

Finance Committee

Meeting Venue:
Committee Room 2 – Senedd

Meeting date:
14 March 2012

Meeting time:
09:10

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



For further information please contact:

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Agenda

1. Introductions, apologies and substitutions (09:10–09:15)

2. The Effectiveness of European Structural Funding in Wales – ACCA Cymru and ICA (09:15–9:55) (Pages 1 – 6)
FIN(4)–05–12 Paper 1

Ben Cottam, Head of ACCA Cymru

3. The Effectiveness of European Structural Funding in Wales – Welsh Social Enterprise Coalition (9:55–10:35) (Pages 7 – 12)
FIN(4)–05–12 Paper 2 – Welsh Social Enterprise Coalition

John Bennett, Chief Executive, Welsh Social Enterprise Coalition
Linda Davies, Chief Executive, Too Good To Waste

4. Papers to note (Pages 13 – 46)
FIN(4) 05–12 – Paper 3 – Response from Minister for Finance on the Finance Committee’s report on the *Scrutiny of Supplementary Budget Motion 2011-2012 (Spring 2012)*

FIN(4) 04–12 – Minutes of the previous meeting

5. Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:
Items 6 – 8

6. Discussion on Evidence – Effectiveness of European Structural Funding in Wales (10:35–10:50)

7. Future Committee Inquiries (10:50 – 11:00) (Pages 47 – 49)

8. Devolved Funding : Borrowing powers and Capital – Expert Adviser (11:00–12:00) (Pages 50 – 73)



Finance Committee FIN(4) 05-12 – Paper 1

ACCA Cymru Wales/ICAEW Response to the National Assembly for Wales Finance Committee Inquiry into the Effectiveness of European Structural Funding in Wales

The Institute of Chartered Accountants in England and Wales (ICAEW) and Association of Chartered Certified Accountants (ACCA Cymru/Wales) are pleased to have the opportunity to respond to the Finance Committee's Inquiry into the Effectiveness of European Structural Funding in Wales.

As a world class professional accountancy body, the ICAEW provides leadership and practical support to over 136,000 members in more than 160 countries, working with governments, regulators and industry to maintain the highest standards.

ACCA is the largest global body for professional accountants with more than 147,000 members and 424,000 students in 170 countries. In Wales, we support over 2500 members across all sectors of the Welsh economy.

ICAEW and ACCA members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. Both organisations ensure that these skills are constantly developed, recognised and valued.

ICAEW and ACCA are active members of Business Wales and the Council for Economic Renewal. A significant number of members across the two bodies in Wales either advise or run small or medium sized businesses. In a number of surveys, evidence suggests that SMEs turn to their accountant in the first instance for all aspects of business advice. This advice is crucial for the growth of our indigenous businesses.

By drawing on our collective experience ICAEW and ACCA Cymru/Wales are well-placed to act as a barometer for the views of the private sector.

ACCA Cymru/Wales and ICAEW are not directly involved in the management or implementation of Structural Funds projects and Programmes, but we have here provided our views on those of the Committee's questions where we feel we have something to contribute.

1. To what extent do you consider the Convergence and Regional

Competitiveness and Employment Programmes in Wales for the 2007-13 period, to have achieved- or to be achieving- their intended objectives?

It is first of all important to stress that while the Structural Fund Programmes in Wales are large by comparison with other similar programmes elsewhere in the UK and are significant in terms of economic development budgets, they are relatively small compared to public expenditure as a whole, representing on an annualised basis less than 2% of all Welsh Government expenditure.

It would therefore be unreasonable to expect them to be able alone to transform the Welsh economy or to counter-act the difficult current macro-economic conditions which are currently affecting Wales along with the whole of Europe.

At the same time, we are aware that the Convergence ERDF Programme is struggling in terms of two crucial outcomes - new enterprises created and new jobs created. While this may not be surprising given the difficult economic circumstances since the Programme was developed, it is important not to allow this fact to distract WEFO and the Welsh Government from reflecting on what refinements may be needed to improve projects' performance in this regard.

More fundamentally, however, we believe it is important to focus more attention on the extent to which interventions develop the long-term competitiveness of Welsh businesses, acknowledging that in the short term this may not necessarily create jobs.

More generally, both ICAEW and ACCA Cymru/Wales have argued for many years that Government should concentrate its interventions on enabling the success of the private sector by creating an environment in which business can flourish, most importantly in our view, ensuring a high quality infrastructure in terms of transport, energy and broadband and putting in place an education system which equips young people to help Wales punch its weight in the world.

We thus welcomed the emphasis in the previous Welsh Government's Economic Renewal Programme on moving the focus of economic development policy from direct 'support' to business (which all too often duplicates provision available from the private sector) to addressing the underlying conditions for business success.

We would argue that European Structural Funding should also be focused on supporting Government to fulfil this enabling role, though we recognise that the current Regulations restrict the extent to which resources can be focused in this way.

2. Do you consider the various projects funded by European Structural funds in Wales to be delivering value for money?

We do not have sufficient insight into individual projects to be able to make definitive judgments on this, though we would hope that the Committee would press WEFO on whether they use sufficiently rigorous financial appraisal to

assess projects both before they are approved and once they are being implemented.

3. Do you have any concerns around the use of the Targeted Match Fund? Do you have any concerns around the use of Welsh Government departmental expenditure, as match funding? What impact do you believe public sector cuts have had (and may have) on the availability of public sector match funding?

In general terms, we strongly support the use of Structural Funding to help deliver key Government programmes and thus the use of Welsh Government expenditure as match funding. Given the need for financial restraint it is essential that Structural Fund resources are used to address key priorities not for 'nice-to-haves'.

4. How effectively do you believe the Welsh European Funding Office (WEFO) have monitored and evaluated the impact of projects?

Again, while we do not have a significant detailed insight into the quality of monitoring and evaluation arrangements adopted at programme and project level, we have received mixed feedback from members.

Some members have reported that in the last year, the transactional relationship with WEFO has improved as has the effectiveness of communication. A number of individuals commented that once a claim was submitted, payment was often reasonably prompt.

However, during a number of conversations, the heavy burden of paperwork was raised as a significant concern. Many complained that applications needed to be handwritten and that this was laborious. We are unsure as to why the filing of appropriate paperwork cannot be handled electronically. Paperwork should not become a disincentive for seeking to draw on any of the funding streams.

One member commented that the timescales accorded to decision making on some occasions meant that "one can effectively write off the first year of a project". This obviously impacts heavily on the nature and quality of the outcomes. This is especially evident within the manufacturing sector.

We strongly welcome the emphasis on robust and independent evaluation of projects which involve significant expenditure of public resources, but believe it is essential to ensure this is policed, so that projects do not simply 'go through the motions'.

Through a number of conversations with members of the profession in Wales, it is clear that controversy surrounding the perceived effectiveness or otherwise of Objective 1 funding had somewhat coloured opinions on the administration of European funding. It was also suggested that this may have served to unnecessarily deter engagement on subsequent funding streams.

5. Do you have any concerns regarding the sustainability beyond 2013 of the activities and outputs delivered through projects financed during the current round of Structural Funds?

We believe that in principle, projects should have been designed to ensure that they would either become sustainable over the lifetime of the project, or would address a time-limited problem.

In practice, however, we doubt whether this is the case. In particular, projects carried out by non-government organisations will struggle to achieve sustainability, especially given the rules around the prohibition of income generation from projects.

While the generation of income for commercial purposes may be inappropriate, there is an argument to be made that the generation of income to support a not-for-profit organisation or charity in sustaining its project activity should be assessed differently. Without some means of replacing project income, activity will simply stop.

Some members we have spoken to have expressed concern at the sustainability projects and jobs created under some of the funded programmes. There is suspicion among some that job-creation criteria attached to funding streams has meant that projects have indicated an unrealistic number of long-term roles. Similarly, some have doubted the long-term viability of the projects themselves.

The advent of Convergence Funding and the move towards consortia drawing funding for more strategic projects has caused a mix response from members. Some have indicated that in the long-term, this is a sensible approach which promotes engagement and partnerships.

However, in some instances, frustration has been expressed arising from 'cultural differences' where partnerships are controlled by public bodies such as local authorities for example.

6. What is your own experience of accessing European Structural Funding?

As organisations, we have not been directly involved in accessing European Structural Funding.

7. Is the private sector in Wales sufficiently engaged in accessing European Structural Funding?

As noted above, we believe that European Structural Funding should be focused on creating the conditions in which business can flourish – above all, ensuring high quality infrastructure and an education system which can provide the economy with the skills needed to succeed in a global market place (including supporting links between businesses and higher education).

We do not think the Structural Funds should fundamentally be about funding individual businesses (though support the role of Finance Wales in making good the market failure in terms of access to finance on commercial terms). From this perspective, we do not think that the private sector is insufficiently engaged in the Structural Funds Programmes.

Again, concerns about the effectiveness of local partnerships under Objective 1 and the engagement of the private sector in those partnerships has led, in some cases, to a low-level of engagement.

