

HITTING THE TARGET, MISSING THE POINT: How government regeneration targets fail deprived areas

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nef (the new economics foundation) is a registered charity founded in 1986 by the leaders of The Other Economic Summit (TOES), which forced issues such as international debt onto the agenda of the G8 summit meetings. It has taken a lead in helping establish new coalitions and organisations such as the Jubilee 2000 debt campaign; the Ethical Trading Initiative; the UK Social Investment Forum; and new ways to measure social and economic well-being.



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Executive Summary

At the beginning of the twenty-first century, inequality has reached levels not seen in the UK for over 40 years.¹ Despite decades of economic regeneration programmes in low-income communities, our place of birth continues to be a major predictor of the jobs we do, our health and life expectancy, and the income we earn.²

Why this research?

This report from **nef** (the new economics foundation) asks why inequality is increasing when investment in deprived areas is growing. It is not only an important question to ask but also a timely one as the Government is pumping significant funding into regeneration initiatives in the build-up to the 2012 Olympic Games.

Focusing on the experience of St Helens metropolitan borough on Merseyside, our research suggests that the methods used by policy makers to measure the success of Local Economic Growth Initiatives (LEGI) , although an improvement on what went before, are still inadequate. A more sophisticated approach is needed for the shortcomings of successive regeneration programmes to be understood and overcome.

Prior to LEGI, the evaluations attached to regeneration programmes tended to focus mainly on quantitative economic outputs, such as the numbers of jobs and enterprises created and people trained.³ But projects can be successful on these terms without changing underlying inequalities. This report argues that the approach taken to evaluations has relied too heavily on two flawed assumptions – that outputs provide a true measurement of change, and that there is necessarily a direct cause-and-effect relationship between investment and the achievement of policy objectives.

Insufficiently robust evaluations have led to a perpetuation of similar types of initiatives. The outcomes required to address inequality have rarely been achieved, and governments have potentially exaggerated the improvements secured by their investments.

Although LEGI is more outcomes-focussed, the research raised further questions about the extent to which improvements were likely to be attributable to the investment from this programme. Given the scale of the task that a programme like LEGI has undertaken, a more sophisticated approach is needed for the shortcomings of successive regeneration programmes to be understood and overcome.

The research upon which this report is based was conducted under **nef**'s Measuring What Matters programme. Measuring What Matters was established to investigate how government policy making might be improved by measuring and valuing what matters most to people, communities, the environment and local economies. **nef** has a track record in working with communities to develop radical solutions to the problems created by the shortcomings of the macro-economic system. For example, its *Clone Town* work looked at the impact on communities of a reduction in the diversity of shops and services; and its *Plugging the Leaks* initiative shows how money spent locally can continue to benefit people through a local multiplier effect.⁴

It was through projects such as these that the need for a new approach to measuring change became apparent. The objectives of **nef**'s research in St Helen's have been to evaluate current methods of measurement, to suggest alternatives,

and to try to achieve a more rounded measurement of social return on investment (SROI) that will be applicable not only to local enterprise investment but also to other areas of public policy.

The approach

Measuring What Matters advocates a long-term, transparent approach to measurement in which a central role is played by local communities – the people on the receiving end of the investment. Policy decisions are often driven by considerations of where governments can make financial savings. In contrast SROI advocates a **triple bottom line** approach in which environmental and social impacts are evaluated alongside economic benefits. In SROI analysis an attempt is made to measure and value the things that really matter to people as well as those things that are easy to count, or that are traded in the market place.

SROI analysis culminates in a ratio, or 'social value', generated for investment. More importantly, however, SROI tells the story of how value is created. It is designed to inspire those delivering and using services to engage with the change to which their work contributes.

The policy

Until recently the Local Enterprise Growth initiative (LEGI) was the government's flagship economic development programme. It aimed to transform deprived communities by raising levels of enterprise and employment, and by fostering entrepreneurial and work-oriented aspirations. It was different from its predecessors in that its programmes were designed to operate over a longer period (10 years) and were more focused on outcomes. For each programme central government specified the outcomes it wanted to see and it was up to local authorities to determine how those outcomes would be achieved.

