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# **A Value for Money Review of the Welsh Government's Core Funding Arrangements for Social Enterprise Development**

**Social Firms Wales**

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## Executive Summary

The aim of the commission underpinning this report is to undertake a Value for Money review of the core funding arrangements for Social Firms Wales, Development Trusts Association Wales and the Wales Social Enterprise Coalition. The review is required to contribute to the rationale on which any future funding arrangements post 2012/13 will be based by providing the evidence to support decisions.

The review has, at the request of the Welsh Government, been approached in stages, with the review of the value for money obtained from Welsh Government support for Social Firms Wales the subject of this report.

CM International has worked closely with the Welsh Government throughout the review making as much use of the experience and knowledge already available. In addition, CM International has made full use of existing resources, research material and data and has conducted in-depth interviews with 4 Social Firms Wales Board members, 7 Stakeholder organisations and 3 Welsh Government officials.

To assess the value for money obtained a structured approach has been used that incorporates the concepts of economy, efficiency and effectiveness.

***Based on the evidence gathered and analysis conducted, we conclude that in overall terms Social Firms Wales has provided the value for money that Welsh Government could have reasonably expected from its financial and other support over the period 2008 – 2012/13.***

We would draw attention to the fact that we have not conducted a financial audit of the organisation nor have we carried out any accounting tests.

The reasoning underpinning this conclusion can be summarised briefly as follows:

1. Welsh Government intervention is as budgeted in the three Grant Award letters covering this period, i.e. a total of almost £500,000 (£499,973) over the 5 year period from 2008 to 2013.
2. There has been a strong level of achievement and progress made across most of the key areas of activity.
3. The Welsh Government has regularly monitored the progress of expenditures against budget throughout the period since the Grant Award.
4. Social Firms Wales has created an operating model that uses a small core team of full time staff supported by a team of part time external staff that is not contracted but is available on a call-off basis. This model allows Social Firms Wales to manage their cost base while obtaining access to a range of required skills and experience and geographic coverage
5. The Board's philosophy and input provides a significant boost to the impact and efficiency of the organisation and it is only because of its active involvement and contribution of all Board members, 'lean' management and focussed delivery that policy development and policy inputs can be achieved.
6. Social Firms Wales does not play a wholly conventional role in its representation, policy engagement and inputs favouring a more technocratic and practical input around real issues and contexts that makes tangible differences to Social Firms and their organisations of origin (typically Local Authorities).
7. Social Firms Wales places great importance on its role in establishing and maintaining communication and collaboration amongst those surrounding the establishment and

development of social firms and the evidence suggests that Social Firms Wales's role in collaborations makes for 'harmonious' interactions.

8. Social Firms Wales has, in recent years, extended its activities in all parts of Wales and has made particular efforts to improve and extend its work in North Wales.
9. A key objective has been to increase consultancy income so as to reduce dependency on Welsh Government funding. The accounts of Social Firms Wales indicate considerable success in addressing this objective with a trend-line of surpluses over the period of between £30,000 and £40,000 per annum.
10. The policy adopted by Social Firms Wales regarding non-charging of membership fees results in foregone gross income of around some £10,000 per annum and is therefore probably not material.
11. While growth is a possibility for Social Firms Wales, it also carries a significant risk because of the intensity of the inputs required in working with social firms.

As part of our agreed scope of work with Welsh Government, we are asked to review the supported organisations' fit with Welsh Government policy and strategic objectives for the future and, where appropriate to make recommendations regarding further Welsh Government support for the organisations concerned.

The Social Enterprise 'agenda' in Wales has in recent years had a particular focus on the role of social enterprise in the area of public service delivery. At the same time the employment opportunities for those individuals who experience considerable disadvantage in the labour market including people with disabilities, mental health issues and ex-offenders are restricted particularly so in a period of recession and economic downturn. While social enterprise offers one way of redressing some of these disadvantages and inequalities, for those who are furthest from the conventional labour market, additional complex issues have to be dealt with and needs to be addressed.

The purpose of a social firm is to provide an economically and socially sustainable workplace environment where those most at disadvantage in the labour market can be employed, skilled and supported. In addressing these issues and needs, the work of Social Firms Wales therefore remains pivotal as described in its mission statement,

***"To grow the Social Firm sector in order to increase employment opportunities for people with disabilities, mental health problems, ex-offenders and people recovering from substance misuse and to help combat homelessness across Wales."*<sup>1</sup>**

On this basis we conclude that the work of Social Firms Wales remains highly relevant to the policy and strategy objectives of Welsh Government as set out in the Programme for Government and that a commitment to at least three years funding support is necessary to allow the long term engagement required by social firms to be assured and the current momentum of development discussions with local authorities and others regarding potential social firms to be secured.

**1. We recommend that the Welsh Government should continue to provide core funding to Social Firms Wales for a further 3 year period to March 2016.**

During this period it will be important that opportunities for Social Firms Wales to pursue income generation opportunities external to Welsh Government core grant awards can

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<sup>1</sup> Business Development Plan 2012 – 2015, Social Firms Wales, July 2012

continue, but these should not detract from the core social firm support and service delivery undertaken by Social Firms Wales.

**2. We recommend that in agreeing future objectives and targeted outcomes from its core funding award, the Welsh Government should continue to emphasise the promotion of social firms as a potential form in the context of the externalisation of public services and, further, Social Firms Wales should continue to support the creation of new social firms and promote the sustainability of new social firms.**

Further, as Social Firms Wales becomes more active across a range of service delivery areas, it will be important that there is transparency and clarity on lines of demarcation within Social Firms Wales budgets and resource use. It will be important that Social Firms Wales's reputation as a reliable deliverer and strategic partner across a range of domains does not lead to Social Firms Wales becoming a first port of call for the Welsh Government for too diverse a range of pilot activities and development work that may ultimately lead to 'mission drift'.

**3. We recommend that Welsh Government should continue to closely and regularly monitor the work and outcomes of Social Firms Wales taking into account the need for clarity between the core deliverables expected of Social Firms Wales by Welsh Government and the additional, external projects that may be undertaken by Social Firms Wales including those requested from departments of Welsh Government but not covered by the core funding award and targets.**

The achievement of additional income generation by Social Firms Wales has, over the recent period led to a significant increase in the accumulated development reserves potentially available to Social Firms Wales for allocation. Welsh Government should therefore seek clarity regarding the policy and intentions of Social Firms Wales and its Board regarding the allocation of accumulated development reserves.

**4. We recommend that at each annual review with Social Firms Wales, Welsh Government should seek clarity that the Board of Social Firms Wales has discussed and adopted a policy statement that adequately sets out its intentions for the future use of accumulated reserves declared in the preceding years audited annual accounts.**

While, over the next three years, a procurement of social firms support services in Wales could be feasible; at this point in time, we do not believe that there is sufficient evidence, in Wales, of a scale of activity in social firms' creation and development that would justify an open procurement process. Given the relatively long time lag from initial discussions with stakeholders and possible managers to the creation of social firms, we believe that it is appropriate to allow both Social Firms Wales and their members and partners in Wales a longer lead-in period to prepare for a market testing or procurement exercise than would be the case, for example, with a mainstream business support service.

Given the strong value for money currently achieved and the mitigating reasons noted, we do not consider this to be a current or urgent matter and would recommend that a market testing or procurement exercise should not be considered until the final quarter of 2014/15 with a view, if so decided, to take effect no earlier than April 2016.

**5. We recommend that the Welsh Government should, before the end of the next funding period, examine the case for market testing, or procuring by competition, direct support services for social firm development and support in Wales.**

# 1. Introduction

## 1.1 Aims and objectives

The aim of the commission underpinning this report is to undertake a Value for Money review of the core funding arrangements for Social Firms Wales, Development Trusts Association Wales and the Wales Social Enterprise Coalition.

The review is required to contribute to the rationale on which any future funding arrangements post 2012/13 will be based by providing the evidence to support decisions.

The specified objectives for the review<sup>2</sup> are to undertake:

- A robust and objective appraisal of the supported organisations' performance against an appropriately identified Value for Money definition;
- A critical analysis of the performance of the supported organisations using their achievements against their respective aims as agreed with the Welsh Government;
- A quantifiable analysis of the supported organisations to identify the levels of additionality as a consequence of their respective core funding arrangements.
- A review of the supported organisations fit with Welsh Government policy and strategic objectives for the future.

The review has, at the request of the Welsh Government, been approached in two stages; firstly, the review of the value for money obtained from Welsh Government support for the Wales Social Enterprise Coalition has been undertaken and reporting on at 31<sup>st</sup> August 2012; and, secondly, the value for money reviews of Social Firms Wales and the Development Trust Association Wales completed by 30<sup>th</sup> September 2012.

In addition, although not explicitly required within the project specification, it has been assumed, and confirmed at an Inception meeting with Welsh Government officials, that recommendations are sought regarding further Welsh Government support for the organisations concerned.

***This report therefore provides the analysis, conclusions and recommendations associated solely with Social Firms Wales.***

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<sup>2</sup> Specification for the Value for Money Review of the Welsh Government's Core Funding Arrangements for Social Enterprise Development, Welsh Government BETS, July 2012

## 1.2 Work undertaken

As set out in the specification for this commission, CM International has worked closely with the Client throughout the review making as much use of the experience and knowledge already available. In addition, to ensure that duplication of effort is avoided, CM International has made full use of existing resources, research material and data.

CM international's approach to this commission has been to use a three stage work package methodology:

### **1. Scoping, documentary review & methodology development**

Consisting of full document collation and review supplemented by a small number of 'scoping' interviews with Welsh government project managers and officials. Documents reviewed have included Social Firms Wales Monitoring reports to Welsh Government; Board Minutes; publications and reports produced by Social Firms Wales.

In addition, at this stage, interview lists, analysis templates and structured interview schedules were prepared, tested and implemented with target organisations; board members and stakeholders

### **2. Value for money research**

Social Firms Wales data and Social Firms Wales Monitoring reports and Board papers were reviewed and analysed against organisation and funding objectives and activities.

All 4 Board members of Social Firms Wales were interviewed during August and September 2012. In addition, representatives of other stakeholder organisations, including Welsh Local Government Association, WCVA, Wales Cooperative Centre and the Development Trust Association Wales were interviewed. Beneficiary and partner organisations were also interviewed to form short case study perspectives on the work and effectiveness of Social Firms Wales.

