



# Investing in the future

**The Social  
Investment  
Business**

INVESTING FOR GOOD, TRANSFORMING LIVES

“

A powerful, thriving  
third sector improving  
the lives of the people and  
communities it serves.”

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## The Social Investment Business

Stephen Bubb  
Chairman



### Welcome

**Chairing the fastest-growing social investor in the UK has been both a huge challenge and great fun. Above all, I am proud that we have shown there is a case for social investment.**

We have built on our early success, increasing the funds available to support a wide range of organisations, and helping to realise the vision of a strong, well-capitalised and thriving third sector.

In September 2009 almost a thousand people attended the launch of The Social Investment Business, the new trading name for Futurebuilders England Fund Management, clearly demonstrating the growing interest in social investment.

We have come a long way since 2002, when ACF, our parent company, was set up with £2.2m for a one-year programme. We now stand as a business responsible for nearly £400m of funding. And we are unashamedly ambitious for the sector.

Our growth has come as a direct response to the changing needs of the sector. With an annual turnover of over £120bn, and more employees than the entire finance industry, the sector is constantly evolving. As are we – with new products and ways of working, as we strive to strengthen the sector's role in public service delivery, make the case for more access to capital, and build the sector's capacity.

Amidst these changes, one thing remains constant – our belief in the sector's essential role in supporting communities and individuals. It's a belief that enjoys support across the political spectrum and strengthens our resolve to help charities play an even bigger role in building stronger communities.

The third sector has made great progress in tackling many of the challenges that it faced. The next big challenge for us is to access the sustainable sources of capital that the sector needs to flourish. We believe passionately that more loans, grants and business support must be made available to create robust and viable organisations with strong, thriving projects.

Given what we have achieved so far I am confident we will succeed in achieving our aims for the future. When I took over as Chair of Futurebuilders in 2008 I said I wanted our loan money "*out of the door and into the sector*" – working to build community-focused public services. We have done that. We deliver. And we will continue to do so.

*Stephen Bubb*



# The Social Investment Business

Jonathan Lewis  
Chief Executive



**We have a very simple goal; to strengthen an increasing number of third sector organisations so they can help more people, in better ways, for the long term.**

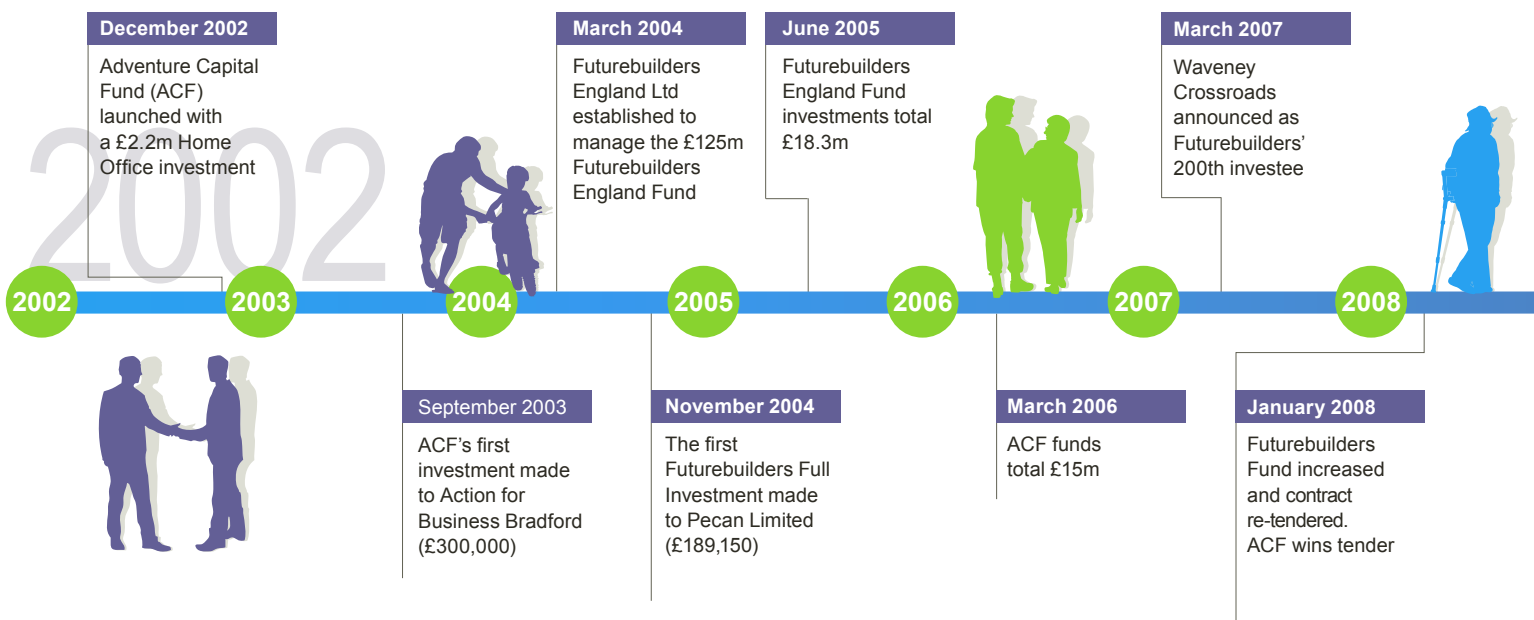
I joined the third sector two and a half years ago, and I am continually impressed by the imagination and drive of the social enterprises and charities we support. Yet, as our Chairman says in his welcome, many of them lack the capital, the structures and the systems they need to function efficiently and that together give them a secure base from which to prosper. Our aim is to give them that secure base.

