

Futurebuilders aims to improve public service delivery through long-term investment in the voluntary and community sector in **England**

Investment Plan 2005-06

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Preface

Welcome to Futurebuilders England's second Investment Plan. Futurebuilders is a £125million Home Office backed Fund which aims to improve public service delivery through long-term investment in the voluntary and community sector in England.

Our four strategic aims are:-

1. To improve public services, in the longer term, through investing in a range of voluntary and community organisations.
2. To provide an investment model comprising a combination of loans, performance related investments, grants and capacity building through consultancy support.
3. To implement effective investment (outreach, application, assessment, decision-making and management) and administrative processes.
4. To have a wider impact, especially on the voluntary and community sector, other funders and the public sector, by sharing learning gained from Futurebuilders' approach to investment.
5. Further details about Futurebuilders' objectives are given in its Strategic Plan 2005-07.

The £125million has been provided by the Government following the Treasury Cross Cutting Review into the Role of the Voluntary and Community Sector in public service delivery (Sept. 2002). Futurebuilders is managed by a company formed by a consortium of organisations that was appointed following a tender process run by the Home Office. The consortium consists of Charity Bank, Unity Trust Bank, the Northern Rock Foundation and the National Council for Voluntary Organisations. The consortium's management company has its own separate full time management team, that reports through the Chief Executive to the Futurebuilders Board of Directors, as well as an Investment Committee which includes external independent members with substantial commercial investment experience.

Details of the investments approved by the Futurebuilders Board to date are on the Futurebuilders' website.

About this Investment Plan

This Investment Plan sets out how we intend to invest the £125million with which we have been entrusted, initially until June 2007. It covers the aims of the fund, our policies and criteria and the main features of the process we will use. We hope it provides:-

- a useful guide to applicants of the range of investments we want to make
- a clear summary of our overall approach to managing the fund
- a transparent basis for our own decision-making, especially how we choose between applications
- a clear basis for monitoring and evaluating Futurebuilders progress

This is our second Investment Plan. The first was published in May 2004. Our aims, policies and processes are very similar to what they were a year ago. However, we have learnt a great deal in the last 12 months, particularly about the structure of the investments that we make and the implementation of important policies such as how we define public services. We believe that this has led to greater clarity on our part and that our second Investment Plan reflects this.

We hope you will find our second Investment Plan useful. Do let us have your thoughts or comments on what we are trying to achieve. We are committed to learning as we go.

For further information, contact www.futurebuilders-england.org.uk or e-mail us at info@futurebuilders-england.org.uk

Peter Wheeler
Chair, Futurebuilders

Richard Gutch
Chief Executive, Futurebuilders

1 Summary

1.1 Ten key facts from our Investment Plan

- 1) Futurebuilders is a demonstration fund. We are testing new ways of financing voluntary and community organisations. Some of the methods we are testing will seem unusual to the sector, but we are committed to being bold with the mandate we have.
- 2) Our principal criterion is whether our investment will enable an organisation or group of organisations to significantly improve public services in one or more of five areas: Community Cohesion, Crime, Education and Learning, Health and Social Care and Support for Children and Young People,
- 3) To decide whether an application fits our definition of 'public services' we apply the following question. "Do the cash flow projections for the proposal show a realistic likelihood that more than 50% of the required income, flowing from the proposal once up and running, will come, directly or indirectly, from statutory bodies?"
- 4) The special feature of the Fund is its ability to provide an investment package, comprising a range of different types of finance, including loans and grants, together with capacity building, through consultancy support, suited to each organisation's particular circumstances and plans.
- 5) Our aim is to maximise the loan element in each investment package, provided there is a sound business case to support this. In order to repay the loan, the organisation will need to reflect the cost of the loan in the price they charge statutory bodies for their service (= the principle of full cost recovery).
- 6) For planning purposes applicants should assume that the interest rate we charge on loans is 6%; however, we will be flexible to suit the circumstances of the applicant's cash flow projections.
- 7) We will limit the risks to trustees and organisations and we will be flexible and willing to renegotiate investment agreements in the light of changing circumstances
- 8) We want each investment to provide learning which we can then share with others.
- 9) For many investments, once the riskiest period of the investment has passed, usually the first three years, we will aim to pass part or all of the investment onto a mainstream finance provider. However we will retain an interest in the organisation's learning and future.
- 10) Futurebuilders wants to test its model of investment by making approximately 250 investments over a wide range of different types of organisations. It has set some indicative targets to achieve this. They are not strict quotas and we will be driven by the quality of the applications.

2 Our Approach to Applications and Investments

2.1 Eligibility Questions

Our eligibility questions are set out on our website along with guidance notes. (See Annexe page 24) Every applicant to Futurebuilders must answer the ten questions below before we can accept their application. When applicants go to our online eligibility checklist and application form, they will have to answer every one of these questions satisfactorily in order to demonstrate that they are genuinely eligible. They will then be given access to the form. We can only accept one application from any organisation in the first two application windows, so if applicants submit an ineligible application they may have wasted their only chance to apply to Futurebuilders.

1. Are you a properly constituted voluntary or community organisation?
2. Are you an independently constituted organisation? Or, if you are a branch of a wider organisation, are you independent of your head office?
3. Is this your organisation's only application to Futurebuilders?
4. Will your scheme involve the delivery of public services in one or more of Futurebuilders five public service delivery areas?
5. Will a Futurebuilders investment enable you to develop services that a public agency (for example a local authority or Primary Care Trust) is likely to purchase from you under contract or through fees?
6. Will these services mainly benefit people living in England?
7. Do you want an investment of more than £50,000?
8. Is your organisation, including your trustees, committee members or directors, willing and able to take on a loan as part of a Futurebuilders investment? If you do not currently have the power to take on a loan, are you willing to change your constitution?
9. Are you happy to share lessons from your scheme with Futurebuilders and others?
10. To comply with the Data Protection Act, do we have your consent to use personal data supplied by you in the processing and review of your application? (Our application form will seek authority up front to pass on relevant applications to Charity Bank and Unity Trust Bank)

2 Our Approach to Applications and Investments (continued)

2.2 Assessment Criteria

We will assess all applications to us against our Investment Plan. To manage the assessment in a structured way we have developed six criteria that reflect the essence of the plan. The various aspects of these criteria will be assessed to different degrees through the different stages of our assessment processes.