Finally, Chief Executive Officers from two relevant comparator organisations in England and Scotland were interviewed.

A full list of all interviews conducted can be found at Annex 1 to this report.

### **3. Value for money analysis**

All interviews, data analysis and the documentary review has been further analysed and interpreted in reaching conclusions regarding the value for money achieved.

In particular, a structured approach to assess value for money has been used that incorporates the concept of '3Es' – economy; efficiency and effectiveness – thus allowing a systematic and nuanced conclusion to be arrived at.

## 1.3 Approach

Achieving value for money and clear outcomes and impacts from public expenditures is a basic tenet of public administration. To enable this to be verified, Welsh Government regularly reviews its funding commitments including, in this context, to organisations in the third sector.

Value for money is defined in Treasury guidance<sup>3</sup> as:

*‘the optimum combination of whole life cost and quality (or fitness for purpose) to meet the user’s requirement. In other words, getting the best possible outcome from any given level of input’.*

This definition needs to be applied and interpreted recognising that value for money arises from both quantitative indicators and from qualitative policy gains.

Over and above the outcomes of their specific functions, therefore, the three organisations that are the subject of this review play a role in contributing to Welsh Government policy and strategic objectives for the future.

Core funding for the three organisations that are the subject of this review are made in the context of the Social Enterprise Action Plan (SEAP) that commits the Welsh Government to working with partners to:

*‘create an environment that encourages new social enterprises and to establish integrated support that will help create thriving social enterprises in Wales’.*<sup>4</sup>

More recently, this has been superseded by the specific Department of Business, Enterprise, Technology and Science (BETS) objectives as derived from the Programme for Government. The extent to which the three organisations contribute to that Welsh Government commitment is therefore a key value for money indicator.

Within a context where a number of organisations exist that offer support to social enterprises and organisations aspiring to develop social enterprise activities, social enterprise support in Wales is sometimes seen as a ‘crowded space’. Organisations in this ‘space’ include the Coalfields Regeneration Trust, the WCVA and the Wales Co-operative Centre, as well as the three organisations that are the subject of this review. Each organisation has a different emphasis and ‘target audience’ although all seek to engage with the Welsh Government and other agencies and stakeholders within the overall field of social enterprise and third sector work.

Supporting the development and growth of individual organisations and projects is an important part of the role of Social Firms Wales alongside wider infrastructure and network-enabling activities.

Value for money will therefore need to be assessed in terms of the overall contribution the organisations have made to the Welsh Government’s Social Enterprise Action Plan aims and objectives by successfully supporting best practice exchange, awareness raising and development for their own members with a distinctive and authoritative role in supporting its members and informing and influencing relevant Welsh Government policies.

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<sup>3</sup> Improving financial relationships with the third sector: Guidance to funders and purchasers, HM Treasury (May 2006)

<sup>4</sup> The Social Enterprise Action Plan for Wales, Welsh Assembly Government (2009)



## 2. Context and background

### 2.1 Context

Social Firms Wales is, formally, a company limited by guarantee established in 2005 with the aim of reducing social exclusion and economic inactivity by supporting the development and growth of Social Firms in Wales.

A Social Firm is a business set up specifically to offer a solution to social exclusion and economic inactivity through the labour market integration of disadvantaged groups.<sup>5</sup>

The mission of Social Firms Wales, set out on its latest Business Plan (July 2012), is:

***“To grow the Social Firm sector in order to increase employment opportunities for people with disabilities, mental health problems, ex-offenders and people recovering from substance misuse and to help combat homelessness across Wales.”***<sup>6</sup>

The Social Firms Wales mission statement remains substantially the same as originally set out in the Business Development Plan for Social Firms Wales in the period 2007–2010<sup>7</sup>, other than the addition, in the 2012 Mission statement, of an additional focus on ‘ex-offenders’.

The key values and processes that Social Firms Wales emphasises in its Business Plan are - Enterprise, Employment and Empowerment. These are described as follows<sup>8</sup>:

- **Enterprise** – Social Firms are businesses that combine a market opportunity and a social mission. They are businesses that support rather than projects with just an element of trading.
- **Employment** – Social Firms are supportive workplaces where the working environment is one that provides all employees with support, opportunity and meaningful work appropriate to their ability.
- **Empowerment** – Social Firms are committed to the social and economic integration of disabled people through employment. A key means to this end is economic empowerment through the payment of market wages to all employees.

Social Firms Wales is managed by a board of voluntary directors and members, all of whom are involved in Social Firms and other models of social enterprise or work directly with disadvantaged people. The organisation has therefore maintained its commitment, made in the 2007-2010 Business Plan, to “*stay small, but one that supports substantial social change by working with a wide range of partner organisations and agencies*”.

Social Firms Wales has created an operating model that uses a small core team of full time staff supported by a team of part time external staff that is not contracted but is available on a call-off basis. This model allows Social Firms Wales to manage their cost base while obtaining access to a range of required skills and experience and geographic coverage. In addition, the 4 Board Members (including the Chief Executive) all make contributions to the support services and interventions provided by Social Firms Wales.

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<sup>5</sup> Specialist Social firm /Social Enterprise Business Support, Social Firms Wales, 2012

<sup>6</sup> Business Development Plan 2012 – 2015, Social Firms Wales, July 2012

<sup>7</sup> Business Development Plan 2007 – 2010, Social Firms Wales, October 2007

<sup>8</sup> Business Development Plan 2012 – 2015, Social Firms Wales, July 2012

The development of a wide network of partner organisations is supported by a 3-tier categorisation of partners that is actively managed by the organisation as described in the recent Business Plan as follows:

- **1st level partners** working specifically in the Social Firm field – including Social Firms UK and Social Firms Scotland
- **2nd level partners** working in the wider field of social enterprise – including Wales Social Enterprise Coalition, Wales Co-operative Centre, Development Trust Association, Housing Association for Wales and WCVA
- **3rd level partners** working to develop social enterprises to attain social objectives, many of which are shared between the different organisations – including Welsh Government, Working Links, Unity Trust Bank, Big Invest, Triodos Bank, Learning Disability Wales, Disability Wales, Mencap Cymru, Coalfields Regeneration Trust, LINKS Wales, Wales Probation Trust, NACRO Cymru

Social Firms Wales is able to report that it has a group of members ‘signed up’ to its work and a range of membership benefits described within its Business Plan, its literature and web site. At the end of July 2012, the Social Firms Wales membership amounted to 76 members consisting of 44 Full members; 6 Public Sector members; 24 Associate members and 2 corporate members.

However, no fees are levied for membership of Social Firms Wales. The value of members to Social Firms Wales being described as follows: *“The value of the membership is not in the £’s but the members themselves.”*<sup>9</sup>

Social Firms Wales describes its services under three broad headings – Consultancy; Resources and Partnerships.

Within Consultancy the main focus is also on three areas of work - Commercial Feasibility; Commercial Business Plan and Core Business support. In each of these areas of work the emphasis is placed on ensuring that social firms that are emerging and developing are able to demonstrate commercial viability in their own right and, as a result, to deliver to their communities and target beneficiaries the key values and processes of enterprise, employment and empowerment.

Social Firms Wales Board members, including the Chief Executive, are clear in their recognition that the commitment to deliver work through individual projects and engagements with new and established social firms creates a vital balance to the broader, awareness raising, advocacy and policy work which is encompassed within the relationship with the Welsh Government and other partner organisations.

## 2.2 Welsh Government Grant Award and Objectives

The core quantitative objectives of the Grant Award made by Welsh Government to Social Firms Wales in its initial Grant Award letter covering 2008 – 2011, and subsequent amendments made in the additional Grant Awards covering 2011/12 and 2012/13, have been broadly consistent.

1. *Develop two social change partnerships in two local authority areas; (plus 1 additional social change partnership developed in each of 2011/12 & 2012/13)*

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<sup>9</sup> Business Development Plan 2012 – 2015, Social Firms Wales, July 2012

2. *Support the development of nine social firms/supported business in Wales; (plus 1 additional social firm supported in each of 2011/12 & 2012/13)*
3. *Create five social firms/businesses with long term prospects; (plus 1 additional social firm created in each of 2011/12 & 2012/13)*

In the initial period covering 2008 – 2011 the following objectives related to awareness-raising were also agreed:

4. *Work with the Welsh Assembly Diversity and Employment network across Wales to ensure both Social Firms and Mainstream employers are educated and have in place appropriate employee policies;*
5. *Deliver four workshops per year to support the development of a supportive work environment;*
6. *Raise the awareness of social firms and promote partnership working across Wales and give appropriate specialist sector support.*

In 2010 Welsh Government commissioned a review of a number of social enterprise infrastructure organisations including Social Firms Wales. The Review concluded positively in respect of Social Firms Wales but recommended that the Welsh Government should seek greater focus in Social Firms Wales's activities funded under the Grant Award of its activity on *"proactively promoting and developing the externalisation model and in supporting the creation of new social firms"*.<sup>10</sup>

Further, the Review recommended that the Welsh Government incorporate an objective for Social Firms Wales to increase its efforts to generate consultancy income in order to become less dependent on Welsh Government grant funding noting that this would bring Social Firms Wales more "in-line" with its counterparts in other parts of the UK.

Following the Review, the Social Firms Wales Grant Award letters for both 2011/12 & 2012/2013, replaced the latter objectives (4-6) with 4 new or significantly modified objectives (4-7):

4. *Raise awareness of the Separation Mechanism process to organisations at the early stage of project development, highlighting and developing commercial element towards Social Firm status.*
5. *Hold 1 pan Wales event to bring together members of Social Firms Wales, those interested in Social Firms and social enterprise, national partners, business support organisations and the private sector to share knowledge, opportunities, challenges and best practice*
6. *Social Firms Wales will participate in, and contribute to, the provision of policy advice at a strategic level and, where it feels it proper to do so, support the Welsh Assembly Government to achieve its policy objectives that relate to Social Firms.*
7. *Social Firms Wales will lever in additional funding for work to promote and develop Social Firms/Supported Businesses in Wales.*

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<sup>10</sup> A Review of Welsh Assembly Government Funded Support for Social Enterprise Development, Welsh Government, March 2011

Under each of these main objectives, the Welsh Government further agreed with Social Firms Wales a number of sub-objectives intended as operational objectives.