ACF was one of the first organisations that recognised the need to provide third sector

organisations with financial stability as well as the money to fund great projects. It did this by methodically investigating all parts of the organisation in which it was looking to invest. And then, as part of the investment process, it built the organisation so that it became fit for the future.

With an emphasis on support and funding that combines both grants and loans, this is an approach that works well. Independent evaluation\* of ACF by London Metropolitan University concluded that the gross income

## From 2002 to 2010



of small charities pursuing enterprise grew by over 160% in the six years since investment. This compared to an average of 19% for all similar sized registered charities.

Our approach is always personal. There is no 'one size fits all' solution. Sometimes an investment will increase the scale of an organisation. In other circumstances it helps an organisation do what it currently does, only better.

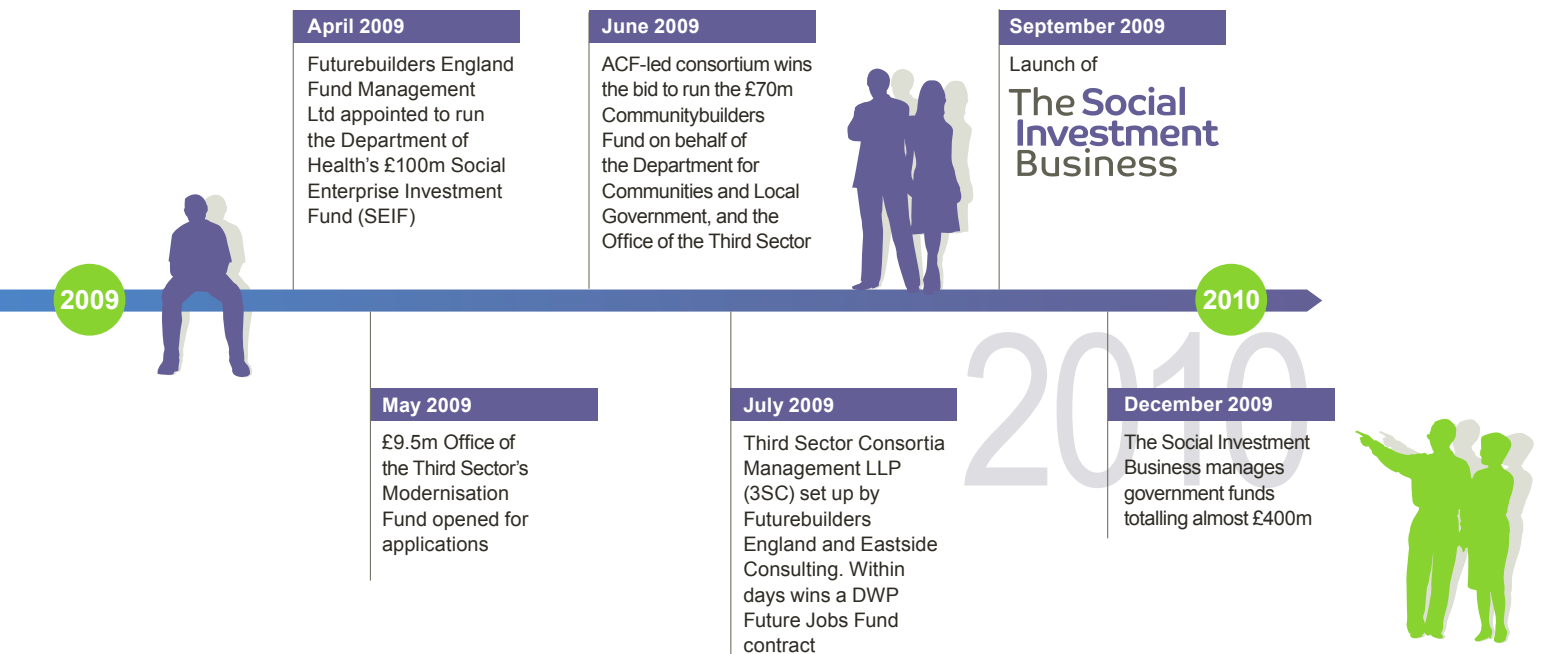
Most significant of all, The Social Investment Business has brought its method to scale. By having more funds at our disposal, we are able to help even more organisations, and do so more efficiently and with greater prospects of success. We have now invested in hundreds of organisations and the low default rates show that our approach is successful.

Working to scale has other benefits for the sector. We are better able to make an impact at a strategic level, realising new ideas and transforming the sector's own ideas of what it can achieve. This has already happened. The creation of 3SC has allowed third sector organisations to work together to deliver large-scale projects and contracts beyond the resources of any

single organisation. It has won one of the largest Department for Work and Pensions Future Jobs Fund contracts.

