



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

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A Review of Welsh Assembly Government funded support for Social Enterprise Development

Research Summary

Social research

Number: 03/2011

The Department for Social Justice and Local Government (DSJLG) of the Welsh Assembly Government commissioned an independent review of funded support for Social Enterprise Development in Wales. The review was undertaken by Old Bell 3 Ltd.

The Welsh Assembly Government provides core funding for the **Development Trusts Association Wales, Social Firms Wales and the Wales Co-operative Centre** with the specific aim of developing and growing Wales' Social Enterprise Sector. The review's aim was to assess the suitability of the current core funding arrangements in supporting the growth and development of Social Enterprise.

Findings:

Rationale

The policy context in Wales, and in particular the Social Enterprise Action Plan (SEAP) provides a clear rationale for the Welsh Assembly Government's continued support to the social enterprise sector in Wales. There is also some logic in ensuring that specific niche organisations within the social economy are catered for in terms of targeted support and advocacy services, which may not be actively made available or taken up without government intervention.

It is also clear that social enterprises, regardless of their type or legal constitution are likely to become more important over the coming months and years as public sector organisations in Wales come to terms with the challenges of delivering services in an environment of budget cuts.

Dadansodi ar gyfer Polisi



Analysis for Policy

Social Firms Wales

Social firms make up a relatively small but developing niche within the Welsh social economy. The externalisation model being promoted and pursued by Social Firms Wales is logical and very relevant within the context of public sector spending constraints (and the pressures this brings on service delivery). It is equally relevant in addressing some of the tough employment challenges faced in Wales (particularly engaging those furthest away from the labour market) and the priorities outlined in the UK Government's proposals for Welfare to Work reforms. Increasing awareness of the externalisation model amongst public sector organisations in Wales (including its strengths and limitations) should be a key objective for Social Firms Wales and the Welsh Social Enterprise Coalition going forward.

This is not an area of work in which Social Firms Wales or the Welsh Assembly Government can expect quick wins, but the work of Social Firms Wales is helping to broaden awareness and understanding of

how this sector can contribute to the wider social economy in Wales.

Overall, Social Firms Wales has performed well against the activity and performance indicators outlined in its core funding contract. It is also commendable that Social Firms Wales is the only one of the three organisations subject to this review that has attempted to link its core funded activities with outcomes.

In comparison to other organisations and in particular Social Firms Scotland, the scope and scale of core funding provided to Social Firms Wales by the Welsh Assembly Government is reasonable and appropriate. However, it is important that Social Firms Wales re-doubles its efforts to generate additional consultancy income to be more in-line with its UK counterparts and in order to achieve a more balanced revenue portfolio. This would help to strengthen the organisation's credibility in Wales.

It is also clear that in England, Social Firms plays a more strategic, advocacy role in

informing policy and strategy developments. For Social Firms Wales, the focus in this respect needs to be on making the most of the new Welsh Social Enterprise Coalition so that the voice of the sector is clearly heard, without having to distract resources away from service delivery.

The overall economic impact of Social Firms Wales' work on the wider Welsh social economy is not easily quantifiable. In practice this has probably been positive, but given the relatively small scale of the activity, modest in relation to the social economy in Wales as a whole. That said, it is clear that the work undertaken by Social Firms Wales offers the potential for an evolutionary model in relation to public sector service delivery which also brings positive social and community impacts. Its focus on channeling support to help start new enterprises also fits with the objectives of the Economic Renewal Programme.

Our overall conclusion in respect of Social Firms Wales is that it offers the Welsh Assembly Government reasonably good value for money.

While the organisation could continue to exist with reduced core funding, albeit with reduced activity and outcomes, full withdrawal would very likely result in Social Firms Wales being wound up. We do not see that there is any logic in the Welsh Assembly Government withdrawing its core funding to Social Firms Wales at the end of March 2011.

Recommendation 1

We recommend that the Welsh Assembly Government should continue to core fund Social Firms Wales. The focus of its activity in relation to core funding should be on proactively promoting and developing the externalisation model and in supporting the creation of new social firms. As part of any new core funding agreement, the Welsh Assembly Government needs to incorporate an objective for Social Firms Wales to re-double its efforts in generating consultancy based income to a) be more in-line with its counterparts in other parts of the UK and b) establish a more balanced revenue portfolio for itself.