A logic model relating to the delivery by Social Firms Wales of its activities under the Welsh Government Grant award is shown at Annex 2 and the detailed Schedules of targets are included at Annex 3.

The Welsh Government committed to support core funding of Social Firms Wales to a total of £499,973 over the five full years as follows:

2008/09	£79,913
2009/10	£102,771
2010/11	£105,763
2011/12	£105,763
2012/13	£105,763

### 3. Review of Social Firms Wales economy, efficiency and effectiveness

To clarify the terms used in this review:

- **Economy** asks questions regarding the actual cost of activities including, how much has the intervention cost; how was this decided on; have the funds been used for the stated activities and, what additional funds have been levered in?
- **Efficiency** considers whether activities were delivered in line with expectations including, were the funded activities delivered in line with the plan; what additional activities were delivered; was the cost of delivery as expected and, how has efficiency been measured and monitored?
- **Effectiveness** focuses attention on outcomes such as, have the funded activities achieved the expected results or outcomes; what additional outcomes have been achieved, if any; and, how has effectiveness been maximised?

#### 3.1 Economy

Economy asks questions regarding the actual cost of activities including, how much has the intervention cost; how was this decided on; have the funds been used for the stated activities and what additional funds have been levered in?

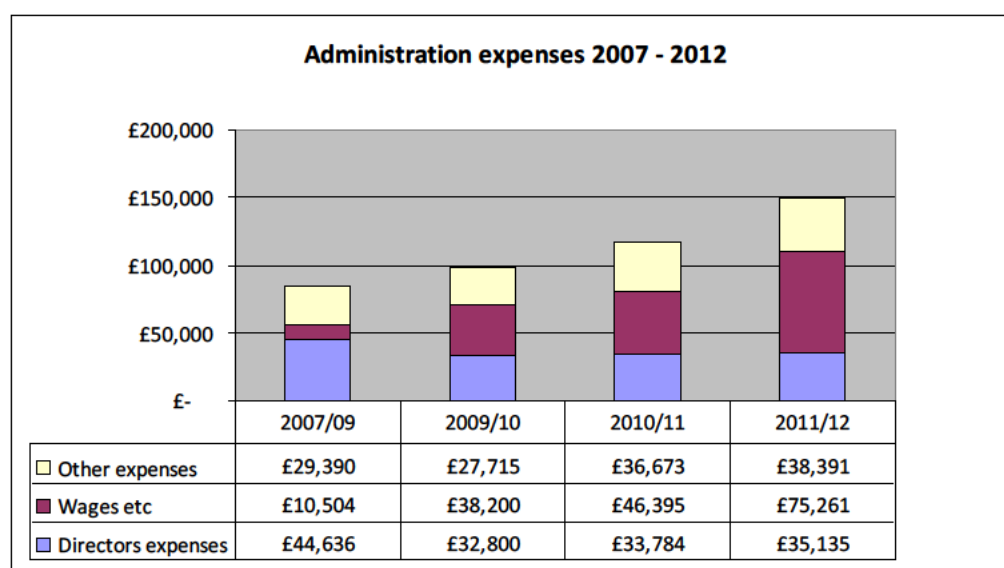
CM International has reviewed the accounts and budgets produced by the Social Firms Wales executive and submitted as part of the Welsh Government's normal Monitoring arrangements. CM International has not however carried out auditing or accounting tests based on this information.

From a Welsh Government perspective, its intervention is as budgeted in the three Grant Award letters covering this period, i.e. a total of almost £500,000 (£499,973) over the 5 year period from 2008 to 2013. The Welsh Government has regularly monitored the progress of expenditures against budget throughout the period since the Grant Award and, based on the desktop review conducted as part of this review, no major deviations from the expected budget lines and items are apparent.

Budgets proposed by Social Firms Wales and discussed with Welsh Government indicate a strong adherence to setting budgets that are prudent. A basic review of the audited accounts prepared on behalf of Social Firms Wales also indicates that the organisation has been economical in its management of resources.

As shown in the figure below, the trajectory of the organisation's administration expenses and the allocation of resources between Director's salary, wages and other overheads reveal no unexpected or sharp deviations. As would be expected, the majority of expenses are related to employment of key staff.

**Figure 1. Administration expenses incurred by Social Firms Wales 2007 - 2012**



As shown, in the initial set up period with regard to the Welsh Government Grant Award, Directors expenses accounted for the largest part of the total expenditures with wages of other staff members becoming a more significant proportion in the second year of delivery of the Welsh Government targets to March 2010.

As a whole, expenditures have grown gradually and as would be expected with a jump in the year on year increase from 2010/11 to 2011/12 in order to be able to service the additional consultancy projects undertaken in that year.

**Figure 2. Year-on-year increase in Administration expenses**

	Actual 2007/09	Actual 2009/10	Actual 2010/11	Actual 2011/12	Budget 2012/13
Year on year increase as a %	-	17%	18%	27%	27%

Audited accounts also indicate that the Welsh Government grant award has varied as a proportion of total Social Firms Wales income over the period from 2008.

The proportion has varied between 83% in 2009/10 to 47% in the last full year completed of 2010/11. In the current year of 2012/13 the % is expected to remain at just below 50% although there will also be additional and separate project income received from Welsh Government of £50,000 for a Care project<sup>11</sup>. This income will, in the current year, take **total** Welsh Government funding (core plus project) to Social Firms Wales to over just over 70%. We understand that the additional project has been fully discussed and indeed supported by Welsh Government given Social Firms Wales's unique delivery capabilities and reputation in this field of activity.

A key recommendation made in the earlier 2011 Review of Social Firms Wales was that Welsh Government should incorporate an objective into its grant award with Social Firms Wales to increase consultancy income so as to reduce dependency on Welsh Government

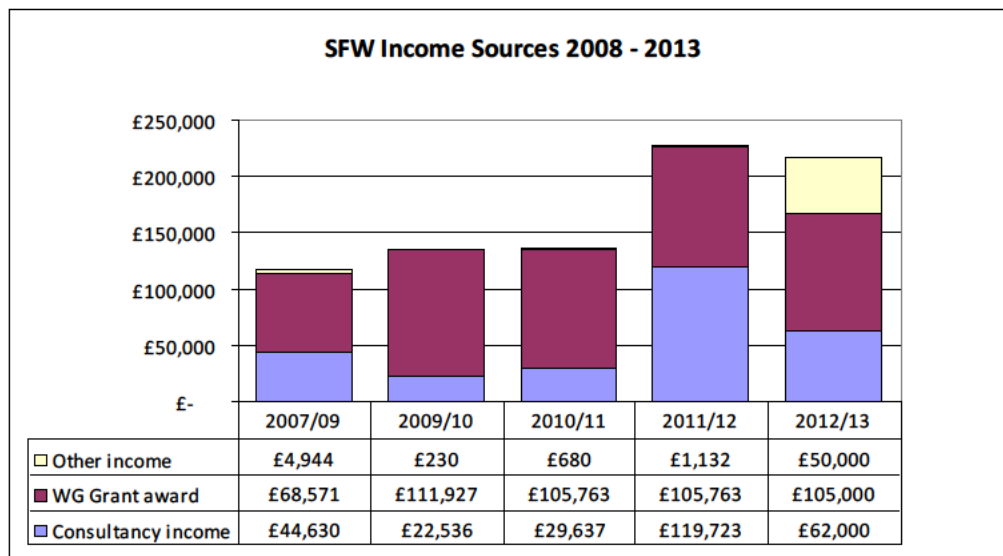
<sup>11</sup> This is in respect of a feasibility study and pilot project associated with the development of Care models for women returning to the workplace after a period of fulltime childcare.

funding. This recommendation was subsequently taken forward as a specific objective in both the 2011/12 and 2012/13 Grant award letters as follows:

*7. Social Firms Wales will lever in additional funding for work to promote and develop Social Firms/Supported Businesses in Wales.*

The accounts of Social Firms Wales indicate considerable success in addressing this objective as can be seen in the summary of income in Table 1 below:

**Figure 3. Social Firms Wales Income sources 2008 - 2013**



As can be seen Consultancy and Other Income sources had fallen to just over £30,000 or 23% of total income in 2010/11 but, following the 2011 Review, this recovered to 53% in 2011/12 and is forecast to remain at over 50% in the current year when the effect of the separate Welsh Government Care project income is also taken into account.

We understand that the significant increase in consultancy income achieved in 2011/12 was largely due to a single contract<sup>12</sup> where the broader focus of the Social Firms Wales Mission to encompass ex-offenders as a target group was taken into effect. The association with the NOMS Working Links project in Wales was a potentially important broadening of the reach and scale of Social Firms Wales activities in Wales that, according to the Chair and Chief Executive, is expected to provide a range of innovative and effective opportunities for further work with the social firm model in less traditional beneficiary groups.

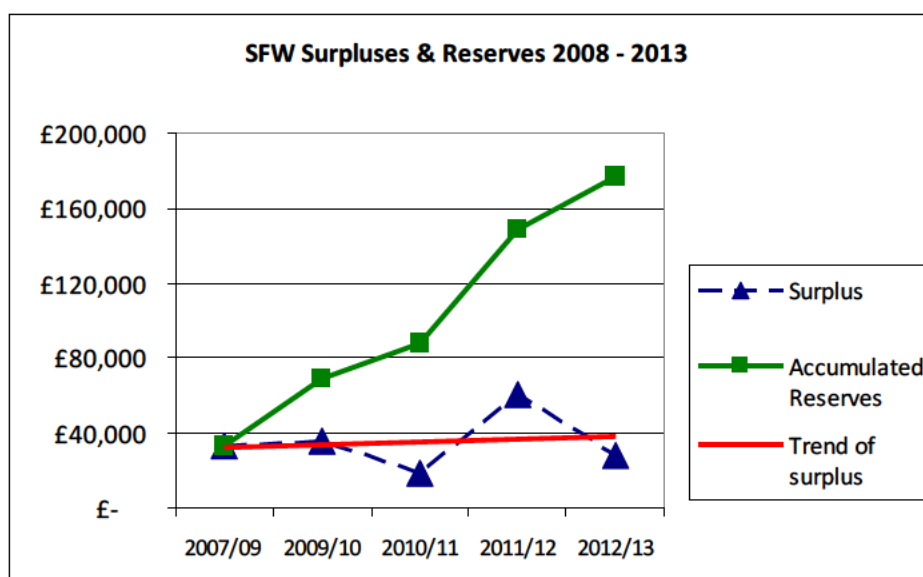
One of the consequences of increasing the amount of consultancy income in recent years has been that Social Firms Wales has begun to accumulate significant surpluses each year that, by the end of the current financial year (March 2013), are expected to amount to some £177,000. In the Social Firms Wales Audited accounts, the surpluses and reserves are correctly identified, not as profit but, as Designated Development Funds.

