



Cynulliad Cenedlaethol Cymru **The National Assembly for Wales**

Y Pwyllgor Cyllid **The Finance Committee** **Dydd Mercher, 14 Mawrth 2012** **Wednesday, 14 March 2012**

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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynddi yn y pwyllgor. Yn ogystal, cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee. In addition, an English translation of Welsh speeches is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

| | |
|-------------------|--|
| Peter Black | Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats |
| Christine Chapman | Llafur Labour |
| Jocelyn Davies | Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Committee Chair) |
| Paul Davies | Ceidwadwyr Cymreig Welsh Conservatives |
| Mike Hedges | Llafur Labour |
| Ann Jones | Llafur Labour |
| Ieuan Wyn Jones | Plaid Cymru The Party of Wales |
| Julie Morgan | Llafur Labour |

Eraill yn bresennol
Others in attendance

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|--------------|--|
| John Bennett | Prif Weithredwr, Cynghair Mentrau Cymdeithasol Cymru Chief Executive, Welsh Social Enterprise Coalition |
| Ben Cottam | Pennaeth ACCA Cymru Head of ACCA Cymru |
| Linda Davies | Prif Weithredwr, Too Good to Waste Chief Executive, Too Good to Waste |

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

| | |
|-------------|-------------------------------|
| Dan Collier | Dirprwy Glerc Deputy Clerk |
| Tom Jackson | Clerc Clerk |
| Ben Stokes | Ymchwilydd Researcher |

Dechreuodd y cyfarfod am 9.09 a.m.
The meeting began at 9.09 a.m.

Cyflwyniadau, Ymddiheuriadau a Dirprwyon
Introductions, Apologies and Substitutions

[1] **Jocelyn Davies:** Welcome to this meeting of the Finance Committee. The meeting is bilingual, and headsets are available for translation on channel 1 and for amplification on channel 0. Please check that your mobile phones and other electronic equipment are switched off. This is a formal meeting, so you do not need to operate the microphones. We are not expecting a fire drill, so, if the alarm sounds, take instructions from the ushers. We have not received any apologies.

9.09 a.m.

**Effeithiolrwydd Cronfeydd Strwythurol Ewropeaidd yng Nghymru—ACCA
Cymru a Sefydliad y Cyfrifwyr Siartredig
The Effectiveness of European Structural Funding in Wales—ACCA Cymru
and the Institute of Chartered Accountants**

[2] **Jocelyn Davies:** Thank you very much, Ben Cottam, for attending today. We have all read your paper. Would you like to make some introductory remarks, or would you prefer to go straight to questions?

[3] **Mr Cottam:** I thank the committee for the invitation to give evidence. I would like to convey the apologies of David Leron, the director of the Institute of Chartered Accountants in England and Wales, who is unfortunately unable to be with us today. By way of introduction to our evidence, the role of our evidence, as we see it, is to provide some assessment of the process from the perspective of intermediaries. As you are well aware, accountants across our bodies undertake many functions, not least as trusted advisors to businesses and third and public sector organisations. Therefore, we have quite an interesting perspective of the structural funding processes. That being the case, we are not in the position of banging tables; we have no political axe to grind. We are just able to provide an assessment of some of the process. In turn, that reflects on the effectiveness of some aspects.

[4] We pointed out that we felt we needed to be realistic about what the structural funds can achieve, given that they are relatively limited in some ways. Given the backdrop of the past four years in particular, they have faced a challenge, and that has obviously been reflected in some of the figures that have come out over the past 24 hours. We are happy to have the opportunity to talk about what we see as a very important role for the profession—not just the accountancy profession, I should say, but professional advisers generally within this process. I would say at the outset that, in future, there may be some benefit in leveraging that professionalism and professional expertise going forward.

[5] **Jocelyn Davies:** Thank you. In your paper, you mentioned that you have argued for many years that the Government should concentrate its intervention on enabling the success of the private sector by creating the sort of environment in which businesses can flourish. To what extent is the current round of structural funding supporting businesses in that way?

[6] **Mr Cottam:** The figures released yesterday would suggest that that the overall picture is one of limited success. A number of frustrations became apparent in having conversations with our membership in preparation for this and through conversations we have had on an ongoing basis. One of the elements is perhaps the cultural differences that exist, in the current round for example, with regard to the encouragement of consortia. There have been cultural differences between businesses and third and public sector organisations. So, with regard to private sector engagement, overall, the picture has been that it is more limited than we would have liked. I come with no magic remedy for that. It is something that should be understood. When we encourage collaboration between these organisations, we must understand that they are speaking different languages. With regard to the environment, as I think that we say in our evidence, we do not believe in the direct intervention that Objective 1 focused on, which was a rather more piecemeal approach. We support the idea of consortia, but we must get over the issue that we are not effectively encouraging the flourishing of those consortia. From the perspective of the accountancy profession, there is certainly a role that we can play in bridging the gap.

[7] **Jocelyn Davies:** Is this because businesses concentrate on their core business and this is something extra, or is it deeper than that?

[8] **Mr Cottam:** I think that is true to some extent. There is no pride for a business in dependency on some of this. I should say that I do not feel that there should be pride for any of us that we qualify for this funding, but there is certainly no pride for businesses in being dependent on this funding. Many businesses see this as something that is not core to their business, but something which could add value to some of their offering. However, you will very rarely find a business that is wholly dependent on it. As we have seen, where businesses are wholly dependent on it for the period of the fund to which they are entitled, there has been vulnerability in that, which raises the issue of the sustainability of spend.

[9] **Jocelyn Davies:** Actually, that is something that I was going to ask you about. Obviously, it is the Welsh Government's stated ambition to use the funds to create sustainable jobs and growth. Do you think that that will be achieved?

[10] **Mr Cottam:** I have my doubts, I have to say. I do not come with an academic or economic assessment of the success of European structural funds. I would not say that that is my expertise, and no doubt you will source that expertise. However, from the conversations that we have had with our respective memberships, it seems that there is not sustainability of jobs. One of our practitioners in west Wales flagged up the fact that, in some cases, there has been an overestimation of the jobs that could be created to gain entitlement to spend, and were that to be replicated across the board, that would be a very worrying trend. There is perhaps too much of a focus on time-limited projects that might not necessarily be focused on addressing a time-limited need.

9.15 a.m.

[11] **Christine Chapman:** When you talk about your members, do you have any data on how many members are actually applying for, or have applied for, structural funds?

[12] **Mr Cottam:** The number of our members applying directly would be relatively limited. The role of our membership would be in advising businesses. For instance, if you look at accountants in practice, they will be actively advising businesses to ensure that the financials of a project stack up before it accesses funding. Also, I think that there was a Federation of Small Businesses survey a couple of years ago that indicated that businesses in particular access accountancy expertise for a range of advice, not just financial advice. I think that it was a case of talking to your accountant first and your family second, which was an interesting perspective. Certainly when it comes to ACCA's membership, which is very broad, a number of my members are involved in delivery within third and public sector organisations, so it is difficult to put your finger on exactly where the accountancy interventions are. It is very much the expertise across the profession that is afforded to these programmes.

[13] **Paul Davies:** You mentioned earlier that private sector involvement is limited with regards to projects. However, in your paper you do not appear to be concerned about the number of private sector-led structural funds projects. What is your assessment of the extent to which businesses in Wales have benefitted from projects led by the third or public sector?