Criterion 1: Eligibility - Is the application and organisation eligible?

Here we will check that you are a voluntary or community organisation, that this is your only application to us, that the application is from your head office, that the proposal delivers outcomes in one of our five public service areas, that the beneficiaries are mainly in England, that you are willing to consider a loan as part of our investment and that your organisation is directly involved in delivering outcomes to service users, along with other essential policies outlined in our Investment Plan.

Criterion 2: Public Service Delivery - Will the proposal lead to a significant improvement in the delivery of public services in one of the five Futurebuilders public service areas?

Here we are checking the proposal against our mission, ensuring that a significant difference will be made to users of public services and that this is based on a very strong understanding of users needs. We will want to check that your understanding of the wider context, and specifically the public service market for the proposals, is sound, as is the identification of long term outcomes and the overall quality of planning. We will want to ensure that your proposals are consistent with Government (national, regional and/or local) targets and policies.

Criterion 3: Sustainability - Will a Futurebuilders' investment lead to the new service(s) being sustained by public funding through an appropriate contract or fees?

Here we will want to see that an investment from Futurebuilders is really needed and would make a significant difference to the scope and/or quality of service to be delivered. We will assess the likelihood of the service being sustained through public agencies and whether this will be done in a way that is reasonable (i.e. using a full cost recovery model and one that promotes a sustained relationship between the organisation and the purchasers).

Criterion 4: People and Organisation - Can the people involved, and the organisation, deliver this proposal effectively?

We will consider how well your organisation is run and its overall health. We will want to know that your trustees/committee members/directors/senior staff have the skills, experience and commitment to manage the organisation through good times and bad. We will also consider how well your proposal is planned.

Criterion 5: Financial Viability - Is there a viable Futurebuilders investment to be made?

We will consider the financial aspects of your proposal including whether your organisation can repay a loan and on what terms and what mix of loan, grant and capacity building is most appropriate. We will also consider whether all or part of your proposal could be more appropriately financed by others, in particular by our consortium partners Charity Bank and Unity Trust Bank. We will assess whether our support for your scheme would breach European legislation on State Aid that is designed to ensure that competition is not distorted across member states.

Criterion 6: Investment Plan Fit - How well does the proposal fit the Futurebuilders' Investment Plan?

Futurebuilders is not operating a set of quotas for different sorts of work, areas or beneficiaries. However, our Investment Plan outlines the kind of spread of investments that we would like to see. We also want to ensure that each investment has the potential to demonstrate an important aspect of Futurebuilders aims and that your organisation subscribes to the learning ethos of Futurebuilders.

2 Our Approach to Applications and Investments (continued)

2.3 Key Policies

What we mean by ‘public services’

1) We define ‘public services’ as services that are wholly or partly funded, now or in the near future, from the ‘public purse’ (money raised through taxation). This is a definition based upon how it is funded, not what the activity is.

2) To decide whether an application fits our definition we apply the following question. “Do the cash flow projections for the proposal show a realistic likelihood that more than 50% of the required income, flowing from the proposal once up and running, will come, directly or indirectly, from statutory bodies?”

3) This does not need to apply to the whole organisation’s cash flow, just the proposal under consideration. But the full costs of the proposal including realistic organisation overheads should be covered in the cash flow.

4) We will consider whether the projected income from statutory bodies will be sustained rather than simply last a year or two. That does not mean that we need to see firm contracts to this effect at the outset, but there should be reasonable evidence that the service is likely to be of a lasting priority to the statutory purchasers and that the quality of service will ensure the organisation continues to be the preferred supplier.

5) It does mean that if part of the income is from a short term statutory programme, we will need some evidence that this is likely to lead to other statutory funding in the longer term. This would also be the case where European funding is included in current income sources.

6) The income from statutory bodies can be in the form of contracts, service level agreements and/or fees. We also count income from benefits paid to individuals from a statutory body for a specific purpose e.g. housing benefit, working family tax credit and disability living allowance. We do not count more general benefits.

7) We do not count Lottery Funding as statutory, as it is not raised through taxation.

8) Obviously to attract income from statutory bodies, the organisation will have to have demonstrated that the services being provided meet public service priorities, be they national, regional or local.

9) We are particularly interested in those services where either the private sector has shown little interest and/or where the public sector has had difficulty in delivering effective services, but where the voluntary and community sector has the potential to bring added value. This added value may be through its ability to work with hard-to-reach individuals or communities, involve users, or develop new approaches to service delivery, and may reflect the role played by volunteers.

10) We will require that the organisation that we contract with can lead and be accountable for improvements in public services. We would not invest in schemes where the lead organisation is simply acting as a landlord.

11) We will not support applications that are for general capacity building of the voluntary and community sector; proposals must clearly improve the delivery of public services. This means that applications for the provision of general support to other organisations are not eligible. (See eligibility question 4) Applications of this kind are more likely to be suitable for the Home Office’s other current main funding programme, Change Up, whose purpose is to build the capacity of the voluntary and community sector as a whole, whilst Futurebuilders’ purpose is to build the capacity of individual organisations in the sector to deliver public services. Further information is available from the Home Office website.

12) Applications which involve changing public service provision from the public sector to the voluntary and community sector will have to demonstrate significant added value resulting from this change (i.e. simply contracting out existing public services to the voluntary and community sector will not be sufficient to attract investment).

2 Our Approach to Applications and Investments (continued)

Limiting risk for investees

13) One of the challenges that Futurebuilders is addressing is the voluntary and community sector's own approach to risk and, in particular, the reservations of many organisations regarding loans. We recognise the concerns about personal liability, the impact on the rest of the organisation's activities and the contracts needed to support the loans.