The pattern of surpluses and accumulated reserves can be illustrated in the following figure:

<sup>12</sup> National Offender Management Service – Working Links



**Figure 4. Social Firms Wales Surpluses & Reserves 2008 - 2013**



As may be noted, the trend line of surplus places Social Firms Wales at between £30,000 and £40,000 of surplus in each of the years under consideration.

Clearly, the Board and management of Social Firms Wales should be commended for its stewardship in a period of financial and economic constraint. However, it is paramount that the reserves are indeed designated for future development of the purposes and work of the organisation. This is particularly the case where the main platform for the funding of the organisation has been through a public grant award.

We are aware that the Social Firms Wales Board has quite recently discussed the issue of proper designation of the surpluses as evidenced by the following extract from Board Minutes in October 2011.

*“from a Central Government perspective strong reserves are seen as a positive, and reflects how a company is preserved when procuring work from them.*

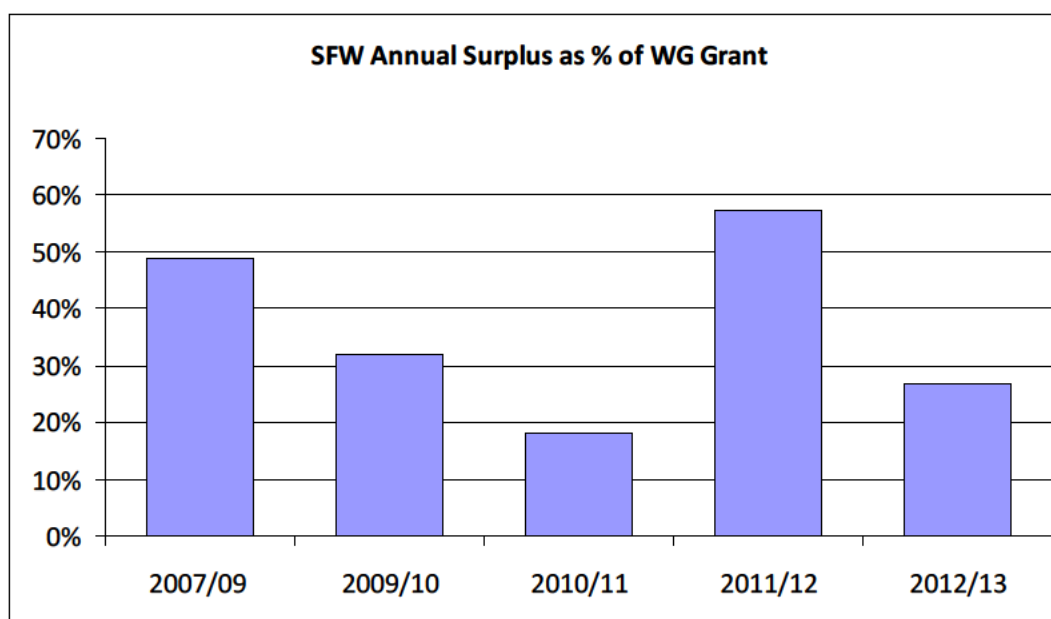
*Action: The Reserves Policy to be re-visited and refreshed if appropriate.”<sup>13</sup>*

On an annual basis, the extent to which a surplus has been produced when compared to the amount of the Welsh Government core funding grant award emphasises the sensitivity of this issue.

<sup>13</sup> Extract from Social Firms Wales Board Minutes 26<sup>th</sup> October 2011



**Figure 5. SFW annual surplus as a % of Welsh Government grant award**



On average, over the funding period, just over 30% of the Welsh Government Grant has accumulated as a surplus for Social Firms Wales future developments and activities. ***It is important that this point should not be misinterpreted.***

Creating a sustainable and independent social enterprise infrastructure support organisation is an important objective of Welsh Government policy and priority in this area. The objectives set for Social Firms Wales over the past two years in particular have sought action from Social Firms Wales to seek additional, independent income streams from non-core funded work and projects; an objective which, clearly, Social Firms Wales has taken considerable steps toward achieving. It would therefore be perverse, if any concerns or misreading of the accumulated reserves should be held against the organisation. Rather, it should be a matter of good practice and transparency in the management of public funds that the policy adopted by the Social Firms Wales Board towards the treatment and designation of surpluses and reserves should be discussed and acknowledged by Welsh Government as part of any future core funding discussions.

The role of potential membership fees is supporting organisational sustainability for Social Firms Wales is a second main area to explore under the heading of 'economy. As described earlier in the review (section 2.1), Social Firms Wales recruits members from a range of different categories. At July 2012, there were a total of 76 members consisting of 44 Full members; 6 Public Sector members; 24 Associate members and 2 corporate members. However, no fees are levied for membership of Social Firms Wales with the value of members to Social Firms Wales being described as: *"The value of the membership is not in the £'s but the members themselves."*<sup>14</sup>

Social Firms Wales originally levied membership fees but, according to the Chief Executive the Board *"didn't feel comfortable that the product on offer was strong enough"*, which is mostly due to a perceived bias towards a policy focus in the overall UK context rather than the specifics of the Welsh environment.

<sup>14</sup> Business Development Plan 2012 – 2015, Social Firms Wales, July 2012

By comparison, Social Firms UK and Social Firms Scotland both make a charge for membership at around £90 - £135 per annum. In addition to general member benefits, it appears that Social Firms Scotland also provide some limited hours of support within the price of the membership (priced at £50 to non-members) and SF UK provide a feasibility toolkit to members that is otherwise charged at £90 to non-members. (See Annex 5)

Given the likely number of members available to Social Firms Wales and the comparatively small size of a competitive membership fee, the policy adopted by Social Firms Wales regarding non-charging results in foregone gross income of around some £10,000 per annum<sup>15</sup> at the most and possibly much less if the Social Firms Wales Board's view that the direct offer to members is not strong enough is accurate. It would also be the case that membership management and service provision would require additional staff resources and management attention resulting in a net loss to Social Firms Wales for the levying of fees. The net income foregone is therefore probably not material for this review.

## 3.2 Efficiency

Efficiency considers whether activities were delivered in line with expectations including, were the funded activities delivered in line with the plan; what additional activities were delivered; was the cost of delivery as expected and, how has efficiency been measured and monitored?

Social Firms Wales has had the benefit of a list of objectives and associated performance indicators and targets set out in the agreed Grant Award letter and schedules as described in section 2.2 above. The list of targets agreed with Welsh Government are summarised at Annex 3.

In Annex 4 Social Firms Wales's performance to date is shown alongside each of the current (2011–2013) performance indicators.

Welsh Government staff has closely monitored the performance and activities of Social Firms Wales in line with these indicators, receiving regular quarterly Monitoring reports and meeting with the Chief Executive on numerous occasions. We are also aware of discussions that have taken place between Social Firms Wales and Welsh Government as part of the regular monitoring meetings where the nature and detail of the targets and outcome indicators have been discussed.

In reviewing the performance of Social Firms Wales against the agreed targets and indicators, our conclusion is that there has been a strong level of achievement and progress made across most of the key areas of activity. Social Firms Wales has also consistently tried to report its activities against its targeted objectives and outcomes.

It is important to note however that the time taken to achieve a number of the most important targets, for example, relating to the establishment and creation of sustainable new social firms, makes it difficult to draw clear conclusions against some aspects of performance. Indeed, the number and range of contacts and results achieved by Social Firms Wales with potential and existing social firms is not regarded by Social Firms Wales as a prime indicator of its performance. This, it is argued, only measures activity and does not capture the learning and capacity development that takes place through contacts and early stage discussions even where it is decided that a new social firm is not an appropriate approach to take.

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<sup>15</sup> Assuming 100 members at an average of £100 per subscription.

The **1<sup>st</sup> Objective** was the establishment of social change partnerships, initially 2 in three years, and then an additional 1 in each of the next two years covered by the Grant awards (2008 – 13). The Monitoring Reports and Annual Reports provided by Social Firms Wales indicate that, to August 2012, 5 such social partnerships have been established in Denbighshire, Powys, Newport, Bridgend, Flintshire and work is in development in other areas thus exceeding the target.

Further successful achievement has been recorded against the **2<sup>nd</sup> Objective** of providing advice and support to a total of 11 social firms over the 5 year period of grant award. Here the Social Firms Wales Monitoring reports indicate that as many as 84 social firms have been advised to some degree. The emphasis placed by Social Firms Wales on the provision of in-depth support is illustrated by the 14 specific examples of in-depth support provided for social firms covering activities taking place across the geography and communities of Wales from Ynys Môn to Deeside and Pembrokeshire to Blaenau Gwent. This range and the extent of coverage across Wales is a demonstration of the success and sensitivity to the need to provide an all-Wales support service using Welsh Government Grant awards.

A number of the social firms reported under the Objective of support for established social firms are also highlighted as successes in achievement of the **3<sup>rd</sup> Objective**, to support the creation of up to 7 new social firms *“with potential to exist beyond initial funding period”*. An analysis of the Monitoring Reports again suggests that this objective and target has been exceeded with 9 social firms specifically noted in Monitoring Reports.

The **4<sup>th</sup> Objective** to *“Raise awareness of the Separation Mechanism process to organisations at the early stage of project development, highlighting and developing commercial element towards Social Firm status”* replaced an earlier, similar, objective that related to the notion of raising awareness of externalisation as an option for dealing with public service delivery and the opportunity to use social firms effectively in pursuit of externalisation. The changed concept of a separation model was initiated by Social Firms Wales as a way of focussing attention on the process of change and development of social firm opportunities rather than a focus on the desirability, or otherwise of externalisation of services as a mode of public service delivery. This, in itself, demonstrates a particular contribution made by Social Firms Wales in shaping and developing the debate and agenda around social firm development and opportunities in Wales.

