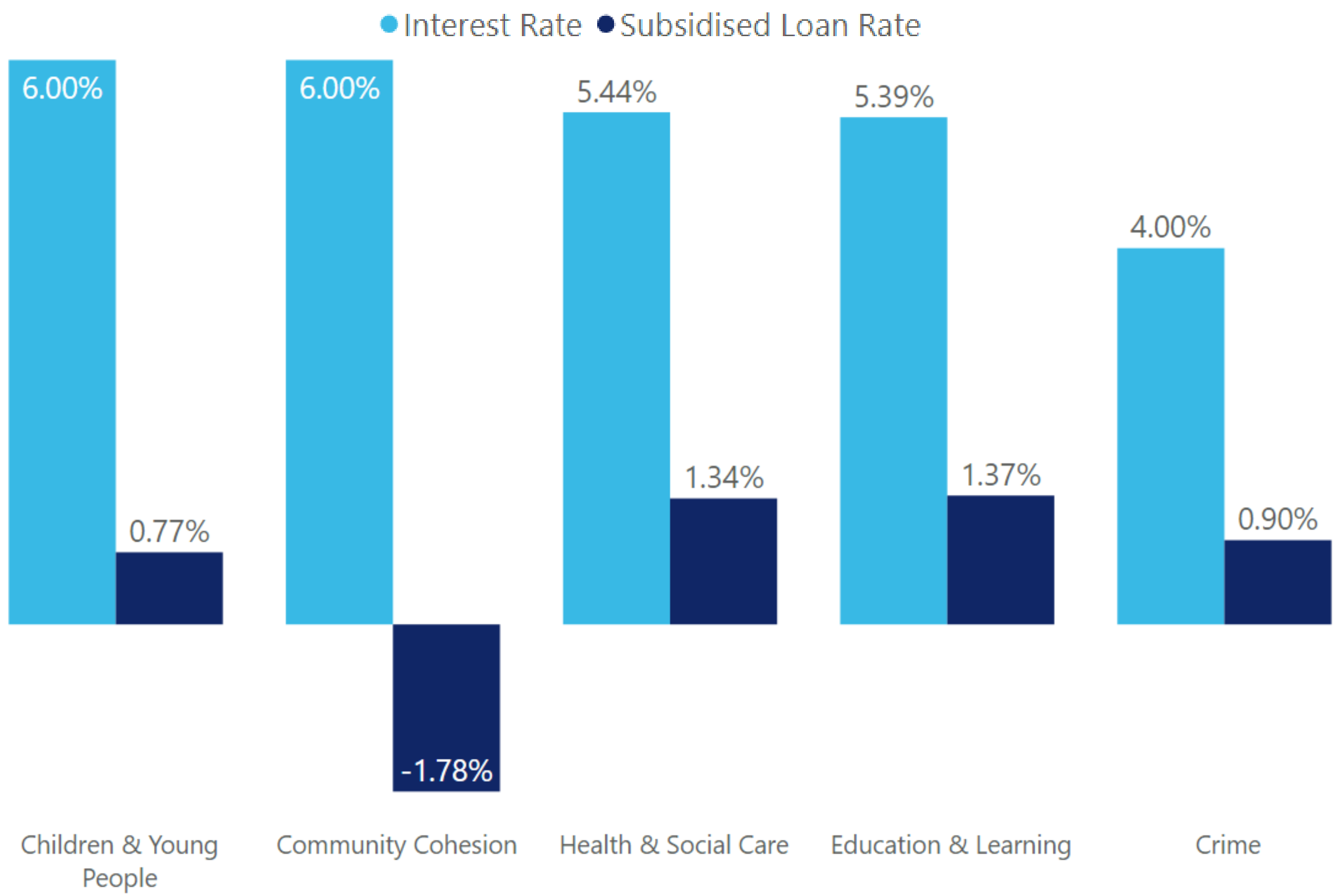
Subsidised loan rates vs. turnover

Barring anomalies at £5-£10m (sample sizes are small), Futurebuilders has been effective at charging larger organisations higher realised interest rates, and providing significantly **discounted rates to smaller organisations**.



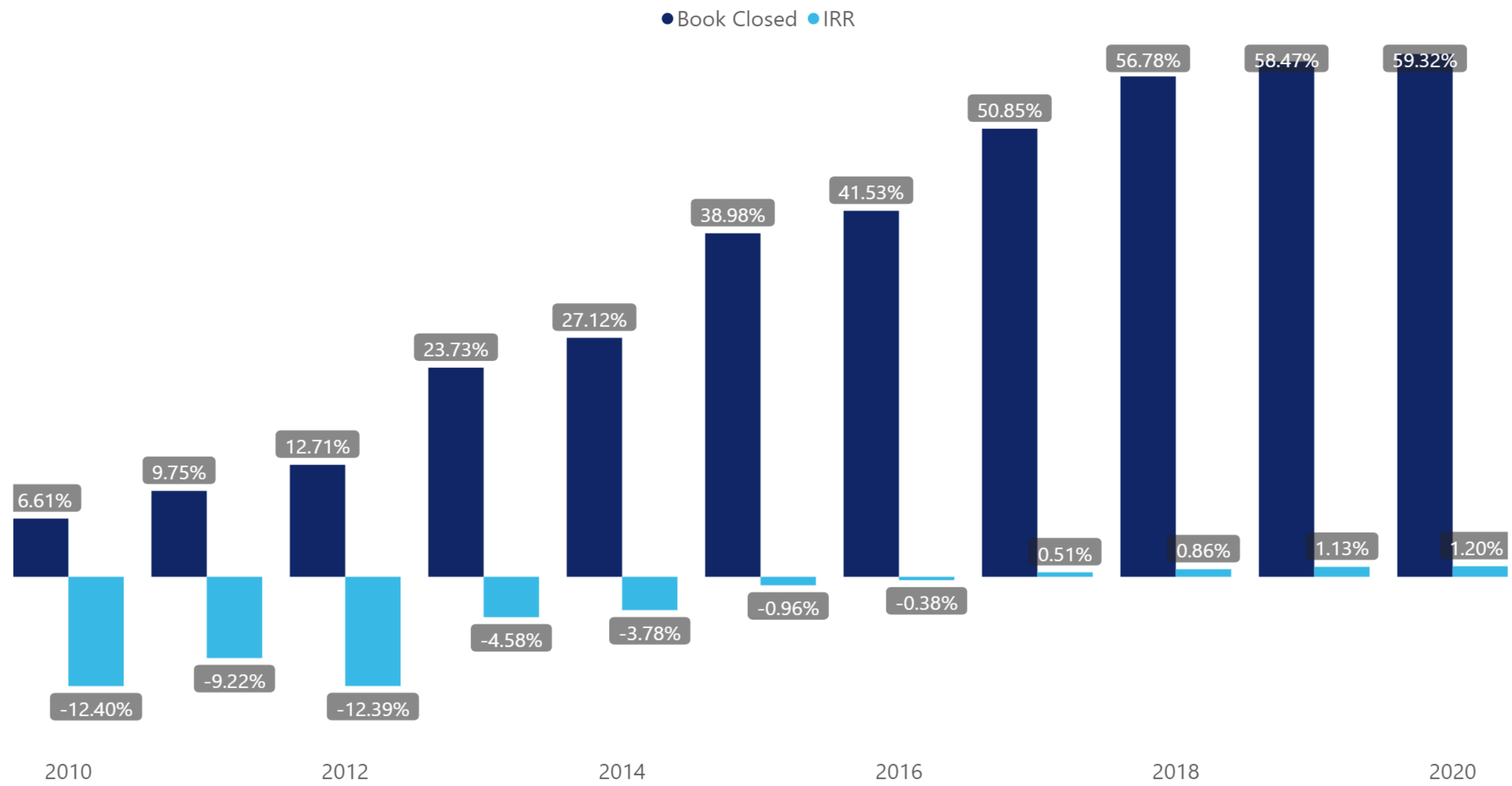
Subsidised loan rates vs. sector

Larger subsidies (i.e. lower subsidised loan rates) were given to *Community Cohesion* investees, followed by *Children and Young People* and *Crime*. This is likely due to the underlying business model and financial viability associated with different sectors, as well as the size of the organisations applying. With a positive commissioning environment at the time, *Health and Social Care* organisations business models would support higher repayment capabilities compared to a small community centre.



FB Internal Rate of Return (IRR) for Loans

Steadily increasing IRR reflects that **longer loan terms correspond to higher returns** – as of 1st May 2020, FBE IRR was 1.20%. The IRR has been calculated based on the fully closed book. We would expect IRR to continue to increase in future, as longer loan terms come into effect and larger proportions of the portfolio are closed.