14) Futurebuilders will address the first concern partly through explaining the protection afforded by company status and partly through limiting liability for unincorporated organisations to the assets of the borrowing organisation, as opposed to individual trustees (unless they have acted recklessly or fraudulently). We will not require personal guarantees from trustees.

15) We will address the second concern on a case by case basis with individual organisations. For example, we will consider 'limited recourse' loans where our claim would be limited to the asset purchased or to certain other specified assets. We see ourselves as a continuing investment partner to the organisations we support and will take a flexible approach in the light of changing circumstances.

16) We will address the third concern through working with purchasers, both nationally and locally.

17) Futurebuilders' aim is to make loans that will be repaid. Futurebuilders wants to help voluntary and community organisations develop the disciplines required to operate their financing arrangements in a business-like way. This will also mean that, over time, Futurebuilders will be able to recycle the Fund and make more investments.

18) However, where repayment cannot be made in accordance with the original agreement each case will be dealt with in the light of its own particular context. If the reason for non-repayment is that the contract (or fees) from a purchaser have not materialised, but there is still a prospect that it will materialise at a later date, then a repayment holiday may be appropriate. If the loan has helped create or develop an asset and the investee is able to demonstrate that the asset can still be used for significant public benefit, then Futurebuilders will aim to find a solution agreeable to both parties. If the loan has helped create or develop an asset, but there is limited evidence of public benefit, then, depending on the terms of the loan, the investee may be required to dispose of the asset and repay Futurebuilders. If there is any evidence that the investee has acted recklessly or imprudently, or has not complied with the other terms and conditions of the loan or is simply unwilling to repay, then Futurebuilders may terminate the loan and demand repayments.

2 Our Approach to Applications and Investments (continued)

Working in partnership with other finance providers

19) Futurebuilders aims to fund or help fund organisations that would not be financed in full by existing banks because their schemes represent too great a risk. In a few cases, even though the schemes are 'bankable', we may support organisations that, for legitimate reasons, need help in making the transition to finance from mainstream banks.

20) We expect that from time to time the process of our working with an applicant and participating in their financing may assist in enhancing a proposal such that a mainstream bank could take it on at a later date.

21) As part of our assessment process we will consider whether an applicant might be referred to another fund provider. In particular we will work with those fund providers who are part of the Futurebuilders consortium - Charity Bank and Unity Trust Bank. In doing so we will balance the following factors

- a) Our mission to improve the delivery of public services
- b) The needs of the applicants and their proposal
- c) Customer care; seeking to avoid duplication of process, to respect an organisation's confidentiality and to be transparent in our dealings with it
- d) Our need to maintain a portfolio of investments that is balanced across the spectrum of risk and produces a reasonable overall recovery rate
- e) Avoiding funding schemes that others will fund

What we mean by community cohesion

22) Some applicants have asked us to clarify what we mean by community cohesion. We use the definition of community cohesion agreed by the Local Government Association (LGA) and partner organisations. It has four strands:-

- a) there is a common vision and a sense of belonging for all communities;
- b) the diversity of people's different backgrounds and circumstances is appreciated and positively valued;
- c) those from different backgrounds have similar life opportunities; and
- d) strong and positive relationships are being developed between people from different backgrounds in the workplace, in schools and within neighbourhoods.

23) The LGA guidance on community cohesion recognises that each local area is unique in its demographic and social make-up and as a result the meaning of community cohesion in each locality will reflect an understanding of the local circumstances. It is not just about race. It usually includes work with more than one section of the community.

24) Our belief is that promoting community cohesion is often more of a way of delivering a service than an end in itself. We ask applicants to code which one of our five public service areas their work best falls into. However, our experience suggests that this is not a successful way to track all the community cohesion work that we fund. Some applications in one of the other four areas also contain a strong strand of community cohesion work. In these cases, we will code and monitor for this.

2 Our Approach to Applications and Investments (continued)

State Aid Rules

25) As a Fund financed by the Government, Futurebuilders must ensure that its investments do not breach the rules governing “state aid” as defined by European Union legislation. This might occur where state aid gives the beneficiary a competitive advantage which distorts or threatens to distort competition affecting trade between member states. It could possibly arise where an applicant for an investment is operating in an area where there are, or could be, other commercial providers, for instance, training or consultancy and where there is, or could be, competition from other EU providers. It could also arise where an organisation is producing a physical product for sale in a competitive market in an area where there are, or could be, competitors from other European member states.

26) It is important to ensure that we comply with State Aid rules because authorities which give aid which breaches the State Aid rules may be required to claw back any subsidy with interest from the recipient. However, it is anticipated that, since the object of the Futurebuilders programme is to fund public service delivery where there is currently inadequate provision, in most cases investments should not give rise to any market distortions, and in any event are unlikely to have an effect on EU trade. A careful assessment will be made in each case to determine whether an investment may constitute state aid and, if so, whether it is aid of a kind permitted under EU rules.

27) In making this assessment, Futurebuilders will use the following checklist of questions:-

a) Is the applicant a local or regional organisation planning to deliver a public service for a particular community in a particular locality?

If yes, there are unlikely to be potential providers of the service from other European countries

b) Is the applicant a national organisation planning to deliver a public service for a particular community in a number of different localities where the service users are disadvantaged and, therefore, unlikely to be able to afford a fully commercially priced service?

If yes, there are unlikely to be potential providers of the service from other European countries.

c) Is the applicant planning to develop a commercial product (e.g. a learning resource pack) or a service for professionals (e.g. a training programme) which could be marketed nationally?

If yes, it would be necessary to establish during the assessment process, whether there could be organisations in other European countries who might be involved in the same market.

d) In the case of b) or c), is the potential investee a large organisation and/or likely to be in receipt of a large investment and providing its service across a wide catchment area?

If yes, there is a greater likelihood of there being European competitors.

e) Is the applicant involved in job creation schemes?

If yes, there is a greater likelihood of there being state aid and we will need to check this.