Monitoring reports indicate that in the past 2½ years presentations concerning this topic were made on at least 18 occasions. However, as the public service reform agenda in Wales has developed, the focus of the Objective has developed into more detailed meetings with local authorities rather than achievement via presentations or campaigning. By July 2012, the Social Firms Wales Chief Executive was able to report that *“This objective forms part of many conversations and meetings and is fast becoming the norm in relation to all agreed delivery by Social Firms Wales.”*<sup>16</sup> In other words, an Objective set as a priority has now become mainstreamed.

**Objectives 5 and 6** relating to organisation of a high profile event and to the provision of policy advice at a strategic level respectively have been the most challenging against which to report. For example, holding an appropriate high profile Social Firms Wales Annual General Meeting with Ministerial presence and a high level of stakeholder attendance was continually delayed due to the circumstances of the host social firm. In addition, many of the

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<sup>16</sup> Monitoring Report July 2012

policy inputs made by Social Firms Wales have been at stakeholder meetings and events rather than through hard copy documents and formal policy inputs.

Taken on face value, the Monitoring reports would suggest that as a result of these delays and circumstances these objectives have not been met with the same degree of focus and clarity as others referred to above. However, in the interviews conducted for this review there was no negative impression reflected on the policy inputs made by Social Firms Wales from either Welsh Government officials or other partners and stakeholders.

Our investigations suggest this is probably due to two interlinked factors. Firstly, that the work of Social Firms Wales is seen by Welsh Government and other partners more in delivery and practical terms rather than in policy development terms – delivering action rather than words. Secondly, that the contributions made by the Social Firms Wales team and Board in real situations and at meetings where delicate issues are being considered (e.g. Remploi discussions) is such that the cumulative impression is of strategic input being made in real time.

The final Objective, **Objective 7**, for Social Firms Wales to lever in additional funding for work to promote and develop Social Firms and supported businesses in Wales, has also been met efficiently. As discussed in the previous section of this report, it is clear that following the 2011 Review, targets were set so that *“Earned income will help the organisation to take steps towards financial independence, and to develop greater cash reserves<sup>17</sup>.”* The level of achievement has been such that in 2011/12, earned income exceeded that provided via the Welsh Government Grant Award by some 10%.

As noted earlier, the focus here now needs to shift to taking transparent steps to the appropriate and prudent allocation of accumulated reserves for future developments.

A final measure of efficiency here is the extent to which the organisation has been able to take on and develop new or additional activities and initiatives.

In the case of Social Firms Wales, the extent of additional leveraged funding is a good indicator of the organisations resilience, enterprise and flexibility. Similarly, the development of those activities in previously non-core areas including working with ex-offenders and, more latterly, the development of a pilot project in working with women returning to the workforce following a period of full-time child care, are indicative of willingness and a capability to efficiently innovate and exploit opportunities.

We are also aware that because a number of non-Welsh Government funded projects undertaken by Social Firms Wales are sensitive and confidential, the Monitoring reports provided by Social Firms Wales under its Welsh Government Grant Award can only inform Welsh Government of the activity but cannot fully describe or discuss that activity. In many respects therefore the full scale of development of additional projects and activities may not be completely visible and transparent to Welsh Government although highly relevant to the overall objectives for the Welsh Government in providing a supportive environment to social enterprise infrastructure organisations in Wales.

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<sup>17</sup> Schedule to the Welsh Government Grant Award letter dated 15 May 2012

### 3.3 Effectiveness

Effectiveness focuses attention on outcomes such as, have the funded activities achieved the expected results or outcomes; what additional outcomes have been achieved, if any; and, how has effectiveness been maximised?

The responses to questions of effectiveness can overlap with those around efficiency. However, here we have taken into account the perceptions and responses that we received from our qualitative research obtained from the structured interviews with stakeholders, partners and Board members of Social Firms Wales as well the interviews with Welsh Government officers.

Firstly, the organisation is clearly and explicitly focussed on **delivery of services** to emerging and established social firms, the communities and groups that are served by the social firms and the partners and stakeholders that support them. The Chairman of Social Firms Wales, Martin Price was confident and clear on this point, *“The core funding goes towards delivering services to members”*

The effectiveness of this focus was confirmed by a review of the monitoring reports and performance indicators as well as from the comments of a number of interviewees. For example, a stakeholder representative interviewed saw Social Firms Wales as *“Very focused on the delivery of tangible outcomes, probably the most efficient in the sector (social enterprise) in this respect”*.

The relationship between social firms themselves and the local authorities that support and often instigate them is also a focus, the importance of which, Social Firms Wales articulates strongly.

A Social Firms Wales Board member described this as follows *“The main push has been on Local Authorities and public services targeting specifically the numerous day centres and developing opportunities for these to be much more productive and profitable.”*

This was further explained as meaning that one of the ways in which Social Firms Wales functions is to use the funding provided by Welsh Government as allowing Social Firms Wales the time and resource to interact with local authorities over a sometimes extended period of time. This was in fact implicitly accepted by a Welsh Government official who noted that Social Firms Wales’s meetings with Local Authorities and others were in effect about *“sowing the seeds”* and that it might take a long time to produce results because it often required Social Firms Wales to *“wait for the circumstances to be right”*.

Being effective in delivery of services also means that Social Firms Wales must achieve an appropriate balance between, on the one hand, providing free-of-charge support services to social firms and local authorities within the remit of its grant award from Welsh Government and, on the other hand, the objective of generating additional income from its services including by charging clients, who may be members (i.e. social firms), local authorities and others, for its services.

One Social Firms Wales Board member saw the logic here as, *“the core funding enables Social Firms Wales to deliver a basic level of work and to then build on that by taking services further”*. This can be expressed in terms of a classical market failure argument whereby the initial core funded activity overcomes a lack of information regarding the potential value of the support provided by Social Firms Wales and builds trust in the support on offer preparing the ground for more commercially focused interactions around the delivery of specific consultancy support.

Social Firms Wales's Chief Executive also described the balance here as being between helping and doing where helping implies the free support paid for by the grant award and doing being subject as far as possible to a consultancy charge. Achieving this balance effectively is further complicated by the fact that experience has shown that deciding *"when and how to let go of clients"* has been a key challenge and learning point for Social Firms Wales since if Social Firms Wales stays too involved for too long the client never has space to develop.

The example of current support provided to Monwel Signs with Blaenau Gwent Council was cited by the Social Firms Wales Chief Executive. Here, Social Firms Wales is moving out of the intense support phase and trying to allow the client the challenge and experience of dealing with decisions themselves while still being able to call on Social Firms Wales input if required.

Through our review, we are aware that Welsh Government has recently pressed Social Firms Wales regarding its strategic role and the effect of its scale on the organisation's ability to maximise its strategic and delivery impact.

Social Firms Wales has, in recent years, extended its activities in all parts of Wales and has made particular efforts to improve and extend its work in North Wales. More generally however, scale and strategic impact is, for Social Firms Wales, a matter of not over-promising but maintaining realistic expectations.

Social Firms Wales's Chair is clear on this, *"Social Firms Wales has a small number of members only and always will have, because establishing a social firm is quite a difficult thing to do and it takes a long time."* A factor of which Welsh Government officials are also cognisant - in the words of a Welsh Government official, *"they work with a client group that is furthest away from the labour market on long-term projects"*.

Its small scale is, in many respects, seen as a positive in terms of the effectiveness of Social Firms Wales's work. For example, one social enterprise stakeholder described Social Firms Wales's effectiveness as follows: *"Social Firms Wales has a clear niche, it is well articulated ..... the organisation is punching above its weight."*

A Welsh Government official interviewed noted that, *"For Social Firms Wales, its small size has been a challenge but they turned this into a positive strength by demonstrating how to be 'lean'"* and another stakeholder noted that *"they won't take on too much so that they can deliver what they say they will."*

Our conclusion here is that while growth is a possibility for Social Firms Wales, it also carries a significant risk because of the intensity of the inputs required in working with social firms. Each new social firm requires a significant degree of start up work and support and it is a key requirement that Social Firms Wales should not disengage itself too quickly or completely since the individuals working within the social firms are, by definition, vulnerable and disadvantaged and would face additional risks if the social firm failed.

Social Firms Wales are clear that to be successful they have to work with organisations that have the greatest chances of success rather than spend scarce resources and energies raising unrealistic and unwarranted expectations in all cases referred to them.

Secondly, in its **policy development and policy input** role, Social Firms Wales does not play a wholly conventional role in its representation, policy engagement and inputs favouring a more technocratic and practical input around real issues and contexts that makes tangible differences to Social Firms and their organisations of origin (typically, Local Authorities).

For Social Firms Wales, its policy audiences are by and large ‘cross cutting’ with the need to have a succession of dialogues with different departments of Welsh Government and local authorities rather than a sole focus on the activities of its sponsor department. However, Social Firms Wales also views the relationship with BETS, and the regular monitoring meetings, as a useful way of discussing and ‘testing’ fresh ideas and thinking on market opportunities that are arising recognising that Social Firms Wales needs to be flexible and that the Welsh Governments needs, ideas and views are important.

Partly because of its clear niche and focus on delivering its services within tangible projects and outcomes, Social Firms Wales appears to have developed a reputation as a constructive and useful voice within some challenging policy areas including social care settings, child care, plant closures (e.g. Remploy) and work with ex-offenders. The Board sees this work as linking Social Firms Wales’s active engagement with live social firm projects and regular contacts with a range of policy departments and discussions with Welsh Government departments and then leveraging the Social Firms Wales team’s knowledge and experience to provide linkages, practical responses and ideas for action and interventions.

Given its scale, ‘lean’ management and delivery structure, the delivery of the policy development and policy inputs can only be achieved because of the active involvement and contribution of all Board members in delivery for Social Firms Wales and in engagement with stakeholders and partners. In this respect, the Board philosophy and input provides a significant boost to the impact and efficiency of the organisation.

At the same time however, there is a danger that current over-delivery by Social Firms Wales could become regarded as the norm and that, as a consequence, greater and, potentially, excessive levels of expectations are placed in the organisation. As difficult cases and situations arise and require action, there may be a danger that they will be transferred to Social Firms Wales rather than to potentially more appropriate departments and organisations in the expectation that Social Firms Wales will extend itself in order to not disappoint.