The Development Trusts Association

While the overall number of development trusts in Wales remains fairly low, they represent a strategically important part of the social economy in Wales. The importance of asset transfer projects is also likely to grow as public bodies are forced to consider alternative ways of delivering services and managing assets. The Welsh Assembly Government's commitment to developing and exploring asset transfer projects is clear from the establishment of the Community Asset Transfer Fund. It is also clear that at a UK level, the Government's Big Society Programme promotes asset transfer through its proposed right to buy scheme.

The added value of DTA Wales in developing this part of the social economy is in facilitating and enabling access to expertise through networking and contact between like-minded practitioners.

There is evidence to suggest that the support provided by DTA Wales

makes a difference to the professionalism and commercial outlook of development trusts. However the links between core funded activity and measureable outputs and outcomes are not particularly clear or strong. The DTA's overall performance in relation to core funding is also difficult to judge, though it seems that some key performance indicators (for example in relation to membership and health-checks) are unlikely to be met.

Attributing outputs and outcomes to activity is not helped by the fact that there are too many activities and key performance indicators which are not SMART enough in the DTA's core funding agreement. As a consequence, the cumulative activity and impact generated by core funding is unclear. This needs to be simplified and made more transparent so that the Welsh Assembly Government has a clearer understanding of precisely what it is getting for its money with the DTA in Wales.

The DTA's continued focus on the development trust niche is a key strength and its expertise and that

of the associates it can call on is undoubtedly valued by its members. However, there is scope for the DTA in Wales to become more ambitious while maintaining its unique selling proposition. In comparison to its counterparts in England and Scotland, the DTA in Wales is underperforming in terms of leveraging additional income from project, membership and consultancy activity which complements (rather than risks drifting away from) core activity.

The DTA's profile in Wales in terms of feeding into policy and strategy is also an area of potential improvement. The Welsh Assembly Government needs to define more clearly the likely policy and strategy areas in which it will require input from DTA Wales in the future. This will need to take account of the Welsh Social Enterprise Coalition's role and in particular on-going policy discussion and activity relating to community asset transfer. Consideration also needs to be given to how greater value can be added to the DTA's policy related in work in Wales by drawing more effectively on the expertise of its

sister organisations in England and Scotland.

It is encouraging that the DTA has generated new members in Wales over the core funding period. However, there has been a worrying decline in revenue from membership fees in 2009-10 despite an apparent increase in the overall membership base. In practice, the propensity of members to pay fees is a key test of how much they value the services they get in return. While the cash-flow effects of the downturn obviously need to be taken into account in relation to the ability of organisations to pay their membership fees, the marginal cost of the fees themselves in relation to the size of development trusts (several of which turnover in excess of £1m per year) in Wales means that this is an area of potential concern.

There is also scope for the DTA in Wales to better define the services it provides by focusing its efforts and resources more on new and emerging development trusts. While it is important that the DTA has adequate flexibility within any

core funding arrangement to be innovative and to respond with bespoke solutions to specific support requirements, it is arguable as to whether the Welsh Assembly Government should fund on-going support (which spans several years in some cases) to well established enterprises that could potentially pay for this type of advice and assistance. The Economic Renewal Programme certainly suggests that the focus for Welsh Assembly Government sponsored enterprise support should be on creating new, high potential enterprises rather than on giving general support on an on-going basis to established enterprises. In this respect, the DTA in Wales needs to be clearer about when and where it is appropriate to deploy support paid for from Welsh Assembly Government core funding and when it should be charging for support on a consultancy basis.

While there is no question that the core funding has been used by the DTA to deploy appropriate activity, there is scope to improve the efficiency and value for money of its work in Wales. This should be

done by simplifying the aims and key performance indicators of any future core funding agreement. It should also involve the DTA taking a more strategic, ambitious and targeted approach to its work in Wales.

We do not think that the Welsh Assembly Government should withdraw core funding to the DTA in Wales in March 2011. However, we outline in Recommendation 2 (below) a series of measures aimed at making its relationship with DTA Wales more strategic and with a view to securing better value for money.

Recommendation 2

We recommend that the Welsh Assembly Government continues to provide core funding to the DTA Wales. However, any new core funding agreement needs to be substantively revised and improved by focusing on fewer, clearer and more strategic aims and indicators that are linked to outcomes. The Welsh Assembly Government also needs to give DTA Wales a clearer steer as to how and when it should deploy

core funded support and when it is appropriate for the DTA to charge its members for the support it provides. The Welsh Assembly Government also needs to scope the type of strategy and policy input it is likely to require from DTA Wales over the next 12 months and tailor the scale and scope of the core funding agreement around this. The Welsh Assembly Government also needs to build into any new core funding agreement a SMART key performance indicator relating to an increase in consultancy, project and membership income for DTA Wales to bring it more in line with its counterparts in other areas of the UK and other organisations receiving core funding in Wales.