2 Our Approach to Applications and Investments (continued)

2.4 Investment Menu

1) A unique feature of Futurebuilders is its ability to provide investment packages that combine a loan, grant and capacity building through consultancy support. Each investment is tailor -made to suit the particular circumstances of the investee. This section explains the menu of support facilities that we can offer and the policies we will follow in structuring each investment.

2) It is worth restating that Futurebuilders is a demonstration programme that deliberately seeks to explore new ways to support voluntary and community organisations. Thus, whilst this investment menu provides an important statement of our intentions, Futurebuilders may deviate from it where we believe that to do so best supports Futurebuilders mission and strategic aims. We will review the menu regularly as our experience grows.

Overall approach

3) The overriding criterion is to meet our mission to significantly improve public service delivery through long term investment.

4) Investments (apart from development grants) will not solely comprise a grant. They should normally comprise a loan and perhaps a capital / revenue grant, of which the loan would represent the major part of the total investment package.

5) Our aim is to maximise the loan element in each investment package, provided there is a sound business case to support this, in order to support the principle of full cost recovery from the purchasers of the organisation's services.

6) People often associate loans with the financing of purchasing and refurbishing buildings. Although many of our investments relate to such investments in real assets, we are just as interested in supporting working and development capital; i.e., the cash needed to support an organisation to develop or to make the transition through the early stages of a scheme, before it is established and becomes cash-flow positive..

7) Where possible we will want to free up Futurebuilders' funds so that we can continue to invest in eligible organisations. To do this, we will work to transfer the loan element of the investment to Charity Bank , Unity Trust Bank or other commercial banks, once the risks of the early years of schemes have reduced. This will not be possible in all cases.

8) Once an investment is agreed we will aim to ensure that the organisation is supported for at least as long as the loan element remains in place. As such, we are demonstrating our commitment to the longevity of the project with the organisation.

9) All investments will be inclusive of VAT so that investees do not incur any additional VAT liabilities for the work Futurebuilders is investing in.

10) Our minimum investment will be £50,000; we do not expect to make any investments of more than £10 million.

2 Our Approach to Applications and Investments (continued)

Loans

11) The amount of the loan element within any investment will be

- a) Based on the ability of the organisation to repay the loan, which, in turn, should be
- b) Based on the income to be generated from the services, and
- c) Linked to the elements of the investment that ought to be eventually met by the purchasers of the services

12) Repayment of the loan will be agreed on the following terms:-

- a) All loans are expected to be repaid in accordance with the terms and conditions agreed with the investee.
- b) There will be no early repayment penalty
- c) Repayment will be linked to the cashflow generated by the organisation, and in particular it will be linked to the ability of the organisation to make repayments from income it receives for the supply of services.
- d) Loans for asset purchase or asset development will often be for a term in line with the expected life of the asset. For example, lending for a property purchase could involve a term of up to 25 years, whereas a loan for a vehicle may be for only three or four years
- e) Capital repayment holidays may be agreed as appropriate
- f) Where loans involve stage payment drawdowns, repayments would normally commence one month after final drawdown, unless a repayment holiday was agreed as above.
- g) The loan will usually be for a minimum period of 12 months and will be deemed short (1-3years), medium (4-10years), or long (11-25 years).
- h) Where a loan is being used as a 'bridge' to an alternative funding line, we may agree a period of less than 12 months.
- i) When the loan is not used according to the investment agreement or the income is not used for interest or repayment (as designated in the investment agreement), Futurebuilders will reserve the right to demand immediate repayment.

13) The interest rate we charge, as with the size of the loan, will be flexible depending on the projected cash flow of each investee. At the same time, we will try to avoid subsidising purchasers by agreeing rates which are artificially low; a more sustainable approach is to allow investees to roll up interest when there is no cash flow (and to have repayment holidays). The detailed terms of our investment packages will be worked out with individual applicants, but the following is an indication of our approach:-

- a) For planning purposes we will recommend applicants work on a suggested rate of 6%, fixed initially for three years, with terms linked to the organisation's ability to repay, which in turn will depend on the likely terms of the contract(s) or fees for the new service.
- b) Interest may be charged regularly with capital repayments or rolled up, dependent upon the nature of the proposal and project. Terms will be reviewed after three years in line with our aim to help transform investments into commercially bankable propositions

14) We will use soft loans as part of the investments in some circumstances. These might include loans with zero or low interest rates and/or loans which are repaid only when an organisation achieves sufficient success. We may also use loans that attract discounts from the original sum invested, if they are repaid early.

2 Our Approach to Applications and Investments (continued)

Security

15) Whilst not a prerequisite of the investment, where security is available we will consider taking it. This will usually be achieved through fixed charges taken on assets purchased. Taking security is a way of reducing our risk on the scheme. Each project will be considered on its own merits as to what type of security is appropriate.

Performance related investment

16) Performance related investments are analogous to a royalty paying investment or an equity share in a scheme. They provide for payment of a small share of a scheme's income to Futurebuilders, but only provided agreed income targets are exceeded. In some cases, where a scheme is very successful, this might see a return to Futurebuilders that is substantially greater than the original sum we invest. We appreciate that this concept may be difficult for some to accept (both within the banking and charity sectors); however, we believe it is important for three reasons.

17) First, Futurebuilders is a demonstration fund. It is here to try new ways of financing the voluntary and community sector and we should be bold about this.

18) Second, if we can demonstrate that in some circumstances there is a return to be made for investors in the voluntary and community sector, this will attract new money into the sector, far beyond the sums that Futurebuilders has to offer.

19) Third, Futurebuilders is taking some significant risks. Where as a result of taking these risks, substantial returns accrue to the organisations we invest in, it is in our view appropriate that some of this benefit can be ploughed back into Futurebuilders so that other schemes can benefit.

20) The likely structure of performance related investments will be that a small, fixed percentage of income is paid to Futurebuilders once a scheme exceeds pre-agreed levels of income. These income thresholds and the percentage return to Futurebuilders will be based on the cash flows for the scheme. An important principle is that they will be set so as to ensure that the investee organisation is the principal beneficiary of its own success. Thus it will be able to generate surpluses before, and whilst, Futurebuilders benefits.

