



National Audit Office

Building the Capacity of the Third Sector

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 132 Session 2008-2009 | 6 February 2009

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Tim Burr, is an Officer of the House of Commons. He is the head of the National Audit Office which employs some 850 staff. He and the National Audit Office are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work saves the taxpayer millions of pounds every year: at least £9 for every £1 spent running the Office.



National Audit Office

Building the Capacity of the Third Sector

LONDON: The Stationery Office
£14.35

Ordered by the
House of Commons
to be printed on 4 February 2009

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act.

Tim Burr
Comptroller and Auditor General
National Audit Office

2 February 2009

The National Audit Office
study team consisted of:

Grace Beardsley, Andrew Denney, John Hoadly,
Daisy McLachlan, Emily Morgan and
Akhil Patel, with support from Imran Khan,
Jay Nahal and Peter Sharpe under the
direction of Rob Prideaux.

This report can be found on the National Audit
Office web site at www.nao.org.uk

**For further information about the
National Audit Office please contact:**

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

© National Audit Office 2009

CONTENTS

SUMMARY	4
PART ONE	
Introduction	10
PART TWO	
ChangeUp	12
PART THREE	
Futurebuilders	26
APPENDICES	
1 Study Methodology	33
2 ChangeUp and Futurebuilders reviews	36
3 Key support needs of frontline organisations	41
4 Chronology of ChangeUp and Futurebuilders	42



SUMMARY

1 This report examines ChangeUp and Futurebuilders, two Cabinet Office programmes designed to build the capacity of the “third” sector (see Box 1 for definitions). They were introduced by the Home Office in 2004 to address the findings of a 2002 Treasury review that the third sector’s ability to contribute to the delivery of public services was constrained by a lack of capacity. We examined the impact of these programmes on frontline third sector organisations, and looked at whether they are likely to meet the Government’s capacity building objectives.

2 ChangeUp is a £231 million programme for improving support services for frontline third sector organisations. Since April 2006, it has been managed by Capacitybuilders, a non-departmental public body established to administer the programme. ChangeUp does not fund frontline organisations directly. Instead, regional and local support providers are given funding to come together in partnerships or “consortia” to work in a strategic and coordinated way and provide new or improved and sustainable services, so that the capacity-building needs of frontline organisations can

be met more effectively. At the national level, ChangeUp has created partnerships of national support providers to bring their expertise to bear by providing guidance and advice in priority areas, such as governance, performance management and volunteering.

3 Futurebuilders is a £215 million investment fund managed under contract by Futurebuilders England, a company limited by guarantee. In 2006, responsibility for the fund transferred from the Home Office to the Cabinet Office. The contract was re-tendered and a new

fund manager, Adventure Capital Fund Management Limited, was appointed in April 2008.¹ The fund is experimental in that it tests the idea that investing directly in third sector organisations that are financially viable, but unable to access commercial sources of finance, enables them to build their capacity to compete for and win public service delivery contracts. The fund also provides help to organisations that have specific development needs to address before they are considered ready to take on an investment.

BOX 1

Definitions of terms used in this report

Third sector, as defined by the Government, consists of non-governmental organisations which are value driven and which principally reinvest their surpluses to further social, environmental or cultural objectives. The sector includes voluntary and community organisations, charities, social enterprises, cooperatives and mutuals. Organisations range from small, local community groups to large, established, national and international organisations.

The term is used to distinguish such organisations from the other two sectors of the economy: the public sector ('government') and the private sector ('businesses').

Frontline organisations work directly with individuals, groups, and communities to achieve social objectives such as protecting the environment, improving social cohesion or helping vulnerable people. They provide services to the public, provide advocacy and voice for communities, and campaign for change in a wide variety of areas and across a range of issues.

Support providers provide services to frontline organisations. An example of a support provider is a local Council for Voluntary Service (CVS). These services may include: advice on issues such as setting up, governance, financial and management arrangements, and ICT; services and facilities (such as payroll services, office accommodation and meeting rooms); or advocacy (putting the views of frontline organisations to local, regional and national government and other statutory bodies). These support providers are part of the "infrastructure" of the sector, helping frontline organisations function effectively and are sometimes referred to as *infrastructure organisations*. Under ChangeUp, support providers come together to form partnerships, or **consortia**, to co-ordinate and improve services to frontline organisations.

National support providers (also known as hubs or national support services): under ChangeUp, these are partnerships of organisations that provide guidance and advice to support providers across the country in priority areas such as governance, performance management and volunteering.

Capacity is a measure of an organisation's capability and potential to apply appropriate skills and resources to accomplish its goals and satisfy its stakeholders' expectations.

High capacity organisations have:

- strong leadership, professional expertise, and good physical resources so as to deliver the range, volume and quality of services consistent with their mission; and
- the potential to extend the reach or variety of their services.

Low capacity organisations may be limited by:

- weak management and governance structures;
- a lack of management, financial or business skills; and
- a lack of physical assets needed to support core activities.

Capacity building refers to activities that help organisations to develop skills and resources so that they can achieve their objectives and serve their stakeholders more effectively.

Public and private sector organisations fund this development from their own resources (including debt and equity financing in the private sector).

Third sector organisations, particularly smaller ones, are less able to do so as:

- many do not generate surpluses to invest in this area;
- there is limited access to investment financing; and
- donors generally prefer to pay for projects which deliver visible results, rather than fund 'behind-the-scenes' activities.

1 Adventure Capital Fund Management Limited took over Futurebuilders England Limited and continues to operate as 'Futurebuilders England'.

4 Our principal findings in this report are as follows:

On ChangeUp:

5 **ChangeUp has generally been a significant factor in establishing better partnerships between local support providers.** In the absence of a programme-wide evaluation by Government of ChangeUp's impact, we carried out detailed studies in six localities to identify and illustrate the impact of ChangeUp on local support providers and frontline organisations. We found that ChangeUp had led to improved partnership between local support providers, which enabled better assessments of the needs of frontline organisations in each area and the gaps in support to them. These improvements were more significant in those areas where support providers had already been working together and shared a willingness to develop their cooperation; and less so where there were significant weaknesses in existing support or obstacles to joint working.

6 **The improvement in partnership working has benefited frontline organisations, although the impact on them has varied.** Better support has enabled some frontline organisations to improve their governance arrangements, reduce the time spent on administration, manage staff and volunteers more effectively and focus more on those aims and objectives that provide public benefit (Box 2 provides one such example). Although we did not seek to establish the impact on the users of frontline groups directly, they have also benefited from new, more, or better services.

BOX 2

An example of how support can help a frontline organisation

A community accountancy service (CAS), created through funding from ChangeUp, provides advice and services to nearby frontline organisations on bookkeeping, budgets, financial training, preparation or independent examination of annual accounts, legal requirements, and VAT. A frontline charity that provides respite care for people looking after frail, old or disabled family and friends faced financial difficulties that could have led to it being wound up. It approached its local support provider for emergency funding and was referred to the CAS for assistance in managing its financial problems. The CAS provided guidance and practical support in identifying costs, setting charges and managing its finances, with the result that it recovered and then improved its financial well-being.

7 **There are no targets for outcomes or a baseline against which achievement of the ChangeUp vision can be measured.** Initially, ChangeUp at a local level devolved decision-making to the third sector, which was an untested approach. Decisions on the composition of consortia and the services these consortia prioritised to meet the needs of frontline organisations were made at a local level. We would therefore have expected both government and the sector to have defined outcome measures against which delivery of the ChangeUp vision would be assessed, set a baseline against which progress could be measured, maintained reliable data on its costs, and designed and commissioned a robust programme of evaluation. None of these things were put in place at the outset. A report published by Capacitybuilders in 2007 looked at 49 reviews on parts of the ChangeUp programme but found no effective evaluation of the programme's impacts. Capacitybuilders has reliable cost information from April 2006, has a delivery plan for 2007 to 2011 and, on the basis of the 2007 report, commissioned the first national evaluation of the impact of ChangeUp in November 2008.

8 **While ChangeUp has delivered benefits, the way the programme was managed has created problems.**

Delays in implementing the programme resulted in £80 million needing to be spent within 21 months to March 2006. A 2006 review of the national centres or "hubs" of expertise led to uncertainty about their funding and delays in implementing the new national services meant that extensions to hub contracts had to be negotiated. Consortia members we consulted said that pressures to spend money within short timescales may have led to some funding being wasted. In the first three years of the programme, to 2005-06, there was an underspend of £8 million out of the £80 million planned funding.

9 **Significant changes have been made to address problems in the early phase of the programme,** such as poor co-ordination between the national hubs of expertise and local consortia. These changes included the creation of Capacitybuilders in 2006 to manage the programme, the re-configuration of the national hubs soon afterwards and the introduction of a new grant programme, 'Improving Reach', to make funding available to organisations supporting groups dealing with marginalised communities.

10 A challenge for Capacitybuilders and the sector is to sustain the improvements delivered by ChangeUp by finding new sources of income to fund services.

Valued support services in some areas have stopped for lack of continued funding. Some consortia have solved this problem, in line with the original vision, by finding alternative financing including charging fees to the users of their services.

On Futurebuilders

11 Futurebuilders funding has brought about positive change. We carried out interviews in a sample of eight organisations to judge the impact of the Futurebuilders programme. Where investments had been used to develop capacity, such as improvements to governance, strategy and premises, these had increased the recipients' ability to compete for contracts, and in three of the eight organisations had led to just over £600,000 worth of contracts to deliver public services. Third sector organisations were more likely to consider taking a loan as a result of their engagement with Futurebuilders.

12 The first management contract did not focus clearly enough on the objectives of the Futurebuilders fund. Between June 2004 and March 2008, £107 million was committed to frontline third sector organisations, of which 81 per cent by value was in the form of repayable loans. Although the fund manager's contractual target of 250 investments was met, it was achieved by counting non-repayable development grants within the definition of the term 'investment'. These contributed almost half the target by number yet only amounted to two per cent of finance awarded. Moreover, less than 50 per cent of all funds awarded were actually drawn down and used by the recipients. This application of the available funding was not a satisfactory means of investing in the capacity of third sector organisations and of testing out a new approach to financing capacity building activities.

13 The second management contract contains targets that are more clearly aligned with the objectives of the programme. To meet its targets the new fund manager has to invest in organisations that will use the funds promptly and will win at least a specified number of public service contracts. The new fund manager has undertaken to streamline and speed up the application process and to increase the rate at which funds, once awarded, are drawn down by recipients.

14 There are barriers to the achievement of Futurebuilders' objectives. Some organisations we interviewed found the availability of public sector contracts for which they could bid was unpredictable and they were unable to win the contracts that they had expected to when they had applied for investment. There was also some confusion at four of the eight organisations we spoke to about whether or not the loan would ultimately have to be repaid. Other organisations were willing to accept non-repayable development grants but not loans. Without loans, and sufficient clarity around their repayment, the experiment will not be a good test of direct investment in third sector organisations.

15 The Cabinet Office will have a substantial asset on its balance sheet well beyond the end of the current management contract. The long-term nature of the loans made by Futurebuilders (some up to 25 years in length) means that the value of outstanding loans will be considerable for a long time. Our modelling work suggests that, even if no further investments are made after March 2011, the outstanding capital and annual repayments will still be over £32 million 20 years later. The Cabinet Office will need a plan to ensure that this loan book is managed effectively.

BOX 3

An example of how Futurebuilders has helped a frontline organisation win more public service contracts

An organisation that provided training courses and educational material to young people, particularly those from marginalised and disadvantaged groups, applied for a Futurebuilders loan. Having been awarded £180,000, the organisation paid for some marketing consultancy, recruited and trained new staff and employed a full-time funding officer. This support contributed to a major re-development of the organisation's purpose and business strategy. It shifted its focus from being solely a training provider towards designing, developing and consulting on training courses and using innovative media (such as interactive CD-ROMs). For example, it drew on its experience of engaging with young people to work with the fire service to develop innovative training and campaign materials (on firework safety). As a result, the organisation has won a wider range of public service contracts and is in a position to repay its loan.

Conclusion on value for money

16 The Government's main capacity building programmes have to date resulted in almost £300 million flowing to third sector organisations to address a perceived weakness in their capacity to deliver public services and serve their stakeholders and communities.

17 Our evidence shows that ChangeUp has delivered some benefits to the third sector and has contributed to frontline organisations now receiving better co-ordinated and more effective support services, though the impact is variable in different areas. However, it is not yet possible to establish whether it has provided good value for money. The failure at the outset to establish a clear baseline or criteria for measuring success meant that Government was unable to assess its effectiveness in the early years of the programme. It is therefore not possible to judge the full extent to which ChangeUp is bringing about tangible and sustainable improvements in support services to the frontline. Moreover, weaknesses in programme management have led to wastage and reduced the beneficial impact of the programme to date.

18 Futurebuilders has had a positive impact on those frontline organisations in which funds have been invested and applied, helping them for example to win at least 79 contracts to deliver public services in the six months to September 2008. The fund has started to increase access to different forms of investment for a range of frontline organisations, though it has only recently begun to make the number of investments that will substantially test the effectiveness of loan finance. The measures agreed between the fund manager and the Office of the Third Sector under the new contract should help to indicate whether the fund's objectives are being met. This change has only occurred recently and, given the long-term nature of the investments, means that it will be some time before value for money can be demonstrated.

Recommendations

19 On the basis of the findings set out above, the National Audit Office makes the following recommendations to improve the management of these capacity building programmes.

On the evidence base for designing, evaluating and changing programmes

- a** ChangeUp was designed in the absence of objective data on the state and extent of support services for third sector frontline organisations. It has lacked meaningful targets to measure its impact and insufficient emphasis was given to evaluation of the programme prior to 2007.
 - **In designing future policy initiatives, the Office of the Third Sector should build in adequate arrangements to evaluate and measure performance from the outset.** Such arrangements are especially important for programmes such as ChangeUp which are untested or risk-taking in nature.
 - **Capacitybuilders' evaluation of ChangeUp should seek to establish objective measures of its impact and, where baseline data is lacking, should establish a 'line' against which the future success of the ChangeUp programme will be judged.**

On the need for timely decisions

- b** Government took longer than planned to develop the ChangeUp programme, putting support providers under pressure to spend money quickly once funding decisions were announced and leaving just 21 months in which to spend the first three years of funding.
 - **Capacitybuilders should help third sector support providers to plan ahead by providing information on the time they will take to make funding decisions.** They should avoid putting pressure on third sector organisations that could lead to money being spent too quickly or unwisely. Should delays to the announcement of funding be unavoidable, they should assess the risk to value for money from a shortened timeframe against those that might arise if it were extended.

On the accuracy and completeness of financial data

- c The uncertainty around financial data on the ChangeUp programme, caused by a transfer between old and new financial systems and a transfer of responsibilities from one Government body to another, has impaired assessment of the costs and benefits of the programme.
 - **The Cabinet Office and the Treasury should advise departments of the importance of preserving adequate financial information when system and machinery of government changes take place.** Departments should ensure that a sufficient level of financial detail is maintained to allow for any future evaluation of value for money of programmes.