We have also created an evidence base with a method that is well tested against many different organisations in all stages of development. This gives us a credible working model of investment to scale which will be crucial if we are to raise more funding. In an era characterised by both imminent public spending cuts and a desire for more third sector delivery, a model of investing that can provide scaled growth and increased capacity, will be vital for the sector's future success.

As I write, the Futurebuilders Fund, which we manage on behalf of the Office of the Third Sector, has just closed to new applicants. There was more demand for help than we were able to meet, so our ambition is to find new ways of helping. We look forward to working with you to help realise the sector's potential and bring its many innovative ideas to life.

\* Investing in thriving communities, Stephen Thake and Sanjiv Lingayah, London Metropolitan University, 2009

# Building a thriving third sector

**The Social Investment Business is the UK's fastest growing social investor. An independent social enterprise, we aim to use social investment to build a strong, well capitalised and thriving third sector.**

With public sector spending cuts on the horizon, innovative and well managed social investment has never been more vital. We have a proven approach to

- building capacity
- multiplying the funds available for investment
- helping realise the sector's innovative ideas.

For the sector to prosper, it needs better access to sustainable sources of capital. Demand is high. In the last 12 months we have received over 3,000 applications for investment (worth more than £500m) to the Government funds we manage. We have grown in response to this unmet demand, and it fuels our ambition to bring even more money in to the sector.