21) We will also consider making a performance related investment in an organisation whose product or service has a wider market potential than the initial purchaser(s) or where the investment involves sale of a property, where the sale price could exceed initial expectations.

Loan guarantee/underwriting

22) As part of the investment package we may agree to underwrite a commercial bank's funding of the project. We will provide this type of support as security for the commercial lender where they have indicated agreement to lend, subject to the underwriting/guarantee of all/part of their lending by Futurebuilders.

23) Futurebuilders will typically charge a guarantee fee of 1-2% per annum, as agreed with the organisation on an individual basis.

Faith and loan finance

24) Futurebuilders is willing to make loans and advances in a manner that is consistent with all faiths, including Islam. We will work with potential investees to ensure that we share both the risks and the rewards of transactions in a manner acceptable to their faith.

2 Our Approach to Applications and Investments (continued)

Grants

25) We will use grants to help meet the transitional costs of getting an organisation in a position to provide public services. For example, a grant could help pay the staff costs of recruiting for and managing an organisation's transition. We will want to see that the organisation stands a good chance of eventually pricing its services so that the full costs of their services are recovered. We will avoid using grants artificially to subsidise or hide the cost of a loan. We would prefer to simply reduce the loan servicing costs directly as indicated above.

26) Revenue grants may be used for any revenue expenditure, for example, staff costs, start-up costs, one-off capacity building or other transitional costs prior to contract or fee income becoming available

- a) All revenue grants will be strictly time limited (two years max)
- b) The revenue grant element in any application should not normally exceed £100k.
- c) Revenue grants will normally only be awarded to medium or small organisations (i.e. with an income of less than £1m pa)

27) Capital grants will be made for designated capital purposes e.g. buildings, vehicles, equipment etc. where loan finance is not considered a viable proposition, because contract or fee income is not yet available to support the loan. For monitoring purposes, there should be a clear distinction between the purpose of the capital loan and the capital grant being offered

28) Futurebuilders may offer 'capacity building' grants as part of an investment package where we believe this helps to ensure the success of an investment. These could be, for example, for external advice on an aspect of a scheme or to support the development of skills within an organisation (e.g. business planning, marketing, full cost recovery, negotiation, pricing.)

Development grants

29) Where Futurebuilders considers an application to have strong potential but where the project requires further work before an investment can be considered, we may offer a development grant. Development grants are offered solely at the discretion of Futurebuilders. Applicants cannot apply for a development grant.

30) The sizes of development grants will vary, but on average we would expect them to be approximately £10,000 and not greater than £20,000. Development grants are usually only available to small and medium sized organisations with income less than £1m p.a.

31) Development grants are specifically for scheme development. The awarding of a development grant does not guarantee a full Futurebuilders investment, but we will expect an organisation to continue its investment application after spending the development grant. There is no need to reapply.

32) An organisation in receipt of a development or a capacity building grant will be offered details of a number of 'organisation developers' on Futurebuilders' database, who could assist with their scheme development, though they are free to choose who they work with.

2 Our Approach to Applications and Investments (continued)

2.5 Management of Investments

1) Futurebuilders has developed standard terms and conditions for its investments. Copies are available on our website.

Drawdown (payments by Futurebuilders)

2) The phasing of drawdown will be discussed as part of assessment and the investment set up process. It may be in a single drawing or could be phased in line with the achievement of certain conditions or milestones. Each investment will have some preconditions attached as part of the agreement process. These are similar to those in place for other finance providers.

3) Drawdowns for property builds will be monitored against architect's certificates.

Monitoring

4) Ongoing financial monitoring will be decided on individual cases but will usually consist of regular financial management accounts and annual audited accounts, and any such other reporting as Futurebuilders deems appropriate. Our monitoring will be proportional in line with best practice guidance and we will look at possibilities for joined-up monitoring and evaluation where appropriate.

5) Progress on the social outcomes of the project will also be monitored as agreed on a case by case basis between Futurebuilders and the organisation.

Life of the Fund

6) Futurebuilders England aims to establish a long term supportive partnership with its investees. The current agreement with the Home Office and Charity Bank expires in June 2007. The Home Office will decide on arrangements thereafter by the end of December 2005. Either way, there will be an ongoing Fund Manager responsible for managing and monitoring all the outstanding investments.

Fees and Charges

7) Futurebuilders does not intend to charge an arrangement fee for its investments. However, the investee will be responsible for its own solicitor's costs and valuation fees.

Learning

8) We want to learn as much as we can from our investments so investees will be offered opportunities to learn from each other and will be expected to share information that helps Futurebuilders wider learning objectives.

3 Our Approach to the Fund

3.1 The Fund

1) Futurebuilders has been given £125 million by the Government. It will be allocated as follows.

Revenue	£M
Running and capacity building costs	13
Home Office evaluation	1
Development grants	1
Other revenue grants	10
Sub total	25
Capital	
Loans	84
Capital grants	16
Sub total	100
Total	125

2) The main constraint which Futurebuilders will have to work within is the Government's requirement that 80% (£100M) of the £125M Fund should be for capital investment and 20% (£25M) for revenue funding. All loans (whether for working capital or purchase of an asset) count as capital.

3.2 Number and Size of Investments

1) Futurebuilders aims to make approximately 250 investments. This number strikes a balance between a manageable portfolio and a large enough population from which to test our approach across different parts of the voluntary and community sector and different types of investment. We also aim to make up to 100 development grants, designed to help organisations reach a point at which they can take on a main investment. We expect a majority of organisations supported with a development grant to be among those eventually receiving an investment

2) We are not being prescriptive about the sizes of investments that we make, but we doubt we will make any investments of more than £10m.

We want to invest in some small schemes; however, we believe that the smallest investment should be £50,000. Our first Investment Plan gave a minimum figure of £30,000, but we now believe that to do less than £50,000 involves an inefficient level of transaction costs for all involved.