[14] **Mr Cottam:** As I mentioned earlier, I cannot provide a scientific analysis of the benefit. There is an issue with private sector organisations accessing some of the collaborations, and some of the consortia, that have been led by the third and public sector. One of the comments that came to me directly was about the inefficiency of the middleman, as it was put to me. Whereas the consortia had an agreed outcome across the sectors, they perceived that in some cases, local authorities, in this instance, were an inefficient middleman. I do not state that as an assessment of every project, but it is indicative of some of the comments and perceptions that there have been. In terms of private sector outcomes, that perception, where it exists, obviously leads to some extent to a disengagement. We say in the

paper that the coverage surrounding the success or otherwise of Objective 1 has, it seems, led to a disengagement from some of our members, or a perception of the disengagement of businesses on the part of some of our members. So, there is an issue about how we regenerate some of the perceptions of the possibilities of structural funds, and how we regenerate some of the partnerships that are developed.

[15] **Paul Davies:** Do you know of any projects that have been particularly successful in supporting businesses in Wales? Are there any specific projects that you know of?

[16] **Mr Cottam:** We have had some very positive comments on some of the interventions that have been afforded by some of the organisations, such as Venture Wales, for instance. I do not mean to necessarily single it out for praise, but there have been some very positive comments about those kinds of interventions, where you have, effectively, a middleman that is closer to the needs to the private sector, and closer to an understanding of it, and is leveraging private sector expertise to some degree. If you focus on business support and advice, for instance, that varies very widely. I am not going to say that accountants are the only game in town when it comes to business advice and support, but, time and again, we have raised the issue of the wide range of expertise and varied level of expertise that is afforded through some of the structural funds processes where they are accorded to business advice and support. We say in the evidence that, where professional advice is sought, that should be commercially paid for.

[17] **Christine Chapman:** Sorry to be pedantic here, but, when you talk about disengagement, what do you actually mean by that? Do you mean that companies are just not applying for these funds?

[18] **Mr Cottam:** With convergence funds, there has been a disengagement from the machinery and the processes, particularly by microbusinesses, where you are talking about the need for microbusinesses themselves to come together—we have to be clear that they do not naturally do that—and about them getting around the table with third sector organisations that are much larger than them and have very different objectives to them, it takes a significant level of understanding and a significant investment of time and effort on their part, and I am not sure that it is seen as the primary driver for them.

[19] Also, for a number of businesses that are seeking funding, structural fund processes can be daunting, even against the processes for funding from private sector sources—even though we know that that funding has been in relatively short supply over the past few years, it can still be seen as a slightly easier pot to access. So, the disengagement is more from the process than from the opportunities, if that makes sense.

[20] **Christine Chapman:** With the surveys that you use with the member companies, what data are you using to get this information? Clearly, there is a perception—

[21] **Mr Cottam:** The information that we have gathered for this came specifically from face-to-face meetings and member-group interventions. As I say, we are not a business lobbying organisation, so we do not regularly conduct surveys on issues such as this. The particular opportunity here was to give the specialist advisers' perspective. I do not know whether any other professional bodies—in marketing, for instance—had been sought to provide their expertise for this, but we felt that there was a particular angle with regard to professional advisers. So, I would not say that this is based on very widespread survey data, but they are certainly survey data gleaned from other organisations, such as the FSB. We have been as extensive as we can in what are basically face-to-face conversations and group interventions in preparing this.

[22] **Jocelyn Davies:** Is this to do with the audit trail that is required, because it is

European money? Do businesses find that having to cope with that side of things—the bureaucracy, because it is public money—means that the payback for them has not matched their investment in time and effort?

[23] **Mr Cottam:** Anecdotally, certainly. I would hate to say that that is the view of every business that has sought to engage in this process, but when you speak to accountants as trusted advisers, there is that perception.

[24] We put one comment in the paper that is very indicative of a number of other comments I heard, which is that you could effectively write off the first year of funding because of the process. The lead times that businesses work with differ greatly to the processes of structural funding. There is a problem, and it may be to do with educating businesses to understand that this is not the same as accessing bank funding or similar interventions. It may well be that greater engagement is needed by the accountancy community in helping businesses to understand that, if they are accessing this funding, there are differing responsibilities and differing processes that go with that.

[25] **Jocelyn Davies:** If a business has the option of accessing another source of funding that is easier to cope with and use, it will probably choose that route.

[26] Being accountants, I guess that your members may have wide experience right across the country, so they may be involved in this area right across a region, for instance. Rather than businesses being confined to one locality, your members will have experience right across the board.

[27] **Mr Cottam:** To some extent. The majority of accountants in Wales, particularly the accountants in practice, are like any other microbusiness, in that their sphere of influence will be within a 60-mile radius at best. In preparing this evidence, though—certainly from ACCA's membership—it is very wide across the board, and I spoke to accountants who work in a number of sectoral organisations. Some of the members that I spoke to have a wide range of experiences, particularly in the third sector and in accessing this funding at different levels. Going back to our members in practice, they will have a number of engagements in structural funds. I spoke to one in west Wales who has acted in about three or four projects. So, they do see varying levels of success, it has to be said. There are some who are full of praise for some of the actions that have come out of the structural funds process, but they see a very varied and a wide range of success in terms of the process and the engagement.

[28] **Mike Hedges:** I want to talk about the regeneration investment fund for Wales, and I am going to quote what the Welsh Local Government Association said:

[29] 'The current model is not attractive for local authorities because it is cheaper for them to borrow through other avenues. The major challenge is that it is not attractive for the private sector either.'

[30] Do you recognise that statement that it is not attractive to the private sector and, if that is true, what needs to be done to make it attractive?

[31] **Mr Cottam:** I can provide a detailed analysis on that, but as I said in my previous comment, where accessing funding or support is more time-responsive through other streams, that will be the default avenue. We will all seek the easiest option. I cannot provide an analysis as to how it could be made more effective.

[32] **Mike Hedges:** As well as seeking the easiest option, most people also seek the cheapest option, and they tend to balance out cheapness against ease of access. Many small companies will spend much of their time bidding for grants, because they come free.

Although they can take a long time to come through, they will concentrate more on grants, which they do not have to repay, than on borrowing, which they do have to repay. So it is not always an issue of timeliness; it is an issue of cost as well. If you can save time for companies, they would probably like that, but would it be because of cost benefits? If it is quicker, would people be rushing to get it, or is the problem how much it costs?

[33] **Mr Cottam:** If it were more time-responsive, there would certainly be a better level of intervention and engagement, particularly from microbusinesses, or even in our members guiding microbusinesses towards it. Where a business has identified a project, that will be the conversation that an accountant in practice will have. One of my members mentioned that the profession has a role in filtering out those projects that might not be suitable. I am not going to sit here and suggest that every project that is put forward by the private sector or any other organisation is necessarily suitable or represents a good return on public investment. There is a role for the profession in filtering those out, in the same way that our members are actively ensuring that businesses are funding-ready in the private sector. There may well be a need for the profession to guide businesses in that sense. There is no pride in grant dependency. Grants have a role to play, but there is no pride for us economically as a country or as a profession in guiding our businesses towards grant dependency.

[34] **Peter Black:** You refer in your paper to the fact that the convergence programme is struggling in terms of two crucial outcomes: new enterprises created and new jobs created. What can the Welsh Government do, apart from amending definitions, to improve the performance of projects in these areas?