On the risk to sustainability and legacy of the programme

- d Sustainability is an inherent part of Government's vision for ChangeUp, but some support services funded by or enabled through ChangeUp have already ceased.
 - **The Office of the Third Sector and Capacitybuilders should identify examples of sustainable services, and how this sustainability was achieved, and support the spread of best practice.** They should also consider how organisations within the sector least able to pay for services (such as new and small frontline organisations) can continue to access the services they require.

On managing the asset created by the Futurebuilders programme

- e The Futurebuilders programme will generate a substantial asset on the Cabinet Office balance sheet which will need to be managed for a number of years beyond the end of the current management contract in 2011.
 - **The Cabinet Office should formulate a plan for the long-term management of the asset created by the Futurebuilders fund.** This plan should include consideration of how they will manage the risk of non-repayment.
- f Some investees have indicated they are confused over the status of the investment they have received from Futurebuilders and the repayment responsibility that this entails. The new fund manager has initiated a review of terms and conditions of existing investments.
 - **The Office of the Third Sector should require Futurebuilders England to ensure that there is no scope to misunderstand the repayment obligation entailed by receiving investments.**
- g There is an inherent tension in testing the loan financing model as fully as possible while remaining flexible enough to respond to the circumstances of individual organisations which may have difficulties making repayments.
 - **The Office of the Third Sector should work with Futurebuilders England to specify the range of options to be considered when organisations are unable to repay their loans. The options should include enforcing loan repayment obligations.**

PART ONE

Introduction

Why is the Government investing in the capacity of the voluntary and community sector?

Government's objectives for the third sector

1.1 The Government has an objective to work with the third sector to strengthen communities, transform public services, encourage social enterprise and support the conditions for the sector to thrive. It aims to increase the potential for the sector to be involved in public service delivery and to support the sector's role in building a stronger society, such as by campaigning and providing voice to marginalised groups.

What defines the third sector?

1.2 **Third sector organisations** have social, environmental and cultural goals that are their main reason for being. Those at the 'frontline' **work directly with individuals, groups, and communities to achieve social objectives such as protecting the environment, improving social cohesion or helping vulnerable people.** They provide services to the public, provide advocacy and voice for communities, and campaign for change in a wide variety of areas and across a range of issues: for example, they work in areas of social deprivation and in support of the young, the old, the physically and mentally ill, and marginalised and minority groups.

1.3 Estimates of the size of the sector vary. Data produced by the National Council of Voluntary Organisations (NCVO) in 2008 suggests that the sector numbers as many as 865,000 organisations ranging from small, local community groups to large, established, national organisations. The majority of them work at a local level while others have a nationwide presence. They range from small organisations with no income

which rely solely on the efforts of volunteers to full-scale 'businesses' run by paid professional staff. There is no definitive figure for the financial value of these frontline organisations but the income to these organisations in 2005-06 was estimated by NCVO at over £109 billion.²

The role of third sector support providers

1.4 A smaller number of voluntary organisations – referred to in this report as **support providers** – sits behind, and provides support to, this frontline. This assistance can take many forms. For example, they may: **advise frontline organisations** on issues such as setting up, governance, financial and management arrangements, and ICT; **provide services and facilities** (such as payroll services, office accommodation and meeting rooms); or **carry out advocacy activities** (putting the views of frontline organisations to local, regional and national government and other statutory bodies).

1.5 Distinguishing a 'support provider' can be difficult: some support providers also deliver services direct to users and a few frontline organisations have developed services and levels of expertise that they make available to other frontline organisations. There are no reliable data on the number of support providers but there are thought to be more than 2,000 in England supporting frontline organisations in some way. Many support providers are local (such as Councils for Voluntary Services) providing general support within a geographic area to any frontline organisation. The areas they serve are commonly aligned with local government boundaries such as town, city, district or county. Other support providers focus on particular types of frontline organisation, such as minority ethnic or youth groups, or on particular aspects of support, such as training, disabled access, and volunteering. Support providers make up the 'infrastructure' of the third sector, helping it to function effectively, and are therefore sometimes referred to as *infrastructure organisations*.

² The figures in this paragraph are taken from Table 2.1 of NCVO's 'UK Civil Society Almanac 2008'. and include civil society organisations ranging from informal community organisations, through sports clubs and faith groups, to charities, co-operatives, mutual societies and other institutions.

The rationale for the government's capacity building programmes

1.6 The potential of frontline organisations to serve individuals and their communities is widely thought to be constrained by their “**capacity**” to do so. The Government sees funding **capacity building** in the sector as key to:

- unlocking this potential;
- developing a healthy and vibrant third sector; and
- the sector helping more to deliver better public services.

(Terms in **bold** are defined in Box 1 on page 5).

1.7 The Government review in 2002³ identified that inadequate capacity was a barrier to the third sector's participation in the delivery of public services. It also noted that support for frontline organisations had developed piecemeal and, while some parts of the sector were well served, coverage overall was variable in quality, fragile, and had both significant gaps and some duplication. The review recommended that the Government and the third sector develop a shared strategy to improve these weaknesses. Given the greater public benefit that would flow from a healthier and more vibrant third sector, increasing its capacity was seen as a desirable end in itself.

1.8 This recommendation led to the launch of two programmes to build the capacity of the third sector in different ways: **ChangeUp**, with the role of improving support services by providing funding through a range of programmes to strengthen and co-ordinate the activities of support providers at national, regional and local levels; and **Futurebuilders**, making investments in frontline third sector organisations to help them develop the capacity to win more public service delivery contracts.

1.9 ChangeUp was launched in June 2004 by the Active Communities Unit, a part of the Home Office, which was then responsible for the government's relationship with the third sector. The Government allocated £80 million to ChangeUp from 2004 to 2006, £70.5 million from 2006 to 2008, and a further £88.5 million to cover the period April 2008 to March 2011. A direct impact of ChangeUp is that it has changed significantly the way that support services for the third sector are structured and organised. Where previously there were few common structures, with support providers working in more or less loose networks within different regions and localities, ChangeUp has created:

- a series of national support providers, each providing advice and services in relation to a specific issue, such as performance management or volunteering; and
- a national network of nine regional and about 100 sub-regional “consortia”, each comprising a range of support organisations within a region or locality (typically a county or city).

1.10 Futurebuilders was instigated by the Treasury and launched by the Active Communities Unit in the Home Office in May 2004. The original fund manager, Futurebuilders England Limited, had £150 million to invest by March 2008. It was replaced by a new fund manager in April 2008, which has been allocated a further £65 million to invest by 2011.

1.11 Responsibility for both ChangeUp and Futurebuilders transferred in May 2006 to the Office of the Third Sector, which was established as part of the Cabinet Office to lead the government's third sector strategy.

1.12 This report examines how ChangeUp (Part 2) and Futurebuilders (Part 3) have been managed, what their impact has been to date on frontline third sector organisations, and whether they are likely to meet the Government's capacity building objectives.

3 ‘The role of the voluntary and community sector in public service delivery: a Cross Cutting Review’ (HM Treasury 2002), page 20.

PART TWO

ChangeUp

The objectives and design of ChangeUp

2.1 Between 2003 and 2008, the Government provided £150 million through ChangeUp to address gaps and weaknesses in the provision of support services to the third sector. These services were generally delivered by an existing group of support providers, and ChangeUp was intended to bring about a step change in the way that they planned, developed and co-ordinated their services. This funding was specifically intended to be used in addition to the core funding that such organisations received from other sources. The Government's vision when it introduced ChangeUp was:

"...that by 2014 the needs of frontline organisations will be met by support which is available nationwide, structured for maximum efficiency, offering excellent provision which is accessible to all while reflecting and promoting diversity, and is sustainably funded".⁴

2.2 Rather than set out a 10-year plan, it described how support services might better be arranged to meet the needs of frontline organisations, identified initial actions, and provided funding to begin the process of change. As additional rather than core funding it aims to 'significantly improve the level and quality of support frontline organisations receive in order to increase their impact' by:

- developing and modernising support services to better meet the needs of small organisations and marginalised communities; and
- enabling existing support organisations to increase their effectiveness and work more closely with each other for the benefit of frontline users of their services.

2.3 In reviewing how ChangeUp has been managed and what it has delivered, we:

- analysed financial information on ChangeUp;
- reviewed the major pieces of evaluation of the programme to date, its governance arrangements, objectives and targets;
- interviewed a number of officials involved in the establishment and operation of ChangeUp and the national hubs of expertise;
- carried out six focus groups involving 38 frontline third sector organisations to look at the awareness, understanding and views of ChangeUp's effectiveness; and
- carried out detailed case studies in six localities looking at how ChangeUp had changed the way local support providers planned and delivered services, and what impact these services had had on frontline organisations. The case studies involved document review and interviews with 34 local support providers and 37 frontline third sector organisations.

Further details on the methodology used to carry out this study are set out in Appendix 1.

2.4 We used the large volume of data this generated to answer questions about:

- the way in which ChangeUp was set up and is managed (paragraphs 2.6–2.15);
- the rationale and implementation of subsequent changes to the programme as a result of problems in the early years (paragraphs 2.16–2.20);

⁴ 'ChangeUp: Capacity building and infrastructure framework for the voluntary and community sector' (Home Office, 2004).

- the scale and range of impacts ChangeUp has had on local support providers, including effective partnerships, sustainability of services, and consequences of problems with programme management (paragraphs 2.21–2.31);
- whether frontline organisations were accessing and using this support to serve individuals and communities more effectively (paragraphs 2.32–2.36).

2.5 The paragraphs that follow set out the findings and conclusions we have drawn, based on the range of data we collected on ChangeUp. We have used case examples and quotations, drawn from our detailed studies in the six localities, to illustrate some of the benefits and issues identified by local support providers and frontline organisations.

The management of ChangeUp

2.6 ChangeUp was managed by the Home Office from 2003 to April 2006, when responsibility passed to Capacitybuilders, an executive non-departmental public body established by the Home Office in February 2006 to administer the programme⁵. Sponsorship of Capacitybuilders passed to the Office of the Third Sector in May 2006. The Board of Capacitybuilders sets the strategy for the delivery of ChangeUp (with the approval of the Office of the Third Sector) and has overall responsibility for organisational policy, planning the different funding streams, and impact.

2.7 The current delivery chain for the ChangeUp programme is outlined in **Figure 1 overleaf**. The programme primarily involves the formation of partnerships of local support organisations at regional and sub-regional levels. As of December 2008, 112 partnerships or consortia at regional and local level had been formed as a result of ChangeUp. These are intended to provide better coordinated and efficient support by identifying and prioritising the needs of frontline organisations in their areas and planning for the development or improvement of sustainable services to meet these needs. The priority for the projects that consortia developed was for those that supported:

- making face to face advice services available at low cost to frontline organisations;
- better brokering to ensure frontline organisations have access to the service provider best able to meet their needs;
- new ways of delivering support services for frontline organisations;
- upgrades to the information technology and premises of support organisations; and
- providing specialist advice in key support areas – finance, governance, ICT, performance measurement, volunteering and workforce development (Appendix 3).

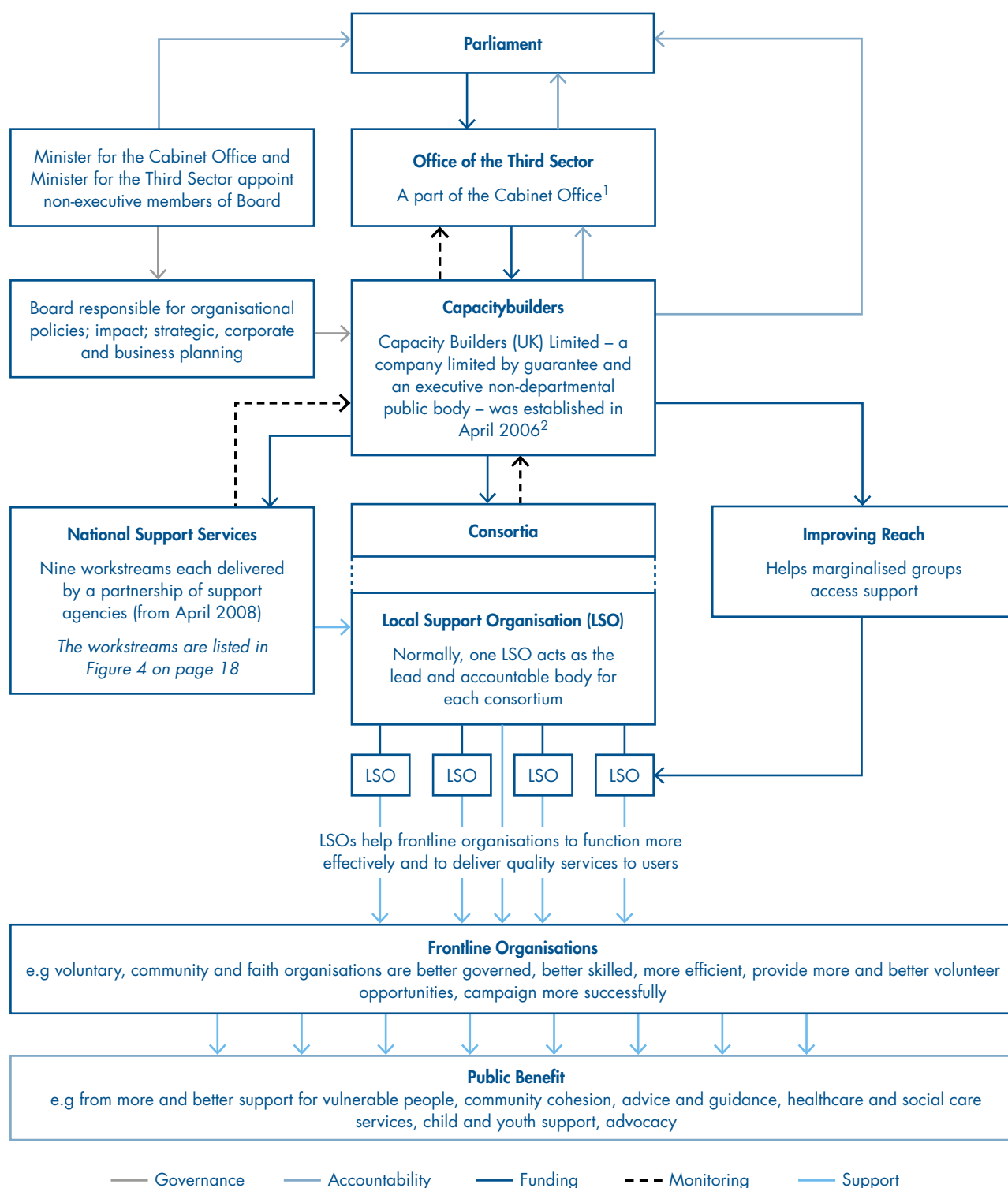
Up to 2008, £92 million was shared between the English regions to develop these consortia and improve support services. This total also includes a funding stream, called ‘Improving Reach’, which was introduced in 2006 and open to applicants outside consortia membership. This funding stream was specifically designed to improve access to capacity building support for groups that deal with marginalised communities, such as black and minority ethnic, refugee, migrant, faith and isolated groups.