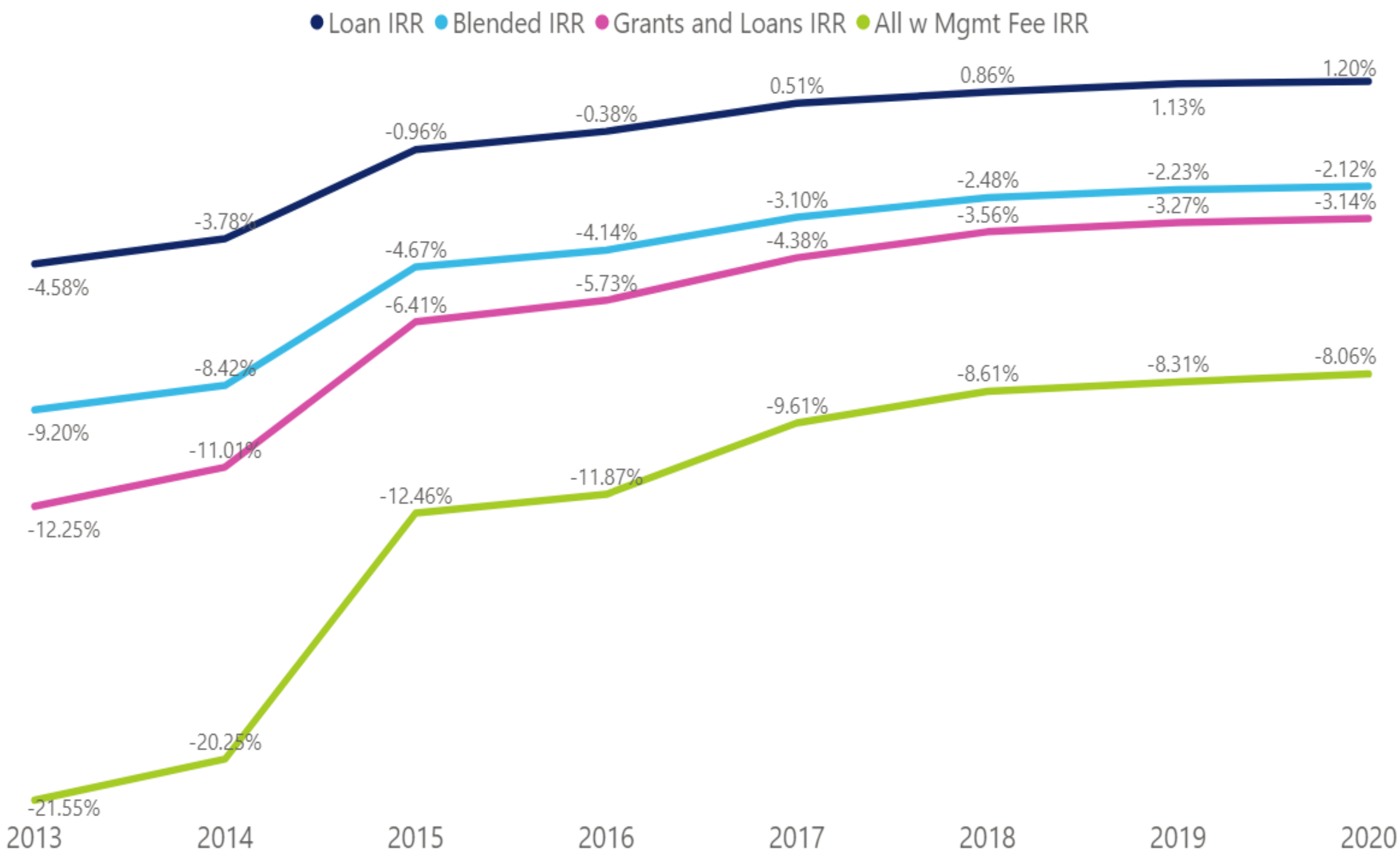


Futurebuilders IRR: Full cost of subsidy

The full cost of subsidy, as of 2020, for the Fund is -8.06%.

This includes the cost of all grants and management fees.

- While the loan IRR at 1.2% in 2020 looks more attractive, it is important to consider the full cost to the Fund as the **high-touch and flexible relationship management, contributes to stronger investee loan performance**.
- Without it, the loan performance would not be expected to be as attractive. Nor might we expect IRRs to continue to increase in future as longer long terms and patience yields start to come into effect.

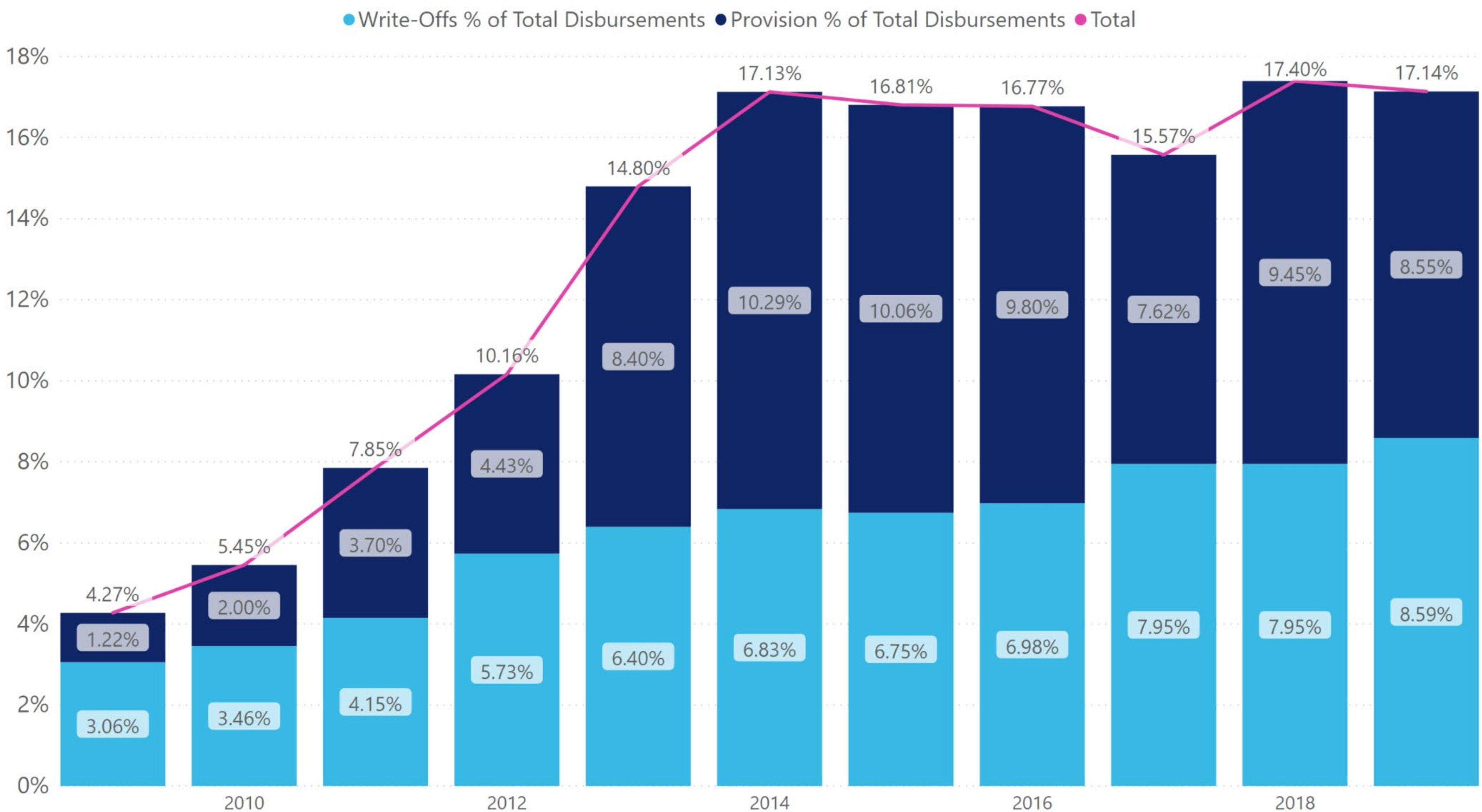


IRR definitions:

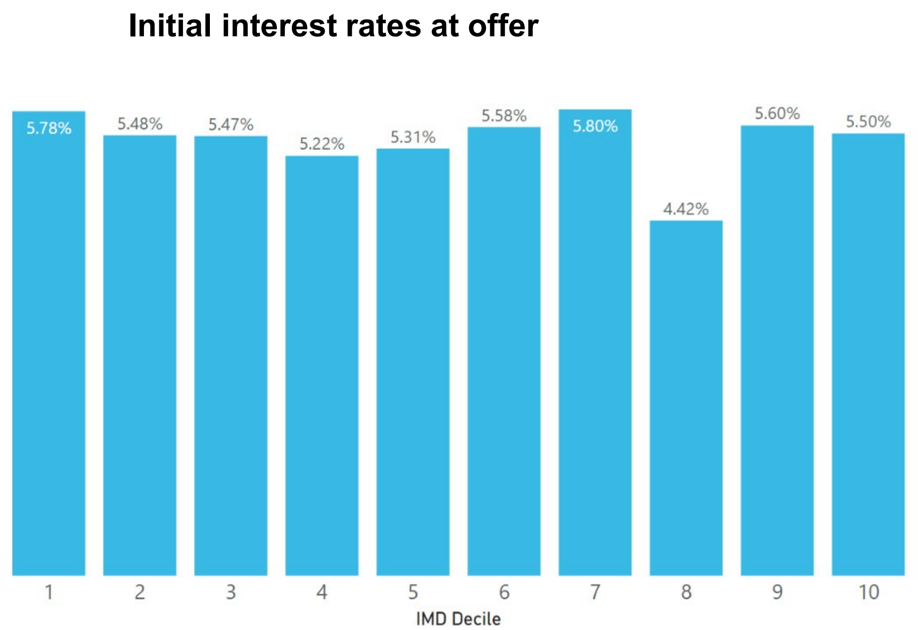
- *Loan IRR - return based loan aspect of the book. Could be in a blended deal, but only the loan portion is counted in outgoing (cost).*
- *Blended IRR –includes grants in blended deals as part of the outgoing (cost)*
- *Grant and Loan IRR – this includes even the pure grant deals in the outgoing (cost)*
- *All w/ Mgmt Fee IRR – this has all grant, blended and pure loan deals, as well as the Fund management fees included in the outgoing (cost).*

Default Rates

The write-off rate plus provision rate gives us the default rate. At **17.14% as of 2019** the fund is comfortably below the 25% target rate.