While this research was taking place a restructure at the Department for Communities and Local Government saw the creation of a new regeneration programme – the Working Neighbourhoods Fund (WNF) – which means that no additional rounds of LEGI will be announced. It is intended, however, that the WNF will have a strong enterprise focus. Lessons from this research may offer much to inform the design and monitoring of the new fund.

The scope

St Helens is the 47th most deprived borough in the UK.⁵ This is only the first year of a long-term study in the borough. After one year we can measure changes in enterprise and employment in St Helens but it is not possible to take a view on whether these changes are the result of activities funded by the LEGI. Instead, we have made some projections for the 'social return' we could expect to see at the end of three years. At this stage, therefore, the findings focus on what we have learned from the process as well as qualitative findings from conversations with a range of stakeholders.

The findings

- Our research has found that if St Helens LEGI were to meet its goals in the first three years, this would represent a social return of 14:1, or £14 worth of social value for every £1 invested. This is based on achievement of all the expected outcomes and projecting these over eight years.⁶ Where the indicator of the outcome does not already have a market value, financial **proxies** have been used. In future years the intention is to compare the actual return against this projection.
- As well as the headline outcomes of increasing local enterprise, employment and self-employment, our research modelled a range of other benefits that local people believed would flow from getting more people into work – such as improvements in health, crime and quality of life. However, only those things for which there were sufficient data on which to base calculations were included in the social return projections. According to these calculations, the main recipients of the value generated by the LEGI will be people who are economically inactive.

Triple bottom line:

A framework for measuring and reporting a policy's performance against economic, social and environmental parameters. The term is used to capture the whole set of values, issues and processes that policy-makers must address to minimize harm and create economic, social and environmental value.

Proxies:

In selecting indicators there is a trade-off between data availability and accuracy. When data is unavailable or difficult to obtain, proxies may be used. A proxy is a value that is deemed to be close to the desired indicator. For example the overall regional unemployment rate may be used as a proxy for the local unemployment rate if the required data are unavailable.

- The SROI projections are at present based on absolute rather than relative numbers, for example the value of jobs to people, rather than the value of reducing inequality, irrespective of how many jobs are created.⁷ The next update will be based on a more sophisticated approach that measures and monetises the value of the improved social outcomes that a more equal society brings about, and uses that to derive the calculations.
- We also looked at the issue of valuing equity in relation to those experiencing more acute exclusion, such as women and people on incapacity benefit (IB). When we weighted the benefits to these groups more heavily we found that the social return ratio for these groups was similar, at 15:1, to the overall 14:1 ratio. In the next phase of the research it should be easier to assess whether the emphasis on these groups is sufficient in the overall mix of projects.

The recommendations

This research highlights the need for new approaches to regeneration policy and how it is measured. Our recommendations are as follows:

Measurement

- **Don't assume that public investment alone has created change.** SROI offers a useful framework within which to examine the information required, in order to assess change arising from an investment. **Deadweight** and **attribution** are central considerations for an SROI analysis, ensuring that influential factors additional to the investment itself are taken on board.
- **Targets can create perverse incentives and do not necessarily reflect the reality of people's lives.** LEGI targets – across the programme – focus on full employment, yet experience in St Helens suggests that this is often unrealistic for people who have been excluded for a long time from the labour market.
- **Measure and value distance travelled.** Stepping stones into employment need to be created, and the length of the journey into employment needs to be recognised. The pre-employment phase – intensive coaching and work on attitudinal change with the unemployed, as well as awareness-raising among employers – is especially important. For example, it may take up to a year to build someone's confidence to the point where serious employment discussions can begin.
- **Have a vision for how change will happen.** A theory of change is needed to set out the logical flow from the investment programme through to how change will be created. This is an essential building block for planning any initiative of this kind. Theories of change should be explicit and the process through which they are developed should be transparent.
- **Measure the things that matter.** If not addressed, gaps in the data will hinder the ability to carry out future evaluations. Timely and appropriate data are missing at a local and national level for a number of indicators. Data tend to be skewed towards bigger business and larger areas, although the problems of deprivation are often concentrated in smaller localities and the many smaller enterprises that will never grow to be eligible for VAT registration.
- **Involve stakeholders in setting and measuring indicators.** One of the biggest challenges in moving towards outcomes-focused measurement is engaging staff that have been trained in a target-driven culture. It is important to involve them fully in developing systems in which they take more responsibility for understanding and managing the change that their service is bringing about.
- **Take a long-term view.** Some outcomes from a programme such as the LEGI are not likely to accrue for a generation. Timescales within which measurement takes place need to reflect the actual pace of change, rather than policy or political cycles.