2.8 As a programme that delegated decision-making to local levels, ChangeUp was deliberately not prescriptive about which organisations could form consortia; but Councils for Voluntary Service (CVS), the local providers of support services at the county, city or local authority level, often led the way. Consequently, there is wide variation in the number and composition of consortium members, with the smallest consortium having only three members, and the largest over 40. While a consortium would usually include the CVS, it may also include volunteer bureaux (which help people engage in voluntary activities by matching them to organisations that need them) and organisations supporting or representing frontline organisations involved with particular aspects of the third sector (such as issues relating to: black and minority ethnic (BME) groups; faith and/or community cohesion; education and youth; disability and health; crime and communities; and rural affairs). Some consortia also include local government, health trust, and police representatives. An example of a consortium, its membership and their roles is given in **Box 4 on page 15**.

2.9 The consortia are supported in turn by a number of centres of expertise at national level (originally called ‘hubs’ and now called ‘national support services’). These national hubs provided expertise in each of the key support areas (see Figure 4 and Appendix 3). The national hubs were directly funded by central Government and have together received £27 million between 2004 and 2008 (see Figure 3 on page 17). They sought to tackle gaps in support by providing high quality, cost effective and easily accessible information, guidance, tools and resources to assist support organisations operating regionally and locally. For example, the Finance hub produced toolkits on fundraising, trading, procurement, contracting, and loans and a guide ‘Introducing Funding and Finance’ on the basics of sustainable funding, planning, good financial management, fundraising, trading, contracting and loans.

⁵ Capacitybuilders is formally registered as Capacity Builders (UK) Limited, a company limited by guarantee.

1 The ChangeUp programme from April 2006



Source: National Audit Office

NOTES

- 1 Previously responsibility for the ChangeUp programme rested with the Home Office Active Communities Unit.
- 2 Prior to April 2006, funding to consortia was managed through the Government Office in each region.

BOX 4

An example of a ChangeUp consortium

The Greater Merseyside consortium covers a sub-regional area comprising six municipal borough councils and some fringe rural areas. The area has a population of around 1.5 million. The third sector within the area is thought to comprise at least 5,000 frontline organisations including some large and long established charitable organisations.

Traditionally, support was provided by the Councils for Voluntary Service within each of the boroughs although more recently various sub-regional and other local support bodies had emerged. The consortium formed in 2004 as a result of ChangeUp and comprises 18 organisations including:

- Churches Together in the Merseyside Region, an ecumenical organisation broadly covering the sub-region that makes grants to individuals, provides advocacy, advice and information for faiths within the area and acts as an umbrella resource body;
- the six borough-wide councils for voluntary services (CVS) in Halton, Knowsley, Liverpool, Sefton, St Helens and Wirral, which provide general support for frontline organisations. Sefton CVS is the lead accountable body for the consortium;
- the regional branch of CEMVO, the Council of Ethnic Minority Voluntary Sector Organisations, a national organisation supporting minority ethnic groups and communities;
- Chara Trust, a development agency supporting community regeneration;
- Community Foundation for Merseyside, a sub-regional support provider, that makes grants to local groups for projects on various themes such as the environment, health and tackling anti-social behaviour;
- Merseyside Disability Federation, a sub-regional organisation that provides support for voluntary and community groups that are of and for disabled people;
- Merseyside Expanding Horizons, a sub-regional organisation that promotes social inclusion, primarily through small grants, supporting voluntary and community groups and promoting greater co-operation and partnership among other agencies and bodies;
- Merseyside Network for Europe, a sub-regional body providing information, representation and strategic advice for third sector organisations seeking to engage with European programmes and funding;
- Merseyside Youth Association, a sub-regional organisation providing activities and facilities for young people. Its success and expertise in this area has led to it providing support and advice to other youth organisations in the sub-region;
- Merseyside 3tc, a not-for-profit technology centre committed to providing equal access to ICT that provides a comprehensive range of ICT goods and services to frontline organisations across the sub-region;
- Refugee Action, a national organisation with regional representation, providing both frontline support to refugees and asylum seekers with reception, resettlement, development and integration, and support to other refugee and asylum seeker organisations;
- Social Enterprise Network, a network of existing and aspiring social enterprises operating throughout Greater Merseyside that provides a voice for the social enterprise sector; and
- Volunteer Centre Liverpool, an independent volunteer centre providing a one-stop resource for information, advice and guidance on all aspects of volunteering issues, both for potential volunteers and voluntary/community organisations. All the other Volunteer Centres operating in Merseyside are hosted, and therefore represented, by the borough wide CVS's.

These organisations come together to determine the priorities for developing and improving support services for local frontline organisations. The consortium sets these out in a three-year business plan within a six-year strategy. Up to 2008, the consortium received £2.2 million on the basis of a formula used to allocate funding to consortia within each region. From 2008, this funding is now bid for competitively to deliver specific projects and Capacitybuilders makes the final decision on which to fund within each region. Regions are still given an allocation in order to maintain a balance of expenditure across England. The ChangeUp funding for the consortium is shown below:

Period	£m
2005 - 2006	1.29
2006 - 2007	0.48
2007 - 2008	0.42
2008 - 2011	0.95

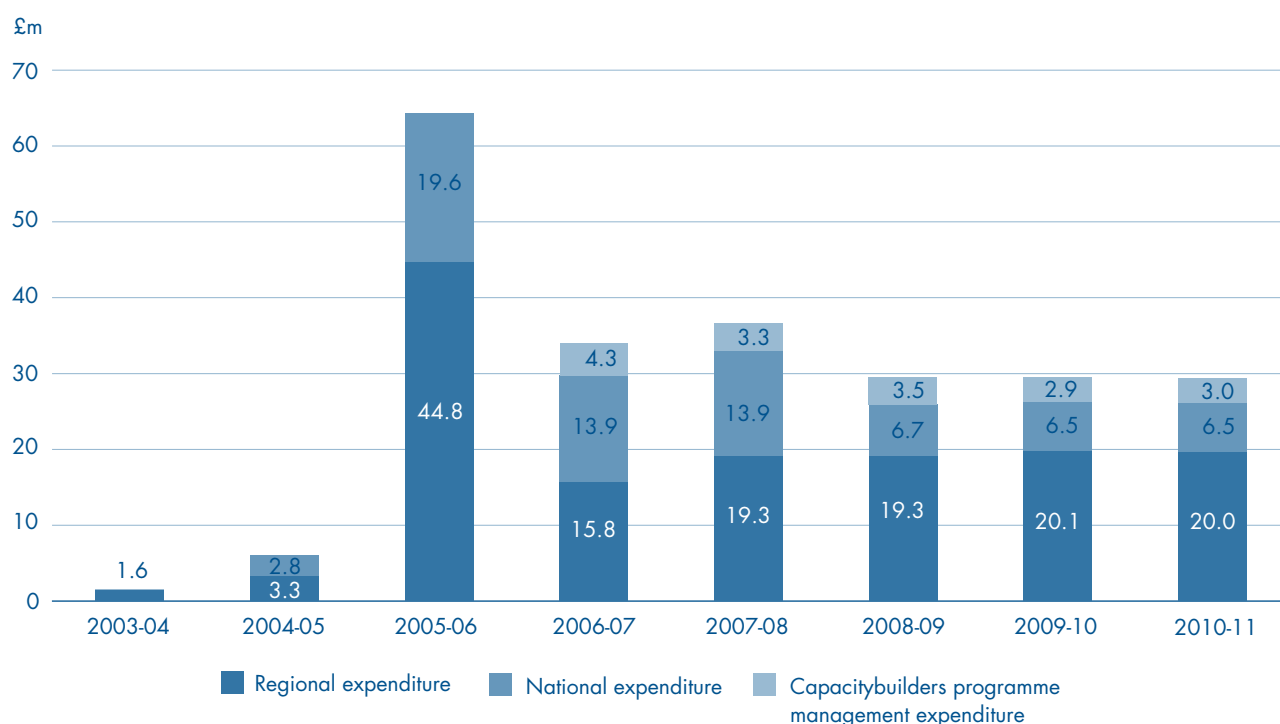
Records of early ChangeUp expenditure

2.10 No central record of ChangeUp funding exists: financial data before April 2006 is held on two Home Office systems, and later data is held by Capacitybuilders on its grant management system. Although the Office of the Third Sector has been able to compile data from across these systems, there are doubts as to its accuracy and completeness prior to April 2006. Expenditure was comparatively slow in the first two years as the programme encountered early difficulties, which created a rush to spend in 2005-06 and an underspend of almost £8 million against the £80 million budgeted. Since then, expenditure has been more even year-on-year (**Figure 2**). **Figure 3** provides a breakdown of ChangeUp expenditure both geographically (for consortia) and thematically (for hubs), based on information from Capacitybuilders and the best historic information that Office of the Third Sector could provide.

ChangeUp baseline, outcome targets and measures of progress

2.11 ChangeUp deliberately eschewed an approach in which central bodies made resource allocation decisions to support centrally-determined priorities. Instead, it devolved decision-making to the support providers at a more local level so that they determined how best to go about improving services to build the capacity of frontline organisations (see Box 4 on page 18). This approach is untested by comparison with other third sector-wide government programmes, and it was important that the Government determined whether it worked well. The Government and the sector needed to define measures against which achievement of the ChangeUp vision could be assessed, set a baseline against which progress could be measured, and design and commission a robust programme of evaluation. None of these requirements were set out at the beginning of the programme.

2 ChangeUp expenditure was low in the first two years, peaked in 2005-06 and has been more even in recent years



Source: National Audit Office

2.12 The vision to be achieved by ChangeUp by 2014 was underpinned by 11 high level objectives under seven broad themes, in turn supported by 16 interim targets or milestones that relate to establishing partnerships and delivering a range of specific outputs rather than to expected outcomes for consortia or frontline groups.⁶ All but three of the 16 milestones were for delivery between 2004 and 2006, in the first few years of the programme, since funding beyond then was uncertain. Following consultation between December 2006 and

March 2007, in July 2007 Capacitybuilders produced a statement on its strategy for the delivery of ChangeUp including delivery plans for 2007-08 and 2008-11.⁷ It also outlined proposals for performance indicators for ChangeUp outcomes and a set of baseline data to provide effective measures of changes between 2008 and 2011. There are still no targets for qualitative or quantitative outcomes against which achievement of the high-level objectives or the wider vision could be measured.

3 Analysis of ChangeUp expenditure 2004 - 2008

National expenditure

Year	Hubs						Other ¹	Total	Capacitybuilders programme management £m	
	Finance	Workforce	ICT	Governance	Volunteering	Performance				
	£m	£m	£m	£m	£m	£m	£m	£m		
2003-04	£0.07 million spent but no breakdown available							0.07		
2004-05	0.04	0.05	0.06	0.13	0.07	0.42	2.00	2.77		
2005-06	1.48	1.41	1.61	1.10	1.31	1.43	11.22	19.56		
2006-07	1.00	1.36	2.39	1.38	1.34	1.32	0.85	9.64	2006-07	4.26
2007-08	0.97	1.63	2.55	1.53	1.35	1.31	1.33	10.67	2007-08	3.29
Total funding for hubs =						27.31		42.71		

Regional expenditure²

Year	Region										Total
	North East	North West	Yorks Humber	West Midlands	East Midlands	East of England	South East	London	South West	Nationwide	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
2003-04	No breakdown is available for 2003-2004 and 2004-2005										1.55
2004-05											3.34
2005-06	4.32	6.18	5.60	4.92	4.42	4.70	4.45	5.68	4.56		44.83
2006-07	1.49	3.05	2.57	2.13	1.95	1.80	1.80	2.83	1.69	0.82	20.13
2007-08	1.58	2.84	2.37	2.87	1.94	1.67	2.23	3.77	2.17	1.13	22.57
Total funding for regions =										92.42	

Source: Office of the Third Sector and Capacitybuilders

NOTES

1 'Other' includes: Priority Services Programme = £2.63 million; Faith Community & Capacity Building Fund = £3 million; other national projects = £3.68 million; and Capacitybuilders set-up costs = £1.1 million

2 The variation in funding to different regions reflects the different geographical coverage of 'local' consortia which may be formed around sub-regional; county; district; borough; or city and town boundaries and are often aligned with analogous local government boundaries.

3 Each region has a regional consortium, London has five sub-regional consortia and there are 98 'local' consortia, making 112 in total.

⁶ 'ChangeUp: Capacity building and infrastructure framework for the voluntary and community sector' (Home Office, 2004).

⁷ 'Destination 2014 - Our strategy for the delivery of ChangeUp' <http://www.capacitybuilders.org.uk/Resources/e/x/p/Final%20D2014%20-%20Strategy.pdf>

2.13 In 2005, within a year of the launch of the programme, the Home Office identified several significant problems:⁸

- although the aim was that ChangeUp should be led by the third sector, there was a lack of ownership of ChangeUp by the sector and a risk of it being entirely government-led;
- the flow of funding and its management was complex and made joined up activity more difficult;
- there was no mechanism to co-ordinate the work of the local consortia and the national hubs;
- there were no tangible results on diversity and, despite a general commitment by the sector, no one had taken ownership of this aim; and
- there was a lack of evidence on what worked.

A new body, Capacitybuilders, was set up to take over the management of ChangeUp from April 2006 with the aim of addressing these problems, taking the programme forward and reducing the complexity of the funding arrangements⁹. Capacitybuilders employs 35 members of staff (on a full-time equivalent basis) and had programme management costs of £3.3 million in 2007-08.

Reconfiguration of the national support services

2.14 A review of the six national hubs was published in September 2006 that ultimately led to Capacitybuilders replacing them with nine national support services which it considered to be better aligned with the strategic and operational needs of frontline organisations and more focused on addressing weaknesses in support services (Figure 4). However, a statement on the future of the hubs and the proposed national support services was not published until July 2007. In September 2006, Capacitybuilders offered a further two months' funding to May 2007 to provide stability and transition to the new arrangements. In November 2006 Capacitybuilders decided to negotiate extensions to hubs' contracts to the end of March 2008 when it became clear that the new services would not be in place before April 2008. Nine new national support services were launched in April 2008 following a competitive process.

2.15 Those in charge of the hubs considered that the review was too early. Because of delays in developing and agreeing business plans, the hubs had been operational for less than a year. Those in charge also told us that the delay in deciding their future created uncertainty

about their funding as the hubs approached the end of their 2006-07 funding agreements. Capacitybuilders has acknowledged shortcomings in its handling of the hub review process. The hub review recommended that Capacitybuilders needed to strengthen its own capacity to provide coordination and leadership in order to deliver the recommendations for restructuring the programme effectively. Both the Board and senior management of Capacitybuilders were expanded and strengthened in 2008 through the appointment of additional non-executive directors and senior managers.

Changes to the way funding for consortia is distributed

2.16 Less substantial changes have been made to the funding programmes that flow through the regional and local consortia. From 2008, around 90 per cent of consortia will receive a relatively small three-year 'baseline' development grant to continue the strategic role that consortia play in delivering the objectives of ChangeUp at a regional and local level. The remaining consortia, considered by Capacitybuilders as less able, will receive a one-year grant tied to an improvement plan. Should these consortia not improve sufficiently then Capacitybuilders will consider alternative arrangement to co-ordinate and develop support in those areas in 2009 and beyond. Funding for specific projects is now awarded to consortia

4

In 2008, nine National Support Services replaced the original six hubs of expertise

National 'hubs' (2004 – 2008)	National Support Services (2008 onwards)
Finance	Income generation
Governance	Leadership and governance
Information and communications technology	
Performance management	Performance management
Workforce development	
Volunteering	Modernising volunteering
	Campaigning and advocacy
	Equalities and diversity
	Marketing and communications
	Collaboration
	Responding to social change

Source: National Audit Office

⁸ 'Developing Capacity: Next steps for ChangeUp' (Home Office, 2005) paragraph 5, page 2.