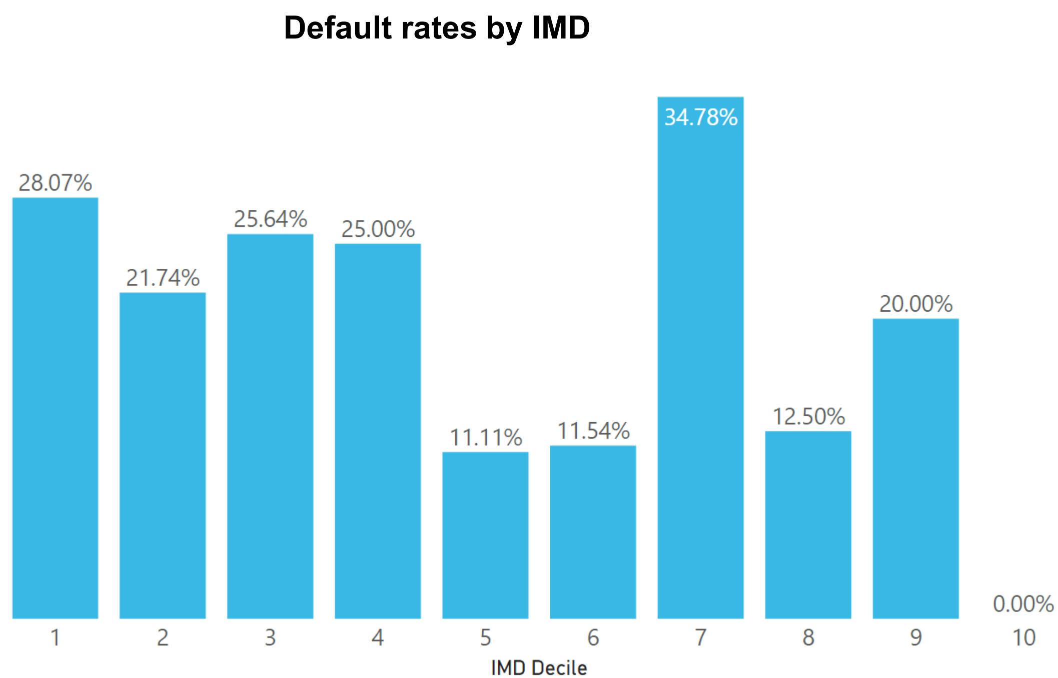


Interest rates and defaults by IMD



- Although some differences in average interest rates on loans, there is not a notable trend when looking across IMD decile. However, when grant is considered, this subsidy becomes clearer (next slide).

- With the exception of IMD Decile 7, those investees in the higher deciles **(i.e wealthier areas) correlated to lower default rates** on Futurebuilders loans.



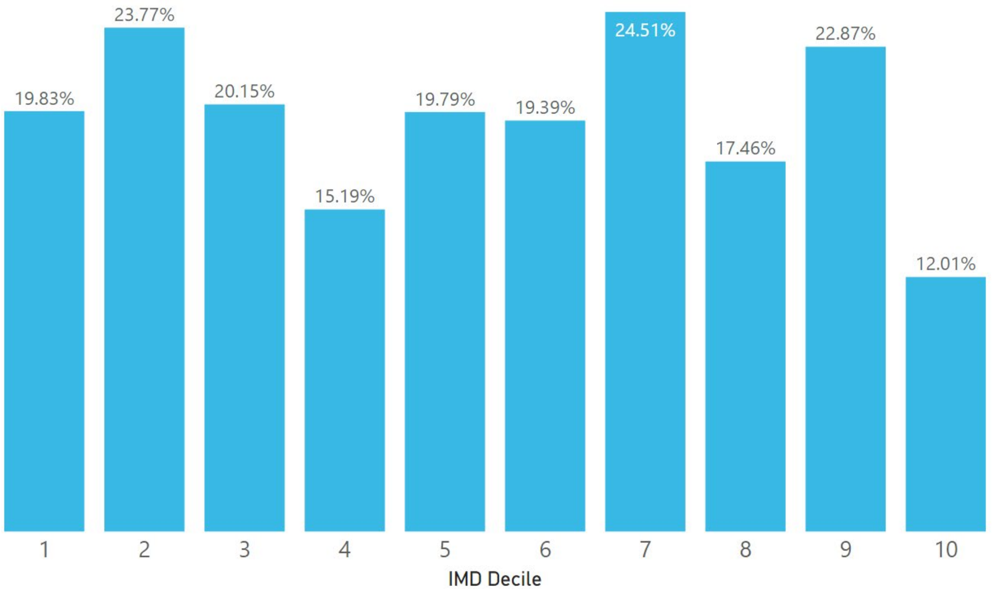
Note: Indices of multiple deprivation (IMD) where 1 = the most deprived and 10= the least deprived

Interest rates and defaults by IMD

It is important to note that the interest rates and subsidised interest rates quoted all relate to the **original deal rates.**

- During fund management, variations were a prominent feature to Futurebuilders flexibility; and **many investees have had interest rates reduced substantially** – some to 0%- as a result (see the next slide).
- Although FBE did have the ability to recycle funds in support of these variations provided.

Grant portion provided on blended offers



- Larger grant portions were provided to investees in the lower deciles, which is then carried through to the lower subsidised interest rates shown in the graph to the right.
- Decile 9 is a notable exception to the otherwise positive trend of larger subsidies provided to those in lower IMD deciles (i.e. smaller subsidised interest rates); smaller sample sizes have weighted a few investee offers more highly in this instance.

Subsidised interest rates based on original offers (i.e. includes grant subsidy)

Deep-dive case study: variations

One of the key differentiators between the commercial and social investment value proposition, is the **flexibility social investors afford to investees**. This type of responsiveness, support and guidance provided by relationship managers to individual investees can often mean the difference between a charity closing or keeping their doors open. Flexibility is tracked through variations – these can be financial or non-financial.

FBE **did not have the ability to recycle funds** in order to support additional grant or loan financing injections as a variation offer; so although support may have been drawn from other pots through the work of the relationship managers, FBE-backed financial variations were limited to interest and payment changes.

114 investees out of 247 **(46%)** of FBE loan investees were provided with **1 or more financial variations**. These include the 37 that moved from 6% fixed to 3% variable interest rates (option provided in the contracts at point of offer). Of these:

- ❑ 68.4% were interest changes.
- ❑ 18.4% were payment changes.
- ❑ 13.2% were both interest and payment variations.

Some of these would have been provided to those in distress, questions for Phase 2 include understanding the value of variations in supporting investees through times of crisis.

FBE Investee example: Derwent Stepping Stones

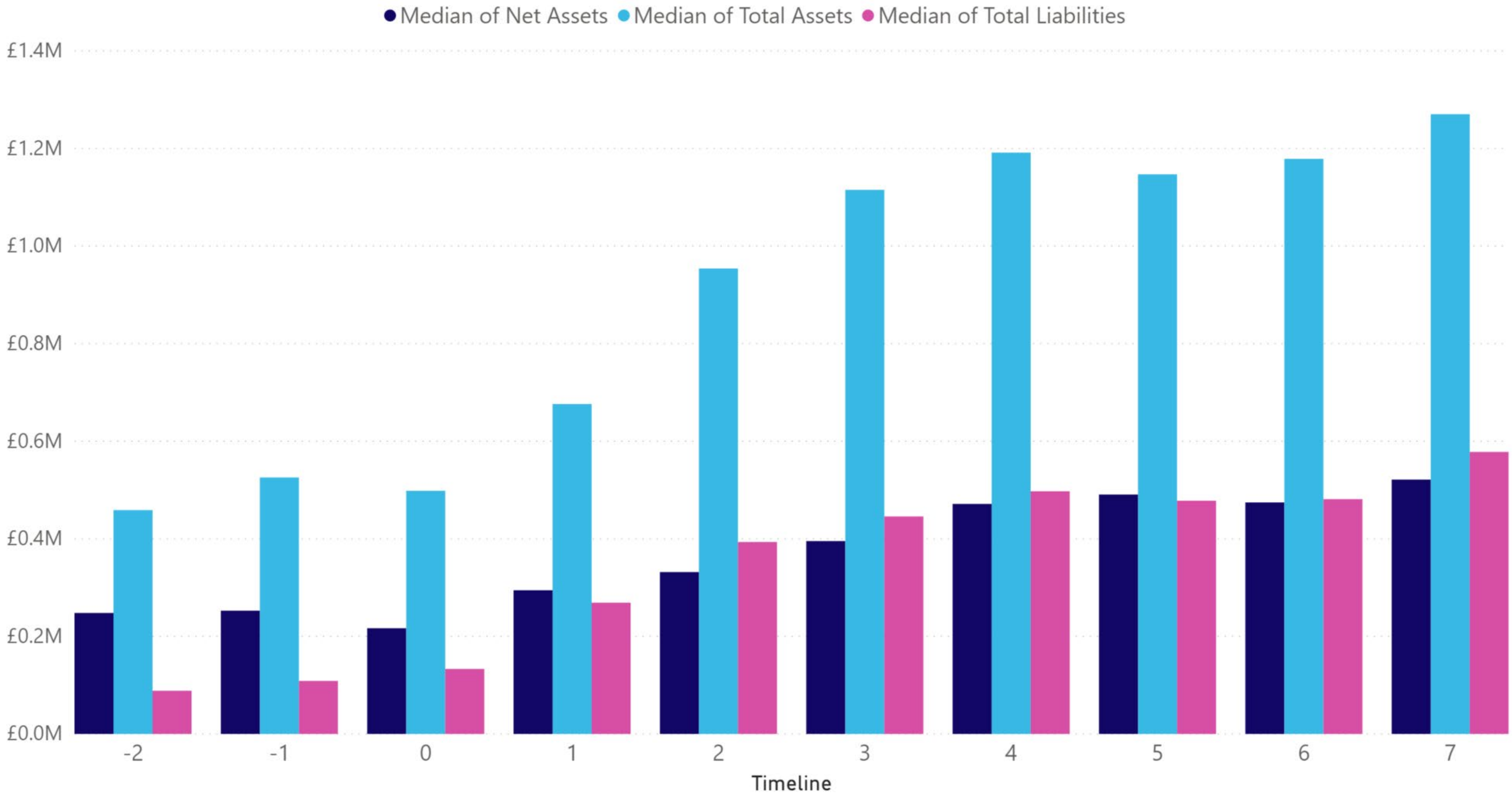
FBE deal signed 2005

March 2006	Change in loan purpose, repayment holiday
May 2007	12-month capital repayment holiday
March 2009	Capital repayment holiday
September 2016	2-month capital repayment holiday
March 2017	Capital repayment holiday extension
September 2017	3-month capital repayment holiday extension
March 2018	Monthly repayment set for £350; interest reduced to 1%

