



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



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.**