Deadweight:

It cannot be assumed that investment leads directly to positive change without investigating this relationship further. In evaluating the outcomes and impacts of a policy, deadweight is what would have happened anyway, calculated through the use of benchmark data;

Attribution:

Many actions contribute to the achievement of outcomes. Like deadweight, attribution involves finding out whether observed changes are the result of a given policy rather than merely coincidental, and whether they can be attributed to the programme being evaluated.

Economic development policy

- **Economic development policy should be underpinned by an awareness of its impact on inequality.** New research from **nef** has found that growth in share of enterprise within a local authority does not necessarily lead to a similar increase in the most deprived neighbourhoods (report forthcoming). Apart from employment there are other impacts of a decline in enterprise that need to be considered, such as a decline in local shops and services that reduce people's access to these amenities.
- **Take risks.** Innovation in economic development should not be limited to projects themselves but should also apply to the theory of change developed to help implement them. An acceptance of risk is essential to achieve innovation. Consultation with local people in St Helens highlighted the importance of the following factors in the development of a theory of change for economic development:
 - a. Formal and informal networks and their role in getting people into the labour market (see the Bizz Fizz approach to building on networks in deprived communities).⁸
 - b. The informal economy and its importance to those who are on low incomes and/or intending to move into self-employment.
- **Any job is not enough.** While paid employment was very important to those seeking work, meaningful work was also considered important. Negative experiences of casual and insecure employment can be discouraging for those with already low levels of confidence. Future plans for the WNF should also take account of the quality of jobs created in terms of sustainability, conditions, satisfaction and so on. These factors matter to stakeholders.
- **Develop a joined-up approach.** WNF needs to dovetail policy in this area with initiatives by other departments. For example, the recent Green Paper on employment made no mention of enterprise, despite its importance to the Department of Communities and Local Government and the Department for Business, Enterprise and Regulatory Reform. Neither did the Green Paper refer to sustainable development, a significant policy concern both for the Department for Environment, Food and Rural Affairs and in the 2006 Local Government White Paper.
- **Take the politics out of regeneration.** There is still a significant gap in the evidence about what works in relation to economic development policy. It is essential that policy becomes more informed and less political if we are to build the evidence base and use public investment as effectively as possible to combat inequality.

Conclusions

This research has set out to explore the use of SROI as a way of evaluating an economic development programme. Our report makes the case for using a SROI approach to help build an evidence base and to enable the more effective targeting of public policy and investment. Assuming the right data systems are in place, the next steps will be to compare the SROI projections with actual outcomes in the second year. There are strong grounds for optimism that the SROI process and its results will provide better measures of effectiveness both for the LEGI and for future WNF programmes on local economic development.

The moral and economic arguments for reducing inequality and raising the incomes of the poor have been made by others. The UK economy has maintained average growth rates of 2.5 per cent since the 1950s but the benefits of this growth have not been equally distributed, which has led to more concentrated and entrenched poverty and social exclusion. It is essential that policy and investment should be effectively focused on those areas where it will have the most impact.

Finally, future economic development programmes need to be underpinned by a coherent and innovative theory of change. Evaluations need to be focused on the achievement of sustainable development outcomes, which directly relate to addressing the causes of inequality.