The above-mentioned concerns about the timeliness of decision making has also inevitably led to a measure of business disengagement with a number of members commenting that previously, clients had felt it easier to seek more time-responsive funding from alternative sources rather than European funding. Although it should be noted that these views may be rooted in historic perceptions of Objective 1 particularly, they remain as barriers to engagement.

We do believe, however, there is scope for the private sector (including in some instances our own members) to be engaged in the delivery of projects – and that this is in fact happening to some extent.

Procurement is key and we generally welcome efforts to ensure that Welsh Government employs transparent procurement processes. Pressure needs to continue to be applied to other project sponsors to make sure they also use such processes and do not place unrealistic requirements for example, in terms of match funding in kind, when contracts are procured.

Finally, it is important to emphasise the importance of avoiding tokenistic attempts to engage the private sector in the machinery of the Structural Funds. Where professional expertise is required – for example for financial appraisal of projects – this should be procured commercially and paid for.

8. In 2009, WEFO negotiated an increase in programme intervention rates with the European Commission for the two ERDF and the ESF Convergence Programmes. In its July 2010 report, the Enterprise and Learning Committee noted that the South West Regional Development Agency had negotiated higher intervention rates with the European Commission. Is Wales making the most effective use of increased programme intervention rates?

We are unfortunately unable to comment on this.

We hope this response is of use to the deliberations of the Committee

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February 2012



Finance Committee

FIN(4) 05-12 – Paper 2

Inquiry into Effectiveness of structural funds in Wales

Response from Welsh Social Enterprise Coalition

Background

This paper is the response of the membership of the Welsh Social Enterprise Coalition to the call for evidence by the National Assembly for Wales Finance Committee in relation to its inquiry into the effectiveness of European Structural Funding in Wales.

The Welsh Social Enterprise Coalition (WSEC) welcomes the opportunity to respond to the call for evidence. WSEC was established in 2010 as the collective voice for social enterprise in Wales. We represent a wide range of social enterprises and regional networks and this response was informed by consultation with members of WSEC.

Social enterprises are businesses with primarily social or environmental objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.

The Welsh social enterprise sector is not a small one, with social enterprises operating in almost every industry in Wales, from health and social care, finance and retail to recycling, employment and sports clubs. There are approximately 3,000 organisations carrying out social enterprise activity in Wales with a combined turnover of some £2.2 billion. They account for around 50,000 full and part time jobs and over 105,000 volunteering opportunities across Wales.

Social enterprises in Wales have benefited from a range of European Structural Fund programmes and are involved in the delivery of a number of projects. European funding has been used for a wide range of activities, including:

- Supporting enterprise development
- Promoting entrepreneurship
- Creating employment opportunities and tackling barriers to employment
- Regenerate communities
- Developing the social economy

Consultation Questions

1) To what extent do you consider the Convergence and Regional Competitiveness & Employment Programmes in Wales for the 2007-2013 period, to have achieved or be achieving intended objectives?

- 1.1 The primary purpose of European Structural Funds Programmes is to reduce regional disparities in terms of income, wealth and opportunities using levels of Gross Domestic Product (GDP) per capita as its key indicator to determine which regions need the most support. Wales qualified for the highest level of support; Convergence funding, which provides assistance to those regions whose GDP per capita is below 75% of the EU average, as well as the Regional Competitiveness & Employment Objective, which covers all regions not already covered by Convergence. We note that the latest official regional GDP statistics available from the European Union's Statistical Office are based on 2007/08 figures and therefore it is not possible to accurately assess whether or not the Convergence and Regional Competitiveness & Employment Programmes for the 2007-2013 period have achieved their objectives.
- 1.2 In terms of project expenditure, it appears that good progress has been made on implementing Convergence and Competitiveness programmes with WEFO anticipating that over 90% of funds will be committed by the end of the current financial year. The latest statistics from WEFO indicate that the vast majority of Convergence and Competitiveness ESF & ERDF projects will meet their programme-level indicator objectives. However, it is worth noting that a number of Programme-level indicators are currently behind schedule and may not be achieved. For example, 19, 546 enterprises are expected to be assisted by ERDF Convergence projects in West Wales and the Valleys during the lifetime of the current Structural Fund Programmes. However, a report prepared by WEFO for the Programme Monitoring Committee (PMC) in December 2011 ¹ shows that 5,606 enterprises have been assisted so far – 1,653 less than were forecast to have been supported at this stage in the programme. ERDF projects in Convergence areas were expected to create 8,748 new enterprises but by October 2011 1,140 new enterprises have been established – 2,299 less than was forecast at this point. WEFO forecast that the Enterprises Assisted and Enterprises Created Programme-level indicators will be achieved but it is hard to see how at this stage.

A number of Programme-level indicators for ESF Convergence projects in West Wales and the Valleys are also behind schedule. For example, the number of participants gaining qualifications was targeted at 75,385 in October 2011 but the latest statistics from WEFO show that the figure is actually 64,430².

- 1.3 The Welsh Social Enterprise Coalition believes that the monitoring and evaluation of the implementation of EU Structural Fund Programmes are key to their effective delivery. WEFO closely monitors project expenditure and charts progress made in attaining agreed objectives, which are important and necessary, but we believe that greater attention needs to be given to evaluating the impact of projects on the ground. We recommend that WEFO assesses the effectiveness of the ESF Leavers Survey and ERDF Business Survey as ways to measure the

¹ Programme Monitoring Committee Report on ERDF Convergence 2007-2013, West Wales & the Valleys, November 2011

² Programme Monitoring Committee Report on ESF Convergence 2007-2013, West Wales & the Valleys, November 2011

impact of the Programmes, and establish a Social Impact survey to evaluate the wider benefit projects have had on local communities. We also recommend that WEFO include new Programme-level indicators to measure the combined social and economic impact of Convergence and Competitiveness ERDF and ESF projects to better measure the achievement of these programmes.

- 1.4 The implementation of Convergence and Competitiveness ERDF and ESF projects has come in for some criticism, given the number of delays in projects being approved and the subsequent slow pace of expenditure in the early years of the Programmes. The statistics indicate that that pace has picked up with 84% of funds being committed to date³, but there is no doubt that there were significant delays in approval for a number of private and third sector projects. These delays meant that there was a lack of continuity between the 2000-2006 and 2007-2013 programmes. The bureaucracy and complexity of the application process have been cited as major reasons for these delays and clearly lessons need to be learned to ensure this does not happen again in the next round of European funding post 2013. We believe that speeding up assessment processes - whilst ensuring that the necessary detailed scrutiny of business plans and project proposals is carried out – and helping project sponsors simplify tendering processes would help avoid a repeat of the problems encountered in the first few years of the 2007-2013 programmes.

2) Do you consider the various projects funded by European Structural Funds to be delivering value for money?

- 2.1 WEFO and the Welsh Government have made efforts to ensure that European programmes in Wales were robust enough to respond to changing economic fortunes and were flexible enough to focus on new priorities. The Welsh Government's policy change in response to the economic downturn - the Economic Renewal Programme - led to a re-scoping of European Structural Fund Programmes and a number of projects were re-assessed and either reduced in scale or brought to an earlier than planned conclusion. We believe it is right to reflect and respond to changing economic circumstances and to readjust Programmes to ensure they have the maximum impact and value for money.
- 2.2 The approach to the current round of European Structural Funds in Wales has differed to that in the previous round in that there has been a conscious effort to be more strategic in implementation and this has been characterised by the approval of fewer, bigger projects. Indeed, we are in the later stages of implementation of the current programming round and just over 250 projects have been approved to date. In contrast, over 3,000 small to medium sized projects were approved under the 2000-2006 European Structural Funds Programmes, involving public, private and third sector organisations in the design and delivery of these projects. The Welsh Social Enterprise Coalition understands the rationale behind adopting a more strategic approach; the reduction in administration costs allows more funds to be direct towards front-line projects and it was argued that the implementation of fewer, bigger projects would result in higher impacts. However, Welsh social enterprises have told us that in adopting a more strategic approach, they have seen their opportunities to secure European funding for

³ Welsh European Funding Office website

projects diminish as public sector sponsoring bodies have dominated the number of project approvals. Indeed, as at December 2011 the number of project of approvals led by sponsors from each sector were as follows:

<u>Sector</u>	<u>Number of project approvals</u>	<u>EU Funds</u>
Public sector	197	£1.441 billion
Private sector	10	£20.279 million
Third sector	35	£96.386 million

By comparison, third sector organisations accessed over £250 million of European funding under the previous Structural Funds Programmes for Wales involving 319 different organisations as project sponsors in the Objective One programme.

