Futurebuilders England Fund – Learning Project
What have we learned and where next?

Introduction to Futurebuilders

Futurebuilders was a ground-breaking, Government-backed, social investment fund that provided repayable finance to charities and social enterprises 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. Since 2019, SIB have been working with the Social Impact Investment team at DCMS on a learning project – funded through repayments from Futurebuilders investments – that focuses on this historic portfolio data to better understand the long-term performance of social investment.

Our analysis of the Futurebuilders portfolio 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 grants and loans, and encourages adaptability, flexibility and resilience.

What is the impact?

There are some important lessons from the Futurebuilders experience that are of particular relevance to how social investment can meaningfully contribute to the levelling up agenda.

- **Tangible returns for investors over time**: Social investment provides value for money, where public funds can be recycled and reused for future investment once they are paid back. Of the £116.6 million repayable investment, total payments of £98 million have been received and paid back to Government (where the Fund still has a minimum 16 years until closure).

- **Reaching areas of greatest need:** Social investment can be harnessed as an effective tool for getting funding and support to the areas of the country that are most in need of levelling up: over 40% of Futurebuilders investment was deployed to the 20% most deprived areas in the country. These areas will have benefitted from a stronger social economy and employment growth.

- **Improved financial performance:** following Futurebuilders investment, organisations saw steady and sustainable growth: investees saw increases across three key financial metrics – turnover, net assets, cash – 3-4 years following investment, reaching a new and higher plateau.

- **Organisational resilience:** investees were more resilient to financial shocks after receiving a Futurebuilders loan: organisations' unrestricted funds and reserves relative to spending had improved 7 years after receiving a loan, meaning they were more resilient to financial shocks than they were before taking on social investment.

- **Long-term employment**: Futurebuilders highlighted how charities and social enterprises that take on repayable finance are both productive and enterprising: investees employed 15% more people 3 years following investment – this is the equivalent to the creation of 1,500 jobs. In the majority of cases, organisational growth also correlated with wage growth per employee.

- **Improved access to finance:** Futurebuilders 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 a purely grant based model. This has then opened up new avenues to finance: organisations that received a Futurebuilders loan were four times more likely to likely to go on and receive further loans, compared with organisations that only received a grant. Based on the limited data available we know that at minimum a further £380m of investment was secured by organisations following Futurebuilders investment (with the true figure likely to be significantly higher).

What makes social investment effective?

The first two phases of the Futurebuilders Learning project have provided answers to longstanding questions about how repayable finance can be successfully deployed to charities and social enterprises. Our analysis has revealed four key ingredients for making social investment work effectively.

1. **Blend:** The use of grant alongside and combined with loan creates a more flexible investment product. Grant blends support more affordable investment offers, providing substantial subsidy for investees – the grant portion effectively made the interest rate on Futurebuilders Loans 2.14% – and higher grant portions were also generally given to smaller organisations to absorb risk.

2. **Patience:** The average loan length was 13.9 years – this patience reduces repayment amounts for investees with time horizons that are more akin to a mortgage than other commercial loans. Within the Futurebuilders portfolio: the use of longer loan terms has kept default rates lower than expected (17% against a target of 25%) and longer loan terms have corresponded to higher financial returns.

3. **Flexibility:** Financial and non-financial variations were applied to over half of Futurebuilders investments, representing the long-term commitment to supporting investees through difficult times. Variations were more likely to be used to support struggling organisations and this flexibility was responsive to changes in the external environment – for example, nearly half of all the variations coincided with the financial crash in 2008.

4. **Support:** The long-term commitment from a mission aligned investor is critical to achieving successful outcomes and sustained impact for organisations. The high-touch and flexible relationship management provided by a social investment intermediary contributes to stronger investee loan performance.

Where next for social investment?

Looking ahead, the Futurebuilders Learning project provides useful context and insight on several current policy areas, particularly in relation to shared challenges such as scaling up the role of civil society in public service delivery, making the most effective use of scarce resources, and supporting the levelling up agenda.

Dormant Assets – an opportunity for levelling up
The expansion of the Dormant Assets Scheme unlocks a significant amount of money that could have a transformative effect on the Government's ambition to level up the country. This analysis of the Futurebuilders England Fund is part of the growing body of evidence on 'what works' in social investment. It shows that patient and flexible social investment can be an effective tool for levelling up the country by supporting the growth and resilience of the social infrastructure that enables communities to prosper. As data maturity in our sector improves, these learnings should be used inform the design and delivery of new funding and support programmes – ensuring that demand is being met in underserved parts of the market.