⁹ Ibid, paragraph 4.2, page 9.

following a competitive process, although Capacitybuilders has set regional allocations to maintain a balance of expenditure across England. Projects will be required to meet specific criteria for improved efficiency and effectiveness in support services, in an attempt to address the risk that funding might be used for core services, rather than to build additional or improved capacity.

2.17 It is hoped that these changes will continue to improve the quality of consortium planning and partnership processes. However, there is no guarantee of project funding for each consortium, and the loss of expected funding can have a significant effect, for example reducing staff and capacity and the chances of sustaining any improvements to ChangeUp. It is too early to say whether the changes that Capacitybuilders has made will adequately address the problems identified in 2005.

2.18 To address the lack of tangible results on reaching marginalised communities (an important part of the ChangeUp vision, see paragraph 2.2), Capacitybuilders introduced 'Improving Reach' at a cost of £6 million in 2006-07 and £5 million in 2007-08 (see paragraph 2.7 and Figure 1). Capacitybuilders sought to limit demand through eligibility questionnaires, guidance and briefing events for potential applicants, but demand has been high. Capacitybuilders received over 1,000 applications for 2008 when it expected to award only 100 or so grants. It announced in October 2007 that 'Improving Reach' would continue for a further three years until 2011 with funding of £6 million a year. While such an imbalance of demand points to a large number of support providers in a position to apply and make use of funding, there is a degree of waste inherent in the cost of making and assessing so many applications that must inevitably be unsuccessful. The Public Accounts Committee has commented that applying for a grant can be a complex and time-consuming process, and that grantmakers should seek to understand what costs their processes are imposing on applicants.¹⁰

Building in evaluation of the impact of ChangeUp

2.19 One of the requirements placed on Capacitybuilders when it took responsibility for the ChangeUp programme in 2006 was to build the evidence base for understanding the effectiveness of the programme. Capacitybuilders has commissioned reviews of three separate elements of the programme (a summary of the reports is at Appendix 2) and recipients of ChangeUp funding have also been

subject to monitoring. However, neither the reviews nor the monitoring, which focuses on outputs from the hub and consortia business plans, enable a judgement to be made about the achievement of the broader objectives of ChangeUp. One review commissioned by Capacitybuilders looked at 49 potential sources of evidence for outcomes from the ChangeUp programme.¹¹ It found that, while ChangeUp had supported a broad range of different activities:

- it was hard to gain a comprehensive sense of what had been funded in detail, or of the overall balance of funding on different areas of support;
- much of the evidence referred to processes; and
- there were very few evidenced outcomes except for 'showcase' descriptions of outputs rather than the difference these made.

2.20 Our detailed case studies and focus groups were carried out to address the lack of available evidence on which to judge the impact of ChangeUp on the frontline. In particular, we focused on a sample of support and frontline organisations in six consortia (two in the North West and four in the South East regions). Capacitybuilders commissioned a scoping exercise, including the review of evidence referred to in paragraph 2.19, which reported in October 2007 as a prelude to commissioning a full evaluation. In September 2008, in parallel to our interviews, Capacitybuilders commissioned a pilot evaluation to examine the plans and funded projects within consortia to assess the extent to which it has driven more strategic partnership among support providers (a summary of this review is at Appendix 3). Capacitybuilders agreed with the NAO that this evaluation should complement our detailed case studies and thus focused in the same six areas on consortia plans, their delivery and outputs, to establish the effect that greater partnership working had had on the level and quality of support provided. In November 2008, Capacitybuilders commissioned a programme wide evaluation of the impact of ChangeUp. One of its aims is to provide objective measures of changes in the capacity of third sector organisations. Interim results are expected in the second half of 2009 with a further report in 2011.

¹⁰ 'Making grants efficiently in the culture, media and sport sector' Committee of Public Accounts Report HC641 2007-08, 6 November 2008.

¹¹ 'Scoping the evaluation of ChangeUp' - COGS, Sheffield Hallam University and University of the West of England, October 2007.

The impact of ChangeUp on support providers

2.21 On the basis of focus groups and the interviews we conducted across the six areas examined, we found that ChangeUp had achieved an impact in all the areas but that the impact varied. Although we were unable to quantify impact, it appeared that the impact was:

- greater in those areas where existing support providers had already been working together to some extent and where there was a general willingness to take the partnership further; and
- less in those areas where there had been significant weaknesses in existing support or obstacles to joint working.

Partnership involved greater collaboration and dialogue between support providers as well as with other organisations and statutory partners such as health trusts.

2.22 In all areas, ChangeUp had resulted in changes to the structure of local support providers and the services available to frontline organisations. New or improved services had not always been sustained beyond the initial funding period, however, and delays had led to waste and poorer value for money. We also found areas where impacts were achieved later because of the longer time it took to create effective consortia in those areas.

Partnership working

2.23 Local partnerships with varying degrees of formality had previously existed in some consortium areas, but ChangeUp has driven a significant change in joint working. This change can be seen in the fact that consortia of varying size and make up now cover the whole of England.¹² Capacitybuilders' review of local support development plans in 2006 commented on the learning and trust that had resulted from the process of developing plans. Although there were differences in the strength and maturity of partnerships in the consortia areas we examined, there was a general improvement to existing practice prior to ChangeUp. At a national level, involvement in partnerships to form the hubs meant that support providers had a better understanding of their partners' strengths and weaknesses. The following quotations illustrate the improvements the support organisations we interviewed thought had been brought about by this improved approach to support provision.

"I think [the consortium] offered us the very first, to my knowledge, visible sign of the sector learning to work in partnership in terms of a sense of harmonising the understanding of need for support for the sector as a whole." *(the Chief Executive of a consortium member organisation specialising in support to BME groups and community regeneration)*

"I think, partly as a result of the ChangeUp process, we are now pretty good in terms of our partnership working and our collaboration. I think [the consortium has] proved to be a really useful vehicle for exchanging information about what individual organisations are doing but also for bringing together potential partners to do some joint working." *(the Chief Executive of a consortium member organisation providing general support)*

"...there are some [places that] have come together in what feels like a real partnership and actually a real cross sector partnership and have come together to improve and to do so much more than ChangeUp and, actually, I think those are the real success stories." *(a regional Government Office official)*

"[ChangeUp] acted as the catalyst for the development of a strategic network of infrastructure organisations for all of the six consortia studied, in spite of their different starting points." *(Capacitybuilders' September 2008 review)*

2.24 As a result of improved partnership working, ChangeUp has driven and enabled better assessments by consortia of both the needs of frontline organisations in each area and of the gaps in support to them. ChangeUp gave consortia an opportunity to reflect on the role and capabilities of member support providers and gave them the confidence, rationale and funding to focus their efforts better. Prior to ChangeUp many support providers sought to cover a range of support, for a variety of frontline organisations; to try to "do everything". The following quotations illustrate how the reorganisation of support providers under ChangeUp has improved the coherence of the services they provide.

"I think that ChangeUp money let them look at themselves and begin to make them more fit-for-purpose, never mind the frontline organisations; it's about infrastructure [support] organisations having real clarity of the whole debate that went on about 'what is infrastructure support?'" *(the Chair of a regional consortium)*

¹² Review of Infrastructure Investment Plans (Good Foundations Consultancy, July 2006).

“If someone came to us with a query or to another organisation, we would be able to refer them to someone more suitable, so if they wanted volunteers we could say ‘go to the Volunteer Centre’ and sometimes they have rung us and said ‘we’ve had a query from [such & such] which we think is your pigeon’ ...so that’s probably one way frontline organisations [have been helped], they’ve been directed more readily to another organisation that would help meet their needs.” *(a development worker for a local branch of a national organisation providing support to community groups. The branch is a member of a local consortium)*

Sustainability

2.25 ChangeUp funding has enabled a variety of services to be set up that provided welcome and needed support for frontline organisations. But once this initial ‘seed’ funding ended, some services have not continued. Essentially the same service has been sustained in one consortium area but ceased in another for want of sufficient funding and income from other sources. For example, of the two community accountancy services we highlight in Boxes 5 and 6, the first has gone from strength to strength but the second has now closed. Capacitybuilders September 2008 research found consortia where “...over a million pounds had to be spent over a very short space of time, which resulted in many projects being funded but not all being sustainable”. In some cases, further and more diverse funding (such as National Lottery funding) has been sought to enable projects to continue longer. In general, not much thought has been given to the sustainability of services and of improvements brought about by ChangeUp and there are few examples of it being achieved in practice.

2.26 Unless other funding or income is available, more services and projects are likely to fail, and there is a risk that the 2014 vision of excellent and *sustainable* nationwide support to the frontline is not achieved. When ChangeUp was launched in 2004, Government intended that a higher proportion of support costs should be funded by frontline organisations through membership fees and charges for services. It saw increased earned income as ensuring that support was more demand led and focused on meeting the needs of frontline organisations.¹³

2.27 Capacitybuilders will need to manage the programme within an uncertain funding environment for support services, and there is a risk that ChangeUp merely sustains rather than improves support to the frontline. ChangeUp was intended as additional money to enable existing support organisations to modernise their services and to find various different ways of sustaining them. However, the need for funding by support providers remains much greater than funds available to them. Prior to the launch of ChangeUp, the Active Communities Unit at the Home Office had provided two years of emergency funding for third sector support providers in response to concerns about local funding cuts. Capacitybuilders’ new ‘Improving Reach’ programme has ten times more applications for funds than it is able to meet, indicating the extent to which demand for funding continues to outstrip supply. While such pressures underline the need for the strategic use of existing resources, the effectiveness of ChangeUp as an improvement programme is at risk if its main impact is to help threatened support providers to survive.

The impact of delays in programme management

2.28 Delays in programme management had led to waste and poorer value for money. Overall, expenditure between 2003 and 2006 fell £7.9 million short of the funding allocated for that period because of slower than planned take up of grant payments (**Figure 5 overleaf**). In view of what consortia told us about their ability to spend money within the time available (paragraph 2.29), it seems doubtful whether they would have been able to spend the funding allocated and deliver consistently good value for money.

2.29 The ChangeUp programme was to be ready by October 2003 but, following an extended consultation with the third sector, was not ready until nine months later in June 2004. The delay in implementing the programme meant that the hubs and consortia were left with less time (21 months) to spend the £80 million of funding available. The majority of funding (over £64 million) was spent in 2005-06, almost twice the amount spent in each of the following years (see Figure 2). Consortia members we spoke to reported being under pressure to spend money to tight timetables, which led to wasteful expenditure or poorer value for money because they did not have adequate capacity to handle expenditure within the time available, or frontline organisations lacked the capacity to benefit fully from it. The following quotations illustrate this point:

13 ‘ChangeUp: Capacity building and infrastructure framework for the voluntary and community sector’ (Home Office, 2004) page 64.

“There were lots of problems with the programme because we got too much money too quickly, it was very difficult to spend it and we made that point over and over again at the time and we’ve continued to make it.” *(a representative of the lead and accountable body for a consortium. The body provides general support to the frontline)*

“[ChangeUp was] very complex in terms of workstreams and reporting – and *quite rightly* in terms of public money / rigour of administration – but within timescales that were just *mad*, and I think so much money was wasted as a result of that. If we’d been given more time, we would have been able to work better in partnership, upset less people, have greater impact and more sustainable impact – as it was there was money being spent on activities just because it had to be spent in a given timeframe.” *(a manager within a consortium member organisation providing training and promoting the use of quality standards within the third sector)*

5 There was an £8 million underspend against available funding between 2003-04 and 2005-06

Year	Annual Expenditure £m	Budgeted funding £m	Underspend £m
2003-04	1.6		
2004-05	6.1		
2005-06	64.4		
	72.1	80.0	7.9
2006-07	34.0		
2007-08	36.5		
	70.5	70.5	
2003-08	142.6	150.5	7.9
2008-09		29.5	
2009-10		29.5	
2010-11		29.5	
		88.5	

Source: Home Office, Cabinet Office and Capacitybuilders accounts and corporate plans

2.30 The pressure of this haste to distribute funding led some support providers to be diverted from more strategic work and from supporting frontline organisations directly. The following quotations illustrate this point:

“I honestly do believe that the ChangeUp agenda diverted [support] organisations from supporting us. I think that having to do all that work around producing development plans, all the consultation work ...meant that there was no capacity to support us [frontline organisations].” *(the Chief Executive of a frontline organisation providing advocacy for people with learning or physical disabilities and those detained under the Mental Health Act)*

“...it appears that much strategic work ... has had to be downplayed relative to administration and project support work [and] is in danger of getting sidelined against the pressure of project delivery and short timescales.” *(a review by Capacitybuilders)*

2.31 Consortia consistently reported that they had to meet deadlines during difficult times, such as over the summer or Christmas holidays, but then found that Capacitybuilders took a long time to make decisions. The slow decision making, while frustrating in its own right, also meant that there was limited time to spend money when it was eventually received. The following quotations illustrate this point:

“The timescale was so short [to respond for funding], it was ...over the summer holidays, which in a voluntary organisation is *hopeless* to do anything with.” *(the Honorary Secretary of a consortium member organisation providing support to BME frontline organisations)*

“At the moment [my organisation], as the accountable body, is having to underwrite the Capacitybuilders’ project because the money isn’t coming through. I don’t understand the reason for these delays. It may be because [Capacitybuilders are] not well enough resourced to be able to deliver and ... that has been a real problem. ...Decisions are slow in coming, payments are late and we’re having to repeat information we’ve given them and it is quite challenging.” *(the Chief Executive of a consortium member organisation providing general support to frontline organisations. It is also the body responsible for accounting for ChangeUp funding to the consortium)*

The impact of ChangeUp on frontline organisations

2.32 The consortia we visited across the six areas referred us on to 37 frontline organisations to which they had provided support services or guidance, and we also gathered evidence from focus groups involving such organisations. Frontline organisations had all benefited in some way from ChangeUp although the impact on them varied. There were cases where the impact could be quantified (payroll support saved administrative time) to those where the impact was less direct and tangible (such as networking with other frontline organisations). That we found limited evidence of impact may be due to two main factors:

- there is an inevitable time lag in support being implemented and the impact felt; and
- a lack of visibility of ChangeUp at the frontline, given that it was never intended to have a **direct** impact on frontline organisations.

2.33 Frontline organisations have benefited, and should continue to benefit, from support organisations' better partnerships through the more tailored and knowledgeable support now provided. And they have benefited from a range of new or improved services provided as a result of ChangeUp, such as:

- capital funding has enabled consortia to make more physical space and facilities available and improve the physical access to new and existing space.

