Social Investment Business

Futurebuilders England Fund – Learning Project
Understanding what makes social investment work?

1. What makes social investment work?

This briefing sets out some of the key findings from the Futurebuilders England Fund (Futurebuilders) learning project. Futurebuilders 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. The fund saw £142 million of loan, grant and blended finance invested into 406 charities and social enterprises between 2004 – 2010.

The Futurebuilders Learning Project and Data Deep Dive has demonstrated how patient and flexible investment can effectively support the social economy at scale while providing modest financial returns. Social investment is unique in its long-term approach that blends grant and loans, and encourages adaptability, flexibility and resilience.

Three distinctive attributes of social investment 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.

2. Six key learnings from Futurebuilders England:

SIB's analysis of the Futurebuilders portfolio has provided answers to longstanding questions around 'what makes social investment work'. In particular, there are six key lessons to be drawn from the Futurebuilders experience:

1. **It creates long-term employment**: Social 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. **It improves the financial performance[1] of charities and social enterprises:** Key financial metrics – Turnover, Net assets, Cash – all increased for 3-4 years post investment received; reaching a new and higher plateau. And charities and social enterprises have been shown to be sustainable, with profit cycles positive on balance.

3. **It generates tangible financial returns for investors**: Of the £116.6 million repayable investment, total payments of £98 million have been received (where the Fund still has a minimum 16 years until closure).

4. **It supports more affordable investment offers:** Grant blends provide substantial subsidy for investees – subsidised loan rates were 2.14% based on initial offer terms (smaller if considering the financial interest rate variations offered during investment management).

5. **It 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% – however, non-financial returns with respect to organisational resilience, employment growth and social impact are substantial.

6. **It absorbs risk through subsidies**: 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.

[1] Unlike commercial enterprises, charities and social enterprises do not purely seek to maximise profit. This is important to consider when looking to compare or benchmark key financial performance metrics to SME datapoints – there is a need for further social investment data across different portfolios to better understand how to measure financial performance in the social economy.

3. Social investment and 'levelling up'

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 & 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. Levelling up will require this kind of investment to build the 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. As funders, we have a 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.

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.

4. Where next for social investment?

Covid-19 has exposed the need for a fresh approach to how we invest in places, there is a growing body of evidence showing how this pandemic has impacted people and places in different ways:[2]

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

The pandemic has exacerbated inequalities between and within communities. Those places that were most economically at-risk – due to levels of deprivation, job insecurity, or low wages – will struggle to bounce back.

In this new context, the social economy will play a vital role in helping the hardest hit places recover – be that through providing good employment and secure incomes to local people; bringing local assets into community ownership to ensure they meet the needs of the people that use them; or in offering accessible services to marginal or hard-to-reach groups.

Social investment has a substantial and significant role to play in the recovery. It is important that these learnings from Futurebuilders and other available data sets are used to make new funds as effective as possible in their design and delivery.

[2] SIB has been analysing anonymised open banking data on card transactions at ward level to map the economic impact of Covid-19 on different local economies across the UK – this work is being hosted on the Social Economy Data Lab as part of the Covid-19 & Communities project.