3 Our Approach to the Fund (continued)

3) Beyond these upper and lower levels, we do not propose to be prescriptive about the sizes of investments we will make. Our overriding concern is the quality of schemes that present themselves and the difference that they will make to public services. However, knowing the size of the fund, the target of 250 investments, the minimum and maximum sizes of investment and our desire to try investing in a range of sizes of investment, we can illustrate the type of ranges of investment sizes we may get across our portfolio, in the table below.

The actual range of investments and the concentration may prove to be very different from this illustration.

Size of Investment (£000)	50	100	350	1000	1500	3000	10,000	
Number	50	80	66	35	15	3	1	250
Total (£000)	2500	8000	23,100	35,000	22,500	9000	10,000	110,100

4) The evidence so far is that the demand is for larger rather than smaller investments across this range. We expect that the largest investments will be in the largest organisations.

3.3 Liquidity

1) Futurebuilders wants to balance long term support for organisations and the benefits of being able to recycle its investments, so that we can invest in new schemes. Futurebuilders should only continue to invest in a scheme when other investors would not, or when a very strong scheme is on the margin of 'bankability' and should therefore withdraw when further funding is secured. Loan agreements will therefore be structured, so as to allow for assignment or refinancing after three years by mutual agreement. There will usually be no prepayment penalties.

2) Futurebuilders will manage the Fund to ensure it always has sufficient funds to meet its commitments.

3 Our Approach to the Fund (continued)

3.4 Managing risk

1) In order to fulfil its mission Futurebuilders must take two particular types of risk (among many others) in respect of its investments. These are lending ahead of income sources being verified and lending unsecured. Both are necessary for Futurebuilders to offer something fresh to the market.

2) We will manage these risks through having effective assessment processes, including direct contact with the purchasers involved in any scheme, and through intensive levels of monitoring and support for high risk investments. At this stage it is difficult to judge what an acceptable loan default rate might be, but we aim to keep it to a minimum.

3.5 Overall Recovery Rate

1) Futurebuilders' aim is to demonstrate sufficient risk taking, on the one hand, and sufficient success for the model of investment, on the other.

2) Over five to ten years, our aim is to recover the initial loan element (ie £84million) of the £125million Fund, so that it can be recycled into new investments. However, this will be highly dependent on many factors, such as our investees' success in securing contracts and fees for their services. It is still too early to assess this, and the actual outcome may vary significantly from this aim. Over time, however we aim to build sufficient capital reserves to maintain an ongoing loan portfolio, so we can continue to invest in further schemes.

3.6

Investment Targets

1) Futurebuilders' overriding aim is to invest in high quality schemes that meet its mission. We will not therefore operate a system of strict quotas, but as a demonstration fund we will strive to ensure that we invest in a range of types of organisation and schemes, in order that we explore how successful our investment model is across them. Our 'indicative' targets to support this approach are set out below.

Service delivery areas

2) At least 25 (10%) investments will be made in each of the five public service delivery areas; community cohesion, crime, education and learning, health and social care, and support for children and young people.

3 Our Approach to the Fund (continued)

Sub-sectors

- 3) At least 25 investments (10% of the total) will be made in the black and minority ethnic led sector.
- 4) At least 25 investments (10% of the total) will be made in schemes directly concerned with rural issues.

Size/type of organisation

- 5) The majority of investments will be in local or regional organisations.
- 6) At least 50 investments (20% of the total) will be in small organisations with annual turn-over of less than £100K.
- 7) National organisations must be able to demonstrate how they take account of local needs and circumstances.

Geographical spread

- 8) Applications will be encouraged from all English regions, but there will be no regional quotas.

Range

- 9) The range of investments will include:-

- a) particular approaches to service delivery (e.g. a different type of service, a voluntary or community organisation bringing added value to an existing service, a national/local partnership bringing added value).
- b) particular approaches to diversifying the organisational funding base away from exclusive reliance on charitable donations or time-limited project grants (e.g. particular types of contracts or fees).
- c) particular types of investment packages (e.g. leveraging in other funding, a particular type of investment mix).

Partnership examples

- 10) Applicants are encouraged to work in partnership with other relevant organisations in the public, private or voluntary sectors, but there must be one lead applicant from the voluntary and community sector with whom all investment plans are agreed (i.e. consortia are not eligible per se). Larger national organisations are particularly encouraged to work in partnership with a smaller, local organisation(s). Partnership working arrangements must be signed-off by all partners.

4 The Investment Process

4.1 Timetable

- 1) Futurebuilders has held one application window between July and October 2004. We received 641 applications of which 284 were 'longlisted'. We announced our first investments in February 2005 and will announce others during the first half of 2005. In total we hope to announce approximately 70 investments from this first window, together with 30 development grants. We will develop real 'case studies', where appropriate, from these applications (with the permission of the applicant) to help other potential applicants to decide whether Futurebuilders is for them.
- 2) Details of this revised Investment Plan, including some revisions to our eligibility and assessment criteria, policies and process are being released on 5th April 2005. This will allow potential applicants to take account of the revisions in planning their application.
- 3) Our second application window will open on 1st June and close on the 30th September 2005. We expect to make up to approximately 150 investments from the applications we receive in this window, by mid-2006.
- 4) During the autumn of 2005, we will consider how the applications we have received compare with the targets we have set for our investment portfolio. If there are significant gaps we will consider strategies to address this. These strategies could include holding a further round limited to applications that fill those gaps or working in partnership with other organisations to solicit bids. We are aiming to agree all our investments from the initial fund by the end of 2006.
- 5) Actual disbursement of funds will take place over a longer period of time. Experience suggests that draw down of loans and capital grants can sometimes take a considerable time, especially when properties and/or other funders are involved. Nevertheless, the aim is to make all disbursements by June 2007.

4.2 Application and Assessment

- 1) The process has been designed on the following principles:
 - a) accessibility and inclusiveness
 - b) proportionality (in terms of initial costs incurred by applicants)
 - c) transparency of assessment and decision-making
 - d) probity
 - e) quality customer service
 - f) thorough due diligence

Information

- 2) The primary source of information for potential applicants is www.futurebuilders-england.org.uk. There is a dedicated help line and an email information service. A programme of outreach and development activity supports these information sources.