Section E
Futurebuilders investee performance analysis

Futurebuilders investee financial growth

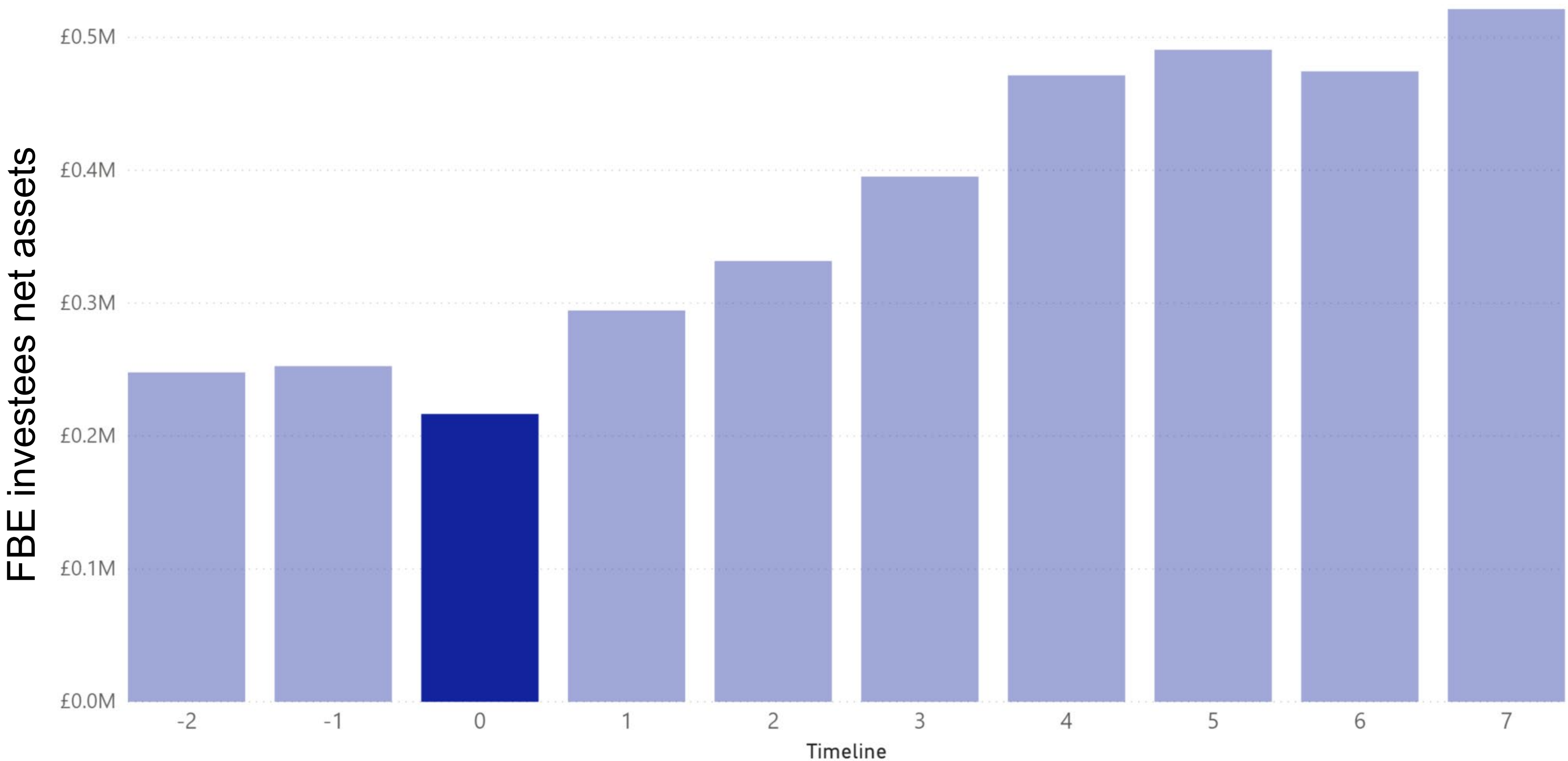
All **three financial metrics increased over time** - total assets increased sharply from point of FBE investment and, while liabilities have also grown, this has been slower than asset growth. The impetus of FBE investment seems to have subsided by T=4.



Definitions: Timeline refers to the number of years since a Futurebuilders offer for a specific investee. This caters for the fact that money was disbursed across different years in the 2 phases. T=0 is the year of offer.

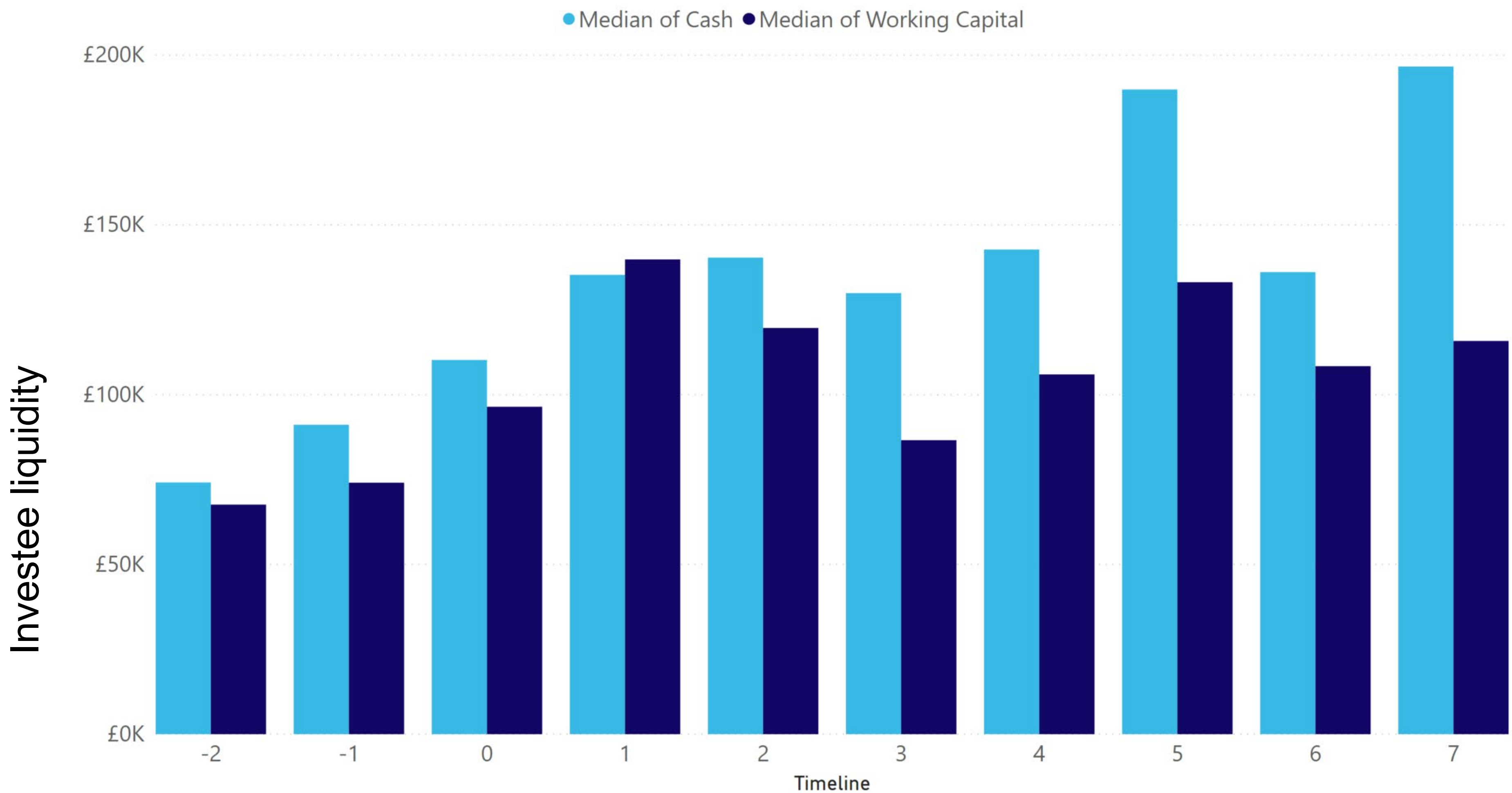
Investee financial growth: net assets

FBE investment has contributed to a **higher median net asset 'steady state'** for investees - since receiving FBE investment, organisations increased net assets for 4 consecutive years, plateauing at a around **£500k in Year 4 -7.** This also shows that FBE investees are not high-growth businesses like a Silicon Valley start-up comparator. Social investment achieved a modest increased state, but did not, and should not be expected to, follow increasing yield curves.