- 2.3 The move to a more strategic approach clearly reduced the number of opportunities for social enterprises to be project sponsors, and instead they have been able to enter into the tendering process to deliver EU funded projects. Third sector organisations have won £107 million of contracts under procurement arrangements, compared to private sector companies who together have secured contracts worth nearly £370 million to deliver EU funded projects to date. One member told us that effectively, they have gone from active designers and delivers of European projects to disengaged recipients of (largely) public sector contracts. We note the evidence *Valley Kids* provided to the Enterprise & Learning Committee’s 2009 inquiry into the implementation of the 2007-2013 European Structural Funds Programmes, where they contrasted their experience of engaging with Objective One programmes and with Convergence programmes. We have heard anecdotal evidence from social enterprises that mirror the experience of Valley Kids.
- 2.4 The Welsh Social Enterprise Coalition believes that it is crucial for projects funded by European Structural Funds to deliver value for money, but equally important is a focus on delivering social value. The move to a strategic approach in the current round of programmes has led to a reduced role for community organisations and social enterprises. These organisations are often found working on the frontline tackling some of the most challenging issues facing communities across Convergence and Competitiveness areas, and their experiences and learning are crucial to the development of effective projects. A number of members have told us that they have felt excluded from the process altogether. We believe that future European programmes should attempt to take the best from the 2000-2006 and 2007-2013 Programmes. We favour a strategic approach that engages effectively with social enterprises, small business and voluntary organisations to ensure that social value and impact is considered as important as value for money. Social enterprise should be seen as a key partner in the design and delivery of European programmes and we are encouraged that the European Commission’s proposals for the next round of European programmes include a new local development approach, centring on more strategic support for community-led local development.
- 2.5 It is essential to ensure maximum spend of European Structural Funds, particularly as public finances come under increasing pressure. It would be a tragedy if significant funding that could make a real difference to businesses and communities across Wales went unspent and instead returned to the European Commission. For this reason, the Welsh Social Enterprise Coalition

supports WEFOs recommendation to over-commit on project implementation by up to 5% on ERDF programmes and up to 10% on ESF programmes, provided WEFO regularly monitors and reviews spending and the impact of exchange rate fluctuation. Over-programming seems to be the best way of maximising the opportunities to benefit from European funding but we do have some concerns that it may result in uncertainty as some projects will be de-committed at a late stage.

3 a) Do you have any concerns about the use of the Targeted Match Fund (TMF)?

- 3.1 The economic downturn and subsequent reduction in public expenditure has had a significant impact on the availability of match funding, reducing the finance available to social enterprises to match to ESF and ERDF money. Social enterprises therefore welcomed the availability of the TMF. Without it, most social enterprises and community organisations who were looking to secure European funding would have found it almost impossible to do so.
- 3.2 We are aware of the difficulties some project sponsors have had in receiving TMF payments from the Welsh Government, which has jeopardised the long term viability of projects.
- 3.3 Reductions in public expenditure, including a significant cut in capital investment, led to the TMF being downsized with no new applications for capital support being accepted. This was a serious blow to project sponsors, many of whom saw their projects being scaled down or removed from the priority funding pipeline. Given that public finances will continue to be constrained in future years, the Welsh Social Enterprise Coalition support the call from the WCVA for a needs assessment before the 2014-20 Programmes begin, to ensure that TMF is used in areas where pressures on match funding are greatest.
- 3.4 The Welsh Social Enterprise Coalition commends WEFO for permitting the use of volunteer time as match funding in-kind which has greatly improved opportunities for social enterprises to access match funding. We hope that volunteer time remains an eligible source of in-kind match funding in the 2014-20 Structural Funds Programmes.

3 (b) Do you have any concerns around the use of Welsh Government Departmental expenditure, as match funding?

3 (c) What impact do you believe public sector cuts has had on the availability of public sector match funding?

- 3.5 Public sector cuts have clearly had an impact on the availability of public sector match funding as outlined above and will continue to have an impact when project sponsors seek public sector match funding in the next round of European programmes.

4) How effectively do you believe the Welsh European Funding Office (WEFO) have monitored and evaluated the impact of projects?

- 4.1 Please see our response in 1.3

4.2 The Welsh Social Enterprise Coalition supports the call for an independent evaluation of the implementation of the 2007-2013 Structural Funds Programmes in Wales. We are in favour of any measure that could potentially improve the delivery of European funding. WEFO does a good job in monitoring and evaluating the impact of projects but we think that a review from another accounting body could only be helpful. After all, we all want European funding to be spent in the most effective way. More intelligence and evaluation, particularly in capturing the social as well as economic impacts of European programmes which also identifies gaps in these areas, can help direct future funds to the areas of most need.

5) Do you have any concerns regarding the sustainability beyond 2013 of the activities and outputs delivered through projects financed during the current round of Structural Funds?

5.1 The European Commission's Lisbon Agenda and the steer coming from the Welsh Government placed an emphasis on moving away from a grant culture to an investment culture in the 2007-2013 Structural Funds Programmes, hence the widespread use of tendering. However, project deliverers are deterred from generating an income because intervention rates are reduced. We believe that Structural Funds Programmes should encourage income generation as a way of ensuring the sustainability of European projects.

5.3 It is important that we learn the lessons from the last programming round to ensure that there is continuity between Structural Fund phases. The imaginative use of loan and legacy funding would help ensure we avoid the lag that occurred when a number of Objective 1 projects ended in 2007/08 without adequate replacements. Whilst recognising that there will always be a need for grant funding, flexible loans help third sector organisations and social enterprises reduce their dependency on grant funding and assist them in their move towards sustainable growth.

5.4 We support the WCVA's recommendation that the Welsh Government continues to increase access to loan funding for social enterprises and enterprising third sector organisations, as well as providing them with a full suite of investment, grant, start-up, business and intellectual support.

Jane Hutt AC / AM
Y Gweinidog Cyllid ac Arweinydd y Tŷ
Minister for Finance and Leader of the House



Llywodraeth Cymru
Welsh Government

Eich cyf/Your ref
Ein cyf/Our ref: SF/JH/0847/12

Jocelyn Davies AM,
Chair, Finance Committee,
The National Assembly for Wales,
Cardiff Bay,
Cardiff
CF99 1NA

Σ March 2012

Dear Jocelyn,

Thank you for your letter of 29 February enclosing a copy of the Finance Committee's report on the *Scrutiny of Supplementary Budget Motion 2011-2012 (Spring 2012)*. I welcome the Committee's positive comments regarding the open and transparent approach with which we have sought to facilitate the scrutiny of the Supplementary Budget. As I have said previously, I am committed to working in a way which makes the Committee's scrutiny role as effective as possible.

Turning to the specific issues raised in the report, I accept the Committee's recommendations. These are issues which we covered during the evidence session and I welcome the opportunity to provide an initial response to these recommendations now, with further details to follow in due course as indicated.

On the first and second recommendations, which relate to the evidence base for additional funding for Hywel Dda LHB, we have undertaken significant work with every LHB in Wales to understand the financial pressures they face. This work provided evidence of unique challenges in Hywel Dda LHB. The four-year tapered funding package of £80 million gives the Health Board financial stability during this period to sustain current services while service improvements are developed and implemented. The Minister for Health and Social Services and her officials touched on this when giving evidence to the Health and Social Care Committee on the Draft Budget 2012-13. I will ask the Minister for Health and Social Services to write to you separately with further details on the basis of the decision.

With regard to the third recommendation, which relates to the accountability of senior NHS managers, Local Health Boards have a statutory duty to break even and the Minister for Health and Social Services has consistently made it clear that she holds senior NHS management responsible for the financial performance of their organisations. When the Minister announced the additional funding for the NHS in October, she said then that NHS managers will be held to account for the financial management of their organisations, with

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Wedi'i argraffu ar bapur wedi'i ailgylchu (100%)

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Llinell Ymholiadau Cymraeg 0845 010 4400
Correspondence: Jane.Hutt@wales.gsi.gov.uk
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strong action taken if financial targets are not achieved. Welsh Government officials are keeping the situation under close review as part of the in-year monitoring.

Finally, in response to the Committee's request for a full breakdown of all additional financial support provided to Local Health Boards during 2011-12, we are happy to provide this information to the Committee alongside the Written Report on final out turn. In line with the Protocol we have developed with the Finance Committee, we will endeavour to provide this information before the summer recess.

I hope this is helpful.

Best wishes



Jane Hutt AC / AM

Y Gweinidog Cyllid ac Arweinydd y Tŷ
Minister for Finance and Leader of the House

Finance Committee

Meeting Venue: **Committee Room 2 – Senedd**

Meeting date: **Wednesday, 29 February 2012**

Meeting time: **Times Not Specified**

This meeting can be viewed on Senedd TV at:
[<insert link here>](#)

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Concise Minutes:

Assembly Members:

Jocelyn Davies (Chair)
Peter Black
Christine Chapman
Paul Davies
Mike Hedges
Ann Jones
Julie Morgan
Ieuan Wyn Jones
Alun Davies

Witnesses:

Berwyn Davies, Higher Education Wales
Professor Richard B Davies, Higher Education Wales
Damien O'Brien, Director of European Programmes, WEFO

Committee Staff:

Linda Heard (Deputy Clerk)
Martin Jennings (Researcher)
Eleanor Roy (Researcher)
Tom Jackson (Clerk)

1. Introductions, apologies and substitutions

1.1 The Chair welcomed Members and members of the Public to the meeting.

2. Effectiveness of European Structural Funding in Wales – Higher Education Wales

2.1 The Chair Welcomed Professor Richard Davies, Berwyn Davies, Head of Welsh Higher Education Brussels.

Action Points:

Higher Education Wales agreed to provide a note to clarify whether the need for external evaluations, and wider financial discipline, were required only in Wales, or more broadly across Wales.