Policy context – economic development and inequality in the UK

The UK has achieved average economic growth rates of 2.5 per cent between 1949 and 2006, with current growth in the order of three per cent.⁹ Rates of entrepreneurial activity in the UK have also increased since the 1970s.¹⁰

Despite this growth, there continues to be a significant disparity between the economies of the most and least disadvantaged towns, cities and regions of the UK.¹¹ The lowest unemployment rate in Great Britain in 2007 was in Eden, Cumbria, at 2.2 per cent. The highest, in Tower Hamlets, was 13.2 per cent.¹² In the six miles it takes to travel from Kensington to Tower Hamlets, life expectancy drops by approximately seven years.¹³

Recent research shows that many people care about issues of inequality, particularly the disparity created by very high earners.¹⁴ Wilkinson and Pickett have made strong economic arguments for reducing income differences by showing the impact of such differences on all of society.¹⁵ For economic development to be truly sustainable it's not enough to create more labour demand, jobs, or higher incomes. Incomes also need to begin to converge, the poorest people need to be lifted out of poverty, and these things need to be achieved within environmental limits. Focusing on economic solutions alone, and ignoring social and environmental impacts, cannot deal with the pervasive impacts of inequality.

Regeneration in the UK, particularly in urban areas, has tended to be dominated by large-scale construction projects. These have been relied upon to attract inward investment and new enterprise and to create benefits that 'trickle down' into the local economy. The work of English Partnerships, the London Docklands Development Corporation and the Thames Gateway are well known examples of this. Since 1996 programmes such as the Single Regeneration Budget, supported by the European Union's Objective 1 and 2 Structural Funds have had specific local economic development aspects.

The role of enterprise in regeneration is not a new idea, but a relatively recent dimension of national policy. Influenced heavily by models of regeneration in the United States, the Treasury published a report on enterprise and social exclusion in 1999 that became the focus of the Neighbourhood Renewal Strategy in 2001.¹⁶ Government spending in that year on enterprise-related services totalled nearly £2.5 billion. Since then enterprise-led regeneration has been high on the regeneration policy agenda.

The Local Enterprise Growth Initiative (LEGI) was launched in 2005 with the objective of reducing the gap in enterprise and employment levels between deprived areas and more prosperous communities elsewhere. It was underpinned by an explicit aim of reducing inequality. Specifically the LEGI aimed

- to increase total entrepreneurial activity among the population in deprived local areas
- to support the sustainable growth – and reduce the failure rate – of locally owned enterprise in deprived areas

- to attract appropriate inward investment and franchising into deprived areas, making use of local labour resources.

The LEGI initiative placed greater responsibility for enterprise development in the hands of local authorities and was a high-profile, well resourced programme (£300 million distributed over three years).

More recently the 2007 Comprehensive Spending Review (CSR) has placed greater emphasis on programmes targeting a smaller number of the most deprived areas, perhaps in response to the fact that these economies are further stagnating.¹⁷ The CSR also signalled the end of the LEGI programme and the creation of a new regeneration programme – the Working Neighbourhoods Fund (WNF).¹⁸ This will absorb all the current economic development initiatives and will allocate non-ring-fenced funding to local authorities to spend as they wish, so long as their activities relate to some Department of Communities and Local Government indicators. This represents a positive opportunity for local authorities to embrace new ideas in their regeneration strategies.

1. Introduction

'Urban policy' and later 'urban regeneration' have been features of UK policy for over 30 years. Since the first Urban White Paper (1977) identified the need to address disadvantage across the UK, and following billions of pounds of investment, there has been considerable concern about the extent to which the benefits of these programmes have reached excluded groups.

Billions of pounds are spent every year on regenerating deprived areas, allocated from central, local and EU sources.¹⁹ But a number of recent studies, including new research by **nef** (forthcoming), have found evidence that geographical inequalities continue to increase; the most wealthy and poor areas are largely as they were 30 years ago; and social mobility has decreased.²⁰ Assessing the success of public policy is always difficult, particularly in relation to local economies because of their inherent dynamism and the range of actors involved. Nonetheless, after decades of targeted investment, it is disappointing that the same areas are languishing at the bottom of indicator sets.