Investee liquidity: cash and working capital

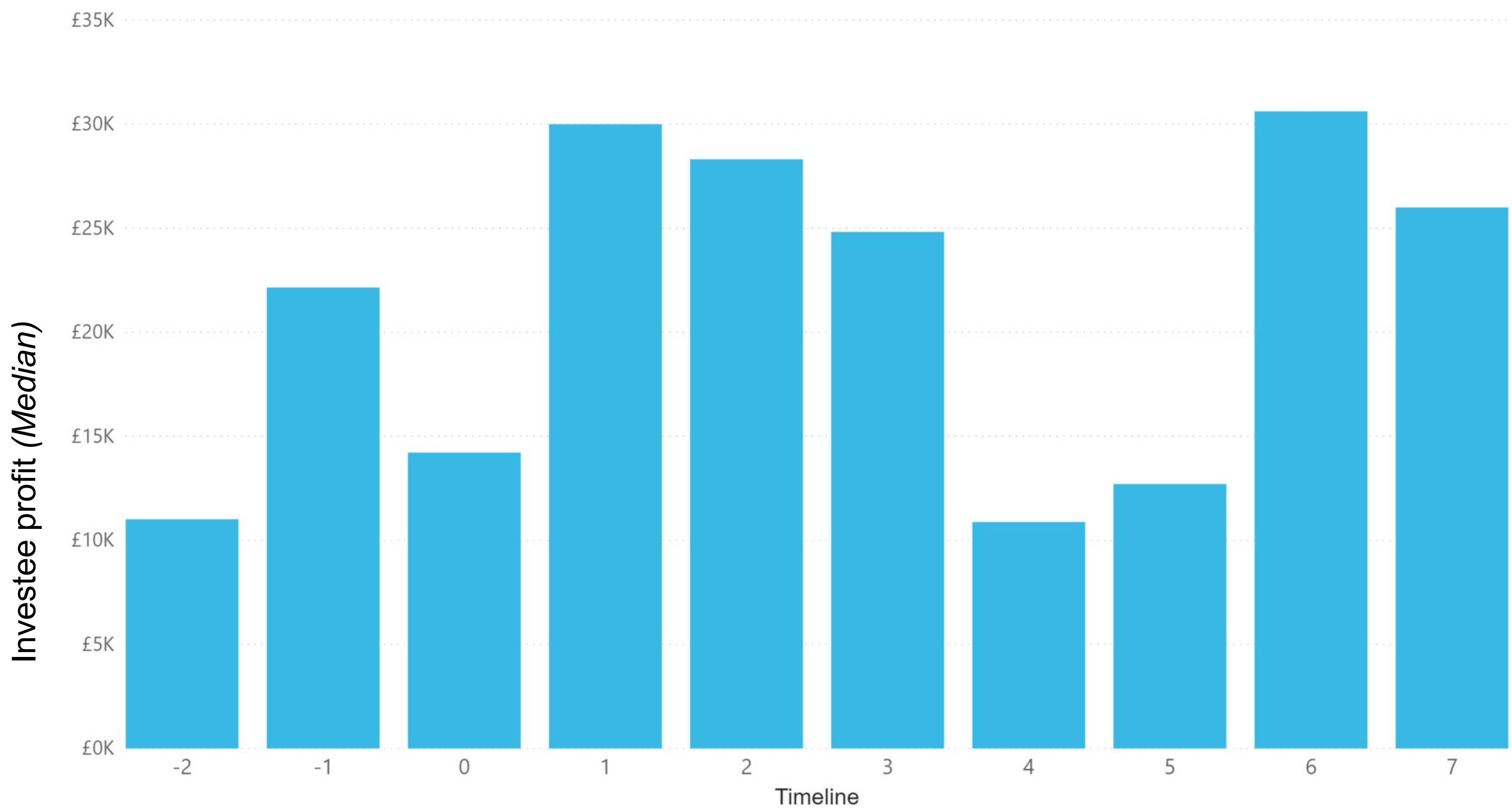
Both cash and working capital are more volatile than asset changes, but still fluctuate around a higher middle point post investment compared to pre. This is encouraging as higher liquidity leads to **more flexibility**, meaning that organisations are better able to deal with unexpected threats.



Investee financial growth: profit

Investees experienced profit increases immediately after FB investment, with higher profits sustained for 3 years post investment. Median profit is still quite small – **peaking at £30k** as maximum- but it is good to see that **third sector organisations are sustainable on balance.**

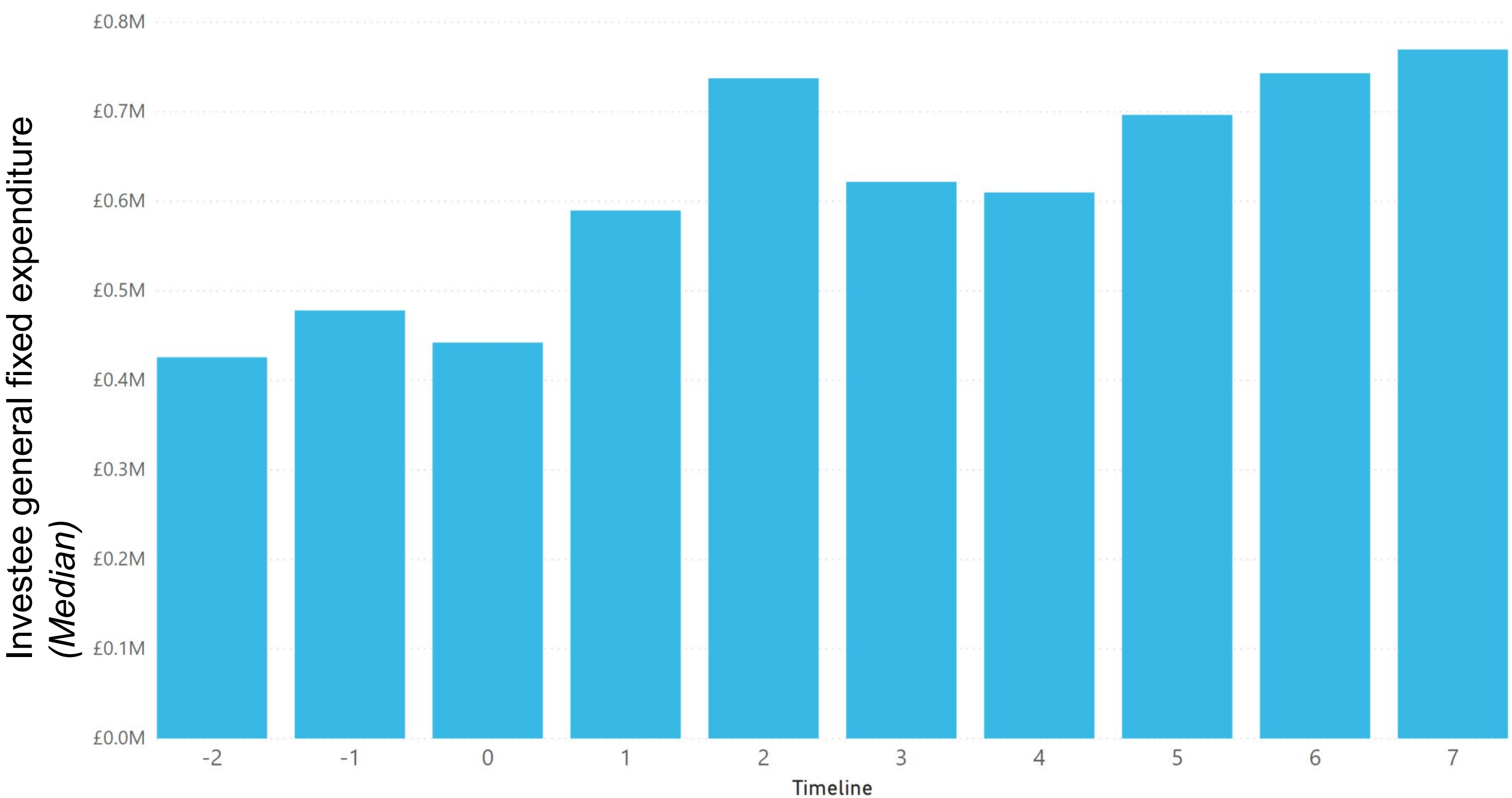
- There is an interesting **cyclical profit trend emerging:** tapering in year 4 and 5 and increasing again in years 6 and 7. With a multitude of potential influencing factors, including whether or not profits may have been reinvested, profit will be further investigated through qualitative data collection.



Investee Resilience: General fixed expenditure

Reducing general fixed expenditure is a popular measure to deal with an economic downturn; and if an organisation has a higher (but not unsustainably high) general fixed expenditure base, they are better able to weather economic or financial shocks. In a post-financial crisis report in 2010, the Charity Commission found that **59% of large charities cut general fixed expenditure to deal with the economic downturn experienced**.

Encouragingly, Futurebuilders investee general fixed expenditure is **66% higher 2 years post-investment**.