## Providing finance and expertise

We support a range of third sector organisations, including social enterprises, co-operatives, community organisations and charities. We believe that a strong third sector can help build stronger communities.

We help strengthen third sector organisations by using grants and loans to invest in viable projects which are unable to secure mainstream finance. We provide capital, knowledge and expertise to help organisations improve their infrastructure, increase capacity and, where appropriate, bid for and win public service contracts.

## Increasing the funds available

As we invest to build the capacity of the sector, we are also increasing the funds available. By attracting matched funding and investment from commercial banks which would otherwise not have invested in the sector, we are able to pull in more money. Over the last 12 months we have brought in tens of millions of pounds of additional money through co-funding deals.

And because the loan finance elements of our investments are repaid (£9m to 31 December 2009), the money can be recycled and grown in a virtuous circle of investment, repayment and reinvestment.





*“What we liked about The Social Investment Business is that they are independent and they made their loan decision based on a thorough assessment. They looked at our business, talked to young people and considered our purchasers.”*

Sonia Ramanah  
Co-founder, Street Vibes Youth

### Filling the funding gap

Our business development and investment teams identify and manage viable investments that are unable to secure finance from commercial lenders.

### Help where it's needed

Borrowing money is new to many organisations. In fact, over half of our applicants have never had a loan before. So we work closely with all our investees to create a package that meets their individual needs. Our cumulative low default rate of 4.8% is proof that this approach works.

We are an 'engaged investor', providing ongoing support to our investees. Should circumstances change and an organisation face new challenges, we do everything we can to support them.

### Responding to change

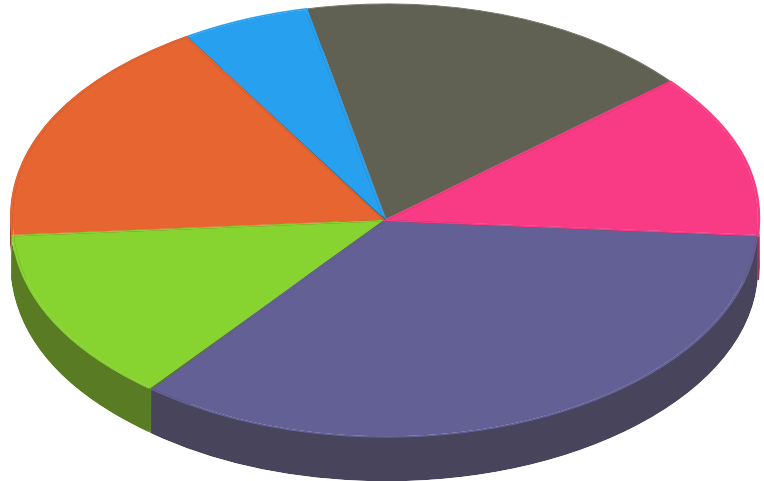
Our products are developed to meet the sector's needs, the ever changing environment that charities and social enterprises operate in, and the feedback our investees give us.

We have recently developed a variety of products for those involved in public service contracting and support for those affected by the recession or needing funding for outcome based contracts.

### Our investments

#### Size of organisation by annual income (31 December 2009)

Under £100k	12%
£100k to £500k	35%
£500k to £1m	13%
£1m to £5m	18%
Over £5m	5%
Other	17%



**Across the five Government funds we manage, we have over 400 active investments. These range from £3,600 to help a small organisation bid successfully for a public sector contract, to £6.7m to help a large national charity establish and develop innovative new services for children and young people.**

# Finance to grow the third sector

## The Government funds we manage

### Futurebuilders England Fund

The Futurebuilders Fund, managed on behalf of The Office of the Third Sector, helps third sector organisations in England bid for, win and deliver public service contracts.

In January 2010 the Fund was closed to new applicants – evidence of the huge demand for social investment.

Its loans and grants have strengthened hundreds of third sector organisations, large and small. Independent research shows that 79% of our Futurebuilders customers are satisfied with our processes and performance.