Scaling the social economy – social value in public procurement
This learning project is timely given the current Government focus on harnessing social value in public procurement to improve public services and encourage sustainable growth in charities and social enterprises. Futurebuilders was one of the largest and most significant efforts to increase the social sector's capacity to deliver public services at scale – and our analysis of the fund's performance and process has provided useful insight on the kind of finance and support that can develop this capability within civil society.

Better use of data – targeting funding where it can be most effective
As data use has matured in the sector, the capacity and potential for sophisticated targeting of funding has greatly increased. SIB have embedded data-led decision-making into their funds and programmes to ensure that it is effectively responding to the changing needs of the social economy. The pandemic has added extra urgency to getting investment and support to the places and communities that need it most – how and where we allocate funding should therefore be informed and led by the evidence and the data. This means social impact objectives will remain at the heart of social investment decision-making.

Market scoping – assessing the demand for social investment
A recent market scoping piece carried out by SIB on behalf of DCMS highlighted clear excess demand for social investment across 22 social investment funds. The analysis showed evidence across the board of greater demand for social investment than supply – while this differed depending on fund size and external market conditions, there was still an average of 2x demand across all the funds analysed. There are ongoing sector-wide initiatives to better understand the demand for social investment, and to assess the specific product features that are most likely to meet needs of charities and social enterprises looking to take on repayable finance.

Annex: Alt Valley Community Trust – scaling impact through social investment

Who are Alt Valley Community Trust?

Alt Valley Community Trust (AVCT) started life in July 1982 with the occupation of Croxteth school to save it from closure. The school was occupied for three years by the local community before being reinstated as Croxteth Community Comprehensive in 1985. The charity became Alt Valley Community Trust in 2005, and has since developed from an educational charity into a significant community anchor organisation in the Croxteth area of Liverpool.

From its beginnings in education, Alt Valley has taken on a variety of ventures and services including running three libraries, three sports centres, three community centres and an education campus. In 2001, their partner the Neighbourhood Services Company (NSC) was established to work alongside AVCT. NSC, an ambitious social enterprise, runs two farms (over 350 areas) and operates three further business sectors: Environmental Services, Building Maintenance and Catering. It also runs two pubs, three shopping parades, a warehouse and rentable office accommodation and has recently opened two nurseries. The Environmental and Building Maintenance arms are largely contracted by Housing Associations.

How did social investment support AVCTs growth?

- **Enabling capital:** The first investment came via SIB (under its original name: the Adventure Capital Fund). This was a trigger for financing AVCT's growth over subsequent years. Of the £200k disbursed, the first £100k was grant that saw significant social returns through job creation, the second £100k was paid pack at 1% over time. This was pivotal for securing further European funding to finish refurbishment of a building.

- **Futurebuilders loan:** This then progressed to a £1m blended investment from Futurebuilders (£300k grant, £700k loan repayable at 6%) to work on establishing a vocational college, working with younger people. It is notable that the previous repayable finance (£100k at 1%) from Adventure Capital Fund acted as an 'enabler', while the 6% Futurebuilders loan moved toward something more business-like. This money similarly helped to unlock £1.5m of European funding for the centre. AVCT have since secured further funding from SIB and other lenders:

Total SIB investment (loan)	£3.47m (of which £1.38m repaid)
Investment in AVCT	£1.25m loan, £1.38m grant (across 12 programmes, three loans)
Investment in NSC	£2.22m loan, £750k grant (across 6 programmes, five loans)
Combined annual turnover	£6.5m (AVCT: £2.5m, NSC £4m)

What has happened since then?

Organisational impact:

- Social investment has been a growth enabler for AVCT, providing the initial boost in income to make them eligible for European funding, and continuing to serve as patient background capital to sustain their business development and business model adapt in response to community need.

- Business growth has been significant. In 1999, AVCT had **£17.5k** income; two years later this had grown to **£750k**, including loans**.** Turnover across both AVCT and NSC is now in excess of **£6m** a year.

Beneficiary impact:

- AVCT's work has played a significant role in the regeneration of Croxteth, with a particularly varied role inn the last 20 years as an active employer, local asset manager, focus for community activism and increasingly as a producer and retailer.

- A 2010 report by the Joseph Rowntree Foundation credited AVCT and NSC with a direct influence in the areas positive employment prospects as compared with similar areas in Liverpool.