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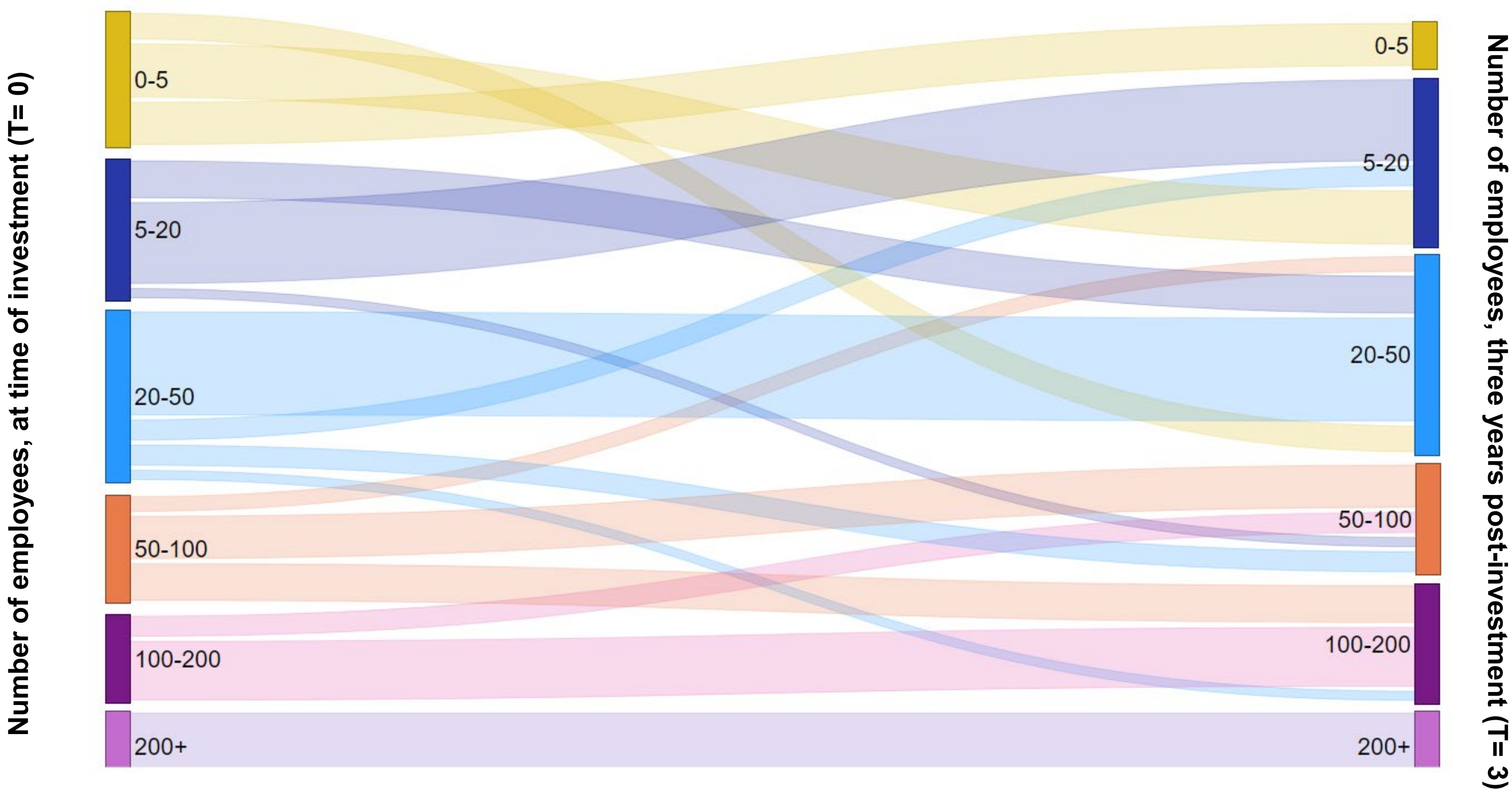
Section F
Futurebuilders investee economic impact

Changes in employment brackets

3 years since receiving FBE investment, organisations increased their employment figures by **15.61%** - from 11,410 (T=0) to 13,191 (T=3).

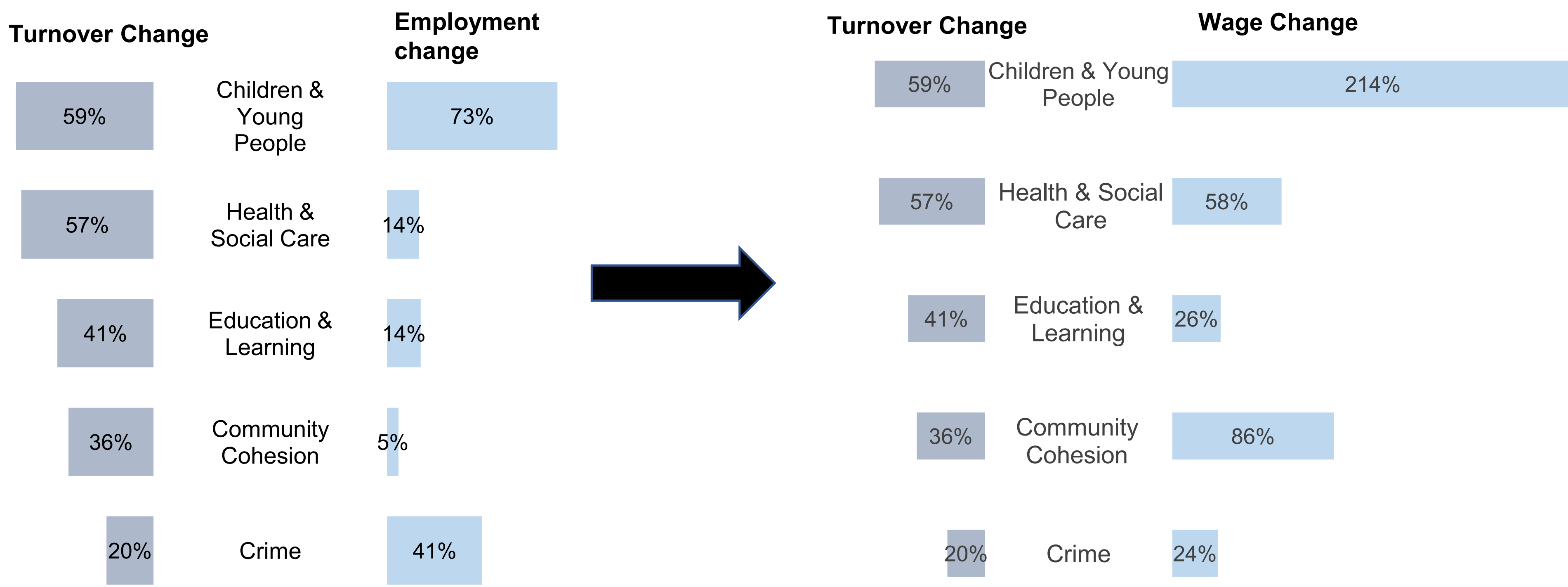
- *Data note: not all investees had employment figures on Companies House records, it is then most helpful to look at the % increase and movement between brackets instead of raw data points.*
- 3 years post-investment, the 0-5 bracket representing a much smaller proportion.
- Those in the **20-50 employee bracket experienced the most fluctuation** in employment created.



Turnover's effect on employment and wages

Children and young people has seen significant increases in employment, and even larger increases to wages – while we don't know whether increased wages went to which employees, **passing on changes in business growth to employees through wage** increases is very encouraging, although this was not the case for all sectors (e.g. education and learning).

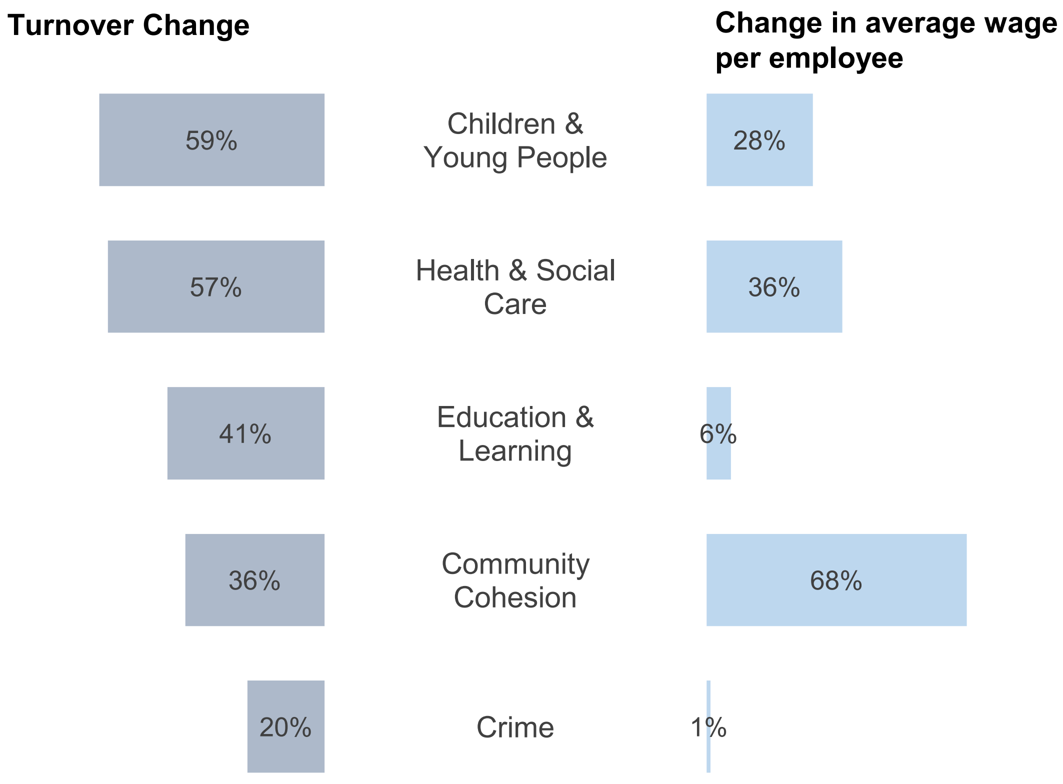
Turnover change compared to (i) Employment change and (i) Wage change (3-year change from point of investment)



Turnover's effect on employment and wages

It is important that growth in employment doesn't outstrip growth in wages, leading to decreased average wage for employees – considering inflation, *Education & Learning*, and *Crime* sectors have **seen decreases (in real terms) to employee average wages**.