For example, one support provider has refurbished their training area, making it fully accessible, including a kitchen area and disabled toilet facilities, and improving soundproofing. The training area can now be let as a discrete area of the building and used for a wider range of activities (such as counselling where privacy is required). The improved facilities have benefited a range of users, staff and volunteers.

- a range of toolkits and web-based facilities has improved and extended the advice and information available on topics such as governance, legislation and funding.

In 2006, one consortium established a 'funding portal', a web-based resource providing news on funding opportunities, advice and guidance on fundraising techniques, and a full database and search engine of funding sources from charitable trusts and foundations, government funding and the National Lottery. A survey of frontline users in 2008 attributed almost £270,000 of funds raised to use of the portal.

- there is new or improved support for functions such as payroll, human resources and accountancy services that saves time and money and provides reassurance for frontline organisations.

A manager of a frontline organisation engaged in youth work told us: "For a long time we did our own payroll and then actually we got too big and we couldn't handle it ourselves. It's not just time because... to take on that extra responsibility on top of everything else I have to do, it's an absolute nightmare just to think about it. We could have used [another organisation] but that would have cost us a hell of a lot more than [the support organisation] charges. [And] without a proper payroll person on board, are we sure that we're doing everything right? So it's a peace of mind thing as well."

2.34 Support has enabled frontline organisations to:

- reduce the time and resources spent on administrative functions;
- provide better support to their own staff and volunteers;
- develop and improve policies and governance arrangements;
- focus on those aims and objectives that provide public benefit; and
- provide new, more and better services to users.

2.35 Community accountancy services (CAS) is an example of the sort of service used by frontline organisations that ChangeUp has created or improved. Typically, CAS provide a wide range of sector-specific financial support offering everything from start-up and bookkeeping advice to independent examination and

audit. **Boxes 5** and **6** provide two case examples of the impact CAS can have on frontline organisations. In both organisations, capacity has been built: in one, it is more financially robust and has been able to support more users; in the other, the skills internally available to it have grown.

BOX 5

Case example: Community accountancy services (CAS) – Help for a struggling organisation

We visited a frontline organisation that provides practical and emotional support to carers of disabled children, the elderly or mentally infirm and terminally ill people and operates 24 hours a day, seven days a week. When it approached its local CAS, a service created through ChangeUp, it had a turnover of around £500,000, was not recovering its costs fully, and was losing money.

Although the organisation paid for private sector accountancy support it was not getting the information that trustees and management required to identify its costs, bid at an appropriate price for contracts to supply services or govern its wider charitable activities. An approach to its local support organisation for emergency funding prompted the involvement of the CAS.

“[The community accountant] was an absolute godsend, you know, he allowed us to have information to build on to make decisions and over the time its got stronger and stronger and their input is getting *less* as we’ve been able to build a finance team ourselves but we’d have been absolutely lost without them and that’s not an exaggeration; we’d have been closed, quite frankly, without their support.”

The cost saving of employing CAS rather than the private sector accountancy support and the advice and guidance they received from CAS meant that emergency funding was not required. The CAS continues to prepare the organisation’s management accounts on a monthly basis, processes their payroll, and provides support to the trustees when reviewing the annual accounts. The organisation is now a “significant player” within their area, with turnover growing to around £750,000, and is being further strengthened by mergers with neighbouring support services.

Source: National Audit Office interviews

BOX 6

Case example: Community accountancy services (CAS) – Advice helps a new organisation find its feet

A voluntary ‘Friends’ organisation, formed in 2006 to help improve their local park for the community, approached their CAS (a service established through ChangeUp but now closed) for help to set up their financial systems. The group’s Treasurer received bookkeeping training and advice on best practice and she was able to set up appropriate spreadsheets, manage the finances and prepare accounts for the organisation.

She told us “It was really helpful because I’d had no experience before... and then at the end of the first year I had to produce the end of year accounts. [The CAS] ran through what we needed to do and ...then having done it I sent them all to [the CAS to be] checked ...and [they] showed me where I’d gone wrong and sorted it all out for me. Then the second year it worked out all right, so I haven’t actually contacted them since”.

The park is now well used and valued by local people and the group has a membership base of over 400 ‘friends’.

Source: National Audit Office interviews

The impact of ChangeUp on 'users' of frontline organisations

2.36 There was some evidence that those that benefit from frontline organisations – their 'users' (ranging from volunteers to vulnerable groups of people) – had benefited as well, for example:

- use of a toolkit produced by a support organisation helped a children's centre to develop policies that helped to ensure the standard of services provided to users.

The centre's business support manager told us: "[the toolkit] is really useful ...it's a starting point so when someone says they need a data protection policy or we need to review how we recruit staff, it picks out the main things [and] it's given me a starting point. It's saved me time; I think it's given me confidence. For instance, I've recently drawn up a volunteer policy and used the toolkit as a starting point. When completed the policy was cascaded to all staff, helping to ensure uniformity when working with volunteers."

- a community football club, in a highly deprived urban area, had received advice and guidance on fundraising, governance issues and business planning from a member organisation of a consortium, which had helped the club flourish and become more sustainable.

The club manager told us: "what we aim to do is take a young person in at the age of 5-6 and, ultimately, by the time they're 16-17, are making life choices about what they're going to do with themselves, hopefully we'll have guided them and given them that *extra* support and let them know that there are opportunities out there to be involved in further education or in work and how to find jobs – so we basically used football as the tool to engage with young males and support them."

"We started [in 2002] with three teams, so we've grown... currently we have teams from under 7s through to under 18s and we've now got an adult team ...because they still want to be involved in the project. So we've got about ten teams [and] there's about 120-130 people that are engaged on a weekly basis."

"Our aims were always to be a sustainable football club within the community and to be able to deliver what we do for a wider benefit of the area. So, as the funding's got *less* but we've become clever about what we do... we're a bit better about how we manage ourselves just through doing some of the stuff with the [support organisation], I'd say."

- a frontline organisation that began as a project in an area of high deprivation offering educational support to around 20 young people who might otherwise have dropped out of the educational system has grown, with guidance and mentoring from one support organisation, to help over 200 young people a year. The project has become a registered charity and company, and has widened its support to include vocational training and apprenticeships, adult learners and those with special needs and mental health problems.

"The [support organisation] gave us the *confidence* to say 'this is a brilliant provision and we need to *protect* it'. ... It really turned us around to become a more *professional* agency because at that point we didn't have a business plan and we didn't have annual development plans...[and the support organisation] said 'you need to raise your game by doing things like this; promoting yourself, getting your quality assurance right, getting a business plan, doing more staff development'."

"That whole quality assurance work has made us kind of time manage much better, look into the future more and plan for that instead of just resting on what we do well and assuming that it's always going to be there."

"This is not private business; this is a charity and I think the charity status keeps you grounded because you never forget the fact that we give out charity places each year for people who can't get funding anywhere, they're not entitled to go to school, they're not in work but they've got a *real* want or drive to study and, as a charity, that gives us the opportunity to always say to ourselves and our team 'we're a charity, we should do this, this *should* be our remit as well'."

PART THREE

Futurebuilders

The objectives and design of Futurebuilders

3.1 Futurebuilders is a £215 million government investment fund managed by Futurebuilders England, a company limited by guarantee, under contract to the Office of the Third Sector. It is an experimental programme, designed to enable third sector organisations to “expand or improve” their delivery of public services.¹⁴ Futurebuilders was established in 2004 and the current fund management contract will run at least until March 2011. Futurebuilders England Limited was set up by a consortium of Charity Bank, Unity Trust Bank, Northern Rock Foundation and the National Council of Voluntary Organisations to manage the fund initially. This consortium managed the investment fund until the first contract ran out in March 2008. Following a competitive re-tender, the second contract was awarded to Adventure Capital Fund Management Limited to run until March 2011, with scope to extend the contract beyond this date. This organisation is now the sole member of Futurebuilders England. Further information on the development of Futurebuilders can be found in the timeline at Appendix 4.

3.2 Futurebuilders invests directly in the capacity of third sector organisations considered to be viable investments, but which do not have access to commercial sources of finance. These organisations may lack the skills required to bid for and manage public sector contracts, or need premises or equipment in order to deliver public services. Investment in these areas is designed to make the organisations more effective and therefore more likely to win contracts to deliver public services. The income from these contracts is intended to provide income to repay the investments, with interest. It is hoped that the resulting track record of delivery will further enhance the organisation’s

reputation and expertise and increase its ability to work with the public sector. This reinforcement can also have other benefits such as improving staff and volunteer recruitment and retention and increased donations.

3.3 Futurebuilders was thus set up to see whether third sector organisations that do not have access to commercial sources of finance are, nevertheless, able to utilise investment to build their capacity to win public sector contracts. It also tests whether such capacity can be built using alternatives to traditional grant funding, thus stimulating the demand for and supply of such alternative forms of finance. The success of Futurebuilders is therefore dependent on its impact beyond the organisations it has invested in so that other funders can learn from this approach to capacity building. Futurebuilders is subject to a longitudinal evaluation by Sheffield Hallam University, built into the programme from the outset, at a cost up to £1 million.

3.4 Funding awards made by Futurebuilders England can include a combination of loans and equity-type instruments, as well as non-repayable capital and revenue grants. These are defined as “full investments” by Futurebuilders, have an average size of £618,000 and in most cases bring with them an obligation to repay the principal and provide a return to the fund manager (though some loans are provided on an interest-free basis for specific needs, such as tendering for a contract). Futurebuilders England expects that a loan will usually form “the dominant part of any investment”¹⁵.

3.5 Organisations can also be given development funding, either as a formal development grant or as less formal support provided through Futurebuilders England’s network of consultants. Development grants average around £19,000, are awarded to help with

¹⁴ ‘Futurebuilders: An Investment Fund for Voluntary and Community Sector Public Service Delivery’ (HM Treasury, September 2003).

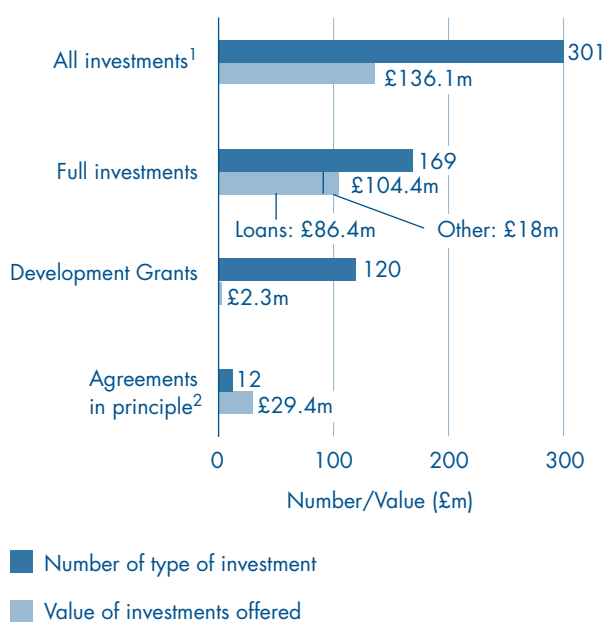
¹⁵ Futurebuilders England Investment Plan 2008-2009.

specific aspects of organisational development and are usually tied to full investments. By 30 September 2008, Futurebuilders England had made 169 full investments worth £104.4 million. **Figure 6** provides further details of investments by value and number.

The impact of Futurebuilders

3.6 Of the £104.4 million full investments awarded by 30 September 2008, 83 per cent by value was in the form of loans (**Figure 7**) and 67 per cent by value were loans directed towards building acquisition and works (**Figure 8**). To get an idea of the range of ways an investment could have an impact with an organisation, we carried out interviews with a group of eight selected organisations and their corresponding Futurebuilders' investment officers.

6 By value the majority of Futurebuilders investment offers to 30 September 2008 were loans



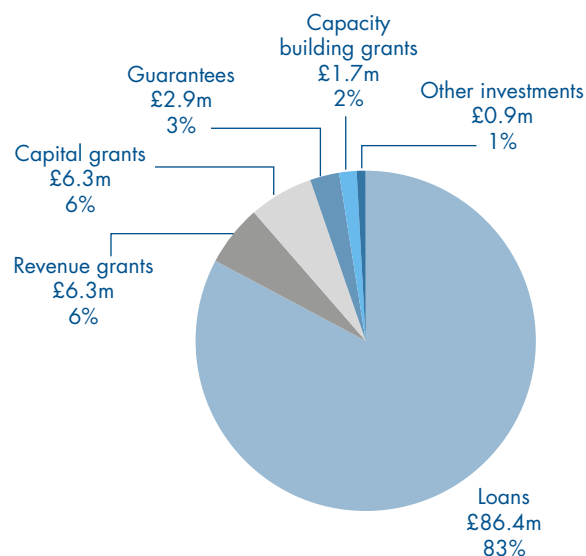
Source: National Audit Office analysis of the Futurebuilders loan book

NOTES

1 'All Investments' excludes £6.1 million offered to 15 investments which were declined, withdrawn or revoked. The funds offered are available to other investments.

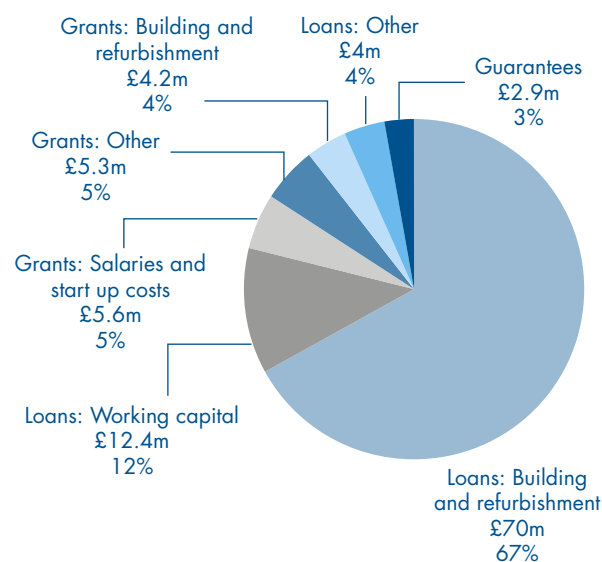
2 'Agreements in principle' are investments made subject to an organisation meeting certain conditions by a particular date. If the conditions are not met by then, the investment is withdrawn.

7 83 per cent of investment awards were loans



Source: National Audit Office analysis of the Futurebuilders loan book

8 Futurebuilders made full investments in a range of areas, of which 67 per cent were related to building works or purchase



Source: National Audit Office analysis of the Futurebuilders loan book

Improvements arising from Futurebuilders investments

3.7 The full investments and the development support (including grants) have brought about improvements to organisational governance, accounting and strategy and have helped to refurbish or purchase premises and equipment.

3.8 Futurebuilders began to record the value of public service contracts won as a result of its investments in April 2008. Three of the organisations we visited had won contracts worth just over £600,000 since then. These contracts had resulted in new or expanded services available to users (**Box 7**). In other organisations, though contracts had not yet been won, there was a degree of positive change which had increased the potential to deliver public services, although the recipients had not yet secured the necessary contracts (**Box 8**). These improvements were generally attributed to the Futurebuilders investments.