[35] **Mr Cottam:** We would like to see some assessment of the legacy of spend. I understand why jobs are a measure but, as we discussed earlier, there might be a question about the sustainability of those jobs. As an organisation, we—and the Institute of Chartered Accountants in England and Wales—are engaging on the consultation on the next round of funding. There may be a need to look at some assessments of the legacy of spend and of the perceived sustainability of some of the projects. There is a role for the profession in assessing the risk of some of the projects. Accountants are active, in the first instance, in assessing risk and risky behaviour within organisations, and there may well be a role for the profession in helping to assess the likely legacy of spend. I understand why the number of enterprises created and the number of jobs created are useful measures, but they are blunt measures to some extent. These measures are dictated by the Commission, not by us. In the next round, we should be looking at the legacy of spend.

9.30 a.m.

[36] I would like to see a discussion, and I say this as someone who occupies a space within the broader business community, on what we plan to do post funding intervention. We are having a conversation about the next round of funding, but what do we do after that to ensure that we do not further qualify for any other European funding? That is a challenge for the business community in Wales, and certainly a challenge for my profession.

[37] **Peter Black:** It has been suggested to the committee that the difficult economic climate has meant that business has been focusing more, where it can, on sustaining employment, rather than on creating it. Would you say that this represents the current attitude of businesses in Wales?

[38] **Mr Cottam:** Yes. Certainly, the indications that we get are that businesses are focusing on staying where they are and consolidating their operations. That is not to say that there are not some very innovative opportunities and that businesses are not innovating, creating jobs and expanding; there are some businesses that are seeking quite a number of opportunities. However, with the continuing uncertainty, the emphasis is on making sure that

organisations are going to be there in two years' time; not just there as an entity, but ensuring that there are jobs. You will have heard commentary time and again, particularly from micro enterprises, about their very heavy reliance on the small number of staff that they have. Retaining those staff and being able to supply that employment is vital to them. I detect a very welcome sense of responsibility, if you like, on the part of businesses in maintaining that employment.

[39] **Peter Black:** How should we adjust the European—[*Inaudible.*]

[40] **Mr Cottam:** It comes back to a focus on the sustainability of jobs. Again, I am not an expert on constructing these funding streams, or even in engagement on the construction of these funding streams, but, as I mentioned, we are engaged with WEFO on the next round of funding. There has to be a realistic assessment of the number of jobs created, and honesty about that, as well as honesty about a projection of how many jobs are likely to be created. It is better to say that you will create four jobs that will remain there for the lifetime of the funding intervention than say that you will start with four jobs now and, in the future, you will be able to multiply that by three, if you like.

[41] **Julie Morgan:** You have already referred to the figures that came out yesterday. Will you expand on your views on those figures, what we should learn from them and how you interpret them?

[42] **Mr Cottam:** I have to say that I cursed my luck yesterday when the figures came out. When I opened the *Western Mail* this morning, my inclination was to turn to the back page and look at Leigh Halfpenny's assessment of Saturday's game—

[43] **Julie Morgan:** Much more cheering.

[44] **Mr Cottam:** Absolutely; a bit more of that please. I am not an economist. I understand, to some extent, the limitations of GDP as a measure, and those of us who listened to the radio this morning will have heard any number of commentators point that out. However, I think that the figures are indicative, and I do not think we can hide from that. I am not going to aim any salvos at the Welsh Government, in any of its guises over the period that we have been entitled to structural funds. Even we as a business community have to put our hands up and say that we have had a part in this. If you want to call it Team Wales, fine, but Team Wales has not made this work. Whether that is because the processes have not been right, or because the private sector has not engaged properly to make it clear that it has not been responsive enough, we need to be honest about that. It is very difficult to hide from those statistics, so long as they are used to assess success.

[45] **Julie Morgan:** Do you think—[*Inaudible.*]—as an indicator?

[46] **Mr Cottam:** As I say, I am not an economist, but I recognise that there are several other indicators that could collectively be used, but I agree with the comment made this morning by an academic from the University of Glamorgan, who said that, whether we like it or not, it is the international index that everyone recognises. I do not think that it would be particularly helpful for us to seek different indicators simply to make ourselves feel better. I think we should take this on the chin and there should be a rallying call on the part of all those involved, including the private sector, to try to make this work. We have a responsibility to the current round of structural funds and to the next round in particular to ensure that it is more effective as an intervention.

[47] **Christine Chapman:** On your comment on evaluation, you suggest in your paper that it is essential to ensure that the evaluation of projects is policed so that projects do not simply go through the motions. Could you explain that comment?

[48] **Mr Cottam:** You will not be surprised to hear me say—I have already commented on the bureaucratic nature of the process and would not want to make it any more bureaucratic—that our members feel that there is a role for a more rigorous assessment of the financials of projects. The problem with the application process is that when a business, or any other partner, feels that it is bureaucratic, there is a sense of due diligence and nothing better. However, any partner that accesses funding needs to be certain of being able to provide all the data that allows WEFO and others to assess its success or otherwise. For the next round of funding, there may well be a need to look at some of the overview of it that is given. We hope that WEFO has the most rigorous structures in place. I am happy to put on record that we feel that WEFO has been very open handed, particularly in the last year, about engaging the business community in the processes for the next round. In order to monitor its success and provide the necessary oversight to the National Assembly, we need to ensure that the assessment of spend is rigorous. Part of that is ensuring that the financials stack up.

[49] **Christine Chapman:** You talk about being rigorous, but do you have any examples of that? From a financial point of view, what could have been done better or been more rigorous?

[50] **Mr Cottam:** A direct comparison was made to me regarding applications for private sector support. Before the banking crisis, a number of applications were failing because the financials did not stack up. That was probably because expertise was not applied in the first place to ensure that business cases were sound. We devised a scheme, in conjunction with the Welsh Government, to allow businesses to access professional advice that would make their applications for bank funding ‘funding ready’. That was to ensure that we had a better success rate for those applications. The same can be said for applications for structural funds support. We need to ensure that the financials stack up properly and that WEFO understands, in the first instance, what the projections for return on investment are. It is not in any way different to the private sector in that sense.

[51] **Christine Chapman:** Is it something that WEFO has adopted or is it working within the constraints of the European Union?

[52] **Mr Cottam:** I have not picked up on any frustration on the part of WEFO that this is a framework that it is working within and I would not want to suppose that that is the case. Again, you will not be surprised to hear me say that we would like to see the leveraging of specialist advice and support, not only for applications, but for WEFO’s processes as well. To some extent, that is there. Many of our members work for WEFO and other agencies, so the specialist financial knowledge is there. However, the project sponsors and consortium partners need to understand that if funding is to be accessed, whether it is a risk analysis or an analysis of the financials, that has to be cemented in place in the first instance to ensure that there can be a proper appraisal further down the line.

[53] **Christine Chapman:** What is your assessment of WEFO’s approach to the evaluation of the impact of the programme? That is very long term. Has that been done well, or not so well?

[54] **Mr Cottam:** I cannot provide an overall analysis, and I have to say that other organisations would be better equipped to provide that analysis. All that I can speak to is the engagement that WEFO has shown, not only with organisations such as ACCA and ICAEW, because some of the positive comments about WEFO, particularly lately, have come from my members. There has been an understanding that the process is difficult for organisations and for their advisers, and there has been a willingness to try to address some of that.

[55] To refer back to your previous comment, if you were to ask me whether there is some

sense of frustration that there is only so far that they can go, I would say that that might well be the case. However, in terms of the overall assessment of the impact of the funds, we have not provided a detailed analysis of that. With regard to our evidence, we hope to play to our strengths. As I said, you will be seeing a number of organisations and, as organisations, we are not directly involved in accessing or delivering these funding streams, so we can, at best, provide an overview from a very broad membership.