In 2005 the Government launched the Local Enterprise Growth Initiative (LEGI) with the aim of transforming local economies. The idea was to increase rates of enterprise and employment and to stimulate entrepreneurship and work-related aspirations.

This research is the first stage in an examination of the long-term effectiveness of the LEGI programme using an innovative approach to measuring effectiveness called Social Return On Investment (SROI). This research is part of **nef**'s wider Measuring What Matters programme, which aims to influence policy makers to incorporate broader social, environmental and economic impacts into their decision-making. SROI provides a framework for the transparent and stakeholder-led approach to measurement that **nef** advocates, and demonstrates the potential that this kind of approach has to improve the design and delivery, as well as the measurement, of public services. SROI is led by **stakeholders** in order to focus on the things that matter to people and communities.

Why another evaluation?

The LEGI is already being evaluated, locally and nationally, so why the need for an additional study? There has been no shortage of evaluations of regeneration and economic development initiatives; previous programmes have been subject to evaluation and there is a wealth of academic literature in this area. Most economic development programmes claim that new enterprise or employment opportunities were created as a result of their activities. The problem is that many have failed to ask who got the jobs created, how sustainable they were and how many of them would have been created anyway.²¹

Previous evaluations have also failed to ask what broader **impacts** the new enterprises and jobs have had on the areas targeted, such as changes in aspirations, quality of life, crime and health. What gets measured focuses priorities, influences behaviour and guides investment. It is our contention that evaluations tend not to ask the right questions, and we therefore do not know whether programmes implemented were the right ones but poorly implemented, or simply the wrong programmes. The result is that money continues to be sunk into disadvantaged areas in response to impressive **output** reporting, yet the most deprived economies continue to stagnate.

Stakeholder(s):

Those people or groups who are either affected by or who can affect policy. This can include customers, service users, trustees, community groups, employees, funders/ investors, shareholders or equivalents, statutory bodies, suppliers and volunteers.

Impacts:

In an everyday sense, the impact of a policy intervention is the broad, long-term change that it has effected. Impacts can be both intended and unintended, as well as both positive and negative. Generally speaking, the impact a policy has had can be calculated by measuring the outcome and subtracting what would have happened anyway, the potential negative effects of the policy and any change created by other policies or organisations.

Output:

A policy intervention usually results in something demonstrable or countable right afterwards. Outputs are usually finite – either items created, such as the number of jobs created, or numbers of people who have received skills training. While outputs are often the first step in creating the longer-term change policy is aimed at, they are not enough by themselves to create that change.

This report is based on an in-depth case study of the LEGI as it is being delivered in the borough of St Helens in Merseyside. It is a three-year pilot project exploring the use of SROI in evaluating an area-based policy. This report is the first stage in **nef**'s analysis. It is an attempt to lay the foundations for further analyses, and will allow us to improve our understanding about what works in this type of enterprise-led approach to regeneration.

For some evaluations the focus is primarily on the projects and processes that have been set up to meet objectives. The starting point with SROI analysis is looking at the *additional* change that takes place – change that would not have happened without the LEGI investment.

In this report we have set out the expected social, environmental and economic impact of St Helens LEGI if it were to achieve its targets in the next three years. We refer to this as a **projected SROI**, and it is contingent on all targets being met. However, the main focus at this first stage of the analysis is on what can be learned from the use of SROI that will help St Helens assess the performance of the LEGI over the next two to three years, and what other local authorities delivering the LEGI and other enterprise programmes can learn. Consequently, we will report on

- what has been learned from using this kind of approach to measuring policy
- a baseline for each of the outcomes we are interested in that can be returned to in years 2 and 3
- the benefits we believe should accrue to the community if the programme meets all its objectives in the first three years
- recommendations for local and national decision-makers, based on the first year's study.