BOX 7

A case example of how a Futurebuilders' investment led to major organisational changes which contributed to winning new contracts to deliver public services

This organisation works with local public agencies to deliver training and educational projects and to provide information to young people. Recent projects have included developing an interactive CD-ROM for the local Police to educate young people about the dangers of alcohol. They received a Futurebuilders investment of £184,000 in November 2005, including a £120,000 loan and £64,000 in grants. This investment allowed the organisation to pay for some marketing consultancy, recruit and train new staff and to employ a full-time officer to identify sources of funding. The result was that the organisation re-evaluated its purpose and developed a new strategy. It had drawn its investment in full by November 2007, and has recently repaid a lump sum against its loan.

Following Futurebuilders' investment, the organisation has changed its focus from being solely a training organisation towards a much wider range of work with public agencies and young people. This work has included delivering workshops in schools, organising poster campaigns and developing resources such as radio programmes and websites. Rather than working on a project-by-project basis, the organisation now works on a number of annual campaigns involving a range of public agencies, for example against anti-social behaviour and promoting firework safety. Staff now receive a financial bonus for securing contracts and trustees have a more positive attitude to loan finance and risk-taking.

Since April 2008, the organisation has won contracts worth £22,000, though senior staff accept that more work needs to be done to win the larger scale contracts needed to secure its long-term future.

Source: National Audit Office interviews

3.9 Some development grant holders did not believe that they would be in a position to secure contracts to deliver public services for the foreseeable future, and while they were able to highlight positive organisational changes as a result of their development grant, they did not expect to return to Futurebuilders England for a full investment (**Box 9**).

3.10 Overall, where investments had been used, third sector organisations judged to have good ideas for delivering public services were able to develop their capacity and start to repay the investments out of income arising from the contracts that they won. In terms of the wider impact of the Futurebuilders programme, some organisations had a more positive attitude to loan finance as a result of their involvement in the Futurebuilders programme, though not in all cases.

BOX 8

Futurebuilders' investment has increased an organisation's potential to deliver public services, but the prospects for gaining contracts are uncertain.

An organisation working to reduce social exclusion in disadvantaged communities and support people into education and employment received almost £1 million from Futurebuilders to buy and fit out a headquarters from which it could run training and advice services. The investment included an £835,000 loan and £160,000 worth of grants. The investment was first approved in October 2006, but as a result of delays in finding a suitable premises, the investment was not drawn in full until July 2008.

Since moving into the new building the organisation considers that it has the potential to deliver a range of new services to its clients, including IT training and small business support. For example, it has become an accredited Learn Direct centre and has a suite of computers which beneficiaries can use both to complete training and to look for work. There are also 'hot desks' available to anyone starting a small business.

Because of changes in the commissioning practices of two Departments, the scale of available contracts has been much larger than anticipated and the organisation has not been able to compete for these as planned. There is some uncertainty about how the organisation will fund additional services or make its first loan repayments if the current contracting situation continues. Futurebuilders England has a claim on the new premises as security against the loan if it cannot be repaid.

Source: National Audit Office interviews

BOX 9

Futurebuilders support built the organisation's capacity, but it remains wary of loan finance and does not expect to deliver public services for the foreseeable future.

The organisation provides counselling and support to bereaved adults. Futurebuilders awarded a £13,000 development grant to fund a temporary Administration Assistant in order to reduce the burden on senior staff. This allowed time to plan an expansion of services to include children. But after negotiations with local commissioners, the organisation was told that there were no funds available to buy their services. This situation was unchanged by September 2008, although the Administration Assistant had been made a permanent member of staff.

The organisation's management does not want to take out a loan nor expand the organisation beyond its current area of operation. At the outset of its investment it was under the impression that any loan obtained through Futurebuilders would not need to be repaid, though it now understands otherwise.

Source: National Audit Office interviews

Barriers to achieving Futurebuilders' objectives

3.11 Our fieldwork also showed that there are some challenges to address if Futurebuilders is to achieve its objectives. The repayment of loans and other investments is dependent on organisations winning contracts to deliver public services, but it is not always possible to predict what contracts might be available to be competed for. This uncertainty might arise from changes to central and local government funding priorities and systems, or from other documented problems with the way in which the public sector purchase services from the third sector. Such problems affect the ability of organisations to win contracts as expected at the point of investment award (Box 8). Futurebuilders England and the Office of the Third Sector are taking steps to improve the way in which the public sector purchases services from the third sector. For example, the Office of the Third Sector has sponsored the National Programme for Third Sector Commissioning which aims to train 3,000 local government commissioners to purchase services from the third sector more effectively.

3.12 Other challenges also exist. In four of the eight organisations we looked at, interviewees expressed some confusion over the status of the investment or the repayment responsibility that this entails. They had the impression that, although contractually required to repay their loans, such obligations would not in practice be enforced by Futurebuilders. To address this issue, the new fund manager is reviewing all existing investments to ensure that recipients are clear about the

terms and conditions under which they have been made. Other organisations were willing to take development grants but were unwilling to receive full investments on the basis that they would include a loan (Box 9). While it is not expected that all recipients of development grants will take on a full investment, applicants should be willing to consider such an investment, including a loan element, if they are awarded a development grant.

3.13 Given its experimental nature, Futurebuilders England needs to ensure that it is properly testing loans, quasi-equity investments, and other models of finance, including the expectation that it exists to make investments which must be repaid to the fund. It is through this test that it can have a wider impact beyond the organisations it invests in, including demonstrating to other suppliers of finance that viable investment opportunities exist.

Programme management

3.14 Futurebuilders fund management costs are set out in **Figure 9**. Under the first management contract, the manager drew down monies deposited in a Charity Bank account (a member of the consortium that established the fund manager) as necessary to cover costs, subject to an overall cap of £15 million. Under the second contract, the fund manager is paid a fixed fee for managing the Futurebuilders fund with a small additional sum to cover contingency and a performance-related bonus.

9 Futurebuilders fund management costs

		£m
First fund management contract	July 2004–March 2008	14.3
Second fund management contract	April 2008–March 2011	12.3 (see note)

Source: Futurebuilders England

NOTE

The cost for the second fund management contract includes £200,000 payable over three years for achievement of the annual targets set against the Key Performance Indicators. Other elements include contingency, transaction and exit costs incurred during the second contract period.

The first fund management contract

3.15 One of the main differences between the two fund management contracts is the number and focus of targets set. The first contract stipulated a single target: that the fund manager had to make 250 investments by March 2006. The target was not adequately specified, however, and in practice was taken to include development grants as well as full investments that were subsequently withdrawn, revoked or declined. In the event, almost half of the investments that contributed to the target were development grants which were not repayable and represented about two per cent of the total funds invested. Development grants are not expected to help organisations win public service contracts, but to help organisations get to the position where they are ready to apply for a full investment; so there was no link to the overall objectives of the Futurebuilders programme. As a means of investing in the capacity of third sector organisations and in testing out a new approach to financing capacity building activities, it was an unsatisfactory target.

3.16 One of the reasons for the small number of full investments that Futurebuilders achieved under the first contract was the relatively low proportion of successful applications. Only 11 per cent of applicants were awarded a full investment, compared to 26 per cent of applicants during the first six months of the second contract.

3.17 The applications process to date has been lengthy, with organisations waiting an average of 127 calendar days between the start of the substantive assessment and the point at which a decision was made. According to research carried out by Sheffield Hallam University, the time to make decisions had a cost both to the fund manager, estimated to be around 40 per cent of fund management costs, and to applicants: up to £9.0 million to the end of February 2007. These costs would be felt disproportionately by smaller third sector organisations: for an organisation with an annual turnover of £100,000, the cost of applying was estimated to be between 7 and 10 per cent of turnover (see Appendix 2 for further details).

3.18 Organisations have been slow to make use of the funds that were provided to them. Of the £104 million committed to full investments, only 45 per cent had been drawn down. Those we spoke to cited delays which had prevented them from reaching agreed milestones and reluctance to draw down loan funding due to exposure to interest and repayments as reasons for not having

drawn down the full value of their investment. Another explanation is provided by the fact that 67 per cent of loans have been for building works or purchase (Figure 8) and these can often take a long while to progress to the point at which funds are required.

3.19 The slow drawdown rate has delayed the realisation of some of the anticipated benefits of the Futurebuilders funding. Whilst it may be of some value for an organisation to have funding committed, the primary benefit of an investment must be in using the money.

The second fund management contract

3.20 The targets for the first fund management contract were not clearly linked to the Futurebuilders objectives, but they were improved for the second contract and are more closely aligned with the objectives that Futurebuilders was designed to achieve (paragraphs 3.2 to 3.3). Futurebuilders England must deliver against targets in three key areas: the number of contracts won; the value of investments drawn down within two years of award; and the level of customer satisfaction (Figure 10). The fund manager is expected to focus on making full investments that are used by recipients and enable them to deliver public services.

10 The second Futurebuilders fund management agreement (2008-2011) set out clearer performance indicators

Key Performance Indicator	Target			Actual
	2008 (Apr-Dec)	2009	2010	2008 (Apr-Sept)
Number of new public service delivery contracts won ¹ .	65	130	225	79
Percentage of investments drawn down within two years by value.	70%	80%	90%	75%
Customer satisfaction with key aspects of the Fund's services by percentage.	75%	80%	82%	Not Available ²

Source: Futurebuilders England

NOTES

1 All contracts recorded against the target must have a demonstrable link to the Futurebuilders investment. Only contracts with a value of £30,000 contribute a full point against this target: those of lesser value contribute a part of a point (determined by dividing its value by £30,000).

2 The customer satisfaction survey is carried out every six months, and so data is not currently available.

3.21 Since only six months' data is available, it is too early to say whether the new approach will help the programme to achieve its objectives more effectively. There are, however, some positive indications. During the six months to 30 September 2008, 42 full investments were awarded, compared to an annual average of 32 full investments per year in the preceding four years.

3.22 The fund manager has also undertaken to streamline the application process as well as to reduce the numbers of unsuitable applications so that fewer organisations spend less time applying for Futurebuilders investments. There is some evidence that the proportion of successful applications is higher (paragraph 3.16) but it is too early to say whether the application process is shorter. Changes were introduced on 1 November 2008 under which applicants no longer have to fill in an application form, and the initial consideration of whether or not an organisation has a good idea for investment is made through discussion. No application is recorded until an initial risk assessment is completed, the investment is judged viable, and all necessary documents are received from the applicant. Futurebuilders England has undertaken to process all applications from this point within six weeks.

3.23 Recipients are also encouraged to use their funds more quickly. The fund manager has indicated that, in order to meet its target relating to the disbursement of funds, it expects to make fewer investments in building-related projects. It also reserves the right to charge a one-off fee of one per cent of the value of the investment for funds not drawn down according to the expected timescale.¹⁶

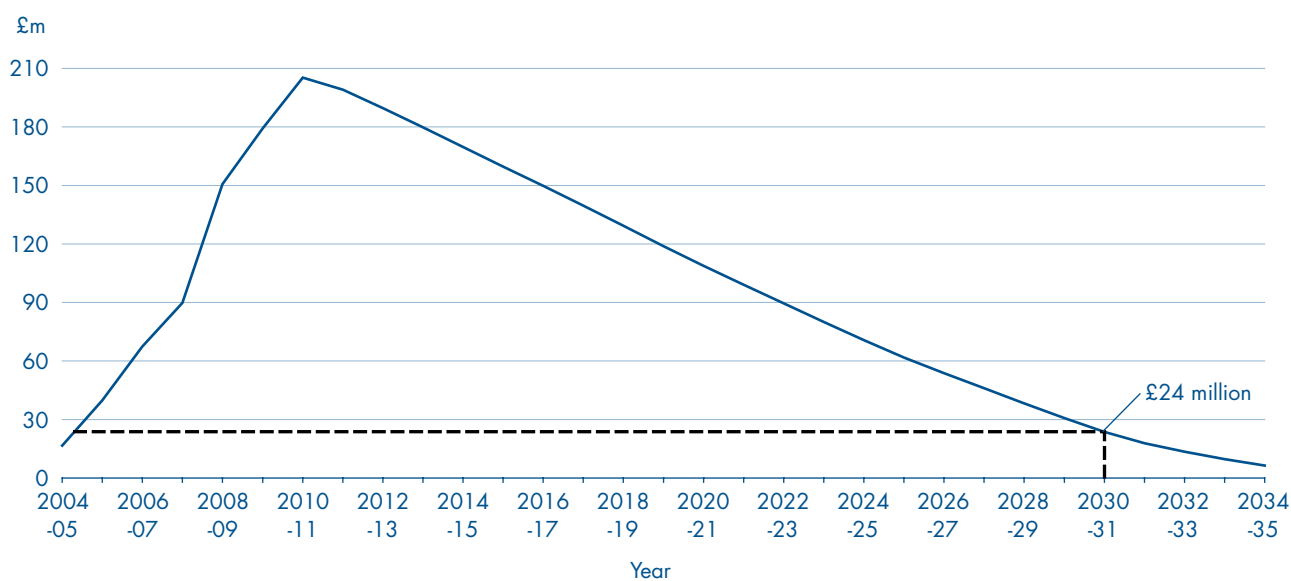
3.24 These changes have only recently been made and, some positive signs notwithstanding, it is too early to say whether they will help Futurebuilders achieve its objectives.

Fund management beyond 2011

3.25 Some investments are repayable over 25 years, and we calculated how the loan book might evolve over that period using some broad assumptions. Assuming that all available investment is used by March 2011, after which no further investment is made, the outstanding capital and annual loan repayments will still be over £32 million in 2030-31, 20 years after the end of the current fund management contract. This total is made up of the projected loan book value (**Figure 11 overleaf**) and the loan repayments (**Figure 12 overleaf**) in that year. The Cabinet Office will therefore have a substantial asset on its balance sheet for a considerable time and should have a plan for managing it in the future, including managing the risk of non-repayment of loans.

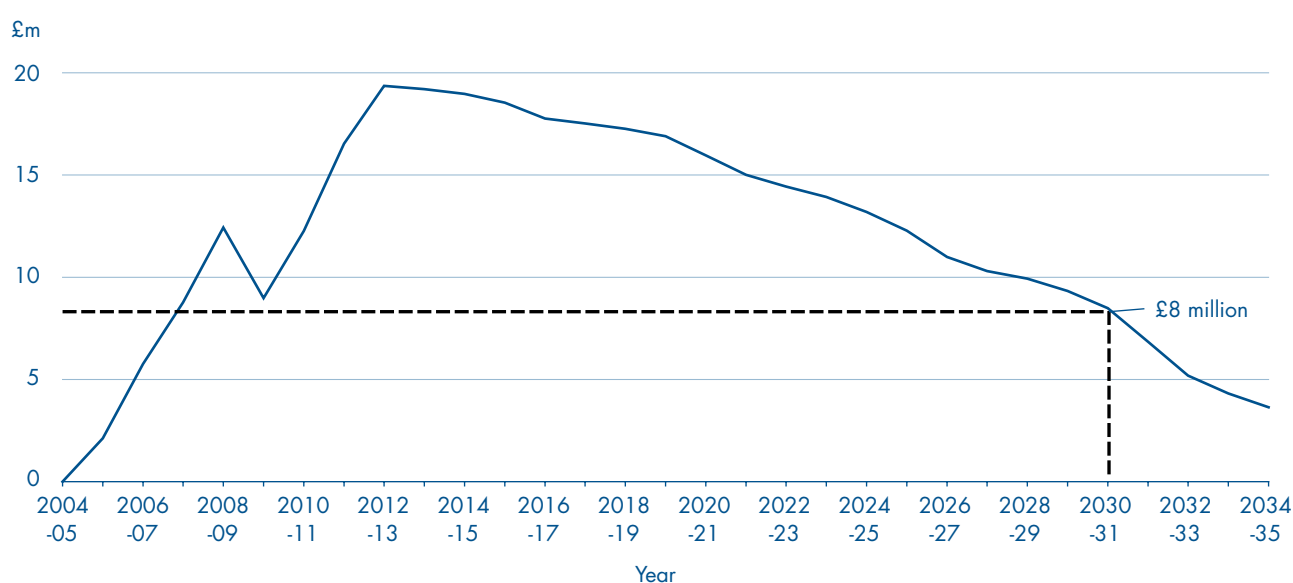
16 Futurebuilders Investment Plan 2008.