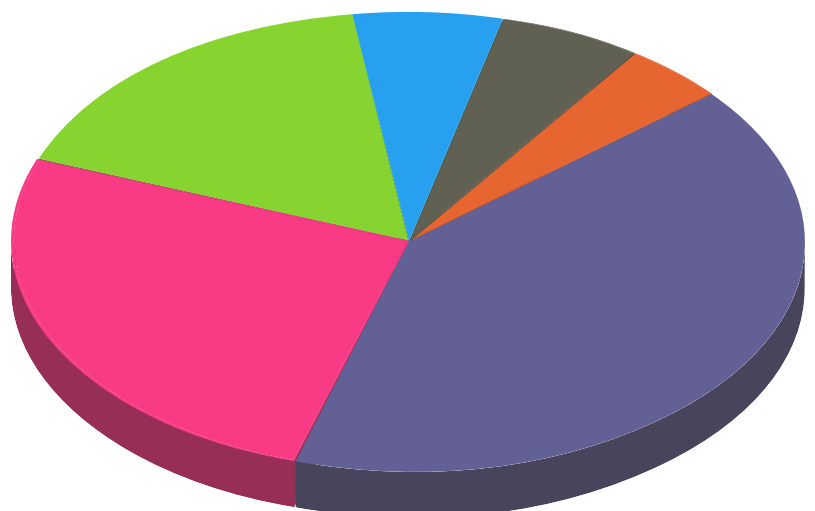


**By 31 December 2009, Futurebuilders had made over 370 investments worth almost £150m.**

### Futurebuilders Fund investments by sector (31 December 2009)

Health and social care	41%
Education and training	26%
Children and young people	17%
Crime	6%
Community cohesion	6%
Other	4%

**From April to December 2009, Futurebuilders' investees won over 230 public sector contracts worth over £46.2m.**





*“We would very much recommend social investment because it is an ideal opportunity to strengthen and improve your infrastructure and therefore increase your capacity to help those in need.”*

**Marsha Miles**  
Chief Executive, South Somerset Mind

## Modernisation Fund

During an economic downturn, third sector organisations are often hit hardest, as income is reduced and the demand for services increases.

The Modernisation Fund was launched in May 2009 as a key part of the Government’s Action Plan for the third sector. This time-limited fund recognised the essential role of third sector organisations and helps them respond to the recession in a number of ways, such as sharing services, buildings and staff, and providing guidance and support on how to restructure, merge, or collaborate.

On top of the original £9.5 million fund, we successfully secured an agreement with Barclays Bank for a further £9.5 million in matched funding, doubling the amount of support available to the third sector.

By 31 December we had offered investments of £3.6m to 24 organisations.

South Somerset Mind, a local mental health charity, received a Modernisation Fund investment of £120,000 to support the strengthening of its organisational structure and to retrain staff.

The investment increased its capacity to bid for and deliver new contracts as a partner in a new Mind consortium and helped strengthen the organisation’s core, making it more resilient to financially difficult times.



Real Help for Communities:  
Modernisation Fund



Real help now



*“Communitybuilders offers an excellent way of investing in community-led regeneration. By working with people at a local level, we offer an opportunity to regenerate their communities, delivering services and facilities that mean most to people, for years to come.”*

**Steve Wyler**  
Director, Development Trusts Association



### Communitybuilders Fund

Communitybuilders is a £70m investment fund. Its goal is to build more cohesive, empowered and active communities by adapting existing spaces and buildings to create community hubs. We manage the programme in partnership with the Community Alliance (bassac, Community Matters and DTA) on behalf of the Department for Communities and Local Government and The Office of the Third Sector.

In the first four months of the Fund, over £250,000 has been invested to provide tailored support packages, over £600,000 invested in Feasibility Grants and a further £3.1m committed in the form of loans and grants for capital projects which will help organisations to increase their effectiveness as Community Anchors.