There is a growing awareness that counting new jobs does not create sufficient accountability for how money is spent.²² As the Richards Review on Small Business recently stated, "We must stop making the measurable important and begin to make the important measurable".²³ Enterprise-led regeneration in the UK needs to be rigorously evaluated and to evolve in response to new learning. Evaluation should not only look at the success of interventions in achieving the stated objectives but should also question both the objectives and the theoretical relationship between activity and objectives.

Public intervention in economic activity requires evidence of **market failure**, so interventions are designed to address the causes of market failure. If, for example, inequality is a result of economic activity and not a failure of markets then different objectives or a different theory of change may be required.

The next section of this report sets out our critique of how policy in this area is currently measured. It then goes into the detail of the St Helens case study and what can be learned from it, both for the remaining LEGI areas and for economic development policy more generally. It concludes with a series of recommendations for St Helens and central government.

Projected SROI:

Sometimes referred to as a 'predictive SROI', or an 'SROI budget', this is an approach that predicts the likelihood of social, environmental and economic value being generated from a programme, or intervention. Projected SROI's can be carried out at project planning stages, as they can guide investment towards the areas that are likely to generate value. Only by doing an update post-investment can you test the assumptions on which the analysis was based.

Market failure:

Market failure is the justification that governments use for investment in public services. In orthodox economics it describes a situation when the operation of market forces does not lead to an efficient allocation of resources. This can occur for a variety of reasons such as the nature of public goods; the presence of imperfect competition; and the tendency for prices to inadequately reflect the social costs and benefits associated with economic activity.

2. Measuring change

This programme of research grew out of a desire to develop new forms of measurement in public services, following the failure of so many conventional targets to track progress. Measuring What Matters seeks ways to make visible and measurable those things that are not market traded but are nonetheless essential to our well-being.

2.1 Introduction

The vision of **nef** is that government decision-making should be participative, responsive and focused on bringing about a more just and sustainable society. In order to realise this vision, we have developed a set of principles for success measurement that we want the Government to work towards (Appendix 5).

This section sets out the problems with measurement in public services. Although it does not have all the answers, an SROI approach was taken to address some of the shortcomings in the way that policy is currently measured. A very detailed discussion of solutions was outside the scope of this research but will be dealt with in a later **nef** publication on principles of good measurement.

2.2 The problems with measurement

Involving stakeholders

Too often indicators and performance measures are set in isolation from both the people who will be using them and those for whom they are meant to work. Stakeholders often find that the measures being applied are not even relevant, let alone useful. LEGL objectives focus on enterprise and employment, which are clearly important. But those delivering services tend not to be encouraged to pay heed to a wider range of benefits such as the quality of jobs created, access to local services, levels of crime, and increased quality of life.

Involving stakeholders leads to more 'person-centred' indicators that take account of social and environmental factors as well as economic impacts. For example, local authorities that are following a 'triple bottom line' approach are more likely to consider the long-term impacts of their procurement and commissioning decisions on local community well-being.²⁴

Measuring outcomes

While policy makers have concerned themselves with having the right mix of inputs, activities and outputs in public services, they have not sufficiently grappled with outcomes – the only way of knowing that positive change has taken place. Outcomes are the ultimate effects of an intervention, often manifest only in the longer term. They should not be confused with outputs – the immediate things that an intervention produces, such as numbers of people accessing services. Outcomes are complex and often difficult to measure but **nef** believes it is imperative that outcomes become the primary focus of performance measurement systems so that understanding of the relationship between the funding of public services and social change can improve.²⁵

The LEGL goes some way towards a more outcomes-based approach by specifying the change that it wants to see and allowing local authorities to develop their own outcomes-based activities. However, evidence from our research suggests that although there is an awareness of longer-term objectives, delivery is still focused more on outputs than on the link between outputs and outcomes. This may reflect the target-oriented culture that has come to define many of our publicly-funded initiatives.

Long-term approach

Lasting, positive changes in community well-being or people's behaviour are slow to take root. As this analysis demonstrates, some of the things that matter most to people are those that take longest to come to fruition. This means that the true value of LEGI initiatives cannot be properly assessed unless a long-term approach to evaluation is taken. This may mean being flexible about when evaluations happen, rather than aligning them with policy cycles and looking for evidence of outcomes in the shorter term.