11 The Futurebuilders loan book will be a substantial asset for many years



Source: National Audit Office

12 The Futurebuilders loan book generates sizeable annual repayments for many years



Source: National Audit Office

APPENDIX ONE

Study Methodology

Review of programme documentation and financial data

We conducted a literature review of published and unpublished documents relating to the creation, establishment and operation of the ChangeUp and Futurebuilders programmes including:

- the development of the programmes;
- original structure, governance and reporting arrangements and subsequent changes;
- strategic plans, performance reports and targets; and
- internal and external evaluations.

We obtained high level funding information for the national ChangeUp programme from the Office of the Third Sector and the study team also examined financial data submitted to Capacitybuilders by the local and regional consortia.

For the Futurebuilders programme, we analysed the applications database, the investment portfolio and the drawdown profile to build a picture of the rate of applications and the number, value and composition of investments made over time.

We also reviewed Futurebuilders England's fund management contracts in order to understand the fund management arrangements and performance targets.

Interviews with programme stakeholders

We conducted semi-structured interviews with individuals involved in the establishment and operation of the ChangeUp and Futurebuilders programmes from:

Office of the Third Sector; Home Office; Futurebuilders; Charity Bank; and ChangeUp national hubs and consortia.

The literature review gave us an understanding of:

- the original rationale for the programmes, their focus and the ways in which they have subsequently developed; and
- what the programmes have achieved to date, and how this compares with the Government's original expectations.

Analysis of financial data established:

- that there was an incomplete picture of how ChangeUp money had been spent prior to the creation of Capacitybuilders; and
- how money had been spent to date, including the rate at which it was committed and used by beneficiaries, what it was used for, and what was spent on programme management.

Examination of fund management contracts demonstrated the degree to which targets set for Futurebuilders England were fit for purpose.

Stakeholder interviews gave us insights into:

- relationships within and between key stakeholders;
- the performance of the programmes to date and the plans for their future development; and
- the ways in which the programmes changed over time.

Interviews and focus groups with consortia and front-line organisations

We commissioned consultants, Office of Public Management Limited (OPM), to conduct a series of six regional focus groups with front-line third sector organisations, two in the North East, two in the South West, and two in London. The areas were chosen due to their differing geography and levels of cohesion amongst local third sector infrastructure. Each group involved small or medium-sized organisations, defined by turnover, and together the focus groups included 38 different organisations.

We picked two further regions – North West and South East – to give wider coverage across England and then selected a purposive sample of six ChangeUp consortia areas based on population density, ChangeUp funding, Modernisation Programme funding, consortium membership size, maturity of consortium, and public sector involvement.

From these six consortia, we interviewed a selection of member organisations of each consortium. Through these interviews we identified frontline organisations that had used elements of the support provided by the consortia members as a consequence of the ChangeUp programme. We then interviewed the frontline organisations about their experience of the support they had received and the impact this had on them and their 'users'. In all we interviewed 34 representatives of consortia organisations and 37 representatives of frontline organisations.

We also interviewed representatives of central and local government bodies in the consortia areas.

Focus groups with commissioners of public services and funders of the third sector

OPM also interviewed 19 commissioners of public services, from local authorities, health trusts and other local services such as the police, in the selected areas in order to provide a picture of the local commissioning environment.

We conducted semi-structured interviews with six organisations that provide funding to the third sector: Baring Foundation; Charities' Aid Foundation; City Bridge Trust; Impetus Trust; Northern Rock Foundation; and Venturesome.

These were selected on the basis that they offer grant funding or investment to third sector organisations which can be used to build their capacity.

The focus groups provided us with qualitative information on:

- the capacity building and organisational development needs of frontline organisations; and
- the awareness, understanding and views of frontline organisations on ChangeUp.

Our work with consortia members gave us an understanding of:

- the impact of ChangeUp on the organisation, provision and quality of support that members provided to frontline organisations; and
- the impact of ChangeUp and events on consortia members themselves.

Our work with front-line organisations demonstrated:

- the impact that ChangeUp had had on them and the 'users' of their services and support;
- a snapshot of the capacity-building needs of participants; and
- an indication of their awareness of the ChangeUp and Futurebuilders programmes.

The interviews with central and local government bodies in the infrastructure areas acted as a check against the picture that we had from consortia and frontline interviews.

The interviews with commissioners of public services provided insights into their views on the role of local third sector organisations in public service delivery and provided a check against the evidence provided by consortia and frontline organisations.

The interviews with funding organisations highlighted a range of different approaches to the provision of financial support and provided an understanding of the difficulties involved in making and monitoring financial awards.

Interviews with Futurebuilders investees

We selected a purposive sample of eight organisations in which Futurebuilders had made investments based on mixes of loan and grant; the stage investments were at; and to cover the five areas of public service delivery (i.e. crime; community cohesion; health and social care; education and learning and support for children and young people). In order to minimise the burden on investees, the sample was chosen in consultation with Sheffield Hallam University to ensure that the organisations selected were not part of the ongoing evaluation of Futurebuilders.

We reviewed the investment file of each applicant before conducting semi-structured interviews with each organisation and with their Futurebuilders England investment officer. Organisations were asked about their experiences of Futurebuilders; the progress of their investment; their experience of commissioning and funding; and their attitude to loan finance.

Modelling of the Futurebuilders investment book

We used the data provided within the Futurebuilders investment book to model the commitment, drawdown and repayment of investments over time. The model was not intended to reflect the exact use of the Futurebuilders fund; rather it was based on a number of assumptions and intended to provide an indication of the likely outcomes for the fund in a range of circumstances. It was developed in consultation with the Office of the Third Sector.

The interviews provided:

- a clear picture of what a selection of Futurebuilders investments had 'bought' and of the impact which investment had had on the organisation as a result;
- evidence of the range of capacity within organisations to compete for and win contracts to deliver public services;
- evidence of the degree to which Futurebuilders investments had been drawn down and used by the selected investees;
- an indication of the range of factors, both internal to the organisations and as a result of external circumstances, which might prevent Futurebuilders investees from making full use of their investment; and
- insight into attitudes to loan finance as a form of funding amongst the selected investees.

The investment model gave an indication of the future value of the asset represented by the Futurebuilders loan book.

APPENDIX TWO

ChangeUp and Futurebuilders reviews

ChangeUp

Review of ChangeUp National Hubs, Jo Durning (September 2006)

Purpose

To take stock, after 18 months experience, in order to help Capacitybuilders make executive decisions on the future direction of funding for the national elements of the ChangeUp programme.

Key findings

- The hubs have largely delivered on the business plans they agreed with the Home Office in 2005, though there was some slippage against timetables.
- Engaged stakeholders (those on hub partnerships and specialists in regular contact with hubs) were positive on achievements, while local infrastructure organisation feedback was generally negative.
- The combination of responsibility for commissioning and delivery represents a potential conflict of interest, though there appears to be a high standard of probity. Commissioning processes are robust, and hub partners are striving conscientiously to be fair.
- There is no common accounting framework for the hubs, which is needed to improve transparency and drive value for money.
- The ChangeUp strategy was a vision statement not a strategic plan. There is a need for a strategic road map with milestones, targets and priorities.
- Shared understanding on ChangeUp's objectives is lacking.

Key recommendations

- Capacitybuilders should commission national services directly from infrastructure rather than via hubs to give strong central direction to the programme.
- Capacitybuilders needs to increase its strategic capacity, building on and enhancing its present understanding of the sector, in order to do this.

Infrastructure Investment Plans, Good Foundations Consultancy (July 2006)

Purpose

To analyse the data then available from infrastructure investment plans prepared by consortia to make an initial assessment of what had been done so far on ChangeUp. It was intended as "primarily a monitoring paper, a 'temperature' check of the programme to date, and ...not a formal evaluation exercise".

Key findings

- Infrastructure Investment Plans have been drawn up for every part of England.
- Of the 109 plans, 66 rated moderate and mixed or poor quality. Common criticisms of plans included short term focus, signs of excessive rushing, and signs of poor planning skills.

- There are many examples of pioneering projects and good practice in infrastructure planning, but these are largely undocumented.
- The first two years were fraught with short-term difficulties about payments and the need for consortia to secure funds before financial year ends. Timetabling difficulties were a serious distraction from the strategic nature of the ChangeUp programme.

Key recommendations

- Capacitybuilders should develop a means of assessing the programme's overall outcomes against its strategic objectives.
- Good practice in planning should be shared.
- Capacitybuilders should create a central database of ChangeUp projects for research and audit purposes.

Review of the ChangeUp Consortia Model, In Auriga Consultancy (September 2007)

Purpose

To assess the overall effectiveness of the consortia model, and to develop thinking on possible alternatives to it, particularly when consortia are not performing well. Together with consortia self-assessments, it informed Capacitybuilders' decisions on funding from 2008–2011.

Key findings

- Capacitybuilders' financial records provide a track to which organisations are getting money and what it is for. Other monitoring information is patchy.
- Interviews yielded some evidence of early outcomes including merger (Cumbria), successful bids for Big Lottery Fund BASIS funding, and improved disabled access to buildings.
- Interviews yielded a wide array of activities and outputs such as training courses and IT projects. In the absence of any follow-up, it was not possible to identify any lasting impact.
- There were concerns about the timing and pattern of funding, in which large amounts of money were available in the early stages, with requirements for spend within a very short timescale, followed by smaller amounts of money, parcelled into different streams.
- There was an example of ChangeUp funding being used to support existing services after cuts from other funding sources.
- There were few indications of willingness to join up with national services and views that their materials were inappropriate. Many local organisations continue to develop their own tools.
- The review was not able to come to a conclusion on the overall effectiveness of the consortia model. Consortia are not systematically collecting the evidence on which such a judgement could be made.

Key recommendations

- Capacitybuilders should not impose a single consortium model.
- Consortia should evaluate their work to an agreed, rigorous and proportionate framework.
- Consortia should be required to use national support services products where these meet their needs.
- ChangeUp spend should not be restricted to consortia members – it should be available to organisations best able to deliver capacity building priorities.

Scoping the evaluation of ChangeUp, COGS/Sheffield Hallam University/University of the West of England partnership (October 2007)

Purpose

To recommend a research approach for the evaluation of ChangeUp and the impact that changes within the Third Sector's capacity-building support providers have had on front-line organisations.

Key findings

- ChangeUp had supported an extremely broad range of different activities but it was hard to gain a comprehensive sense either of what has been funded in detail, or of the overall balance of funding on different areas of support.
- Much of the evaluation evidence referred to processes.
- Concerns over short timescales had led to the suggestion that administering funds and project delivery had been prioritised over strategic development.
- There were few evidenced outcomes from ChangeUp activities, rather achievements tended to be 'showcase' descriptions of outputs rather than the difference these made.
- There were important implications for the evaluation arising from the review, including the importance of variable contexts and starting points and the potentially contested nature of the evaluation of ChangeUp.

Interviews with national bodies, locality studies and feedback workshops led to the report making the following broad points among others:

- The two areas of strongest progress and achievement at a local level were collaboration and recognition of the value of support.
- Government recognition of the importance of support organisations and capacity building had raised their profile as providers of support to frontline organisations.
- ChangeUp had driven greater collaboration and rationalisation of services and had contributed to informal benchmarking and standard building among Councils for Voluntary Services. However, relationships in some areas remained difficult with little change in the configuration of services.
- The fund management arrangements became complex and were compounded by short term funding and tight bidding deadlines within a long-term programme. The short timescales emerged as one of the strongest factors likely to compromise the success of the programme at all levels.

Key recommendations

Alongside more detailed recommendations about the research framework, questions and methodology, the report highlighted the need for the evaluation to:

- generate learning about what works in building the capacity of the third sector at local, regional and national levels.
- demonstrate to Government/the public whether money has been well spent and that funded agencies have performed effectively.
- steer the programme in its later stages by informing Capacitybuilders' strategy and policies, as well as those of key stakeholders.

Six ChangeUp consortia – Distance Travelled, Zahno Rao Associates (October 2008)**Purpose**

To pilot the feasibility of further evidence collection across all consortia, or a larger sample, as one possible approach to the national evaluation of the ChangeUp programme. Consortia plans and funded projects were reviewed and consortia members consulted to ascertain the impact of the programme; in particular the impact of greater partnership working.

Work was undertaken in the same six consortia areas reviewed by the National Audit Office.

Key findings

- The ChangeUp programme acted as a catalyst for the development of a strategic network of support providers in each of the areas reviewed.
- Success depends on a number of factors including enough 'critical mass' to support an infrastructure, the resources available through ChangeUp, good coordination and leadership of the consortium, and a willingness to resolve tensions between organisations that have not worked together before.
- ChangeUp had provoked discussion and planning of support that would not otherwise have taken place.

- ChangeUp had given a greater profile to specialist support providers (i.e. those supporting vulnerable and minority groups).
- It was more difficult to measure the impact of ChangeUp on frontline organisations. Some initiatives and projects have made a difference to the reach and impact of support on the frontline.
- ChangeUp has helped establish and improve working relationships between support providers and the statutory sector. Consortia have a place on local strategic partnerships.
- The ChangeUp programme has suffered from the short-term nature of its planning, the slow initial flow of funding, and changing monitoring and reporting requirements.
- The self-assessment process required of consortia by Capacitybuilders was helpful in improving the effectiveness of consortia.

Futurebuilders

Evaluation of Futurebuilders – Interim Report, Centre for Regional Economic and Social Research Sheffield Hallam University (May 2007)

Purpose

To provide an interim report on the evaluation of the working arrangements of Futurebuilders, its effect on organisational development in the voluntary and community sector, and its impact on public service users. The full evaluation is intended to run through to October 2010.