Turnover to average wage per employee (3-year change from point of investment)



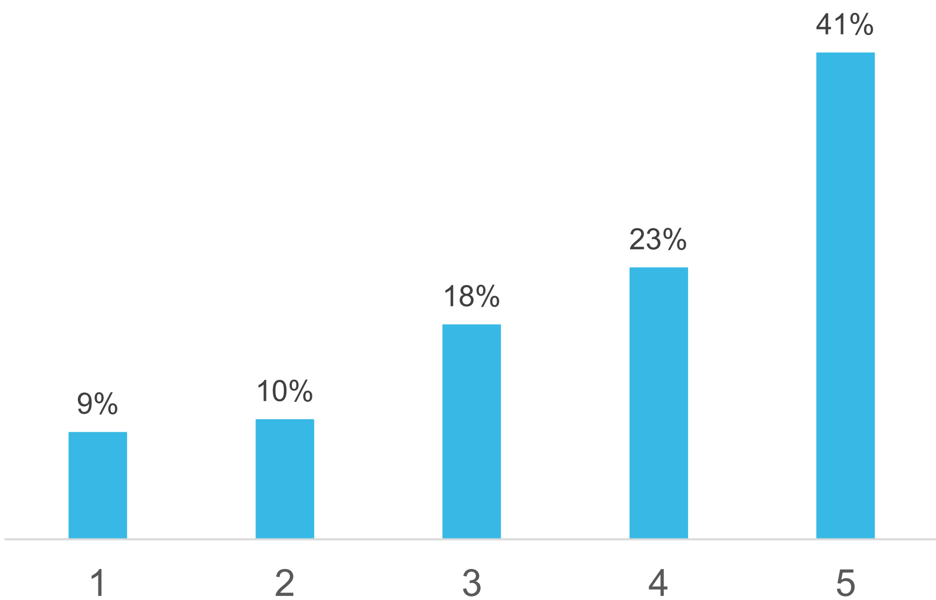
How do social investors ensure that employment increases are accompanied by fair wage increases across current and new employee groups?

Indices of Multiple Deprivation (IMD) changes

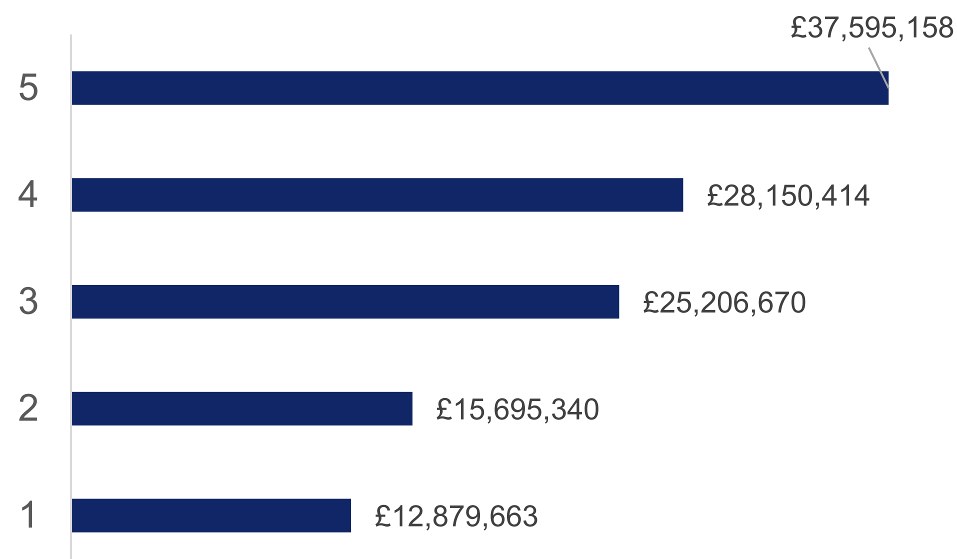
Over 40% of Futurebuilders investees were located in the 20% most deprived areas of the country in 2010 (5th IMD Quintile). **By value, 31% of social investment provided under Futurebuilders went to the 20% most deprived**.

In future funds, should we consider varying investment/grant offered based on IMD scores?

IMD 2010 Quintiles (by number of investees)



IMD 2010 Quintiles (by value disbursed)



***IMD 5= Most deprived**

Note: some postcodes registered might reflect head offices and not areas of delivery.

Section G
Emerging recommendations and next steps

Social investment market: What have we shown can be achieved?

The Futurebuilders experience shows how **patient and flexible investment** can effectively support the social economy at scale while providing modest financial returns, through a **long-term approach that blends** grant and loans, and encourages adaptability, flexibility and resilience. In particular:

1. Social investment creates long-term employment:

- ❑ Third sector organisations are productive and enterprising – FBE investees employed 15.61% more people 3 years post investment that is +-1,500 jobs created by investees where data was available.

2. Social investment improves the financial performance of charities and social enterprises (when targeted at the right organisations, with the right blend and patience terms)

- ❑ Key financial metrics – Turnover, Net assets, Cash – all increased for 3-4 years post investment received; reaching a new and higher plateau. And third sector organisations have been shown to be sustainable, with profit cycles positive on balance.

3. Social investment funds generate tangible financial returns for investors

- ❑ Of the £116.6m repayable investment, capital and interest payments of £98m have been received, where £73.66m was capital repaid (and where the Fund still has a minimum of 16 more years until closure).

Social investment market: What have we shown can be achieved?

4. Social investment subsidies support more affordable investment offers

- ❑ Grant blends provide substantial subsidy for investees – subsidised interest rates were 2.14% based on initial offer terms (smaller if considering the financial interest rate variations offered during investment management).

5. Social investment needs subsidy to be most effective

- ❑ While the internal rate of return (IRR) on the loan was 1.2%, the grant portion alongside the specialised, long-term business support and portfolio management takes the IRR (after all subsidy) to -8.06%. This is needed to support the non-financial returns with respect to organisational resilience, employment growth and social impact.

6. Social investment subsidies helps to absorb risk

- ❑ Operating on small profit margins (with maximum median profit at £30k), subsidies through variations, flexibility, use of blend and longer time horizons, have kept default rates at only 17% (in 2019) despite the purpose of Futurebuilders being one of higher risk, specifically to test the ability of third sector organisations to use repayable finance.

Social investment market: where are we now?

A **blended** social investment fund on the scale of Futurebuilders has not been repeated in the market since. A comparison with the Access Growth Fund is illustrative here:

Futurebuilders Fund		**Growth Fund**
£568,500 Average investment	>	**£63,000** Average investment
5.45% Average interest rate	<	**7.32%** Average interest rate
13.8 Years Average loan term	>	**4.1 Years** Average loan term
£712,000 Median turnover of recipient	>	**£224,000** Median turnover of recipient
30 FTE Median investee employees	>	**5 FTE** Median investee employees

Social investment market: where should we be heading?

Three key messages of ‘what makes social investment work’ have emerged from the data so far:

Patience: the average loan length was **13.9 years**, with longer loan terms corresponding to higher returns.

Flexibility: financial and non-financial variations were applied to a significant number of investments, representing the long-term commitment to supporting investees through difficult times.

Targeting areas of high need: with over **40%** of investment going to the **20%** most deprived areas in the country, ensuring social impact objectives remain at the heart of social investment decision-making.

Social investment market: where should we be heading?

- A **new social investment fund that matches the scale and ambition of Futurebuilders could play an effective role in the Government's levelling up** agenda by delivering both social returns and value for money.
    - This could be delivered in partnership and potentially with (some) repaid funds retained by local or social investment intermediaries for recycling and future investment (as with Communitybuilders and the Northern Cultural Regeneration Fund).
- **Subsidy or blend is critical** to achieving patience, flexibility and relationship-based support that achieves the outcomes for organisations, communities and people – and as critical for medium-sized organisations and deals as at the smaller end of the charity and social enterprise landscape.
- 'Levelling up' will require **investment in social infrastructure that enables left behind communities to prosper,** this means targeting funding where it is most effective at producing equitable outcomes, and ensuring that interventions develop the social and economic capacity of an area.
- Social investment helps to generate employment through the charities and social enterprises supported, we then have **the responsibility to ensure that this good employment** – it is fairly paid; diverse and inclusive in recruitment, pay and promotion; and is long-lasting by providing quality and support for better career progression.
- While the data has provided useful and detailed insight, **there are some notable gaps** – for example, number of BAME-led, women-led, LGBT-led, Disabled-led, Futurebuilders investees and Futurebuilders applicants.
    - Social investors need to build in the right mechanisms for intelligent evidence collection, so that we are able to answer important questions, not only in retrospective learning projects, but while implementing funds and programmes where we are able to adapt in response to the data.

Social investment market: where should we be heading?

All of the previous points are **amplified by the effects of COVID-19**:

- We know that **coastal areas**, post-industrial towns and the more deprived parts of inner cities have been hit hardest economically.
- We know that **marginalised groups,** especially BAME communities and those with disabilities, have been hit hardest by the health impacts of the virus.
- We know that there is a **substantial economic downturn** being experienced, likely to continue in its impact on the broader economy and on employment especially.
- We know that **where social infrastructure has been strongest**, that communities have been most able to co-ordinate, recruit volunteers, come together, and support the most vulnerable.
- We know **many more** will need pre- and post-investment support to help them manage, transform, pivot and sustain their operations and impact.

Social investment has a substantial and significant role to play in the recovery, if the learning from available data and evidence is used to make it as effective as possible in design and delivery.

*More SIB and SEDL **COVID-19 data and analysis** found on the SIB website and as SEDL resources; with specific work done on:*

- *Data mapping the economic effect of COVID on communities*
- *Social infrastructure and COVID response: A Grimsby deep-dive*
- *Tracking the COVID effect with Tortoise Media*
- *COVID-19 What happens next for Social Investment / Data COVID-19 and SIB investees*

For any further questions or comments, please get in touch

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APPENDIX (1-5)

Appendix 1: analysis framework

What makes social investment work? And how can it work better in future?