3. Effectiveness of European Structural Funding in Wales – Welsh Government

3.1 The Chair welcomed Alun Davies, Deputy Minister for Agriculture, Fisheries, Food and European Programmes.

Damian O'Brien

Peter Ryland

Action Points:

The Welsh Government agreed to provide notes:

- Comparing the effectiveness of structural funds in Wales against those achieved by EU15 regions, particularly in terms of Growth and Jobs.
- Comparing the effectiveness of structural funds in Wales against those achieved by other UK regions, particularly in terms of Growth and Jobs.
- Setting out the consideration that WEFO gives to the future sustainability of projects during the application process.
- Setting out whether lesser funding is now available to further education colleges, than under the old objective-2ESF funding.
- Setting out the number of projects which will be funded via JESSICA which Local Authority are either leading, or partners in.

4. Papers to note

4.1 The Committee ratified the minutes of the previous meeting, and noted correspondence from the Minister for Finance.

5. Motion under Standing Order 17.42 to resolve to exclude the public from the meeting for the following business:

Items 6–8

6. HM Treasury Public Expenditure – (PESA) Public Expenditure Statistical Analyses – User Consultation

5.1 The Committee discussed the HM Treasury Public Expenditure – (PESA) Public Expenditure Statistical Analyses – User Consultation, and resolved to respond to the consultation.

7. Discussion on Evidence – Effectiveness of European Structural Funding in Wales

7.1 The Committee postponed its discussion of the evidence received in its inquiry into the Effectiveness of European Structural Funding in Wales.

8. Future Committee Inquiries

8.1 The Committee postponed a discussion of future inquiries for a future meeting date.

TRANSCRIPT

[View the meeting Transcript](#)



Case Study: Pack-IT

An analysis of its social return on investment (SROI)

Based in Cardiff, Pack-IT is a social enterprise that provides mailing, storage and distribution, and on-line fulfilment services to a variety of customers.

Approximately half of the company's employees have some kind of registered disability or come from disadvantaged backgrounds.

The **nef** (the new economics foundation) were commissioned to conduct an evaluation of Pack-IT to assess the company's social and economic returns to its stakeholders.

In this report we present the findings and conclusions of our evaluation, as well as estimate the social return on investment (SROI) generated by Pack-IT.

Finally, we offer several recommendations to help Pack-IT more effectively deliver its social mission.

Contents

Executive summary

1. Pack-IT background

2. Social Return on Investment

3. Conclusions

4. Recommendations

Appendix

This report was researched and written by Susan Mackenzie.

Executive summary

Social Firms, a type of social enterprise, are businesses set up specifically to create employment for disabled people. As with strictly commercial businesses, their business models differ, as do the type of disabled people they support. Social Firms are distinctive in that they are going concerns, as opposed to time-limited, stand-alone programmes. Social Firms are 'businesses that support' rather than 'projects that trade'.

Further, as these organisations' relationships with their beneficiaries are continuous, they are better able to both capture outcomes data and to sustain their impacts. As private businesses, they also have the potential to generate meaningful independent income, reducing their dependence on grants and subsidies.

Based in Cardiff, Pack-IT is a Social Firm and a social enterprise that provides mailing, storage and distribution, and on-line fulfilment services to a variety of customers. Approximately half of the company's employees have a learning disability. Moreover, the company tends to take on those who are especially disadvantaged and who have the greatest difficulty obtaining and sustaining employment.

This SROI analysis of Pack-IT focuses on the *incremental* social value created by the company by employing disabled people, over and above what would be expected if all of its employees were non-disabled. The returns are calculated annually due to the nature of Social Firms, in that their 'output' is the ongoing employment of disabled people. Therefore, no benefits are projected forward.

The aggregate social value created by Pack-IT each year is projected to be £71,600, which translates into value added of £33,700 after adjusting for the value of the grant and wage subsidies. Pack-IT's SROI ratio of 1.9:1 implies that, for every £1 invested, £1.90 of social value is created *each year* for society in terms of reduced welfare costs and increased local purchasing. However, there are a number of other benefits, such as increased self-confidence and independence of the disabled employees, suggesting that the social return calculations likely underestimate the true social value created by Pack-IT.

Standing out among social enterprises, Pack-IT has achieved its success and sustainability by effectively blending business acumen with personal commitment to its employees. Moreover, while Pack-IT's senior management take a business approach to running their organisation, they also actively support the personal and professional development of all its employees.

The impact of this active support and encouragement is evident in the increased self-confidence and independence of Pack-IT's employees. It is this 'distance travelled' that is Pack-IT's most significant social impact, but which is also the most difficult to monetise. As summarised by one of the company's partner agencies, "Pack-IT is truly special".

Based on our evaluation, **nef** makes the following recommendations to help Pack-IT more effectively deliver its social mission.

1. Maintain collaboration with partner agencies;
2. Uphold employees' welfare as an integral factor in business strategy development;
3. Seek external advocates to more effectively promote Pack-IT's mission and model; and
4. Better capture social outcomes data.

1. Pack-IT background

In 1988 Pack-IT was established as a day care facility to provide training opportunities and permanent paid employment for people with learning disabilities. Today Pack-IT is a social enterprise and a Social Firm providing mailing, storage and distribution, and on-line fulfilment services to a variety of clients, including blue chip companies, government departments, printers, agencies, and Internet retailers. In addition to its three main business functions, the company also offers database/address management, electronic data transfer, laser printing, list management, bulk label production and bulk storage. Pack-IT operates from a 30,000 sq ft warehouse in an industrial area located in the eastern side of Cardiff.

Approximately half of Pack-IT's 16 employees have a learning disability. Moreover, the company tends to take on those who are especially disadvantaged and who have the greatest difficulty obtaining and sustaining employment. Pack-IT's non-disabled employees range widely in age and come from varied backgrounds, though all of them feel 'part of the team' and share a desire to make a positive impact on the company. Staff turnover is very low, with several employees having been with the company for over 10 years.

Managing Director John Bennett has been with Pack-IT since 1994 and is largely responsible for the company's turnaround, having achieved profitability in 1999. His employees and their Employment Development Co-ordinators at Pack-IT's partner agencies praise him for being approachable and for taking an active interest in their welfare.

The company's strategy is three-fold: (1) to continue growing its direct mail, address management and on-line fulfilment businesses; (2) to replicate its business model in related markets; and (3) to secure a stable future for all those connected with the Pack-IT Group.

As stated in its business plan, Pack-IT's strategic objectives are:

1. To grow its business by locating similar opportunities within related markets;
2. To set up two replications of the Pack-IT model by March 2006;
3. To be a technically sound company able to proffer help and advice to new customers while supporting the growth and development of existing customers;
4. To be considered by its peers as a company of good worth and good reputation; and
5. To maintain the company's ethos and endeavour to give people with learning difficulties opportunities to contribute to the continuing success of the company.

2. Social Return on Investment

nef's SROI framework helps organisations understand and quantify the social value that they are creating. It is a measurement approach, developed from traditional cost-benefit analysis, which captures social value by translating social objectives into financial, and non-financial, measures.

What is SROI analysis?

SROI analysis is a process of understanding, measuring and reporting on the social, environmental and economic value that is being created by an organisation. The SROI ratio is the discounted, monetised value of the social value that has been created and which can be measured by an organisation. Comparing this value to the investment required to achieve that impact produces an SROI ratio. An SROI analysis should not be restricted to one number, however. Rather, it presents a framework for exploring an organisation's social impact, in which monetisation plays an important, but not exclusive, role.

What is different about nef's approach?

SROI was pioneered by REDF, a San Francisco-based venture philanthropy fund. The concept has since evolved into a widely used, global framework, which has been supported and co-developed by **nef**.

In 2003, **nef** began exploring ways in which SROI could be tested and developed in a UK context. An important goal of the project was to advance an approach to SROI that is as widely applicable and usable as possible.

The four key features of **nef's** SROI analysis are incorporated in an approach to engaging with stakeholders to determine (1) who and (2) what is important, or material, to an organisation; (3) the development of a story about how the organisation effects change (referred to by **nef** as an *impact map*); and (4) an estimation of the value that would have been created if the organisation had not existed (referred to by **nef** as *deadweight*).

Stakeholder approach

Given that SROI is about giving a financial voice to excluded values and benefits, the process of engaging with stakeholders and selecting the important benefits is critical. Stakeholder engagement is at the heart of SROI.

Materiality

SROI analysis focuses on the important, or material, impacts of an organisation – that is, those areas that should be included in order for stakeholders to make decisions based on the SROI analysis. Materiality can be identified through consideration of its stakeholders, its internal policies, the activities of its peers, public policy, and the pragmatic question of what the organisation can afford.

Impact map

The impact map tells a story about how the organisation effects change – that is, how it delivers on its mission. Based on stakeholder objectives, it links inputs (i.e., funding and other resources) through to outputs, outcomes, and impacts. Value can also be determined at the individual stakeholder level.

Attribution - in calculating impacts, the organisation must recognise the contribution made by others to the outcomes. Attribution also encompasses deadweight (what would have happened anyway, calculated through the use of available benchmark data and proxies) and displacement (i.e., substitution effect, which occurs when the benefits claimed by a programme participant are at the expense of others outside the programme).