[56] **Christine Chapman:** I have one final question. I am not sure whether you will be able to answer this, but the discussion on the radio this morning mentioned other structural funds areas, for example, Cornwall. You would not necessarily have members there, but there will be members in similar areas. Do you know of any comparisons, where they are doing things differently to Wales?

[57] **Mr Cottam:** We have not looked at that. Had I had a week or two's grace, I probably would have had those conversations with colleagues around the rest of the UK, which might provide an interesting analysis going forward. So, I am not able to give you an analysis as to how other regions are faring.

[58] **Jocelyn Davies:** If you would like to send us something at a later date, we would be interested in receiving that.

[59] **Mr Cottam:** Yes, it would be an interesting exercise to look at some of the experiences around the UK and in other areas.

[60] **Ieuan Wyn Jones:** Yn eich tystiolaeth, rydych yn dweud eich bod yn credu bod y broses gaffael yn allweddol a'ch bod yn croesawu bwriad y Llywodraeth i wneud y prosesau hynny yn fwy tryloyw. Fodd bynnag, rydym wedi cael tystiolaeth sydd yn dweud mai un o broblemau'r cronfeydd oedd y broses gaffael, sydd wedi bod yn anodd, a bod hynny wedi arwain at oedi yn dechrau'r rhaglen. A oes gan eich aelodau brofiad o hynny?

Ieuan Wyn Jones: In your evidence, you state that you think that the procurement process is key and that you welcome the Government's intention to make those processes more transparent. However, we have received evidence that states that one of the problems with the funds has been the procurement process, which has been difficult, and that that has led to a delay in rolling out the programme. Do your members have any experience of that?

[61] **Jocelyn Davies:** Before you answer, Ben, can everyone check that they have turned off their electronic devices, because something is interfering with the translation? Did you catch the whole question, Ben, because it was a struggle? I thank Members for that.

[62] **Mr Cottam:** The procurement process comes up time and again across the board as being very problematic for the organisations accessing it. You and I, in previous guises, have had conversations around the tables of the council for economic renewal and the business partnership council about that. Part of the problem is that using a process that many find difficult will necessarily translate those issues to this process. It is right that it provides an opportunity for private sector organisations to engage with the structural funds process. Work streams are under way at the moment to make those procurement processes more efficient, so there is an element of waiting and seeing. I am encouraged by the approach shown by Welsh Government towards helping to streamline the procurement process. Something needs to be done as quickly as possible, not only on the wider procurement process across the public sector, but also on helping these processes within the structural funds. However, time and again, the problems around procurement and the processes that we use have been raised with me.

[63] **Ieuan Wyn Jones:** Un o'r pethau **Ieuan Wyn Jones:** One of the things that are

sydd yn amlwg yn y maes hwn yw bod gennych gwmnïau sylweddol o faint sydd â swyddogion caffael sy'n deall y broses, ond rydym yn gwybod mai asgwrn cefn economi Cymru yw cwmnïau bach a chanolig eu maint ac nid oes ganddynt swyddogion caffael. Sut y mae modd inni wneud y broses yn haws i'r sector hwnnw gael mynediad i'r cronfeydd?

evident in this area is that you have large companies that have procurement officers who understand the process, but we know that the backbone of the Welsh economy is small and medium-sized businesses and they do not have procurement officers. How can we make the process easier for that sector to access the funds?

9.45 a.m.

[64] **Mr Cottam:** You could make the process easier by not only leveraging the expertise of finance professionals, but also professional advisers across the board. You are right in that larger organisations are able to utilise their own expertise, but where there are consortia, it is right and proper that, whether in the private or public sector, that expertise is accessed on behalf of that project, if you like, from those professionals. It is a very particular area where there are some very intelligent people who are engaged in successfully procuring. We do need to leverage that support. There is a role for the profession in helping that process along and obviously there is a role for the profession in ensuring that the financials of those bits stack up. As we mentioned earlier, there are some concerns about the suitability of some of the projects. So, this is about sourcing that expertise and ensuring that, where consortia exist to deliver a project, the expertise is properly sought from within larger organisations that might be part of those consortia or from among specialists.

[65] **Ann Jones:** You mentioned in your paper that some of your members have expressed concerns about the sustainability of the projects and jobs created under some of the structural funds programmes. Could you expand on what those concerns are for the committee?

[66] **Mr Cottam:** I will give you an example. An accountant in practice in Pembrokeshire whom I spoke to stated that because the emphasis had been on the development of tourism in Pembrokeshire as the main economic driver, you had a multiplicity of offerings along the same lines. So, she particularly talked about some of the training streams that would train businesses and upskill their workforce to exploit some of the opportunities in tourism. There was concern on her part, which has been replicated in many other conversations that I have had, that there was not a strategic oversight of whether the services being delivered needed to be replicated in the same locality, for example. There is a problem with that because who makes the call as to how many organisations should be delivering those services? However, surely it is not sustainable for there to be a number of agencies delivering the same level of training and targeting the same businesses. Another comment was that, at one point, particularly under Objective 1, there had been a tendency for everyone to look to—and this is a very particular example—the refurbishment of village halls. All of a sudden, there was this rush of refurbished village halls to see themselves as venues for businesses, without any assessment as to how much that was needed in a locality such as Carmarthenshire or Pembrokeshire. So, this is about having that strategic oversight as to—where structural funds are accorded to a project—what that project is providing and whether it needs to be replicated in that locality.

[67] **Ann Jones:** The committee has received some evidence that greater focus and scrutiny needed to be placed on the strength of the exit strategy. Do you and your members support that view?

[68] **Mr Cottam:** Yes. We would see that as a sensible part of the process. We have not looked at that in particular, but the profession is risk-averse and a proper exit strategy would be part of identifying that risk.

[69] **Ann Jones:** Is there anything that you think WEFO should do to address that issue?

[70] **Mr Cottam:** It is difficult to say without giving it more considered thought and without talking to some of the professionals in our membership. It would be an interesting conversation to have. I would be more than happy to facilitate that conversation with WEFO and to learn whatever expertise that we have centrally and within the membership.

[71] **Jocelyn Davies:** I have one final question. You have advocated several times the levering in of expertise; I think that we have got that message loud and clear from you. Has there been a failure to do that in the past?

[72] **Mr Cottam:** I think that there has to some extent. If we accept that there has been disengagement of businesses generally in the process, then there has necessarily been disengagement to some extent of the profession in the process as well.

[73] In the early days of convergence funding, we had some very productive conversations with the Welsh Government about how expertise, where it existed, could be leveraged and properly exploited. We allude in the evidence to the very wide range of business advice out there, and we have been clear that we feel that business advice, whatever it might be, should be offered by qualified professionals wherever possible. That is not to say that all the business advice and support offered under the structural funds regime has been bad by any measure. However, only latterly has there been engagement with the profession—I can only speak from the perspective of the accountancy and finance profession—about how you can create a value-added aspect to the expertise. So, I am not going to sit here and say that all the business advice and support has been effective, because accountants have not been involved. Finance specialists have been involved, but it is only relatively recently that we have had those conversations about expertise being leveraged into the process.

[74] **Jocelyn Davies:** Do you think that more can be done?

[75] **Mr Cottam:** I think that more can be done. As I mentioned, accountants are very much trusted advisers of businesses, in the same way as marketing professionals and lawyers will be trusted advisers of businesses. It is about recognising that those relationships exist.