The Wales Co-operative Centre

The Wales Co-operative Centre is a flagship organisation that puts Wales at the vanguard of social enterprise and co-operative development in the UK.

The Centre uses its core funding in a different way to the other two

organisations subject to this review. It is also less dependent on core funding for its immediate survival. However, this is not to say that core funding fulfills a less important or strategic function for the Wales Co-operative Centre.

Core funding gives the Centre the opportunity to draw on its extensive delivery based experience and to apply this in a policy and strategy context. In this sense, the Centre has used its core funding efficiently, adding substantial, strategic value to the Welsh Assembly Government and to other stakeholders, including local government and the broader third sector in Wales. Core funding also enables the Wales Co-operative Centre to lever in additional sources of income and to compete for contracts and projects which align with its vision and values. These latter functions are crucially important for the Centre's on-going development, particularly during funding transition periods.

The risk for the Wales Co-operative Centre is that it drifts away from its unique selling proposition and spreads itself too thinly over a

range of policy and service delivery areas. However, strong leadership to date has mitigated against this and there is a clear, logical strategy in place which connects the Centre's various strands of work. The Centre is also very highly regarded by key stakeholders.

A key challenge going forward and in particular for the incoming Chief Executive will be to build on this platform. This will need to involve taking a proactive and strategic role in assisting public sector organisations to work out how they can best use co-operative and mutual business models to deliver high quality public services in an environment of cuts. This needs to be a key feature within any new core funding arrangement, involving policy and strategy input, awareness raising activity and the potential for this to be followed up by direct support delivered through some of the Centre's key projects.

While the Wales Co-operative Centre could theoretically survive withdrawal of core funding in the short term, such a decision would risk seriously destabilising the organisation. This, in turn could

risk undermining key elements of the Welsh Assembly Government's Social Enterprise Action Plan and its Digital Inclusion policy. It is likely that the Wales Co-operative Centre could withstand a limited reduction in its core funding and continue to operate at an acceptable level in the immediate term, though any reductions would clearly need to be negotiated with the Centre and would result in less capacity to input to policy and strategy.

We conclude that the Wales Co-operative Centre offers the Welsh Assembly good value for money for its core funding and compares well with other similar organisations of a similar size and scope in Wales and the UK. Any future core funding agreement should however link aims and key performance indicators more clearly to outcome measures.

Recommendation 3

We recommend that the Welsh Assembly Government continues to provide core funding to the Wales Co-operative Centre. Any new core funding agreement needs to give

a clear focus to the Centre's role in promoting awareness and understanding of the potential for co-operative business models and as potential alternative approaches to public service delivery. Any new core funding agreement should also attempt to link aims and key performance indicators to outcomes.

Timescales and Procurement

In recommending the continuation of core funding for each of the three organisations subject to this review, there is logic, given the prevailing macro-economic conditions and the impending National Assembly election and referendum on further devolution of powers in 2011, that the Welsh Assembly Government should award interim agreements of 12 months to March 2012.

We have recommended in the case of each organisation a number of key changes that should be incorporated into new core funding agreements and performance should be reviewed against these by the Welsh Assembly

Government leading up to March 2012.

In deciding how it wishes to proceed after March 2012, and on the assumptions that the policy context remains supportive and sufficient funding is available, the Welsh Assembly Government may wish to explore undertaking a competitive tender process to select strategic partner organisations in respect of supporting the social economy sector in Wales. The advantages of such an approach would include a perceived increase in transparency and being able to scope out alternative, potentially streamlined models, approaches and potential providers.

However, there are also potential disadvantages to procurement including the potential destabilisation of current core funding recipients. In the context of policy, strategy and advocacy services it may also be more challenging to specify and procure services of this nature. While this should not present such a problem for more quantifiable service delivery elements, it may not be

desirable to decouple the two things.

Recommendation 4

The Welsh Assembly

Government should negotiate and agree 12 month core funding agreements with Social Firms Wales, DTA Wales and the Wales Co-operative Centre in-line with Recommendations 1 through 3 above. After this period, should the policy rationale and budget conditions favour the continuation of support, the Welsh Assembly Government should consider the option of undertaking a procurement exercise. In doing so, Welsh Assembly Government officials should consult with their colleagues in UK Government departments to consider the advantages and disadvantages of using procurement to appoint strategic partner organisations before proceeding with this approach.

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