SROI analysis of Pack-IT

SROI analysis is particularly suitable to Social Firms, which typically generate monetisable social benefits through employment of disadvantaged individuals who otherwise may not enter the workforce. For example, we can measure and monetise the social value of increased employment through reduced welfare payments and increased income paid to these individuals. The social value created by Pack-IT is assessed against the extra support received by the company, measured by grant funding and wage subsidies.

Our analysis does not attempt to measure less tangible benefits, such as increased independence and self-confidence of the disabled employees, which are important and potentially significant. Various proxies to monetise this personal development benefit to the individual employees were considered, but it was decided not to include a monetary value in the final SROI calculations. In summary, due to the exclusion of these personal development benefits, the social returns calculated in this analysis will understate the true social value created by Pack-IT.

In this section we present a summary of the social return calculations. We also consider the impact of *deadweight* (i.e., what would have happened anyway, should Pack-IT had not existed). Please refer to Section 6 for more detail on nef's SROI analysis of Pack-IT.

Attribution

The outcomes achieved by Pack-IT's employment of disabled individuals are also influenced by the support network of these employees, which primarily constitutes their family members, Employment Development Co-ordinators at Remploy and Shaw Trust and caseworkers from Social Services. nef believes that Pack-IT by far makes the greatest contribution, due largely to the fact that it provides the means for employment, as well as to the type and amount of personal support provided by each stakeholder.

Families are perhaps the next most significant factor, although circumstances vary by employee. For example, for three of the interviewees, one has parents who are actively supportive, another has parents whose impact is probably neutral, and the third lives in a home environment that is arguably detrimental to her personal development.

Remploy and Shaw Trust also offer valuable support, although their interaction with the clients is, with one exception, relatively limited, at roughly four-to-six visits annually, compared to the day-to-day contact by Pack-IT management.

Finally, we estimate the contribution of Social Services to be marginal, based on the minimal contact the caseworkers have with Pack-IT employees.

Value added

Value added measures, in absolute terms, the value that an organisation has created through its activities. It is the difference between the net present value of benefits and the net present value of investment.

$$[\text{Value Added}] = [\text{Value of Benefits}] - [\text{Value of Investment}]$$

The aggregate social value created by Pack-IT each year is projected to be £71,600. This translates into value added of £33,700, which is the social value of the programme over and above the costs of the investment (£37,900 in grant funding and wage subsidies). Value added per disadvantaged employee is £4,800.

$$\text{Pack-IT value added: } \underline{\pounds 33,700} = \pounds 71,600 - \pounds 37,900$$

SROI

SROI measures the value of the benefits relative to the costs of achieving those benefits. It is the ratio of the net present value of the benefits to the net present value of the investment. For example, a ratio of 3:1 indicates that an investment of £1 delivers £3 in social value.

$$[\text{SROI}] = \frac{[\text{Value of Benefits}]}{[\text{Value of Investment}]}$$

The projected SROI ratio for Pack-IT is 1.9:1. Thus, for every £1 invested, £1.90 of social value is created *each year* for society in terms of reduced welfare costs and increased local purchasing. Although availability of comparable data for other Social Firms is limited, any return greater than 1:1 is a good result and argues for further investment.

$$\text{Pack-IT SROI: } 1.9:1 = \pounds 71,600 / \pounds 37,900$$

Sensitivity analysis

Since our calculations depend largely on assumptions, it is prudent to test the sensitivity of those assumptions on the SROI ratio. Table 9 in the Appendix details the sensitivities of these assumptions.

One indicator that is fairly sensitive to changes in value is our deadweight assumption for the number of disabled employees who would have obtained and sustained employment elsewhere. Lowering this number from 1 to 0 raises the SROI ratio from 1.9 to 2.2. Conversely, the investment 'breaks even' at four employees. That is, the SROI ratio drops below 1.0, implying a negative return, when the number of disabled employees who would *not* have found sustainable employment elsewhere is fewer than four.

Similarly, eliminating from the model all day-care benefit costs saved to government lowers the SROI ratio to 1.0. However, these savings accrue to local government, which supports Pack-IT through an annual grant from Social Services. Thus Social Services may reconsider its investment should Pack-IT (1) recruit employees who were not otherwise likely to use day-care services, or (2) recruit insufficient numbers of disabled people. Social Services would break-even on its £22,000 investment with only two disabled employees at Pack-IT who otherwise would be in day care. Further, elimination of the grant, all else being equal, more than doubles the SROI ratio, from 1.9 to 4.5.

Summary

1. The aggregate social value created by Pack-IT each year is £71,600, which translates into value added of £33,700 after adjusting for the value of the grant and wage subsidies. Pack-IT's SROI ratio of 1.9:1 implies that, for every £1 invested, £1.90 of social value is created *each year* for society in terms of reduced welfare costs and increased local purchasing.
2. For those impacts that have been monetised, government is by far the greatest beneficiary. For each disadvantaged employee, national and local government each gain £7,000–£8,000 annually, primarily through reduced welfare costs.
3. Local government receives a direct return on investment on its grant from Social Services. Each year its grant of £22,000 returns, on average, £54,000 in social value, translating into an SROI ratio of 2.5:1. Social Services would 'break-even' on its grant at two day-care beneficiaries being employed at Pack-IT.
4. On a strictly economic basis, the employees' net increase in income is marginal, and for some employees may even be negative. However, the greatest benefits to these individuals are other outcomes that advance their personal development, such as increased self-confidence and independence, which are difficult to monetise.
5. Pack-IT's value added per disadvantaged employee is £4,800 annually, which is comparable to several other initiatives that seek to help disadvantaged individuals obtain and sustain employment.
6. The SROI ratio is sensitive to our deadweight assumption for the number of disabled employees who would have obtained and sustained employment elsewhere, with Pack-IT's social returns becoming negative when the number of disadvantaged employees who would *not* have found sustainable employment elsewhere is fewer than four.
7. As mentioned previously, there are a number of other benefits that have not been monetised, such as increased self-confidence of the disadvantaged employees and respite from care for their parents, suggesting that the social return calculations likely underestimate the full social value created by Pack-IT.

Acknowledgments

nef would like to thank John Bennett and his team at Pack-IT for their information, input and patience..

3. Conclusions

Standing out among the UK's social enterprises and Social Firms, Pack-IT has achieved its success and sustainability by effectively blending business acumen with personal commitment to its employees. Management takes a business approach to running its organisation, selling its services based strictly on quality and cost. In fact, few of its customers are even aware that Pack-IT is a Social Firm. However, the company does incur social costs by employing disadvantaged individuals. For example, unlike its strictly commercial competitors, Pack-IT carries higher overhead costs due to the extra support required. Therefore, the wage subsidy received from Remploy and Shaw Trust provides an important contribution to these social costs.

Yet, Pack-IT is able to remain competitive with its purely commercial rivals by cultivating a work force that meets or exceeds its customers' demands. Senior management is skilled at matching individual aptitude to individual tasks, "focusing on employees' abilities rather than their disabilities", and has created an open and supportive working environment in which every employee feels part of the team.

Crucially, management takes an active interest in the personal and professional development of the staff. For example, senior management works collaboratively with its partner agencies and the employees' families to provide personal, one-on-one support to the employees. An Employment Development Co-ordinator at one of the partner agencies' estimated that management had spent 60–70 hours over an 18-month period with one of her clients who has complicated personal circumstances.

Furthermore, management encourages its employees to advance in the company by obtaining professional qualifications and earning (and accepting) promotions; and then recognises them for their contributions. This recognition is duly appreciated: the Employee of the Month award is very popular among the staff. Pack-IT was successful in applying for liP (Investors in People) in 2005, illustrating its commitment to workforce support.

The impact of this active support and encouragement is evident in the increased self-confidence and independence of Pack-IT's employees. For example, since joining the company they have become both more assertive and more socially active. It is this *distance travelled* that is Pack-IT's most significant social impact, but which is also the most difficult to monetise. Given these employees' special needs, it is doubtful that they could have obtained other employment that would have been both sustainable and conducive to the level of personal growth that they have achieved at Pack-IT. As summarised by one of the company's partner agencies, "Pack-IT is truly special".

4. Recommendations

Based on our evaluation, **nef** makes the following recommendations to help Pack-IT more effectively deliver its social mission.

1. Maintain collaboration with partner agencies

Remploy and Shaw Trust provide important support to Pack-IT and its employees and contribute meaningfully to the social impacts generated by the company. First, they foster the personal development of their clients through the impartial championing of their interests. Second, they contribute to the sustainability of the business through wage subsidies paid to Pack-IT.

2. Uphold employees' welfare as an integral factor in business strategy development

Pack-IT has already made its commitment to its employees a strategic business objective. However, as the company considers geographical expansion and model replication, it is important to recognise and acknowledge the crucial role played by senior managers, especially the Managing Director, in the personal development of its staff.

In order to successfully replicate its business model, Pack-IT must also replicate its culture of mutual support; its 'relaxed', 'friendly' working environment; its 'direct' and 'approachable' management style; and, perhaps most importantly, the strong personal commitment to each employees' personal and professional welfare that is promoted and upheld by the company's Managing Director.