Key findings

- Futurebuilders England (FBE) had received 1,300 applications and made 215 investments, of which 106 contain a substantial loan element. It was found that application and appraisal processes had developed since FBE's launch and appeared to operate effectively. However, the conversion rate of applications to full investments of eight percent was very low, and suggested that FBE had attracted too many inappropriate applications. This was both a cost to applicants and to FBE in time spent processing applicants. A survey of unsuccessful applicants in 2006 highlighted that the majority of applicants believed that they would obtain at least a 50 per cent grant. Publicity material and marketing for any future loan-based model for the third sector needs to be very clear as to eligibility criteria from the outset.
- The diversity of investments was found to be significant in terms of investment size (from loans of less than £100,000 to two loans of £5 million and £10 million), across public service delivery areas and across different types of organisation (including many BME-led, rural serving or small organisations). However, it was found that applications from BME-led or small organisations (a turnover of less than £100,000) were less likely to be awarded an investment than the average conversion rate for all investments. This was partly due to the number of ineligible applications in the community cohesion public service delivery area.
- The average repayment period of loans was 14 years, and this reflects that investments are typically in physical capital (e.g. new or refurbished buildings) and loans awarded on mortgage-type arrangements. Some loans have repayment periods of 25 years, reflecting the serious undertaking organisations were making. The nature of FBE's investment book has short-term implications in terms of draw-down being slow (due to delays in completing capital projects) and long-term implications in terms of the replenishment and future management of the fund.
- Case study research around the organisational capacity of investees found that developing capacity for small and medium sized third sector organisations, often seeking to 'scale-up' an innovative service, is a key testing ground for the Futurebuilders investment model. We found FBE to be offering a range of support to organisations which is targeted effectively in response to organisational needs. However, a question remained as to whether this support would be sufficient for organisations to realise the sometimes transformational changes they were seeking. An area of specific concern was found to be around financial management capacity, and whether smaller organisations had the necessary skills and capacity to effectively manage loan finance and VAT issues. In some cases these skills were being built, but other organisations appeared to be struggling.

- Research suggested that FBE was typically investing in organisations working with hard-to-reach groups or in meeting needs through an innovative service. However, research also highlighted that despite central government commitments to extend procurement opportunities to the third sector, local-level organisational, policy and funding changes had hampered progress by some investments and was a contributory factor to a slower than anticipated rate of drawdown of loan funding.
- It is too soon to make a judgement regarding the outcomes and impact of Futurebuilders or to draw conclusions as to FBE's true default rate.

The evaluation concluded that the strategic issues facing the Futurebuilders' model of investment were:

- whether organisational development capacity can be successfully built through FBE's work as an engaged funder to realise the ambitions of investments;
- whether innovative services developed by the third sector can be 'scaled-up' through loan funding to secure sufficient service contracts to be sustainable; and critically
- whether the procurement and commissioning markets within which investees operate are sufficiently stable to allow investments to be realised.

Futurebuilders Advisory Panel Final Report to Ministers – March 2008

Purpose

The Futurebuilders Advisory Panel was an independent body of individuals with substantial experience of the third sector, formed to scrutinise the Futurebuilders programme and provide impartial advice to Ministers. The Panel reported twice: in March 2007 and March 2008.

Key findings

- The Panel found that Futurebuilders England had a good breadth of investees and that they had shown that third sector organisations were willing to take on loan finance.
- They welcomed the Office of the Third Sector's work to improve the arrangements for commissioning public services from the third sector.
- The Panel were positive about the range of financial products offered to third sector organisations and stated that development grants were an important tool in building organisations to obtain funding.
- The Panel welcomed the opening of the Futurebuilders programme to all areas of public service delivery and the setting of Key Performance Indicators for the second stage of the programme.

Key recommendations

The areas in which the Futurebuilders Advisory Panel made recommendations for improvement were:

- *Marketing:* The Panel recommended that Futurebuilders England seek out closer working relationships with commissioners of public service across the country to promote the programme and promote commissioning with the third sector.
- *Application process:* The Panel welcomed improvements to the application process prior to March 2008 but recommended that further changes could be made to improve processing times. Changes to the applications process have subsequently been made by Futurebuilders England.
- *Business consultants:* The Panel were happy that the way in which business consultants were recruited by Futurebuilders England had been changed in response to concerns raised in its first report. Futurebuilders England have subsequently further changed the way in which consultancy support is offered to its investees.
- *Disbursement:* The Panel recognised that disbursement of the fund has been slower than intended and saw a continued need to encourage this through the award of full investments.
- *Sustainability:* Further to the point on disbursement, the Panel recommended that Futurebuilders England should look closely at the sustainability of their investees and their ability to repay their investments over a number of years. They further recommended that Futurebuilders England engage with investees over a sustained period in order to avoid drift from the original purpose of the investment.

APPENDIX THREE

Key support needs of frontline organisations

Performance improvement

Frontline organisations should be better able to improve the performance of their organisation, make choices about which tools are right for them, and easily access support and advice. New performance improvement advisers, housed in regional or sub-regional organisations, should be trained for outreach work and support organisations should act as clearing houses for skills sharing, mentoring and *pro bono* opportunities.

Workforce development and leadership

There should be a greater range of accessible professional development opportunities with increased take-up of learning opportunities and qualifications by voluntary and community sector workers. Employers should have improved access to support and advice on Human Resource issues. Local workforce development strategies should reflect the needs of the sector. Each regional voluntary and community sector network should have a workforce development leader by 2005 and a regional strategy in place by 2006.

Information and communication technology (ICT)

Frontline organisations and funders should share a common awareness of the costs and benefits of ICT enabling them to make informed choices about its use. There should be affordable and reliable support models in place with user-friendly and relevant ICT advice available – including volunteer and *pro bono* support. A web-based information service and a national telephone helpline should be available by 2005.

Governance

Board members should be aware of their responsibilities and good practice and have direct access to accurate and helpful information and development. Being a board member should be more attractive and boards themselves more diverse, better reflecting the communities they serve. There should be a framework of competencies and standards in voluntary and community sector governance by 2005.

Recruiting and developing volunteers

There should be a leaner, effectively marketed and high quality volunteering infrastructure reaching, recruiting and placing a greater diversity of individuals coupled with improved volunteer management. A commonly branded local volunteer infrastructure, linked to the achievement of quality standards, should be in place by 2005.

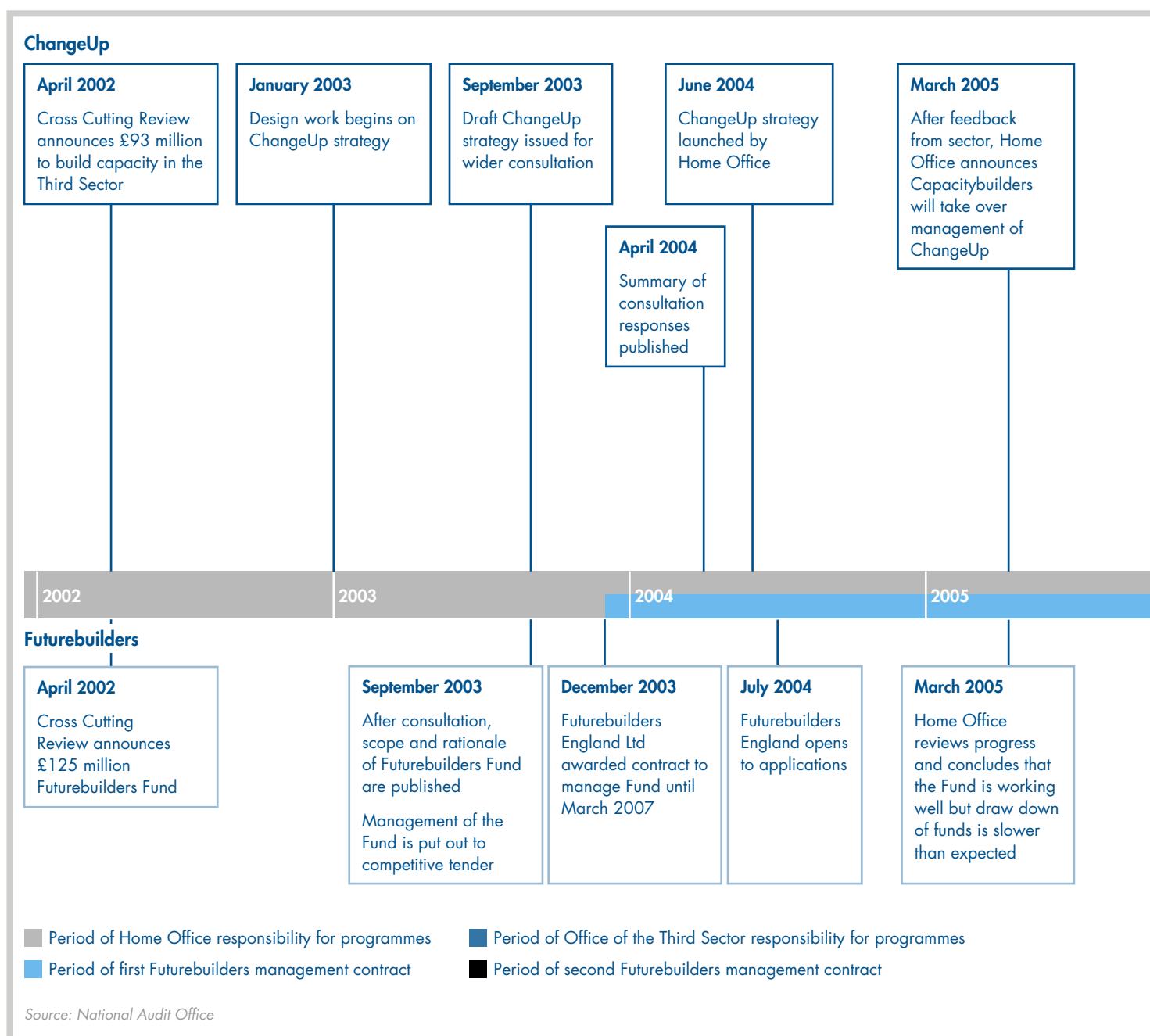
Funding voluntary and community sector activity

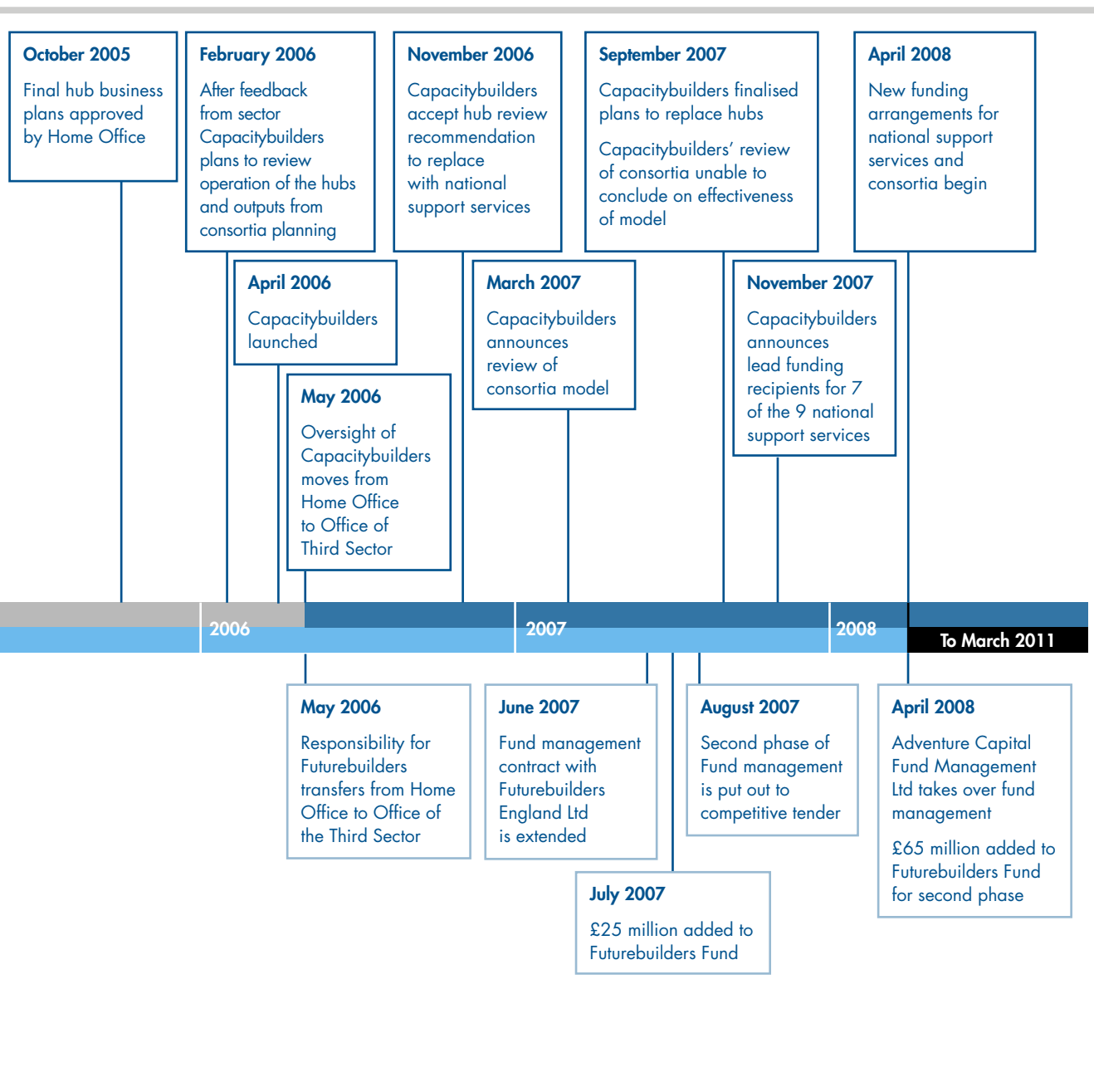
Frontline organisations should be able to take advantage of opportunities to diversify their income sources and should demonstrate increased skill in contract negotiation and better standards in more effective fundraising. Action at national level will raise awareness of the benefits of increasing asset ownership by voluntary and community organisations.

From 'ChangeUp: Capacity building and infrastructure framework for the voluntary and community sector' (Home Office 2004).

APPENDIX FOUR

Chronology of ChangeUp and Futurebuilders





Design and Production by
NAO Marketing & Communications Team
DP Ref: 008726

This report has been printed on Consort Royal Silk and is produced from a combination of ECF (Elemental Chlorine Free) and TCF (Totally Chlorine Free) wood pulp that is fully recyclable and sourced from carefully managed and renewed commercial forests. The range is manufactured within a mill which is registered under the BS EN ISO 9001 accreditation, which provides the highest standard of quality assurance.



Published by TSO (The Stationery Office) and available from:

Online

www.tso.co.uk/bookshop

Mail, Telephone, Fax & E-mail

TSO

PO Box 29, Norwich, NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline

Lo-call 0845 7 023474

Fax orders: 0870 600 5533

E-mail: customer.services@tso.co.uk

Textphone 0870 240 3701

TSO Shops

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

71 Lothian Road, Edinburgh EH3 9AZ

0870 606 5566 Fax 0870 606 5588

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,
London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax Orders 020 7219 3866

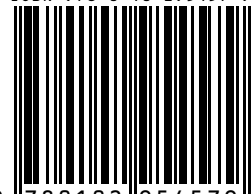
Email bookshop@Parliament.uk

Internet bookshop.Parliament.uk

TSO@Blackwell and other Accredited Agents

£14.35

ISBN 978-0-10-295457-9



9 780102 954579