Thirdly, Social Firms Wales approaches its role as a **promoter of strategic involvement** in social firms primarily through demonstrating and accompanying the discussions and debates that typically may take place amongst groups and partners as the concept of a social firm solution is being considered and developed. In achieving this strategic development role, Social Firms Wales places great importance on its role in establishing and maintaining communication and collaboration amongst those surrounding the establishment and development of social firms.

The evidence that we have been able to gather in this review suggests that Social Firms Wales’s role in collaborations appears to be very harmonious, in spite of the fact that there are, inevitably, some overlaps with other bodies such as WCVA, Wales Coop Centre, DTAW and WSEC.

One stakeholder and partner described Social Firms Wales’s Chief Executive as *“a very cooperative person who builds consensus and partnerships”*; another partner noted that *“they (Social Firms Wales) are very effective in interfacing with other agencies and contributing the very specific expertise around externalisation projects to such activities.”*

In particular Social Firms Wales is effective in leveraging their focused engagement around specific social firm projects to embed new thinking and approaches in Local Authorities and those responsible for planning and delivering services for vulnerable groups. As a result, Social Firms Wales service provision intrinsically contributes to strategic development and is directly linked to policy development at Local Authority level. As a result the delivery of

direct support indirectly contributes to shaping the policy environment for social firms and thereby adds to the overall effectiveness of Social Firms Wales.

While this approach certainly seems to be effective it is also limited by the scale of activity that Social Firms Wales is able to achieve within its current model of operation. While there are clearly areas where Social Firms Wales could further increase its effectiveness particularly with regard to direct inputs into the work of the Welsh Government, this would require additional resources being made available and more explicit setting of objectives by Welsh Government.

For example, it could play a stronger role in the development of innovative solutions to delivering public service priorities including by working even more closely with social finance sources such as Charity Bank, Unity Bank, credit unions, charities, co-ops and social enterprises. Furthermore, the practical and experienced input of Social Firms Wales could be used to good effect in discussions with local authorities and other public service deliverers where innovative approaches to procurement using social clauses and community benefit clauses that would widen access of social firms (and social enterprise more generally) is needed<sup>18</sup>. Therefore while such exchanges take place to some extent, Social Firms Wales might play a more explicit role in developing generic social firm business models in different sectors and taking a more active role in integrating these in the relevant Welsh Government policies and agendas.

Finally, we have considered the evidence in respect of each of the important aspect of **the voice that Social Firms Wales provides to the needs and challenges facing the social firm sector in Wales.**

We have looked at this by seeking views and evidence on the way in which Social Firms Wales is able to capture, firstly, the voice of its 'customers'; secondly, the extent to which Social Firms Wales provides Welsh Government and other stakeholders with a voice that is authoritative and worth listening to; and, finally, the extent to which the voice of Social Firms Wales is well regarded.

Although Social Firms Wales does not have a strong membership base and has taken clear decisions on how best to handle this issue we were impressed with the extent to which this approach seems to have captured support from stakeholders, partners and members.

For example, one stakeholder remarked that they *"have seen the Social Firms Wales AGM and has seen how they get the members 'voice'."* And that as a result *"Social Firms Wales provides both a voice and development support"*

Also, a case study commentator commented to us that in the case in hand, *'Everybody trusted Social Firms Wales.'* and the success of the process was, to a significant degree because, *"Social Firms Wales's credibility as an organisation was key"*

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<sup>18</sup> See for example, "Social Enterprise in the service of the public", Wales Cooperative Centre report 2011



## 4. Conclusions on the value for money achieved

Based on the evidence and analysis set out in section 3 above, we conclude that in overall terms that Social Firms Wales has provided a good level of value for money that Welsh Government could have reasonably expected from its financial and other support over the period 2008 to 2012/13.

We would again draw attention to the fact that we have not conducted a financial audit of the organisation nor have we carried out any accounting tests. Our focus has been in assessing value for money based on the UK Treasury guidance that advises an assessment of *'the whole life cost and quality to meet the user's requirements'*

Our reasoning can be summarised as follows:

1. Welsh Government' intervention is as budgeted in the three Grant Award letters covering this period, i.e. a total of almost £500,000 (£499,973) over the 5 year period from 2008 to 2013.
2. There has been a strong level of achievement and progress made across most of the key areas of activity.
3. The Welsh Government has regularly monitored the progress of expenditures against budget throughout the period since the Grant Award.
4. Social Firms Wales has created an operating model that uses a small core team of full time staff supported by a team of part time external staff that is not contracted but is available on a call-off basis. This model allows Social Firms Wales to manage their cost base while obtaining access to a range of required skills and experience and geographic coverage
5. The Board's philosophy and input provides a significant boost to the impact and efficiency of the organisation and it is only because of its active involvement and contribution of all Board members, 'lean' management and focussed delivery that policy development and policy inputs can be achieved.
6. Social Firms Wales does not play a wholly conventional role in its representation, policy engagement and inputs favouring a more technocratic and practical input around real issues and contexts that makes tangible differences to Social Firms and their organisations of origin (typically Local Authorities).
7. Social Firms Wales places great importance on its role in establishing and maintaining communication and collaboration amongst those surrounding the establishment and development of social firms and the evidence suggests that Social Firms Wales's role in collaborations makes for 'harmonious' interactions.
8. Social Firms Wales has, in recent years, extended its activities in all parts of Wales and has made particular efforts to improve and extend its work in North Wales.
9. A key objective has been to increase consultancy income so as to reduce dependency on Welsh Government funding. The accounts of Social Firms Wales indicate considerable success in addressing this objective with a trend-line of surpluses over the period of between £30,000 and £40,000 per annum.
10. The policy adopted by Social Firms Wales regarding non-charging of membership fees results in foregone gross income of around some £10,000 per annum and is therefore probably not material.
11. While growth is a possibility for Social Firms Wales, it is also carries a significant risk because of the intensity of the inputs required in working with social firms.

For these main reasons therefore, overall, we conclude that Social Firms Wales has provided the value for money that Welsh Government could have reasonably expected.

## 5. Recommendations

As part of our agreed scope of work with Welsh Government, we are asked to review the supported organisations' fit with Welsh Government policy and strategic objectives for the future and, where appropriate to make recommendations regarding further Welsh Government support for the organisations concerned.

The Social Enterprise 'agenda' in Wales has developed in recent years particularly around the role of social enterprise in public service delivery arenas. At the same time the employment opportunities for those individuals with a high social disadvantage including people with disabilities, mental health issues and ex-offenders are restricted particularly so in a period of recession and economic downturn. While social enterprise offers one way of redressing some of these disadvantages and inequalities, for those who are furthest from the conventional labour market, additional complex issues have to be dealt with and needs addressed.

The whole purpose of a social firm is to provide an economically and socially sustainable workplace environment where those most at disadvantage in the labour market can be employed, skilled and supported. Based on the evidence gathered in this review, we believe that the long term engagement of Social Firms Wales is an important factor in ensuring that the confidence and independence of the social firm managers and workforce can be established and maintained.

In addressing these issues and needs, the work of Social Firms Wales therefore remains pivotal as described in its mission statement,

***"To grow the Social Firm sector in order to increase employment opportunities for people with disabilities, mental health problems, ex-offenders and people recovering from substance misuse and to help combat homelessness across Wales."***<sup>19</sup>

On this basis we conclude that the work of Social Firms Wales remains highly relevant to the policy and strategy objectives of Welsh Government and that a commitment to at least three years funding support is necessary to allow the long term engagement required by social firms to be assured and the current momentum of development discussions with local authorities and others regarding potential social firms to be secured.

In reaching this conclusion we note that the work carried out by Social Firms Wales with a range of partner and client organisations involved in the potential and actual establishment of social firms is, by necessity, rather more intense and long term than that undertaken when mainstream business support organisations work with entrepreneurs and owner-managers to advise on the establishment of a micro business or an SME.

**We recommend that the Welsh Government should continue to provide core funding to Social Firms Wales for a further 3 year period to March 2016.**

Although its relatively small scale may, in some lights, be seen as a disadvantage, the work undertaken by Social Firms Wales is critical to the identification, nurturing and exploitation of specific opportunities through the creation and sustaining of social firms.

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<sup>19</sup> Business Development Plan 2012 – 2015, Social Firms Wales, July 2012

In addition, the work of Social Firms Wales may also be seen as contributing in significant ways to the willingness and confidence of stakeholders and partners to pursue social firm opportunities in the externalisation of some appropriate public services and their willingness to engage in consideration of a social firm solution.

**We recommend that in agreeing future objectives and targeted outcomes from its core funding award, the Welsh Government should continue to emphasise the promotion of social firms as a potential form in the context of the externalisation of public services and, further, Social Firms Wales should continue to support the creation of new social firms and promote the sustainability of new social firms.**

It will be important that opportunities for Social Firms Wales to pursue income generation opportunities external to Welsh Government core grant awards can continue, but these should not detract from the core social firm support and service delivery undertaken by Social Firms Wales. While we have not detected specific areas where this has taken place, as Social Firms Wales becomes more active across a range of service delivery areas, it will be important that there is transparency and clarity on lines of demarcation within Social Firms Wales budgets and resource use. The developing role of Social Firms Wales in providing development support and delivery models and services in specific areas of need, for example, childcare services and support for ex-offenders, needs to be carefully managed by Social Firms Wales and monitored by Welsh Government.

Similarly, it will be important that Social Firms Wales's reputation as a reliable deliverer and strategic partner across a range of domains does not lead to Social Firms Wales becoming a first port of call for the Welsh Government for too diverse a range of pilot activities and development work that may ultimately lead to 'mission drift'.

**We therefore recommend that Welsh Government should continue to closely and regularly monitor the work and outcomes of Social Firms Wales taking into account the need for clarity between the core deliverables expected of Social Firms Wales by Welsh Government and the additional, external projects that may be undertaken by Social Firms Wales including those requested from departments of Welsh Government but not covered by the core funding award and targets.**

As noted in the review, the achievement of additional income generation by Social Firms Wales has, over the recent period led to a significant increase in the accumulated development reserves potentially available to Social Firms Wales for allocation. It is important, given the recommendation above that Welsh Government should seek clarity regarding the policy and intentions of Social Firms Wales and its Board regarding the allocation of accumulated development reserves.