[76] **Ieuan Wyn Jones:** A good word for lawyers at last. [*Laughter.*]

[77] **Mr Cottam:** I am more than happy to support the brethren in the legal profession. [*Laughter.*]

[78] It is about recognising that those relationships exist, particularly when it comes to microbusinesses. They are very close relationships. So, rather than trying to generate new relationships with, dare I say it, third sector advisers, you should find a way of leveraging that expertise in whatever sector it might be.

[79] **Jocelyn Davies:** Okay, thank you. We are very grateful for your evidence today, and we would be grateful for the note if you would not mind sending it to us, if you have time to do that. We will send you a transcript so that you can check it for factual accuracy. Thanks again.

[80] **Mr Cottam:** Thank you very much indeed to the committee.

9.52 a.m.

**Effeithiolrwydd Cronfeydd Strwythurol Ewropeaidd yng Nghymru—Cynghrair
Mentrau Cymdeithasol Cymru**
**The Effectiveness of European Structural Funding in Wales—the Welsh Social
Enterprise Coalition**

[81] **Jocelyn Davies:** Thank you very much for agreeing to come and give evidence to us this morning. Would you like to introduce yourselves for the benefit of the transcript of this meeting? Do you have a brief introductory comment to make before we go into questions, or would you prefer to go straight into questions?

[82] **Mr Bennett:** I am quite happy to give an introduction first, if that works for you?

[83] **Jocelyn Davies:** Yes.

[84] **Mr Bennett:** My name is John Bennett, and I am the chief executive of the Welsh Social Enterprise Coalition. The Welsh Social Enterprise Coalition is a membership body that, in very simple terms, seeks to get the best that it possibly can for social enterprises throughout Wales. A social enterprise generally works towards what we call a triple bottom line, which means that it delivers financial benefits—it needs to make a profit—social benefits and environmental benefits. Eighteen months ago, I was running my own social enterprise and did so for many years, as an organisation based in Cardiff. So, my perspective is very much based on a practical basis.

[85] My colleagues within the coalition have drawn up the paper that we have submitted as written evidence. The facts and figures have been drawn down from a variety of sources, but I have to say that my approach today is very much based on wearing my hat from running a social enterprise in my earlier days.

[86] **Ms Davies:** My name is Linda Davies. I am the chief executive officer and founder of the charity Too Good to Waste. I started the organisation in 1995. I have had a number of successful applications for European funding. My estimated income generation from European funds is now about £1 million. The organisation's own income generation last year was £300,000. I believe that we are a social enterprise. We are now employing 10 people, and before the end of 2012 we will be employing 14 people.

[87] **Jocelyn Davies:** That is excellent news. What is your assessment of the extent to which social enterprises generally have benefited from structural funding through projects that are led by the public sector, the private sector or the third sector?

[88] **Mr Bennett:** Perhaps Linda can give a fuller response to that. From my perspective of running a social enterprise, going back over time, I did not even consider European funds. That was purely and simply because I found the processes very bureaucratic and full of red tape. I found them very hard to understand. I suppose that, in our wisdom, we chose to concentrate our energies on trying to generate a business rather than going for funding. That was simply because of the complexity of the process and the fact that earning our own income seemed a better and more appropriate way to go, rather than having to worry about the protocols of adjusting to funding. Yes, social enterprises have benefited from European funding, but anecdotal evidence—certainly from a number of members I have spoken to about European funding—is that people find the processes inhibiting at times. My colleague Linda may have another view on it. It is a difficult process to go through, particularly when you are trying to concentrate on running a business.

[89] **Ms Davies:** I would add that what helped me to go for European funding right at the very beginning, which was in 1996, was the support I received from Business in the

Community. It put the professional firms group in contact with us. We had direct support from KPMG. It was working with accountancy professionals that gave me the confidence to know that the money was there and to understand what the bureaucracy and terminology meant and how it could be interpreted into a real-life project. I wonder whether, if I had not had that support at the very beginning, I would have even looked at that huge amount of paperwork and tried to understand all of the terminology that went with it.

[90] **Jocelyn Davies:** So, it was the ability to use expertise that you did not have within your own organisation that made a big difference to you.

[91] **Ms Davies:** That certainly helped to kick-start it.

[92] **Jocelyn Davies:** I guess that your experiences are not unusual compared to those of other social enterprises.

[93] **Ms Davies:** I would say that having that hand up, that help, at the very beginning was one of the biggest differences. It helped to interpret what the programme was for and how it fitted in with what we were trying to achieve.

[94] **Ann Jones:** You have included figures in your paper that show the involvement of the third sector in leading or delivering structural fund projects in this current round. Would you say that that level of involvement compares quite favourably to that of the private sector, given the difference in size of those sectors?

[95] **Mr Bennett:** It is a difficult one. The answer is probably that that is the case. However, my concern is really for the third sector, which is different. We are a nation of SMEs anyway, are we not? However, in the third sector, social enterprises tend to be those smaller businesses, and they have a job to compete with private businesses because they cannot compete on a level playing field. Private sector businesses seem to have the skills that Linda was talking about just now. One of the issues that social enterprises have to adjust to is bringing up business skills. There is a shortage of business skills in some areas.

10.00 a.m.

[96] **Ieuan Wyn Jones:** Yn eich papur, rydych yn cydnabod bod oedi sylweddol wedi bod cyn caniatáu prosiectau, yn enwedig yn y sector preifat a'r trydydd sector. A ydych yn teimlo bod y trydydd sector a'r sector preifat yn cael eu trin yn wahanol i awdurdodau lleol a'r Llywodraeth wrth wneud ceisiadau?

Ieuan Wyn Jones: In your paper, you acknowledge that there have been considerable delays before the granting of projects, particularly in the private and third sectors. Do you feel that the third and private sectors are treated differently from local authorities and the Government in making bids?

[97] **Mr Bennett:** On the face of it, that seems to be the case. The delays—my colleague will have better experience of that—and the levels of bureaucracy tend to slow every process. The social enterprise sector lacks the ability to react to the demands of the business market, because of the delays alluded to. It is frustrating and means that potential business opportunities are lost.

[98] **Ieuan Wyn Jones:** Wrth gasglu tystiolaeth, rydym wedi clywed yn aml bod y trydydd sector a'r sector preifat, er nad ydynt yn arwain prosiectau, yn elwa o brosiectau sy'n cael eu harwain gan awdurdodau lleol neu'r Llywodraeth. I ba raddau mae hynny'n true?

Ieuan Wyn Jones: In gathering evidence, we are consistently told that although the third or private sectors do not lead projects, they benefit from projects led by local authorities or the Government. To what extent is that true?

wir?

[99] **Mr Bennett:** Sorry, could you repeat the question?

[100] **Ieuan Wyn Jones:** We have been told in evidence that local authorities and Government departments may be leading projects but, because of the procurement processes, they have contracts for the delivery of parts of those projects through the private sector or the third sector. So, instead of the third sector leading projects, they participate in Government-led projects. To what extent is that happening?

[101] **Mr Bennett:** There is a fear at the moment—based on my first-hand experience and members' experiences—or, not a fear, but a lack of understanding, about how social enterprises work. There is the quirky business—I use the word 'quirky' advisedly because it is an expression used by one of the major high street banks recently—of understanding the model. The procurement processes are difficult. Procurement officers and professionals still, at times, do not understand how the social enterprise process works. It is a bit of a misunderstood model. The coalition has done serious work in raising awareness of the business model, but the procurement processes can be challenging and can seem to take a long time. That comes back to what I said earlier about the fact that, sometimes, there are opportunities in the market that we cannot address. We are trying hard to address the lack of profile with local authorities in particular, to try to get them to understand how the business model works.