An SROI approach requires a shift in thinking towards understanding and managing the long-term change that an intervention is trying to deliver. When staff have become disengaged from the targets they are working towards it is also important to demonstrate the benefits that an outcomes-focused approach can bring to their professional lives.

Taking account of attribution, deadweight and additionality

Local economies are changing all the time, as people start new businesses, learn new skills and find new employment. With so much going on and so many public and voluntary agencies involved in deprived areas, appropriate benchmarks are needed to measure the extent to which public investment plays a part in any improvements achieved. The LEGI has recognised this in its government-funded national evaluation. It has used the same four categories of benchmarks for each LEGI area being evaluated, ensuring that they can be meaningfully compared. Our forthcoming enterprise gap research highlights the difficulty local authorities have when trying to reverse an economic trend, particularly in areas of concentrated deprivation.

Setting outcomes based on the involvement of stakeholders and ensuring that account can be made of **deadweight** and **displacement** help define appropriate indicators.

A theory of change

All the above issues relate to the need for a better understanding of how activities create the desired change. Where policy does not have a stated theory of change it will become difficult to link activities to outputs and outcomes during delivery. How can change be targeted and measured if how it happens is not understood? While applications for funding under schemes such as the LEGI may be informed by an unstated theory of change, there is currently no requirement that this be made explicit. While innovation is generally recognised as an essential element of economic development projects, there is still a reluctance to fund projects that embrace innovative or radical ideas.

Measuring assets and strengths

Measuring people's strengths and abilities allows policy makers to focus on how best to enable communities to succeed and flourish, rather than focusing solely – as many policies do – on what people lack and why they fail.

The LEGI starts by defining the barriers to economic growth. Our research aims to build on this by identifying the positive factors that contribute to success. We have tried to value the contributions that individuals and enterprises make, rather than assuming that all positive change is a result of public investment.

Responding to measurement data

Measurement is only useful if the data are used to improve services. When those delivering services do not believe that the information they are gathering captures the true value of their work, they will not trust the data and will not use it to adapt their approach. There needs to be a greater emphasis on what we can learn from performance measurement, and on improving programmes by using evidence from stakeholders. This will only be possible if there is better integration between monitoring and evaluation and service delivery, with data being systematically fed back into management systems.

Using data that are fit for purpose

An SROI analysis is only as good as the data that it is built upon. The following problems with the data that are available were encountered during this research:

Displacement:

This describes the negative effects of a policy which can occur when the benefits claimed by a programme participant are at the expense of others outside the programme. For example, where the investment in enterprise in one area leads to enterprise being attracted away from another area: no additional value is being created.

- Statistics are not always published soon enough to highlight short-term changes
- Unreliable sampling methodologies have left a number of gaps in the data relating to unemployment in small areas, self-employment and comparisons between **benchmark** areas
- The data being gathered tend to be skewed towards the performance of bigger business and larger areas, whereas this research and the LEGI are concerned with smaller enterprises and with employment changes in small localities
- Some important things are not being measured at all. For example, we know little about under-employment, or incomes in deprived areas
- Measuring VAT registrations overstates the scale of the 'enterprise gap' between deprived communities and other areas, as a bigger proportion of businesses in deprived areas are below the VAT threshold²⁶
- There is a lack of information about micro-businesses and informal working, which often account for a significant amount of economic output in deprived areas.²⁷

2.3 Measuring the return from local enterprise programmes

In response to these challenges **nef** has piloted the use of social return on investment to better understand the social, environmental and economic benefits that could be brought by a LEGI programme.²⁸ An SROI approach measures and reports on the social, environmental and economic value that is being created by an intervention, and provides a valuable framework for measuring the long-term change created by economic development policy. SROI analysis enables a different kind of decision-making that is not based on narrow economic concerns but balances them alongside the social and environmental, as well as accounting for **negative externalities**.²⁹