4 The Investment Process (continued)

Applications

- 3) The application form is only available on the website. To get access to it, organisations first complete a short online checklist. The eligibility questions on the checklist will help organisations decide whether a Futurebuilders investment is appropriate for them (see 2.1).
- 4) All applications must be completed and submitted online. Applicants do not need to complete the entire application in one go; they can save their work on completion of each page.
- 5) All questions must be completed before the application can be submitted. All complete applications will be acknowledged by email and be given a reference number. An indication of how long it will take to process the application through the first stage will also be given.
- 6) In rare cases when an organisation finds it very difficult to submit a form online, an alternative method of applying can be discussed by contacting the helpline.
- 7) The application form will enable Futurebuilders to determine whether an application should progress to the next stage of assessment. The application form will collect the minimum information required at this stage. Applicants will not have to submit accounts, business plans or constitutions at this stage, but will be advised that further information will be required within one month, including the first two documents, if their application passes stage one. Advice on what we look for in a business plan is available on the website.

Dealing with initial applications

- 8) The web-based form will allow the basic data to be downloaded directly onto our database.
- 9) Our Investment Officers will carry out an initial check of the application, including a check to see that it is eligible and to grade the application against assessment criteria. Usually, judgements will be made on the application as submitted, but in some cases Investment Officers may contact applicants by phone for more information.
- 10) The Investment Officer will make a recommendation, together with feedback and/or particular points to consider in stage two. The recommendation will then be considered by the Senior Management Team.
- 11) The outcomes for an applicant at this stage will be

Outcome	Feedback
Rejection	Email – outlining reasons for rejection.
Reserve list	Email – explaining that other applications are a better fit with our criteria but that we may come back to them within a specified time.
Longlisted for second stage assessment for a development grant or investment	Email – explaining that they have passed stage one and explaining what further information we need and when it will be expected. They will be given the name of the Investment Officer dealing with their application.

4 The Investment Process (continued)

12) High quality applications not fitting Futurebuilders Investment Plan may be passed on to partner organisations or other interested funders, with the agreement of the applicant and the other funder.

13) We aim to provide applicants with a decision on the first stage of our assessment process within 20 working days of receipt of their application.

Getting more information and visiting applicants

14) Applicants will be asked to send additional information by email, and within one month of being longlisted.

15) Where the additional documents show that the application does not meet Stage two requirements, the Investment Officer will make a recommendation to reject the application.

16) The Investment Officer will arrange for a visit to be made to all other organisations, with the exception of some that can be recommended for a development grant without a visit.

17) Visits will be carried out by the Investment Officer and/or a Business Consultant. The purpose of this visit will be to establish fit with Futurebuilders Investment Plan and to negotiate appropriate possible investment.

18) Consultation with relevant purchasers and government departments will form part of the assessment process.

19) The Investment Officer, supported by the Business Consultant, will then produce:

- a) An assessment of the proposal
- b) A recommended option or options for investment,
- c) A risk analysis against these options, including proposals for how particular risks could be managed.
- d) An appropriate learning and evaluation framework

20) These reports will form the basis of a summary document to be presented to the Investment Committee and the Board.

Decisions

21) The Senior Management Team of Futurebuilders has authority to decide upon all applications that are recommended for a development grant or for rejection.

22) All applications recommended for a full investment will be considered by the Investment Committee. The Investment Committee meets monthly and is chaired by a Charity Bank Director and comprises a range of people with substantial commercial investment experience, including experience of loan finance and venture capital.

23) Investment Committee recommendations will then go to the Board. The Board meets monthly and includes three members of the Investment Committee, as well as representatives of all four consortium partners and five independent directors. The Board makes all Futurebuilders' investment decisions and operates independently of the Home Office. Once decisions have been made, they are communicated to the Home Office and other relevant government departments before they are publicised.

24) Feedback will be provided to all organisations.

Investment set up and management

For most investments we expect this to be a two-stage process starting with negotiation of a heads of agreement and then moving to a full contract process. Support will be offered to investee organisations throughout this process.

Annexe 1 Glossary

Term	Explanation
Limited recourse loans	Loans where Futurebuilders claim is limited to the asset purchased or to certain other specified assets.
Unincorporated organisations	Organisations which are not constituted as companies and therefore do not have the protection afforded by common ownership.
Repayment holidays	Agreed period during which no loan repayments are required.
Rolled up interest	Interest which is accrued and paid at a later date, rather than quarterly.
Security	A mortgage or similar fixed charge over assets.
Performance related investment	Investments analogous to a royalty paying investment or an equity share in a scheme.
Small organisations	Organisations with a turnover of under £100,000 pa.
Medium organisations	Organisations with a turnover of between £100,000 pa and £1million pa.
Large organisations	Organisations with a turnover of over £1M pa.
Capacity Building	Financial support to enable an organisation to purchase consultancy, training or other forms of assistance, which would help strengthen the organisation.
National organisations	Organisation whose work covers three or more of the nine England regions (or up to the whole of the UK).
Regional organisations	Organisations whose work covers one or two of the nine England regions.
Local organisations	Organisations whose work covers part of one England region.
Black and minority ethnic led	Organisations where the majority of the board/ management committee are black or are of minority ethnic origin (as defined by the 2001 census).
Leveraging	Using Futurebuilders investment to attract other resources.

Annexe 2 Eligibility Questions

1) Are you a properly constituted voluntary or community organisation?

Applicants must be constituted bodies that are charities, voluntary organisations, social enterprises, industrial or provident societies or community interest companies (i.e. not individuals) and therefore must:

- a) Be clearly constituted for public or community benefit. If yours is a self-help group, cooperative or mutual there must be a wider public or community benefit beyond the immediate benefit to the members
 - b) Not be able to dispose of assets for private gain (except as permitted for community interest companies).
 - c) Have some non-executive (unpaid) members on their boards or management committees. These members could be paid employees but must be unpaid for their role on the committee.
- Applicants must also have a formally adopted constitution.

Before investing in an organisation, Futurebuilders will want to be satisfied that good governance structures are in place.