3. Seek external advocates to more effectively promote Pack-IT's mission and model

Given internal resource constraints, Pack-IT should seek external resources to help publicise the company's successes, to better educate the public about the Social Firm model and its employees, to engage the local community, and to advocate on its behalf on public-policy matters relevant to Social Firms. In this regard, management should consider how it might best utilise its non-executive directors as well as available resources at Social Firms UK. Specifically, management should consider how it might work, to mutual benefit, with Social Firms UK to share its learning with other Social Firms.

4. Better capture social outcomes data

For a more accurate SROI analysis, Pack-IT should collect more accurate data on the welfare benefits of disadvantaged individuals at the time of joining the company, as well as the 'distance travelled' of these employees over time. To date, this information has been captured largely through anecdotes and estimates. Further, management should track the progress of work placement trainees after they leave the programme, as Pack-IT is partially responsible for these outcomes, which may be significant.

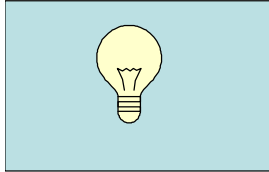
Appendix

SROI framework and analysis

This appendix sets out the framework for **nef**'s approach to SROI analysis and our estimation of the social returns achieved by Pack-IT. **nef** derived the programme's SROI through a 10-stage process, defined in Table 1.

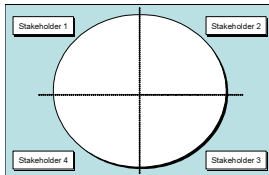
Table 1: The 10 stages of a nef SROI analysis

Understand and plan



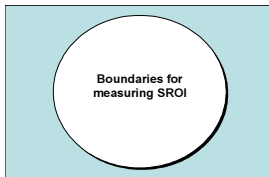
Stage 1: Understand the nature of the impact you want to measure - is it one project, or the whole organisation? Create the scope for the analysis - how much time do you have to spend on it, and who will comprise the team?

Stakeholders



Stage 2: Now that you know what you want to measure, who are the stakeholders? Identify who they are and gain input to understand what their goals and objectives are for the organisation or project.

Boundaries



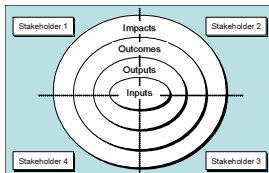
Stage 3: Create the framework for the analysis and begin to prepare background information. Describe how the project or organisation works, decide the time period you want to collect data for, and learn more about the main target group, or beneficiaries.

Analyse income and expenditure

Analysis	
Income	Expense
£	£
£	£
£	£

Stage 4: Examine financial accounts. Look at how resources used relate to different project areas. Investigate whether or not financial information is reported in a way that links it to social, economic or environmental objectives.

Impact map and indicators



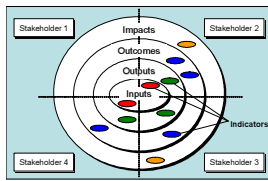
Stage 5: Understand how stakeholders participate through inputs, outputs, outcomes, and impacts. In answering this, it becomes clearer how social value is created.

SROI Plan

SROI Plan	
Date	To do

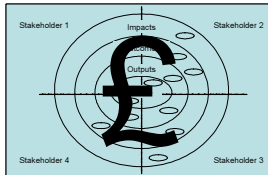
Stage 6: At this point, we consolidate where we are in the process by summarising what we know so far. Lay out a plan and timetable for collecting the remaining data, completing the calculations, writing up the report and sharing findings with stakeholders

Implement the plan and Data collection



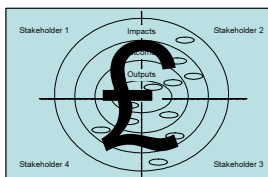
Stage 7: Collect the remaining data.

Projections



Stage 8: Determine whether or not the monetised values of the costs and benefits can be projected over future years. The choice of the number of years to be used for projections will be determined by the nature of the project or organisation.

Calculate SROI



Stage 9: Create a discounted cash flow model using gathered data and projections. Calculate the present value of benefits and investment, total value added, SROI ratio and payback period. Use sensitivity analysis to identify the relative significance of data.

Report



Stage 10: Consider and present the results in a way that brings out the subtleties and underlying limitations and assumptions.

Stage 1: Understand and Plan

At this stage an initial project plan was developed. We established that the study would evaluate the social return on the financial investment of employing disadvantaged people. The main audiences would be:

- the managing director of Pack-IT as the decision maker in the organisation
- the advocacy organisation in their role of promoting the benefits of Social Firms
- the current and potential investors and funders of Pack-IT

The SROI study would cover a one year timescale. **nef** was engaged to carry out the study. The necessary information was taken from existing records or through interviews. Pack-IT and the **nef** researcher discussed the aims and benefits of an SROI study, and drafted a work plan together.

The aims of doing the SROI study were:

- To show how employing disadvantaged people brings social and economic benefits to this group and other stakeholders.
- Evaluating the potential use of SROI for Social Firms UK
- Making recommendations to the managing director for future planning and evaluation.

At this stage the purpose, objectives and long-term vision of Pack-IT were documented.

Stage 2: Stakeholders

Key Pack-IT stakeholders and their objectives are listed in Table 2. The information is based on in-person interviews with five disabled and four non-disabled employees and the families of two disabled employees; and phone interviews with both partner agencies and one non-executive Board member, who is also a customer. No interviews were conducted with other customers and suppliers, as their objectives were believed to be purely commercial. Local community representatives also were not interviewed owing to resource constraints. Objectives for national government and the local council, which includes Social Services, were determined through guidance from Pack-IT management, Remploy and Shaw Trust.

Table 2: Pack-IT stakeholder map

Stakeholder	Description	Objectives
Disadvantaged employees (7 FTE)	<ul style="list-style-type: none"> • Learning disabled (6) • Disadvantaged (1) 	<ul style="list-style-type: none"> • Increased self-confidence • Increased independence
Non-disabled employees (9 FTE)	<ul style="list-style-type: none"> • Employees without a disability or disadvantage 	<ul style="list-style-type: none"> • Responsibility in job role • Professional advancement • Income • Increased self-esteem (want to 'feel valued')
Board of directors (2)	<ul style="list-style-type: none"> • Executive directors (2) • Non-executive directors (2) 	<ul style="list-style-type: none"> • Run a sustainable business 'with an ethos'
Disadvantaged employees' Families	Family members, typically parents or partners of the disadvantaged employees	<ul style="list-style-type: none"> • Increased independence and self-confidence of family member • Respite from care of disabled family member

Stakeholder	Description	Objectives
Partner agencies (2)	<ul style="list-style-type: none"> • Remploy and Shaw Trust, national charities that help disadvantaged people find and sustain employment 	<ul style="list-style-type: none"> • Sustained employment for clients • Increased independence and self-confidence of clients
National government	<ul style="list-style-type: none"> • Internal Revenue • National Insurance • DWP 	<ul style="list-style-type: none"> • Increased tax contribution • Reduced welfare benefit costs
Local government	<ul style="list-style-type: none"> • Local council • Social Services (part of local council) 	<ul style="list-style-type: none"> • Reduced Social Services costs • Increased local employment • Increased local purchasing
Local community	<ul style="list-style-type: none"> • Residents • Community organisations 	<ul style="list-style-type: none"> • Increased corporate support/sponsorship • Increased local employment • Increased local purchasing
Customers	<ul style="list-style-type: none"> • Commercial businesses • Local government 	<ul style="list-style-type: none"> • Competitive prices • Quality work
Suppliers	<ul style="list-style-type: none"> • Suppliers of COGS 	<ul style="list-style-type: none"> • Repeat business

Stage 3: Boundaries

This SROI analysis specifically concerns the disadvantaged employees at Pack-IT for the current year. As of June 2005, six of Pack-IT's employees had a learning disability, and one was otherwise disadvantaged. For six of these employees, Pack-IT received a wage subsidy from its partner support agencies, Remploy and Shaw Trust.

Pack-IT also has nine non-disabled employees; however the SROI analysis excludes these employees as the analysis focuses on the *incremental* social value created by the company by employing disabled people, over and above what would be expected if all of its employees were non-disabled.

The company also supports workplace training for 7–10 disadvantaged individuals each year, which lasts approximately 6 weeks per trainee. However, as Pack-IT management believes that the trainees typically do not progress immediately to open employment, they are excluded from the SROI analysis due to the projected immateriality and uncertainty of the outcome.

All employees are residents of greater Cardiff, where Pack-IT is located.

Finally, the returns are calculated annually due to the nature of Social Firms, in that their 'output' is the ongoing employment of disadvantaged individuals. Therefore, no benefits are projected forward.

Stage 4: Analyse income and expenditures

As the study looks at the social return on the investment required to employ disadvantaged people over and above non-disabled people, the sources of finance and uses of resources relate to the incremental revenues/costs for this group. This information was found in the Pack-IT accounts.

Incremental sources of finance received: total of £37,900 consisting of:

- Social services grant of £22,000
- Wage subsidy of 30% from partner agencies

Incremental use of resources: nil

Note: although the organisation pays the employees, this is not considered an expense because, like all employees, they are paid for their work.