[102] **Jocelyn Davies:** You are not like an ordinary business, are you?

[103] **Mr Bennett:** That is an interesting point. It is not like an ordinary business. The social enterprise model is a business model that needs to make a profit, but it also delivers social and environmental benefits.

[104] **Ieuan Wyn Jones:** Rydych yn dweud yn eich tystiolaeth bod y system gaffael yn anodd. Rydym wedi derbyn tystiolaeth eisoes yn dweud ei bod yn broses anodd. A oes ffordd o symleiddio'r system? Os felly, sut gellir gwneud hynny?

Ieuan Wyn Jones: You state in your evidence that the procurement system is difficult. We have already received evidence stating that it is a difficult process. Is there a way of simplifying the system? If so, how can that be done?

[105] **Mr Bennett:** 'Big seems to be best' is the perception I get from local authorities and the Welsh Government. There is a case for disaggregating the bigger contracts. That seems to be a challenge for commissioners and procurement officers. In terms of Sell2Wales, Buy4Wales, and so on, the smaller-value contracts that smaller businesses would be far more able to handle would be more appropriate. There is little evidence, from what we can see at the moment, of those lower-value contracts appearing on those websites. That is just one example.

[106] **Ms Davies:** Could I make a comment to respond to that? Regardless of the type of business you are—a small business, a for-profit business or a not-for-profit business—what you are doing is recognising a business opportunity. If I recognise a business opportunity today, then I need information about how I can best realise it, whether that is through investment, looking for a grant or looking for European funding. What I do not see is the information coming through to me quickly enough to say, 'This is the strategy coming from Europe and this is the interpretation of how Wales wants to target certain points'. If I have that information up front, I can think about how it fits into business development over the next five years. What I see happening is businesses developing their business plans and the European plans being developed over there, and it is only after that has been sorted out that Europe comes to businesses to say, 'This is what we want to do with it, now let's do it'. Does

that make sense? They are running on different train tracks, and they are not coming together.

[107] I cannot see businesses having the time to invest in all of that dialogue and negotiation, however, so there needs to be a way of engaging with business people strategically so that they say, 'This is something that we could do; we could look at this'. I think that most businesses would say that employing people with skills so that they can make money out of them—which is, basically, what business does—is something that they would all sign up to, so they do not need to be involved in that. They are there. What they need to know is when the money is going to be made available, how it will be made available and, honestly, how much bureaucracy is involved. What I have witnessed is that the volume of administration required, over and above normal financial accounting, is prohibitive. You have to employ an administrator just to administer the amount of paperwork involved in spending the money. That seems a bit of a waste of the resource.

[108] Let us just finish off on the issue of time. I will give you an example of how the timing for making the funding available affects business. In July 2010, we submitted an expression of interest in the south-east Wales community economic development fund—it is ERDF consortium funding—but we could not complete the application form until June 2011, some 11 months later, because the application forms were not running. That was 11 months of a business opportunity lost. That was 11 months of employing somebody lost. I can give a number of different examples of where the time delay is prohibitive.

[109] **Jocelyn Davies:** That is a very good example. Mr Bennett, you wanted to come back on this point.

[110] **Mr Bennett:** Yes, briefly. Related to that, I spoke to a number of people before I came to meet you today, and I spoke to someone from a social enterprise that is making a journey into WEFO funding. A comment made to him was quite interesting, in that someone said to him—and we are talking about a grant of around £100,000 here—'You realise that this is probably going to cost you £10,000 to administer, so you need to factor those costs in before you go forward'. I thought, 'Wow, that was an interesting comment'.

[111] **Jocelyn Davies:** So, it is about 10%.

[112] **Mr Bennett:** According to the comment that was passed on to me, yes.

[113] **Jocelyn Davies:** Peter, you wanted to come in on this question.

[114] **Peter Black:** Following on from that point, I think that you have referred throughout your evidence to the bureaucracy involved in accessing European funding. To play devil's advocate—I think that the Minister also made this point when he gave evidence—this is public money, and, when you are dealing with public money, you must have safeguards in place and ensure that it is being spent and administered properly. Inevitably, there is going to be a level of bureaucracy and a level of cost for the recipient in monitoring and dealing with the grant. Is that reasonable, and do you think that what WEFO is imposing goes beyond what is reasonable?

[115] **Mr Bennett:** I will answer your last question first. The level of bureaucracy, based on my understanding, is excessive. We would be the first to say, as, indeed, would anyone getting a grant, that there have to be checks and balances—of course there have to be—but we are a bit worried about the layers of bureaucracy that seem to be put into place. You would do checks and balances in any business anyway. Whether it is a social business or whatever, it needs to be done. However, it gets a bit heavy. Also, allied to that is the lack of understanding about that quirky business model I mentioned earlier. I do not see any problem in building some kind of dialogue between commissioners and procurement officers and those within the

field who could potentially deliver. I think that that was the point that Linda made just now: we need to build that professional working relationship so that we understand what we are asked to deliver.

[116] **Christine Chapman:** I just want to pick up on Peter's point, and I think that the example that he gave was very good. John, you mentioned WEFO and that there could be some excessive bureaucracy there, but do you see that as WEFO's fault or is it simply EU administration requirements?

[117] **Mr Bennett:** You are quite right: it is a broader issue.

[118] **Christine Chapman:** So, is it about the EU rather than just WEFO?

[119] **Mr Bennett:** Yes.

[120] **Christine Chapman:** The committee, obviously, has limitations, but it is something that we need to look at.

[121] **Ms Davies:** I am not sure who actually puts in the extra layers of bureaucracy, and whether someone says, 'We need to evidence that the money being spent is being spent on wages', and then one person might say, 'To do that, we'll need the evidence of the banks automated clearing system payments showing the salaries', and then someone else might say, 'No, we actually need timesheets to prove that those people were working'.

[122] **Christine Chapman:** Are there different people in WEFO saying that?

[123] **Ms Davies:** Well, it ends up being put on the project, whoever is saying it. Sometimes, I want to go back and sweep it all away and ask, 'What information do you really need coming back from the top?' As the project goes through the different layers, they each keep adding things. I will give you an example relating to our current requirements under the south-east Wales community economic development fund. Just looking at staff, we were required to provide a payroll summary showing the amount of money per individual through our bank statement. We were then asked to provide individual payslips. We were then asked to provide timesheets—you should bear in mind that these people are employed monthly and they are employed to do management or a specific job role. We were asked to provide the timesheets weekly, even though these people are employed monthly. Now we have been asked to provide timesheets of what the staff are doing in half-hour intervals.

[124] **Mr Bennett:** I am sorry for bringing it down to a basic level, Chair, but this is the kind of stuff that happens, and there is no point in us pussyfooting around.

[125] **Jocelyn Davies:** We all employ staff, and I can imagine the reaction from my staff if I said that I expected timesheets on a half-hourly basis from them. None of us, who are just employing a few people, would want to deal with that kind of bureaucracy. Some social enterprises are registered charities, are they not?

[126] **Ms Davies:** We are a registered charity.

[127] **Jocelyn Davies:** So, you have the bureaucracy of being a registered charity as well.

[128] **Ms Davies:** We are a charity and we are a company limited by guarantee. Therefore, we have to apply all the financial auditing requirements. We are independently audited. In the last 16 years, I have brought in £3 million of inward investment, which means that I have worked with probably about 50 different funders. So, I am fully aware of how to pull our accounts and income and expenditure apart to report to different funders. Reporting to Europe

goes one step further.