Learning focus		Learning methods						Learning dissemination	
Analysis questions	**Areas for segmentation**	**Desktop review**	**Quantitative: FB database**	**Quantitative: External databases**	**Qualitative: FB case studies**	**Qualitative: Interviews**	**Qualitative: Sector workshops**	**Policy/Influence theme**	**Target audience**
FutureBuilders portfolio									
What has FutureBuilders achieved to date?	Financial performance: portfolio and organisation-level		X					Social investment value proposition: Innovation within funding and finance	1,2,3,6
	Impact performance: organisation-level where possible		X					Social investment value proposition: Measurable social and community impact	1,2,3,6
Where did FutureBuilders work well? What were the ingredients for success (and why)?	Organisational resilience: improvements resulting from FutureBuilders investments		X		X			Social infrastructure: Social sector service delivery	1,2,3,6
How could FutureBuilders have done better?	Process & objectives	X			X	X	X	Social investment value proposition: Innovation within funding and finance	1,2,3,6
	Financial instruments	X			X	X	X	Social investment value proposition: Innovation within funding and finance	1,2,3,6
	Partnerships & infrastructure support				X	X	X	Social infrastructure: Partnerships within the local economy	1,2,3,6
Social investment market									
RELEVANCE: Has social investment met the different funding and support needs for charities and social enterprises? How so, and where are the gaps?	Patient capital: length, term, security, blended finance	X	X	X		X		Social investment value proposition: Innovation within funding and finance	1,2,6
	Flexibility in management: variations, cause for concern monitoring	X	X	X		X		Social investment value proposition: Innovation within funding and finance	1,2,6
EFFICIENCY & EFFECTIVENESS: Has the deployment of social investment been effective in supporting improved organisational resilience for different types/stages of charities and social enterprises? And has it been effective in indirectly supporting improved social impact within communities? Could deployment of funding and support become more efficient in future, and how?	Placed-based focus: Community economic development, Post Brexit, IMD areas, coastal vs towns	X	X	X			X	Local /community economic development: Town / place-based interventions	1-6
	Organisational models: Business models, Organisational form, funding streams		X	X	X	X		Social infrastructure: Social sector service delivery	1,2,3,6
	Stage of organisation: Start-up to Mature	X	X	X	X	X		Social infrastructure: Social sector service delivery	1,2,3,6
	Organisation activities: Business to Business (B2B) vs Business to Consumer (B2C)	X	X	X	X	X		Local /community economic development: Partnerships within the local economy	1,2,3,5,6
	Routes to impact: Direct, indirect (system change)				X	X	X	Local /community economic development: Measurable social and community impact	1,2,6
SUSTAINABILITY & IMPACT: What has been the role of social investment in the social economy? Has this changed the market, and did that follow a disruptive or collaborative market positioning (or both)?	Government: commissioning gaps and opportunities, proactive role	X				X	X	Social infrastructure: Partnerships within the local economy	1-6
	Anchor organisations: community-based development	X				X	X	Local /community economic development: Partnerships within the	1-6
	Charity / social enterprise infrastructure	X				X	X	Social infrastructure: Social sector service delivery	1-6
	Building blocks for effective partnership	X				X	X	Social infrastructure: Partnerships within the local economy	1-6
EQUITY: Has the provision of social investment been equitable across groups? Where could equity be improved to ensure social investment is inclusive to all charities and social enterprises?	Social investment pipeline: marketing channels, application requirements				X	X	X	Local /community economic development: Partnerships within the	1-6
	Social investment decision making processes: lived experience, biases			X	X	X	X	Social investment value proposition: Innovation within funding and finance	1,2,3,6

Appendix 2: fund overview - Communitybuilders

October 2009 - May 2012

This fund offered **grant** and **loan** finance to **community-focussed organisations** in England which provided **local services and facilities**.

It aimed to strengthen the resilience of multi-purpose, inclusive community-led organisations that operate at the neighbourhood level.

SIB managed this fund on behalf of the **Department of Communities and Local Government**, providing **£46m** to community organisations.

CBF grant mixes were much higher than Futurebuilders. This was needed to allow organisations to take ownership of community assets where there was a lower ability to generate commercial returns to finance the level of borrowing required for a commercial valuation or build cost.

FBE Loans were written as term deals while a lot of CBF cases (which were for property purchase) were written on the basis of their likely refinancing after 10 years, having proved viability to a mainstream lender.

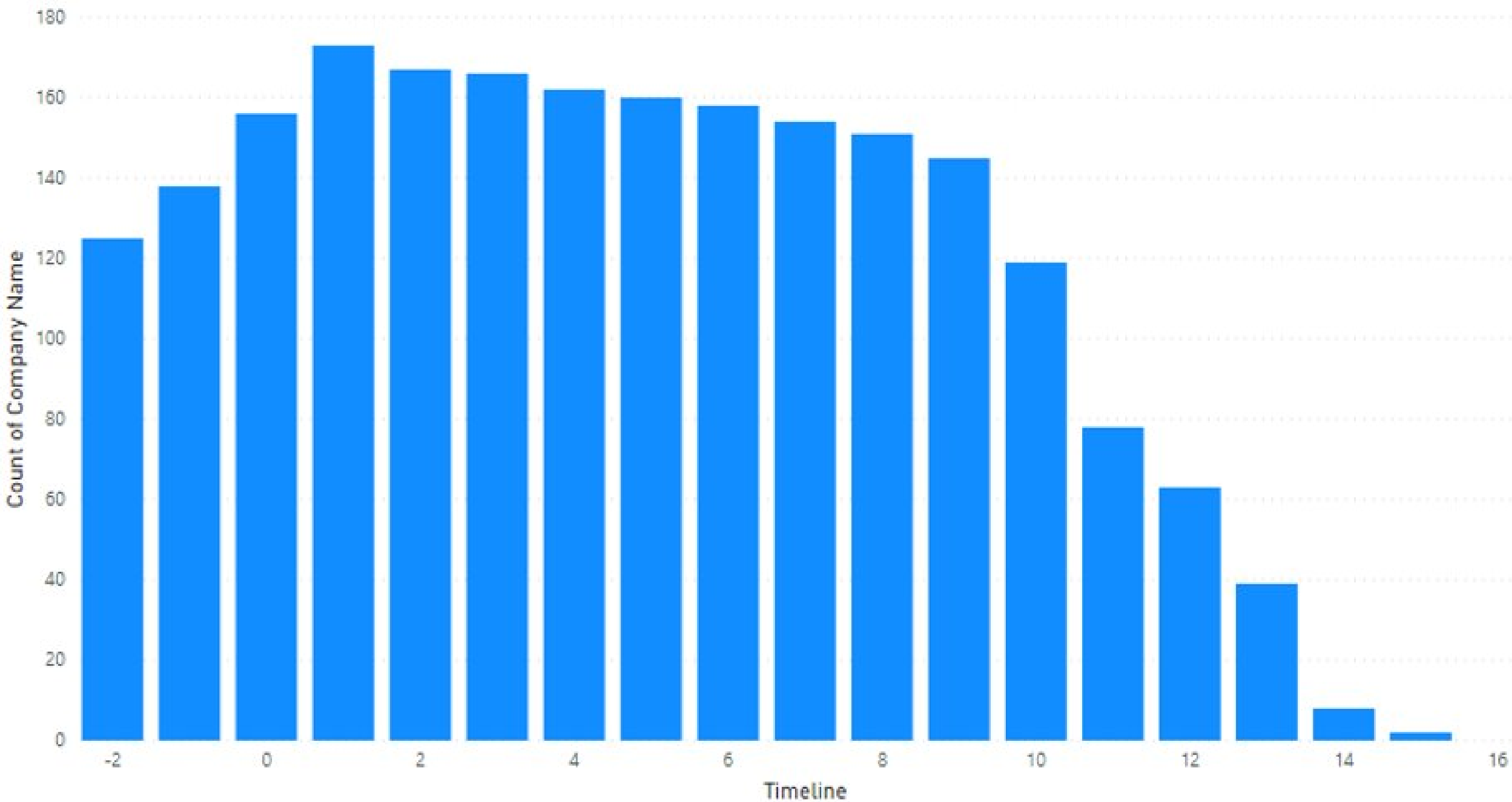
Grant finance

£21m, of which £9m was part of blended deals

Loan finance

£25m

Appendix 3: sample sizes of financial data at each point in the timeline



Appendix 4: project next steps

- **Deeper dives into 12 cases**:
  - High-performing, typical performing and under-performing FBE investees.
  - Social impact data collection and understanding the trade-offs between impact vs financial decisions.

- **Focus Group Discussions on emerging themes**
  - Business models: which endure?
  - Community / system / place: what role do charities and social enterprises play in supporting fairer communities?

- **Key informant interviews**
  - Future looking: trends, opportunities and aspirations for social investment, community development and regeneration, and more equitable economic structures?

Appendix 5: Modernisation Fund

- The Modernisation Fund was aligned to Futurebuilders; it was an additional pot of money agreed at 0% finance agreed to so as to provide additional appropriate organisations with support, at even better rates at a time when increased economic challenges had emerged that placed greater pressure on affordability/serviceability.
- This was not technically Futurebuilders money and has been excluded from the analysis, although the relationship between the two has been close – for example, a 3% £1.5m loan (20% of the Modernisation Fund), was really a more of a typical FBE loan, but ultimately was contracted through the Modernisation Fund.

Grant components

£1.1m to 35 investees

Loan components

£7.36m to 47 investees