Acumen Community Enterprise Development Trust was Communitybuilders' first investment. Acumen received a feasibility grant to develop a fully costed business plan to transform a grade two listed building into a community resource centre, providing accommodation for third sector organisations, office space, training rooms, a library, incubation space and a managed workspace for youth groups.

*“The investment will help us to turn a building that has been an eyesore for 12 years into Possibility Place, a centre where the whole community can find ways to turn their dreams into reality.”*

**Kate Welch OBE**  
Chief Executive, Acumen



The Communitybuilders Fund is led by The Adventure Capital Fund (ACF) and managed by The Social Investment Business and The Community Alliance. In addition to delivering Communitybuilders, ACF manages its own £14.4m Fund which supports independent, community-based organisations looking to develop successful social enterprise initiatives. Since its launch in 2002, ACF has committed over £11.2m in investments and a further £2.1m in business development grants.

## SOCIAL ENTERPRISE INVESTMENT FUND

### The Social Enterprise Investment Fund

Social enterprise accounts for the majority of the third sector's income - some £82bn (71%) of the total. With third sector organisations only managing 2% of the public service contracts available, opportunities for growth are huge. The £100m Social Enterprise Investment Fund (SEIF) helps new and existing social enterprises grow and improve their delivery of innovative health and social care services.

Created by the Department of Health and managed in association with Local Partnerships, the fund provides loans, grants and business support for a range of activities including developing services to manage individualised budgets, funding to acquire or redevelop capital assets, and resource help with improving service delivery through strategic partnerships and mergers.

Already we have funded more than double the anticipated number of Start Ups (47 in total, against a target of 23) and achieved our goals for innovation and financial sustainability.

**Over the first six months of operation (June'09 to December'09) we invested over £4.2m.**



East London based Core Arts promotes the artistic and creative abilities of people who experience severe and enduring mental health issues.

***“The SEIF investment completely stabilised our charity and our enterprise. We have a building in central London which is worth £1.1million, and we’re generating more income by being able to rent space, expanding the opportunity to collaborate.”***

**Giuliana Molinari**  
Core Arts Deputy Director

# About more than money

## Business Support

If the third sector is to prosper, it is essential that it has access tailored business support.

Through our own experiences we know that those who receive business development help, business support and advice are more likely to flourish. That is why we have set up a dedicated unit that will provide several millions of pounds of business support over the next three years.

We can help organisations with a number of issues, including

- cash flow development and analysis
- business planning
- market research and marketing
- property acquisition, planning and development
- legal structures and contracting
- human resources and recruitment
- mentoring and support.

Whether it's a one-off problem or an ongoing support need, we can help organisations develop their plans for assessment, manage their investment and grow their business successfully.



***“The support we have had in developing our budget management skills has been invaluable.”***

**Judy Heath**  
Director of Resources,  
Martha Trust

**The third sector now employs more than 1.3m people and is worth more than the UK's automotive industry. We want to make the sector even better at supporting the people it serves and are doing this in a number of ways.**



***“The Business Support we received has enabled Riccall Pre-school's staff and voluntary management team to realise our dream of owning our very own building.”***

**Stephanie Meli**  
Chair of Governing Board, Riccall Pre-school



*“The Social Investment Business has come up with an excellent plan to create a reciprocal relationship between themselves and banks to provide a co-ordinated approach to funding for Third Sector organisations. This has enabled the Barclays Commercial Charities Team to deliver more effectively in this important sector.”*

**Jon Moss crop**  
Head of Charities, Barclays Bank

### Support for winning contracts

In 2007, contracts to the sector from statutory sources rose to £7.8bn – more than double the figure in 2001 (£3.8bn) – while grants to the sector dropped by nearly 10% to £4.2bn. The current commissioning climate offers great opportunities for the sector and we are committed to helping it make the most of them. We have helped unbankable projects win over 230 public service contracts, worth over £46.2m in the last year.

We help a range of organisations win public service contracts in areas such as health and social care, education and training and welfare reform.