[129] **Mike Hedges:** It does not achieve anything, does it? If someone wanted to commit fraud, they could make up the timesheet and the person who is being paid, so it does not actually achieve anything. I know that it is audited, but if I wanted pretend that I employed someone, a bank account is the only thing that gives you some level of control, because you need proof of identity to set up a bank account. However, I could make up all the rest of it, such as the timesheets—you can make up timesheets for anyone. So, it is only that one thing that you can audit, and all the other things just add to the bits of paper floating around and have no use in auditing.

[130] **Jocelyn Davies:** You do not have to answer that.

[131] **Mike Hedges:** Do you agree?

[132] **Ms Davies:** I agree wholeheartedly. Do you want to me to sign it now? [*Laughter.*]

[133] **Mr Bennett:** That is indicative of the reason why I did exactly the opposite and thought, ‘We can concentrate on our commercial ability to run a social enterprise’. I do not have Linda’s staying power, I have to say; I could not do it.

10.15 a.m.

[134] **Jocelyn Davies:** You mentioned that you had the assistance of professional expertise at the beginning, but you had to pay for that.

[135] **Ms Davies:** No, that was through the professional firms group; it was through the Prince’s Trust.

[136] **Jocelyn Davies:** So, you were able to access that as a charity.

[137] **Ms Davies:** Yes.

[138] **Jocelyn Davies:** Chris, do you want to ask your question?

[139] **Christine Chapman:** Yes. I have a question on monitoring and evaluation. We have heard from a number of stakeholders who feel that there is too much emphasis in the current programmes on monitoring the expenditure level as opposed to capturing the quality and impact of the programme. From reading your evidence, I know that you suggest that there could be different indicators to measure the social and economic impact of convergence and competitiveness projects. I wanted your view on how you would like to achieve that. I know that Derek Walker, the chief executive officer of the Wales Co-operative Centre is on your board, John, but he is also a member of the programme monitoring committee, which is the body that should be monitoring this. I am curious as to whether you feel that the programme monitoring committee is able to monitor or whether you are aware that it is there to monitor.

[140] **Mr Bennett:** I need to have a word with him. [*Laughter.*] I did not know that he was on the committee. So, that is a conversation that Derek and I need to have—

[141] **Ann Jones:** Oh dear.

[142] **Mr Bennett:** Not at all, Derek and I have a very good working relationship. I have immense respect for him and what he does, but that is certainly a conversation that needs to be had.

[143] **Christine Chapman:** I just wondered what your view was on the balance between the evaluation of project expenditure and the long-term impact of the programme.

[144] **Mr Bennett:** It is about understanding what we as social enterprises can deliver. That is a challenge for us and I discussed with the Minister fairly recently the understanding of the social enterprise model. We have to recognise that we are still in our infancy and it is still a model that needs a bit of careful understanding. I also come back to the comment on the mainstream banks.

[145] What I want to try to build out of all of this, as we go further forward, is an understanding of how we work: what it is we deliver and how we can deliver it. If we can get that clarity and tie that together with the procurement process and build some good professional understanding of what is required and how we can deliver, that will be a very positive step—as well as a chat with Derek Walker.

[146] **Christine Chapman:** I have a follow-up question on that, and Linda might like to think about this too. The quality and impact of the programme requires a long-term view. When you have new projects—we started off with Objective 1 and we were counting in that, really; it was more of a numerical exercise—is it possible to try to capture the long-term impact of a project from day one as opposed to looking back on it a few years later? Is that realistic?

[147] **Ms Davies:** I would love us to have an idea of what ‘good’ looks like, so that we could start a project knowing exactly what we were going to measure. What actually happens is that, often, more good comes from the investment than we had first thought. Did we know in 1995 that, by going for the first Objective 1 bid, we would be looking at an organisation now that employs 15 people and has brought as much inward investment in as it has? We would not have been looking for that, so we would not have measured it. On the other hand, if we know that the European programme is about regenerating our communities, then it would be quite feasible to look at what that inward investment has done for our local community. If we are now spending £300,000 a year, which is what the organisation costs, what is that doing to the local community? If you look at the wages that you pay locally, the volunteers’ expenses, the amount of money that you spend at the garage and the printers, then a significant amount of that income that you are bringing in and generating is stimulating the economy. We do not measure that; we measure the number of jobs and training. We are not measuring how that money is feeding back out again to our community. We would need to agree what we are measuring at the beginning, rather than just add other things.

[148] **Jocelyn Davies:** I guess that you feel that the focus is in the wrong place. It is focusing on timesheets rather than on something else. I think that in your social enterprise you take furniture—

[149] **Ms Davies:** We collect household items that are too good to waste and put them back out to the community to reuse.

[150] **Jocelyn Davies:** That provides volunteering and training opportunities—

[151] **Ms Davies:** We have over 100 volunteers every year.

[152] **Jocelyn Davies:** It would also provide employment. You would probably have saved an awful lot of landfill.

[153] **Ms Davies:** There were 28,000 items last year.

[154] **Jocelyn Davies:** We are not counting any of that. We are just looking at—

[155] **Ms Davies:** It depends on the funder. Some of my funders count that, some count job creation, some count volunteering hours or how many people we get into work. Some 42% of our volunteers found employment last year. I can throw statistics out, but we do not currently measure the social impact. No-one is asking how much of our money is being invested locally.

[156] **Jocelyn Davies:** Nor are they asking how many jobs are being created.

[157] **Mr Bennett:** Exactly the same principles apply to the organisation that I used to run. Going back two or three years, we did some work with the New Economics Foundation and produced a report on social return on investment. It addressed many of the issues that Linda has just talked about, which are employing people who are significantly disadvantaged in the labour market, and taking them out of the system. They are also taxpayers, and that is one benefit; the money that is earned within the organisation is being invested in the local community. The other element that does not get quantified or fully understood, especially among people who are long-term unemployed, is the benefit of self-esteem that comes with going back to work and so on. They are things that you all understand, but those are the other values that are not necessarily within the prescriptive piece of A4 that you need to tick boxes.

[158] **Mike Hedges:** When people train and get employment in your area, it increases the GDP. Unfortunately, some of them may get jobs outside the Objective 1 area; they are employed and equally as beneficial to the economy but, because they have a job in Newport or Cardiff, it does not count. I have seen the A470 into Cardiff in the morning and I now see the link road from Cardiff West service station into Cardiff in the morning, and I know that an awful lot of people from Objective 1 areas commute into Cardiff, but they are not counted. Do you think that that is fair?

[159] **Ms Davies:** That is the problem with statistics. We could get statistics to prove any figure that we wanted to prove. It needs to be said loud and clear that, when you interpret these statistics, there are flaws in them.

[160] **Julie Morgan:** You are suggesting that a social impact survey should be introduced. How would it be possible to cover some of these areas? What questions could you ask? How could you do it? Could you be more specific about how you would conduct the social impact survey that you suggest that WEFO should undertake?

[161] **Mr Bennett:** There are some established models from social internal investment roles. They are not exactly bed-time reading, I grant you, but there are some simple models that will tell you how many jobs have been created and the value saved by employing people who have been long-term unemployed, people with disabilities and so on. As one example, going back to our report, the portion value to each of my colleagues from those disadvantaged areas was to the tune of £10,000 per head. There are mechanisms out there that can be used simply to quantify those social benefits, other than the numbers that Linda talked about. The challenge is to get these organisations to take those two, three, four, five band operations that operate the smaller social enterprises, as well as dealing with the bureaucracy that Linda talked about, and running the business.