**We recommend that at each annual review with Social Firms Wales, Welsh Government should seek clarity that the Board of Social Firms Wales has discussed and adopted a policy statement that adequately sets out its intentions for the future use of accumulated reserves declared in the preceding years audited annual accounts.**

Finally, while we recognise the strategic development and policy input role played by Social Firms Wales through its 'hands on' approach to tangible projects and cases, we also conclude that to maximise its efficiency and effectiveness this approach would require Social Firms Wales to be able to operate at an increased scale in order to reach a larger cross-section of relevant stakeholders. Against this however, the funding of a growth in the scale of direct support services via Social Firms Wales would imply that alternative commissioning or procurement routes should be considered by Welsh Government especially in the context of the current position of accumulated development reserves.

For Welsh Government, as well as for Social Firms Wales, there are however a number of risks going forward.

On the one hand, as noted above, we conclude that the intense and careful support provided to embryonic and newly established social firms by Social Firms Wales is, in our experience, unlikely to be available from more conventional mainstream business support providers currently operating within Wales. However, as the Welsh 'market' around social firms and social enterprises continues to develop (promoted, to a large part, by Social Firms Wales), it is feasible that providers from other areas of the UK could also be capable of delivering support services within Wales.

Notwithstanding this future possibility, at this point in time, we do not believe that there is sufficient evidence, in Wales, of a scale of activity in social firms' creation and development that would justify an open procurement process. Further, to attempt to accelerate that process would risk damage to the momentum that Welsh Government has helped to engender amongst local authorities and others to see social firms as a viable and interesting alternative in reaching their externalisation and social and community objectives.

While, over the next three years, a procurement of social firms support services in Wales could be feasible; at this point in time, we do not believe that there is sufficient evidence, in Wales, of a scale of activity in social firms' creation and development that would justify an open procurement process. Given the relatively long time lag from initial discussions with stakeholders and possible managers to the creation of social firms, we believe that it is appropriate to allow both Social Firms Wales and their members and partners in Wales a longer lead-in period to prepare for a market testing or procurement exercise than would be the case, for example, with a mainstream business support service.

Given the strong value for money currently achieved and the mitigating reasons noted above, we do not consider this to be a current or urgent matter and would recommend that a market testing or procurement exercise should not be considered until the final quarter of 2014/15 with a view, if so decided, to take effect no earlier than April 2016.

**We therefore recommend that the Welsh Government should, before the end of the next funding period, examine the case for market testing, or procuring by competition, direct support services for social firm development and support in Wales.**

## **Annex 1: Interviews conducted**

### **Welsh Government officials**

- Duncan Hamer
- Karyn Pittick
- Iain Willox

### **Social Firms Wales Board members**

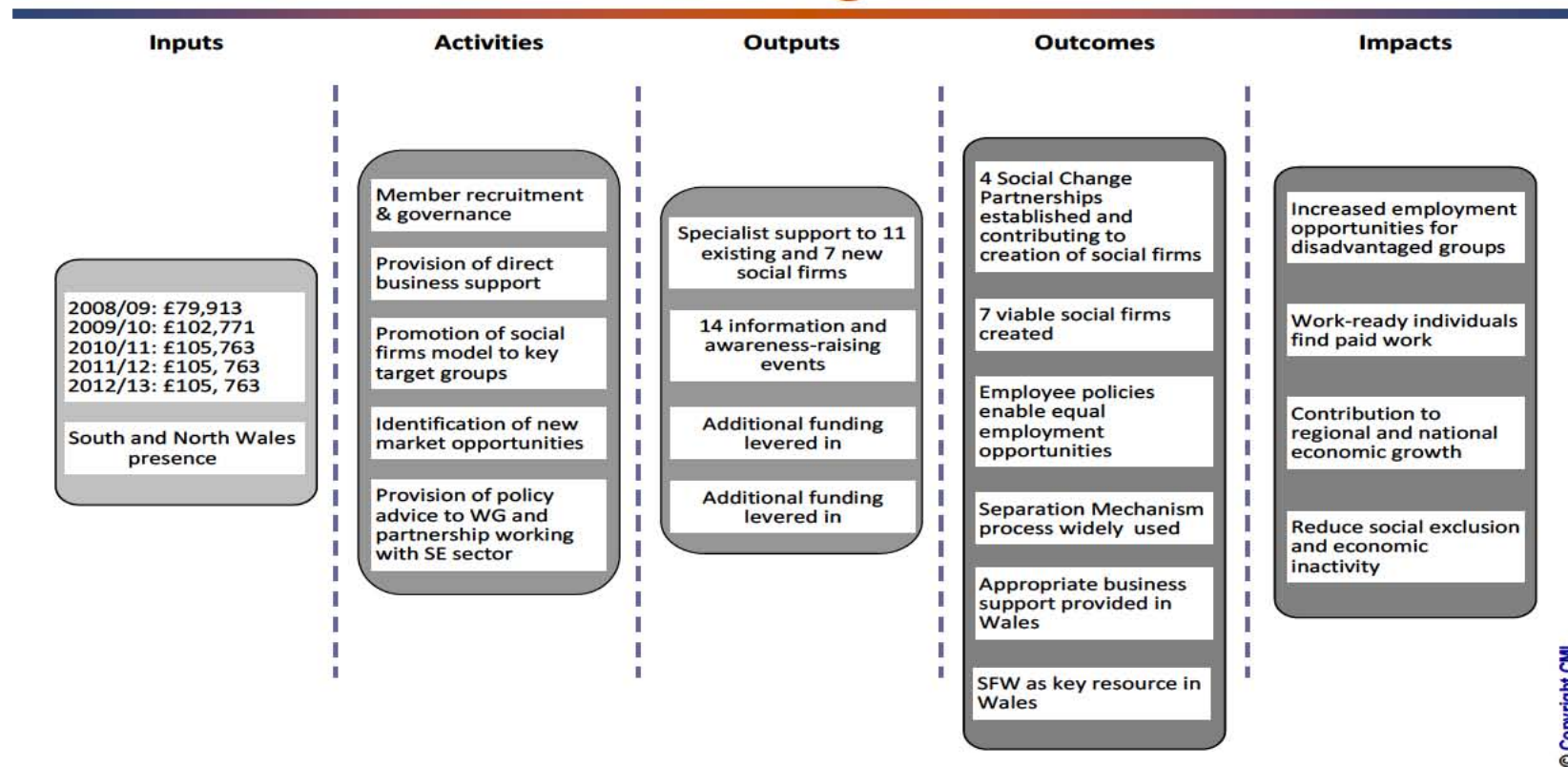
- Martin Price, Chair Social Firms Wales
- San Leonard, CEO, Social Firms Wales
- Rosie Cribb, Board Member, Social Firms Wales
- Lorraine Powers, Board member, Social Firms Wales

### **Other stakeholders**

- Elwyn James, Arts Factory & DTAW Chair
- Jane Lee, WLGA
- Geoff Jones, WCVA
- Derek Walker, Director, Wales Cooperative Centre
- Mark White, Charity Bank
- Gareth Jones, Chief Regeneration Officer Blaenau Gwent County Council
- Jacqui Vaughan Jones, Flintshire Council

## Annex 2: Social Firms Wales – a logic model

### Social Firms Wales – a logic model



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## Annex 3: Welsh Government purposes of SFW core funding grant support – 2012/2013

Objectives	Outcomes
<b>1st Objective:</b> Develop an additional Social Change Partnership in a Local Authority area, and maintain existing partnerships.	<b>1st Outcome:</b> Bring together managed supportive cross-sector partnerships that supports community and economic development – Secondary outcome is that the partnership framework acts as a brokering portal where all community opportunities can be linked and utilised.
<b>2nd Objective:</b> Support the development of an emerging Social Firm / Supported Business, and continue to support those already created.	<b>2nd Outcome:</b> Social Firms following a structured Social Firm development process to implementation stage and beyond.
<b>3rd Objective:</b> One Social Firm / Supported Business created with long-term prospects of sustainability.	<b>3rd Outcome:</b> Commercially viable company developed with potential to exist beyond initial funding period.
<b>4th Objective:</b> Raise awareness of the Separation Mechanism process to organisations at the early stage of project development, highlighting and developing commercial element towards Social Firm status.	<b>4th Outcome:</b> Focused approach to Social Firm development and establishment, providing minimum disruption for social project activity.
<b>5th Objective:</b> Hold 1 pan Wales event to bring together members of Social Firms Wales, those interested in Social Firms and social enterprise, national partners, business support organisations and the private sector to share knowledge, opportunities, challenges and best practice	<b>5th Outcome:</b> Understanding the needs and demands from all aspects of the sector, that will inform on-going delivery of business support for continued growth of the Social Firm movement and the broader social enterprise sector.
<b>6<sup>th</sup> Objective:</b> Social Firms Wales will participate in, and contribute to, the provision of policy advice at a strategic level and, where it feels it proper to do so, support the Welsh Assembly Government to achieve its policy objectives that relate to Social Firms.	<b>6<sup>th</sup> Outcome:</b> Social Firms Wales use its experience and expertise in the field of Social Firms to add value to the related work of the Welsh Assembly Government, WLGA and Third Sector in Wales.
<b>7<sup>th</sup> Objective:</b> Social Firms Wales will lever in additional funding for work to promote and develop Social Firms/Supported Businesses in Wales.	<b>7<sup>th</sup> Outcome:</b> Earned income will help the organisation to take steps towards financial independence, and to develop greater cash reserves.

*Source: Welsh Government Grant Award letter 15 May 2012*



## Annex 4: Social Firms Wales Key Actions, Target Outcomes and Achievements

Key Action	Targets Outcomes 2008-13	Achievements to August 2012
<b>1. Develop 4 social change partnerships in four local authority areas;</b>		
	<p>Bring together managed supportive cross-sector partnerships that supports community and economic development</p> <p>Secondary outcome is that the partnership framework acts as a brokering portal where all community opportunities can be linked and utilised.</p>	<p>Social change partnerships established in Denbighshire, Powys, Newport, Bridgend, Flintshire, with work in development in other areas</p>
<b>2. Support the development of 11 social firms/supported business in Wales;</b>		
	<p>Social Firms following a structured Social Firm development process to implementation stage and beyond.</p>	<p>Business advice and support has been provided to approx. 84 social firms or emerging social firms. Notable clients include:</p> <ul style="list-style-type: none"> <li>■ Beacons Creative</li> <li>■ PAck-IT Hereford</li> <li>■ Your Pets Warehouse</li> <li>■ The Deetex project</li> <li>■ not Just Nuts</li> <li>■ Park View Cafe</li> <li>■ Greenshoots Event catering</li> <li>■ Meadow Mill CIC</li> <li>■ Gegin Fach Barista</li> <li>■ Powys County Council</li> <li>■ Rhondda Life</li> </ul>



- B-Leaf
- Wood-B
- Monwel Signs & Services

### 3. Create 7 social firms/businesses with long term prospects;

Commercially viable company developed with potential to exist beyond initial funding period.