### The Funders Forum

The Funders Forum was created to help us investigate joint funding options for organisations and proposals we felt had commercial strength or elements of commercial interest. We work in partnership with a range of commercial lenders – such as Barclays, Bank of Scotland, Triodos and Charity Bank – increasing third sector access to the funding they need to deliver public services.



*“Often, grants leave very little surplus which is what the public sector requires. The Futurebuilders investment gives us that space to deliver at the new level expected of the third sector.”*

**William Lilley**  
Development Manager, My Time CIC





*“Street League has received an opportunity through the Future Jobs Fund – which we wouldn’t have had any chance of getting on our own without the work of 3SC. This contract has enabled us to give our disadvantaged clients real opportunities in developing through real work experience. With our support they will make a transition to long-term outcomes in the future”*

**Nick Smith**  
Head of Fundraising, Street League

### Third Sector Consortia (3SC)

In 2009, in response to a trend towards fewer, larger, public sector contracts we set up 3SC (Third Sector Consortia Management LLP) with Eastside Consulting.

By offering core services such as tender writing, financial modelling, performance and supply chain management – areas that many third sector organisations find difficult to manage – 3SC offers the opportunity for organisations to concentrate on what they are good at; using their experience to deliver high quality services locally, including to those who are hardest to reach.

Over 420 third sector organisations have already joined 3SC, including leading providers of education and training, welfare to work and health and social care. It recently won the second largest Department for Work and Pensions’ Future Jobs Fund contract, which aims to create 150,000 additional jobs for 18-24 year olds,

and those who live in ‘hotspots’ of high unemployment who have been out of work for nearly a year.

The consortium members have already pledged 11,000 jobs, demonstrating that 3SC has fulfilled a role in the co-ordination and management of a supply chain of providers in the sector, and proving that third sector organisations can be at the forefront of delivering large public sector contracts.

The consortia approach also works well on a regional level. A Futurebuilders Full Investment of £155,000 helped develop Sheffield Well-Being Consortium (SWBC), a consortium of 40 member organisations who work together in the Sheffield area to serve the needs of local people, especially those who are most disadvantaged and/or have mental health problems, through the provision of high quality, responsive health services and initiatives.

### Tackling unemployment

We have helped increase the third sector’s role in Welfare to Work, addressing the ways in which the market can work against third sector involvement by

- helping to create the Third Sector Consortia (3SC)
- investing in other third sector consortia; and
- investing in third sector prime contractors, such as The Careers Development Group.

The Careers Development Group is a dynamic charity which provides Welfare to Work training and support to the long term unemployed in London, SE England and the Midlands. A Futurebuilders loan bridged the gap between service delivery and receipt of related income for the contracts the charity won from The Department for Work and Pensions and the Learning and Skills Councils.



# The future

The third sector already delivers services that are essential to the well-being of many individuals and communities. But we have a vision that sees the sector innovating and expanding to deliver even more.

We exist to offer the support the third sector needs, and our ideas of what might still be achieved are what motivate us to grow the funds at our disposal.

We are excited by the possibility of making social investment a mainstream activity and we have developed investment models that prove it can be both effective and sustainable.

We will continue to take the long-term view on investments and will actively seek ways to leverage even more capital to support the work of our investees.

We have innovative ideas and big ambitions for the third sector. The sector deserves to be properly financed and deserves support to do so. We are proud of what we have delivered so far. And look forward to working with the sector and our broad range of partners to realise the full potential of social investment.

“

**Over time we believe that we could bring £6 into the sector for every £1 invested.**

”



The Social Investment Business is the trading name for Futurebuilders England Fund Management Limited, Registered in England No. 06490609 and Futurebuilders England Limited, Registered in England No. 0566676. Registered Office: 5th Floor, 6 St Andrew Street, London EC4A 3AE

ACF is the parent company of The Social Investment Business. Charity registered no. 1117185. Company registered no. 05777484

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