[162] I am very wary of putting another layer of bureaucracy in there, but if we can get some processes like that moving, it could make the whole funding process more understandable to those people. This has to be a two-way dialogue, where one asks, 'What do you want?', and the other says, 'How do you want us to deliver it?' As I say, I am a bit wary of adding extra layers of bureaucracy in there, but there are mechanisms.

[163] **Peter Black:** You suggest that WEFO includes new programme-level indicators to

measure the combined social and economic impact achieved by the current structural fund programmes. What indicators do you have in mind?

[164] **Mr Bennett:** They are exactly the ones that I have discussed previously. We need to be able to measure social impact in its broadest context. As I say, the mechanisms are there.

[165] **Peter Black:** What specific indicators would measure that social impact?

[166] **Mr Bennett:** We can go back to the social return and investment model, which is used by many organisations. It works on specifics; you can use the model or change it around—you can do whatever you want with it, but the principles of the model are there. The New Economics Foundation is a good example of how it has worked.

[167] **Jocelyn Davies:** So, it is a tool that already exists.

[168] **Mr Bennett:** It is a tool that already exists but can be used in different areas where it is more appropriate.

[169] **Peter Black:** Pretend that I am not familiar with that model. What exactly are you measuring? What are you looking for?

[170] **Mr Bennett:** We are measuring things such as self-esteem, which is incredibly important.

[171] **Peter Black:** How do you measure that?

[172] **Mr Bennett:** Do you mean how do you put a monetary value to it?

[173] **Peter Black:** No, how do you actually determine whether self-esteem—

[174] **Jocelyn Davies:** Would you be able to send us some information on the model?

[175] **Mr Bennett:** It will be a pleasure. I will happily send you the template and the report that we did as well. Would that help?

[176] **Jocelyn Davies:** I think that that would be useful.

[177] **Peter Black:** Have you discussed this with WEFO or with local government?

[178] **Mr Bennett:** No.

[179] **Mike Hedges:** Everyone says that we should have value for money; I do not think that there is an argument over that from anybody. Could you set out the approaches that the social enterprise sector and the third sector take to demonstrating that their projects are providing value for money? Are you content that WEFO is measuring it correctly?

[180] **Ms Davies:** In terms of value for money, projects are asked to report back to WEFO on a form. It is a form that asks us a series of questions, and it is based on the questions that were asked in the application form. There is very little gathering of any data outside of that, so in terms of measuring journeys travelled and how much someone has benefitted, for example, it is not on the form, so it is not being measured. What is being measured is what the programme wanted. If the programme is about job creation, it will ask you questions about how you have created jobs. It will ask you about how you have spent the money, but it does not measure social impact at all.

[181] **Mike Hedges:** As I said to another witness, someone teaches basic skills, and they can teach those basic skills for six months so that people are able to move on to the next stage. They go on to the next stage for a month, and after that month they go into employment. It is the second-stage people who claim on the tick box that they have got someone into employment, but if it had not been for the first six months, they would not have been able to get them into employment in the first place. Do you see that as a problem?

[182] **Ms Davies:** I do not see it as a problem—I see it as a fact. Who is it a problem for? You could argue that it is a problem for the organisation that invested time for the six months. Provided that the organisation receives funding to do what it does well, it is not a problem.

[183] **Mike Hedges:** They may have a low number of people going into employment, but the second organisation may have a high number of people going into employment, so it can tick all these boxes. The first organisation might get lots of crosses, but people would not have been able to get on to the next stage without the first organisation. Do you not see that as a problem?

10.30 a.m.

[184] **Ms Davies:** It was a problem before Engagement Gateway, which is a tender process delivered by the Wales Council for Voluntary Action. Is everyone aware of that process? I see that you are. With the Engagement Gateway process, organisations such as mine were able to tender for a contract that said, ‘We will engage with X number of people and we will help them to become more confident’. That is measured with a tool called star chart, which is already available and which we use. So, we would plot someone’s developmental journey. We are being contacted through the tender process to help people to become engaged, not to become employed. Our target for getting people employed is very low on that programme. We are meeting a target that is not about employability, but getting people ready to move on to the next step. However, that is unique. The Engagement Gateway programme is the first time that I have seen that. You are not expected to take someone off the streets, get them to turn up for work and be in a job within six months. That is what it has been in the past. Engagement Gateway has changed that, but it will end in July this year, and there is nothing there to replace it.

[185] **Jocelyn Davies:** So, the problem that Mike Hedges has identified will return in the summer, although there has been a temporary solution.

[186] **Ms Davies:** The problem will be there on 1 August. All the organisations, such as Too Good to Waste, that are now delivering Engagement Gateway have employed staff, put in place processes and done a huge amount of learning about how best to engage with these individuals furthest away from work, but, on 1 August, it will end.

[187] **Mike Hedges:** I am glad that I raised this. Who has decided that it is going to end? Whose decision is it for it to end?

[188] **Ms Davies:** I do not know who actually decided it, but the WCVA programme is ending.

[189] **Jocelyn Davies:** We will look into that then, Mike, to see who is running the programme.

[190] **Paul Davies:** I want to ask about the targeted match fund. As a committee, we have received evidence that, although stakeholders obviously consider the funds to be a valuable resource, a number have voiced concerns about the process of applying for and receiving support from the fund. Expanding on your written evidence, can you give us your opinion of

the way the fund has actually worked in practice?

[191] **Ms Davies:** I cannot respond to that.

[192] **Mr Bennett:** I am afraid that I cannot respond properly to that either.

[193] **Ieuan Wyn Jones:** Perhaps it would be useful to know whether you have had any problems in accessing match funding.

[194] **Ms Davies:** We have been fortunate. Given that my organisation generates an income, when we sell furniture, it is clean money; I hope that it is, anyway. [*Laughter.*] I do not check everybody. As we sell a product, we generate money. Income generation is clean money to use for match funding. There is also the benefit of using volunteer hours. Last year, we had 37,000 volunteer hours.

[195] **Jocelyn Davies:** Finally, in your paper, you mention loan funding and the ability to access it. Have social enterprises been using the JEREMIE scheme run by Finance Wales?

[196] **Mr Bennett:** I think that some have, but I do not have enough knowledge of that, Chair. My apologies. Perhaps Linda has some evidence on that.

[197] **Ms Davies:** Loan funding has come in very recently, in the past three or four years. I would urge caution on it, because most community groups are run by people who are not used to handling finance. If you say to them that you have a really great idea to run a social business but that they have got to sign their name to a loan, you would stop innovation at that early stage, because people are just not used to taking out loans.

[198] **Jocelyn Davies:** Thank you for your evidence today. It was very useful. We will send you a transcript for you to check for accuracy. We will be very grateful to receive the note on the social and economic indicators that you mentioned.

[199] **Mr Bennett:** That would be a pleasure. Thank you, Chair. Thank you, colleagues.

[200] **Ms Davies:** Thank you.

10.34 a.m.

Papurau i'w Nodi Papers to Note

[201] **Jocelyn Davies:** Does anyone have any points to raise on this paper? I note that the Minister has also asked the Minister for Health and Social Services to write to us with further details about the decision taken. We have the minutes from the previous meeting. Is everyone happy with those? I see that you are.

10.35 a.m.

Cynnig Gweithdrefnol Procedural Motion

[202] **Jocelyn Davies:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 17.42(vi).

I see that the committee is in agreement.

Derbyniwyd y cynnig.

Motion agreed.

Daeth rhan gyhoeddus y cyfarfod i ben am 10.35 a.m.

The public part of the meeting ended at 10.35 a.m.