Stage 5: Impact map and indicators

In this stage we drop certain stakeholders from the analysis. For example, non-disabled employees, company directors, customers and suppliers are excluded due to the immateriality of their outcome objectives to the analysis. The outcome objectives of the disadvantaged employees' families, partner agencies and the local community are also excluded to avoid double-counting objectives, as their objectives are the same as those of the disadvantaged employees – namely, increased independence and self-confidence of the client/family member/employee; or to local government – namely, increased local employment and purchasing. However, partner agencies are still included in order to capture their inputs of wage subsidies.

Inputs and outputs

As illustrated in Table 3, inputs vary by stakeholder, with local government (i.e., Social Services) and partner agencies providing the financial inputs of grant funding and wage subsidies, respectively. Due to the nature of a Social Firm, the material output for all stakeholders is employment of disadvantaged individuals.

Outcomes

Outcome objectives for the disabled employees relate primarily to increased independence and self-confidence. Income was not cited as an objective by any of the interviewees, but is presumed to be a means to achieving greater independence and self-confidence. Moreover, several of the interviewees exhibited pride in having their wages paid in their name to their own bank account. Furthermore, we estimate that the net income gained (i.e., wages less taxes and welfare benefits lost through becoming employed) is marginal, although this would vary by individual.

As explained above, outcome objectives of the partner agencies are the same as those of their clients, and so will be excluded to avoid double-counting. Government's outcome objectives relate largely to increased tax contribution and reduced welfare benefits costs. The objectives of the local community are presumed to be increased local employment and purchasing – both of which are shared objectives with local government – and corporate sponsorship of local initiatives.

Increased local purchasing, an objective of both local government and the local community, is captured through a proxy measure for local government – but not for local community, so as to avoid double-counting the value generated. Due to the increased self-confidence and independence gained from working at Pack-IT, the disadvantaged employees engage in, and spend money on, more social activities, such as going to the cinema, shopping, and attending classes as part of a weight loss programme. Thus, this increase in local procurement is likely to be incremental to that undertaken by non-disabled employees, who likely were already part of the workforce.

Impacts

Impacts are outcomes less attribution effects, which includes the extent to which the outcomes are achieved due to the efforts of other organisations and individuals, as well as consideration for what would have happened anyway had Pack-IT not existed, referred to by **nef** as *deadweight*. Thus, we focus on the *incremental* benefit of employing disadvantaged individuals, over and above what would be expected if all of its employees were non-disabled.

For example, because Pack-IT could choose to fill the roles of its disadvantaged employees with all non-disabled people, the same amount of Income Tax and National Insurance contribution would be generated, implying that deadweight is 100 per cent – that is, taxes paid are the same whether the employee has a disability or not. Similarly, the objectives of increased local employment (local government and the local community) and corporate sponsorship (local community) could be met regardless of whether the employees were disadvantaged or not, and are consequently excluded from the calculations.

Deadweight for the disabled employees is reflected in the assumption that a certain number of them would have found and sustained work elsewhere. However, although two of the five interviewees suggested that they would get another job should they be forced to leave Pack-IT, this is largely attributed by their parents and Employment Development Co-ordinators to the self-confidence gained and new skills learned while working at the company. In fact, most of the disabled employees have held jobs before joining Pack-IT but could not sustain them, due largely to a lack of a ‘constructive’ working environment. Meanwhile, all of the interviewees cited the working environment at Pack-IT as a key benefit, describing it as ‘friendly’, ‘supportive’, ‘informal’ and ‘relaxed’.

Notably, both Remploy and Shaw Trust expressed confidence that they would be able to place all their Pack-IT clients in other, strictly commercial, jobs; however, other stakeholders – including Pack-IT representatives, the clients’ families and the clients themselves – raised concerns that the clients could sustain or even desire such employment given past experience. Importantly, the assumption for ‘what would have happened anyway’ is what would have been the expected outcomes if Pack-IT had never existed, rather than if the company ceased to exist now. That is, social value has already been created by Pack-IT. We test the sensitivity of our assumption for this ‘deadweight’ in Stage 6.

We assume displacement to be nil, given the inherent difficulty of this target population to obtain and sustain employment. Attribution is addressed at the end of the process, by estimating the portion of the impacts achieved due to Pack-IT, relative to other related parties, such as the partner agencies, Social Services and the employees’ families.

Table 3: Impact Map

Impact Map			
Stakeholder	Inputs	Outputs	Outcomes
Disadvantaged employees	<ul style="list-style-type: none"> • Time and resources 	<ul style="list-style-type: none"> • Employment 	<ul style="list-style-type: none"> • Increased self-confidence • Increased independence • Increased income
Partner agencies	<ul style="list-style-type: none"> • Wage subsidy 	<ul style="list-style-type: none"> • Employed client 	<ul style="list-style-type: none"> • Increased independence and self-confidence of clients
National government	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Employed disabled person 	<ul style="list-style-type: none"> • Increased tax contribution • Reduced welfare benefit costs
Local government	<ul style="list-style-type: none"> • Grant funding 	<ul style="list-style-type: none"> • Employed disabled person 	<ul style="list-style-type: none"> • Reduced Social Services costs • Increased local employment • Increased local purchasing

Indicators have been assigned for each objective in the Impact Map, and are listed in Table 4. The values for these indicators are detailed in *Stage 5: Data Collection*, as are sources of the data and explanations for proxies and estimates. Please also refer to *Stage 3: Impact Map* for further discussion of these indicators.

As stated previously, we do not monetise the benefit gained by the disabled employees through increased self-confidence and independence, and thus have not assigned indicators to these benefits.

Table 4: Indicators

Impact Map: Indicators				
Stakeholder	Inputs	Outputs	Outcomes	Impacts
Disadvantaged employees	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Number of disadvantaged employees • Annual wages per disadvantaged employee 	<ul style="list-style-type: none"> • Net increased income 	<ul style="list-style-type: none"> • Number of disadvantaged employees who would have found and sustained work without Pack-IT
Partner agencies	<ul style="list-style-type: none"> • Amount of wage subsidy 	<ul style="list-style-type: none"> • Number of employed clients 	<ul style="list-style-type: none"> • <i>See outcomes for disadvantaged employees</i> 	<ul style="list-style-type: none"> • <i>See impacts for disadvantaged employees</i>
National government	<ul style="list-style-type: none"> • Not applicable 	<ul style="list-style-type: none"> • Number of disadvantaged employees • Annual wages per disadvantaged employee 	<ul style="list-style-type: none"> • Amount of Income tax and National Insurance contribution • Amount of welfare benefit costs saved 	<ul style="list-style-type: none"> • Taxes: amount of taxes paid resulting from employment of disadvantaged individuals • Welfare benefits: amount saved resulting from employment of disadvantaged individuals
Local government	<ul style="list-style-type: none"> • Amount of grant funding 	<ul style="list-style-type: none"> • Number of disadvantaged employees 	<ul style="list-style-type: none"> • Amount of Social Services costs saved • Net increase in local employment • Incremental increase in weekly local procurement 	<ul style="list-style-type: none"> • Social Services: amount saved resulting from employment of disadvantaged individuals • Local employment: net increase resulting from employment of disadvantaged individuals • Local purchasing: Number of disadvantaged employees who would have found and sustained work without Pack-IT

Stage 6: The SROI Plan

At this stage a summary document was circulated together with a resource plan and timescale for the rest of the project.

Stage 7: Data collection

The data collected and assumptions used in the SROI model are detailed in Table 5.

Table 5: Summary of SROI model data and assumptions

Data sources and assumptions		
Indicator	Value	Source / description
INPUTS		
Social Services grant	£22,000	Pack-IT
Wage subsidy	30%	Partner agencies
Total annual investment	£37,900	Sum of grant and wage subsidies
OUTPUTS		
FTE disadvantaged employees	7	Pack-IT
FTE employees receiving wage subsidy	6	Pack-IT and partner agencies
Average workweek	35 hours	Pack-IT
OUTPUTS / contd		
Annual wages per employee	£8,800	Pack-IT; based on statutory minimum wage
Income tax	0% < £4,615 10% £4,615–£6,575 22% > £6,575	Statutory rates
National insurance	11% > £89/week	Statutory rates
OUTCOMES		
Incremental increase in weekly local procurement	£10	Proxy estimate based on qualitative comments from stakeholder consultation
Cost to Social Services for day care services	£45 /day/person; 5 days/week; 48 weeks/year	Pack-IT; Social Services
Number of employees who would be in day care and number who would stay at home	5 / 2	Estimate based on qualitative information from stakeholder interviews
Other welfare benefits	£6,900	DWP statutory rates for Incapacity benefit, Income Support and JSA

IMPACTS		
Deadweight (DW): number of disadvantaged employees who would have found and sustained work elsewhere	1	Based on qualitative comments from stakeholder consultation: low likelihood of sustainability of outcome
DW: Income tax and NI contribution	100%	Government would receive same tax contribution if employees were non-disabled
DW: Welfare benefits	--	See DW for employees
DW: Local employment and corporate sponsorship	100%	Local employment and corporate sponsorship would be unchanged if employees were non-disabled
DW: Local purchasing	--	See DW for employees
Displacement	0%	Based on nature of disabled employee population
Pack-IT share of outcome	75%	Reflects Pack-IT's contribution relative to that of other stakeholders, primarily Remploy/Shaw and the employees' families
OTHER ASSUMPTIONS		
Time period	1 year	Returns are calculated annually, due to nature of a social firm
Discount rate	NA	Due to annual calculations

Stage 8: Projections

In this section the benefits from future years would be 'discounted' to give present-day values. As this study is only concerned with the current year, no discounting of future costs or benefits is necessary.