2) Are you an independently constituted organisation? Or, if you are a branch of a wider organisation, are you independent of your head office?

Futurebuilders can only consider applications for investment from independently constituted organisations. If your organisation is not independently constituted, then your parent or umbrella organisation must submit your application – but don't forget that they can only submit one application to us.

We consider an organisation to be independent if it has:

- a) Its own management committee
- b) A bank account under its own direct control
- c) Its own annual accounts, approved by its management committee
- d) Control over its income and expenditure
- e) Its own charity or company number (in the case of registered charities or companies)

3) Is this your organisation's only application to Futurebuilders?

Futurebuilders will usually only accept one application from an organisation during our first two Application Windows.

In exceptional circumstances, if we feel an unsuccessful application has particular potential, we might invite an unsuccessful applicant to withdraw the application in question and reapply after addressing specific issues. However, this happens very rarely and we advise all applicants to plan and prepare their applications very carefully so as not to waste their opportunity to apply.

An organisation in receipt of a development grant is expected to continue with its application as soon as the grant has achieved the aim for which it was awarded.

Annexe 2 Eligibility Questions (continued)

4) Will your scheme involve the delivery of public services in one or more of the Futurebuilders public service areas?

Futurebuilders can support

- a) Existing public service delivery organisations that want to do more
- b) Organisations planning to take their first steps into public service delivery
- c) New and existing service providers that want to deliver public services in a different way

The five public service delivery areas are:

1. Community Cohesion: This is likely to involve a particular approach to one of the other four services, focusing on reaching out to and involving different sections of a community. It can include services promoting race equality; refugee integration and inclusion; and services that help bring communities, including different generations, together to solve problems and strengthen links.
2. Crime: This can include services that reduce crime and the fear of crime; improve levels of public confidence in the Criminal Justice System; protect the public; reduce re-offending; and reduce the harm caused by drugs.
3. Education and Learning: This can include services that support primary and secondary education; promote pupil inclusion; raise attainment; improve the skills of young people and adults; and tackle the adult skills deficit.
4. Health and Social Care: This can include services that aim to reduce health inequalities; improve access to health services; develop support for people with long-term conditions; improve the quality of life and independence of older people; support people with mental health needs; and tackle issues such as drug and substance abuse or teenage pregnancy.
5. Support for Children and Young People: This can include services that improve the personal, social and emotional development of young children; reduce the proportion of mothers who smoke during pregnancy; reduce the proportion of young children living in households where no-one is working; and deliver more and better childcare.

For further details please see the relevant Public Service Context Paper on the key documents page of the website.

5) Will a Futurebuilders investment enable you to develop services that a public agency (e.g. a local authority or Primary Care Trust) is realistically likely to purchase from you under contract or through fees?

Futurebuilders will only support service delivery that is, or could be, mainly funded from the public purse.

To decide whether an application is eligible we apply the following question: 'Do the cash flow projections for the proposal show a realistic likelihood that at least 51% of the required income flowing from the proposal, once up and running, will come, directly or indirectly, from statutory bodies?'

We will expect you to have discussed funding arrangements with the public sector purchaser(s) who you plan to be purchasing your service.

Annexe 2 Eligibility Questions (continued)

6) Will these services mainly benefit people living in England?

Futurebuilders can only support organisations delivering services that mainly benefit people living in England. If you were hoping to obtain a Futurebuilders investment for a service that would mainly benefit people living in Northern Ireland, Scotland or Wales, then you are not eligible for support from us. You may find it useful to contact a representative of the appropriate devolved administration to find out what is being planned. However, if your service delivery is targeted mainly at people inside England but occasionally benefits people living in Scotland, Wales or Northern Ireland then you are eligible for support. We will ask for further information during the assessment process.

7) Do you want an investment of more than £50,000?

Futurebuilders cannot make a full investment of less than £50,000. This is higher than our original lower limit of £30,000.

If you are looking for less than £50,000 you may find it helpful to speak to your Council for Voluntary Service or Local Development Agency.

There is no upper limit to a Futurebuilders investment, although we do not expect to make any investments of more than £10million.

We may offer development grants of around £10,000 to some longlisted applicants who have applied to us for £50,000 or more. However, development grants will be awarded at our discretion and cannot be applied for.

8) Is your organisation (including your trustees, committee members or directors) willing to take on a loan as part of a Futurebuilders investment? If you do not currently have the power to take on a loan, are you willing to change your constitution?

Loan finance is a key element in the Futurebuilders investment menu and will be a substantial part of every investment we make. If you are not able or prepared to take on a loan then we cannot invest in you.

You must make sure that the terms and conditions of your constitution allow your organisation to take on a loan and that your members are willing to accept a loan if we offer one. If your constitution does not currently allow you to take on a loan we need to know that you are willing to change your constitution should we offer you an investment.

Most investments will also include a capital and/or revenue grant and may also contain some funding to build your organisation's capacity through practical support. See 2.4 of our Investment Plan for a more detailed description.

Futurebuilders is willing to make loans and advances in a manner that is consistent with different faiths. We will work with potential investees to ensure that we share both the risks and the rewards of transactions, in a manner acceptable to their faith.

Annexe 2 Eligibility Questions (continued)

9) Are you happy to share lessons from your scheme with Futurebuilders and others?

Futurebuilders is committed to sharing best practice and promoting examples of public service delivery that work well and meet community need. As part of this process we will evaluate the schemes we invest in and may use your organisation as an example to other service delivery agents and partners. This will include sharing mistakes as well as achievements.

If you are not prepared to share your experience of a Futurebuilders investment then we cannot support you.

10) To comply with the Data Protection Act, do we have your permission to use personal data supplied by you in the processing and review of your application?

This includes storing the information you provide, electronically and in hard copy where appropriate. Futurebuilders also requires your further assurance that personal data about any other individual is supplied with his/her consent.

Submitting an online application confirms your acceptance of both these requirements.

Our application form will seek authority to pass on relevant applications to Charity Bank and Unity Trust Bank.