Monitoring reports highlights as follows:

- Gegin Fach Barista
- Deetex
- Your Pets Warehouse
- Beacons Creative
- Double Click Design and Print
- PAck-IT Hereford
- not Just Nuts
- Park View Cafe
- Greenshoots Event catering

### 4. Raise awareness of the Separation Mechanism process to organisations at the early stage of project development, highlighting and developing commercial element towards Social Firm status.

Focused approach to Social Firm development and establishment, providing minimum disruption for social project activity.

Presentations made on at least 18 occasions in 2010 – 2012 with focus shifting to detailed meetings with local authorities as the public service reform agenda in Wales has developed.

*"This objective forms part of many conversations and meetings and is fast becoming the norm in relation to all agreed delivery by Social Firms Wales."*

July 2012

### 5. Hold 1 pan Wales event to bring together members of Social Firms Wales, those interested in Social Firms and social enterprise, national partners, business support organisations and the private sector to share knowledge, opportunities, challenges and best practice

Understanding the needs and demands from all aspects of the sector, that will inform on-going delivery of business support for continued growth of the Social Firm movement and the broader social enterprise sector.

Main events have consisted of:

- AGM event with Minister attending held in July 2012
- CEO participation in other social enterprise focussed events

**6. Social Firms Wales will participate in, and contribute to, the provision of policy advice at a strategic level and, where it feels it proper to do so, support the Welsh Assembly Government to achieve its policy objectives that relate to Social Firms.**

Social Firms Wales use its experience and expertise in the field of Social Firms to add value to the related work of the Welsh Assembly Government, WLGA and Third Sector in Wales.

**Sample of engagements from 2010 - 2012**

- Welsh Government Monitoring Meeting
- Social Firms 3-nations meetings
- Welsh Social Enterprise Coalition
- Partnering Probation, Forging Ahead - Wales Probation Trust Workshop
- Social Investment Round Table Meeting – Big Lottery Fund (BIG)
- WINSENT (Wales Ireland Network for Social Entrepreneurship)
- “Catch the Wave” – WINSENT Conference Dublin
- SEEN3 (Social Economy and Enterprise Network, 3rd Sector, Borough of Bridgend)

**7. Social Firms Wales will lever in additional funding for work to promote and develop Social Firms/Supported Businesses in Wales.**

Earned income will help the organisation to take steps towards financial independence, and to develop greater cash reserves.

Additional funding levered in 2010-11    £29,637

Additional funding levered in 2011-12    £119,723

Consultancy income grown from 17% in 2009/10 to 52% in 2011/12

## Annex 5: Social Firms Scotland and Social Firms UK: activities and issues

### Social Firms Scotland

Interview conducted with Pauline Graham CEO

#### Establishment

SFS have 3 FT core staff and 1.5 staff directly allocated to the Acquiring Business for Good Project (Big Lottery Funded) which ends in December 2012 (June 2012 for new applications).

Turnover is in the range £150-200K per annum. SFS main funders are Scottish Government (Third Sector Division) and Big Lottery.

SFS are in the second year of a joint work plan with Social Enterprise Scotland and Senscot – in other words, they are sub-funded for some activities by other social enterprise organisations

#### Membership

Membership is broadly stable at 69 members. SF members pay £90pa (50% income from trading, 25% workforce severely disadvantaged) and Associate members £130pa

Members are given free access to Social Firms Scotland's business support services, free access to Social Firms UK's business planning tools / scorecards (which are normally £50-90) and are listed in the directory/map on the Social Firms Scotland website. Members are part of a network, receiving bulletins, visits and occasional publicity through the SFS team's core work.

#### Services

Core offer is:

- Information
- Advice
- Direct support to members
- Policy work
- Communications

SFS estimate that they receive and handle about 150 enquiries a year.

**Just Enterprise** - unlike a lot of organisations they are still able to offer business development support which is valued by members. They do not have a standard package but provide a small amount of support under the Just Enterprise programme (which offers 8 days to a social enterprise) for the Scottish Government as a sub-contractor to CEIS<sup>20</sup>.

**Acquiring Business for Good** was funded by BIG but funding ended in June 2012.

The "Acquiring Business for Good" programme was set up to get social firms to buy successful private sector companies and turn them into social firms. Over 4 years SFS have supported (to varying degrees) 50 organisations and there have been 9 deals. Only 2 of these involved private sector 'conversions' the others have been third sector organisations wanting to become social firms.

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<sup>20</sup> An organisation focussed on community and enterprise in Scotland with a 25 year track record

4 potential private sector deals were 'aborted' on the way. A number of unexpected benefits included pro bono support from lawyers and accountants who wanted to pick up long-term business in this area.

SFS want to mainstream this programme and are currently discussing a continuation with Scottish Government Third Sector Division.

## **Social Firms UK**

### **1. Directory**

Social Firms UK run the 'Just Buy' directory for services and tenders supplied by social firms. They see Just Buy as being an increasingly important part of their work as it become more useful as a resource. They are looking to expand users to more private and public bodies looking to purchase from social firms (rather than within the sector). As it is used more they are hoping to be able to exploit it more as a practical tool – for example it is being use as the platform for their work recruiting consortia to bid for NOMS funding (see below)

### **2. Business support services**

Social Firms UK recently changed its focus to work with all WISE's (of whom Social Firms is a subset). Services are for members only and include: support and advice on attaining and retaining the Star Social Firm quality standard; and brokering to private individuals who have finance, marketing, HR or business development skills which they are willing to bring to Social Firm boards on a voluntary basis.

The support given tends to involve visits or (increasingly commonly) telephone calls by Michele (CEO) or Di (Service Coordinator) to provide direct support/advice. They also signpost people to other (affordable) external support and provide Social Firms UK's support resources (eg toolkits).

Some members, especially start ups, look for "quite a bit of support" from Social Firms UK. Increasingly it is a problem to spend too long working with a small number of people as their turnover is getting smaller and too much time cannot be spent with a small number of members: "we have to more careful about how much time we spend with some people."

### **3. Working with overseas policy makers / practitioners**

Social Firms UK occasionally arrange 'best practice' visits to WISEs in the UK – *"these days the sort of people that ask for it are coming from overseas."* They tend to be interested in practice in social firms in the UK. Recent examples include (Swedes, Norwegians and Australians). This has remained a big part of Social Firms UK's work in the last few years. "We [the UK] are a bit of a world leader."

### **4. Toolkits**

Social Firms UK developed and sell business planning tools / scorecards (which are normally £50-90).

### **5. Intermediary for NOMs More than the Sum Programme bids.**

Social Firms UK (through the Just Buy) website is acting as an information hub and broker for this NOMs programme aimed at supporting the creation of enterprise based consortia. The role is to try to bring potential partners together to submit bids (the NOMs funding will be allocated to successful bidders in Dec 2012).

**Membership offer:**

Full members (ie WISEs) £135pa - Associate members £135pa

Membership income represents a small proportion of Social Firm UK's income - 5-10%.

Members are given: free access to Social Firms UK's business support services, free access to Social Firms UK's business planning tools / scorecards) and are listed in the Just Buy website directory.

**Funders and funders needs:**

Core funded through the Strategic Partners Transition Fund programme in OCS (Cabinet Office).

In (and before) 2010/11 Social Firms UK received around £125,000pa from the Strategic Partners Programme. This programme is being phased out by 2014/15 and the Strategic Partners Transition Fund is slowing reducing the amount of funding year on year until then.

In 2011/12 Social Firms UK received a portion of £315,000 divided among five social enterprise support agencies for its core funding. This funding currently pays for aspects of Social Firm UK's core costs – there are annually agreed deliverables associated with the funding (eg around providing business support, a network, signposting, directory, support for international enquiries – “nothing out of the ordinary”) – they perceive that more is being expected of them with less money.

They also receive a small amount of additional grant income – while small this is increasingly important as Strategic Partner Core funding is reduced/removed.

Social Firm UK's main income source going forward is income from trading (contract delivery) – delivering commissioned/procured support services (eg NOMS work described above).

Cabinet Office is not the only aspect of Government that Social Firms UK is engaged with. Notable examples in central government include the Home Office (in which they were engaged around a volunteering project) and NOMS (who are generally engaged more than other departments around social enterprise).

Social Firms UK also work with Local Authorities both through by approaching them and being approached (they tend to use associates if they are approached). This work is mostly around influence LAs in terms of purchasing from social firms or working with Adult Services supporting them to move from using “supported employment” to social firms/WISEs.

## **Relationships between SFUK; SFS and SFW**

### **SFUK view of the relationship**

Social Firms UK and Social Firms Scotland and Social Firms Wales do meet up and have contact. They are aware of the need to avoid duplication (and overlapping memberships).

SFUK feels there remains a role for a UK (rather than England-only) body (one example is that overseas visitors don't understand the differences between the "4 nations").

A recent SFUK decision (2011 AGM) was made to directly recruit members in Wales, Scotland and Northern Ireland as well as England rather than recruiting via Social Firms Wales and Social Firms Scotland.

### **SFS View of the relationship:**

Across the UK, the national social firm's agencies don't meet regularly

SFUK is seen as wanting an adult/child relationship with others

SFS keeps in touch with SFW to exchange information rather than develop joint activities.

SFUK now only has 1 staff member

### **SFW view of the relationship**

Reasonable relationship overall but Scotland and Wales have argued that they should 'control' their own memberships rather than hand them over to the SFUK

SFUK have 'signed up' Welsh members with no reference to SFW

Chief Executive of SFUK has recently resigned

SFW Chief Executive sits on SFUK Board and has put a paper forward arguing for a 4-nations structure with a SFUK umbrella - SFUK could do policy leaving delivery to SF England