Stage 9: Calculate SROI

The SROI model is detailed in Table 6, followed by the return calculations, in Tables 7 and 8, and a sensitivity analysis of the model assumptions, summarised in Table 9 and discussed further in Section 2. The figures for Pack-IT's share of outcome refer to our assumption that the company contributes, on average, 75 per cent of the social value created through its employment of disabled individuals.

Table 6: SROI model for Pack-IT

Pack-IT SROI model	
Indicator	Value (£)
Benefits to each employee	
Employee wages	8,800
Less welfare benefits lost (weighted average)	(6,900)
Less increase in tax contribution	(700)
Less increase in National Insurance	(500)
Net benefit per employee	£700
Benefits to local government (per employee)	
Social Services benefits saved	7,700
Incremental leisure expenditure	500
Net benefit to local government	£8,200
Benefits to national government (per employee)	
Welfare benefits saved (weighted average)	6,900
Net benefit to national government	£6,900
Combined net benefit	
Total FTE employees	7
Less deadweight	6
Aggregate annual benefits	111,300
Less deadweight	95,400
Pack-IT share of outcome	83,500
Less deadweight	71,600

Table 7: Social value added by Pack-IT

	Total value created	Pack-IT share	Investment	Value added	Pack-IT share	VA per employee	Pack-IT share
Aggregate benefits	£111,300	£83,500	£37,900	£73,500	£45,600	£10,500	£6,500
Less deadweight	£95,400	£71,600	£37,900	£57,600	£33,700	£8,200	£4,800

Table 8: SROI generated by Pack-IT

	Total value created	Pack-IT share	Investment	SROI	Pack-IT share
Aggregate benefits	£111,300	£83,500	£37,900	2.9	2.2
Less deadweight	£95,400	£71,600	£37,900	2.5	1.9

Table 9: SROI sensitivity analysis

Indicator	Baseline assumption	New assumption	SROI
BASELINE			1.9
Social Services grant	£22,000 / yr	£0	4.5
FTE disadvantaged employees	7	3	0.9
		14	2.9
Day care benefits	£6,900	£0	1.0
D/W: disabled employees	1	0	2.2
		4	0.9
Share of outcome	75%	50%	1.3
		90%	2.3

Stage 10: Report

At this stage the report was written. This document provides the format used and contents created.



toogoodtowaste
increasing reuse and recycling through community action
(Valleys Furniture Recycling Ltd)

The effect of European Funding

Community regeneration through waste minimisation
is toogoodtowaste!

Introduction

toogoodtowaste which was established in 1995 is an independently registered Charity and Company Limited by Guarantee.

Legal Status

Registered Name: Valleys Furniture Recycling
Trading Name: toogoodtowaste
Registered company: Limited by Guarantee No: 3286173
Governing Document: Memorandum & Articles of Association
Registered Charity for the "Relief of the poor" No: 1064588

Purpose

Registered as a Charity for the "relief of the poor" 1 the Company Objects are for a Social purpose and are outlined in the Articles of the Association 2:

1. To assist in the alleviation of deprivation by providing people in need with access to affordable furniture, and in so doing, reduce waste to landfill.
2. To provide opportunities to people to volunteer; gain work experience and become socially involved in a Community Enterprise

History of the organisation

Informal discussions in 1993 identified that low income households within the County Borough, needed access to affordable furniture.

Since then, the organisation has consistently increased its range of services, the numbers of people employed and the number of people supported through volunteering and work based learning. The income generated has increased as has, the volume of waste diverted from landfill and the number of people provided with re-use items.

Through a range of capacity building grants, this organisation has grown from an initial grant of £50 from the Princes Trust (in 1993) to an organisation that is now considered to be an "essential service" by referral organisations and low income households.

Registered in 1995 as Valleys Furniture Recycling Limited, this organisation adopted the trading name of toogoodtowaste in 2000, to communicate the messages that the aims and aspirations of individuals and communities, as well as their recyclable products are all **too good to waste**.

Since 1995 the organisation has attracted over £2.5 million of inward investment and in so doing, created and sustained paid employment, engaged with over 100 volunteers each year, provided waste minimisation and re-use services and provided practical help to thousands of low income households within the County Borough. The inward investment has supported a number of local suppliers and services, for example garages, printers, contractors and the various café and mobile sandwich operators that are needed to support our team of hard working volunteers.

¹ The modern meaning of "poor" – A person does not have to be destitute to qualify as "poor." Anyone who is in need or suffering hardship or distress might be eligible for help. Charity Commission, CC4 Pg.2.

Financial & Statistical data

	2008	2009	2010	2011
Own income generation	£197,939	£267,692	£289,931	£311,283
Grants secured	£233,047	£117,171	£105,980	£134,099

Social Benefits

	2008	2009	2010	2011
Number of referrals received for furniture packages for low income households	85	71	77	199
Number of volunteers	57	66	65	87
Number of work based placements	42	79	39	47
School placements	3	7	27	25
No. unpaid hours	30837	38403	24703	37853
No. of people buying from charity shops	3002	5057	5243	5861
No. of items supplied for re-use	6846	16872	22841	26057

Note: 2009/10 Government initiatives impact on volunteering e.g. Future job fund.

Current levels of paid employment

10 core staff plus 1 additional staff member through the Engagement Gateway programme and an additional staff member through the South East Wales Economic Development project. TOTAL 12

In 2012 with funding through the BIG Lottery Welsh Assembly Community Asset Transfer grant a further 4 new employment positions will be created.

Valuing the services - measuring the impact

In 2011 we responded to 199 referrals from L.A. Social services departments, women's aid, church groups and other charities. There were 170 children in these families. We provided children's bedroom packages, complete home start up packages (which include pots, pans & bedding).

The young people referred are vulnerable, starting their first accommodation. They were referred because they have little or no furniture; some were on a training course or still at school. One of the beneficiaries was 16 years and pregnant, another moving into her first tenancy with her son. Working in partnership enables us to target our

services at those most in need, e.g. with the housing advice centre and women's aid, as this has made a real difference to women with children fleeing domestic abuse. By working together we are able to help the re-settling of families quicker and this reduces the amount time children spend in temporary accommodation, resume their education, meet new friends etc.

One of the difficulties is assessing the level of need for our services in the future and therefore the costs in providing this service. As professional support staff in other agencies, become more aware of the value of our services, the referrals have increased. The increase in demand for children's bedroom furniture has meant we had to increase the quantity of new mattresses and bed bases we purchased as there were insufficient donations to meet the level of requests.

History of European Funding

Dates	Type	Value	
1999 – 2001	Rechar Funding	£40,200	To start to deliver services
2001	ERDF Obj. 1	£88,000	To increase service delivery
2003	ERDF Obj 1	£356,900	Take services into community – employ additional staff.
2008	SRS	£614,432	To refurbish unit, employ staff
2011	Engagement gateway WCVA	£46,439	To engage & train those furthest from the labour market.
2011	SE Wales Economic Dev.	£7,700	First few months of 3 year project

Experiences:

Positive: Has enabled the organisation to build its capacity to develop services whereby an income can be generated. It has been important to develop services of a quality and price, that makes them valued by the community (either when they are buying for themselves, or where services are purchased on their behalf).

The SRS funding refurbished a derelict building and provided the organisation with the infrastructure from which to provide services that were accessible to the community and that were presented as a high quality product.

Negative: Time delays:

Example - In July 2010 we completed an Expression of interest for the SE Wales Community economic development (ERDF). We could not access an application form until June 2011 (11 months) and it took a further 3 months for the application to be assessed.

Example: Engagement Gateway ESF - the tender did not come out until February 2010 but the programme ends in June 2012. Because of the time delay in assessing the tender, the project had to be reduced.

Negative: paper hungry & bureaucratic

Example: In SEW Economic Development project, we have now been asked to provide payroll summary AND individual payslips AND timesheets with ½ hour intervals AND to provide this weekly - even though staff are on monthly salaries.

Also, photocopy each invoice, copies bank statements (expenditure not repaid unless cleared through bank account). Overhead costs not allowable (even for the additional photocopying). Company financial audit not accepted as evidence of a satisfactory project. Storage of documentation for 15 years. THERE IS MISTRUST of how organisations deliver projects.

Negative: lack of clear information

State aid – when it is / is not a problem and how to deal with it.
Deminimus rule – Recording & reporting

Negative: Consortium bids

Not accessible.

Unsatisfactory feedback when attending potential partnership meetings - new way of working - mistrust amongst groups and organisations. Culture of organisations not necessary a good fit for partnership working.

For further information, please contact:

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