Although based on traditional financial and economic tools such as **return on investment** and **cost-benefit analysis**, SROI builds on and challenges these.³⁰ It includes a formal approach to identifying the things that matter to stakeholders – particularly those delivering and using services. Financial proxies are then used to ascribe values to those things that are not traded in the market place. SROI encourages those designing and delivering services to establish a dialogue with their stakeholders in order to help maximise the value that they are creating for them.

nef's Measuring What Matters is the first attempt to understand how useful SROI is in measuring public programmes, and what can be learned from this approach.³¹ It is the first time that it has been used to evaluate economic development policy. In using it we are trying to answer the following questions:

- What is the long-term impact of the LEGI?
- How do we ensure that those delivering the programme manage performance against a set of indicators that are relevant to stakeholders?
- Is the LEGI delivering benefits that are not normally delivered?
- How can attribution amongst partners be assessed?
- What would have happened anyway, without the LEGI intervention?
- Are there any unintended consequences, or negative impacts that have not been accounted for?

Conclusions about the LEGI's overall effectiveness would be premature, as the programme is complex and seeks to generate long-term change. The focus here is on establishing a foundation for long-term evaluation and making the first steps towards a comprehensive assessment of outcomes.

Benchmark(s):

These are used for the comparison of similar processes across organisations, or areas. The data collected for establishing a benchmark can act as a baseline and can be used for before-and-after comparison. Only by using appropriate benchmarks can issues of deadweight and displacement be understood.

Negative externalities:

This refers to the costs or harm imposed on third-parties by the consumption or production of goods and services. If these are not brought into the price mechanism, market actors will produce and consume more of those goods and services than is socially optimal. It is a textbook cause of market failure.

Return on investment:

The ratio of money gained or lost on an investment relative to the amount of money invested.

Cost-benefit analysis:

A method of reaching economic decisions by comparing the cost of doing something with its benefits. The concept is relatively simple, but difficulty often arises in decisions about which costs and which benefits to include in the analysis. This is especially so when relevant costs and benefits do not have a price. Cost-benefit analysis usually looks at returns to only one stakeholder – the State.

3. The St Helens case study

St Helens is the 36th most deprived borough in the UK. It has undergone significant industrial change and restructuring in recent years, leaving a legacy of higher-than-average levels of unemployment and incapacity benefit claimants, and low levels of enterprise. In 2006, St Helens received £13.4m over three years following a competitive bidding process for LEGI funding.

3.1 Background

LEGI funding was determined by a competitive bidding process, with central government assessing which areas had the best programmes for addressing their economic needs. St Helens was one of the first boroughs to win funding, receiving £13.4m over three years.

The St Helens partnership supported this evaluation because it wanted to be able to implement systems that would enable it to evaluate and adjust the programme during its 10-year life span.³² It was also an interesting case study because it is the only LEGI partnership where delivery is led by a private sector partner – St Helens Chamber. For a full description of the projects, see Appendix 4.

St Helens is the 36th most deprived borough in the UK. It has undergone significant industrial change and restructuring in recent years, leaving a legacy of higher-than-average levels of unemployment and incapacity benefit claimants, and low levels of enterprise. The average income for St Helens households in December 2006 was £30,796, lower than the UK average.

In order to tackle unemployment, St Helens has identified 13 **Super Output Areas** (SOAs) where there are particularly high levels of deprivation and where residents could benefit most from LEGI investment.³³ However, unlike some other LEGI bids, St Helens has chosen to offer enterprise support across the borough, rather than in the priority SOAs alone. This is because it is felt that borough-wide economic development should benefit those living in the priority SOAs.

The aim of the programme is to reduce inequalities in enterprise and employment not only across the borough but also in comparison to the wider region. In the original bid, this was to be achieved specifically by delivering the following outcomes:

1. An increase in the self-employment rate, particularly among women, to at least national average levels, enabling at least 2000 people to move into self-employment by 2016.
2. An increase in the business stock to at least national average levels, closing the current gap of 2,200 VAT registered businesses by 2016.
3. To have an employment rate of at least national average levels, removing at least 5,000 people from economic inactivity by 2016.

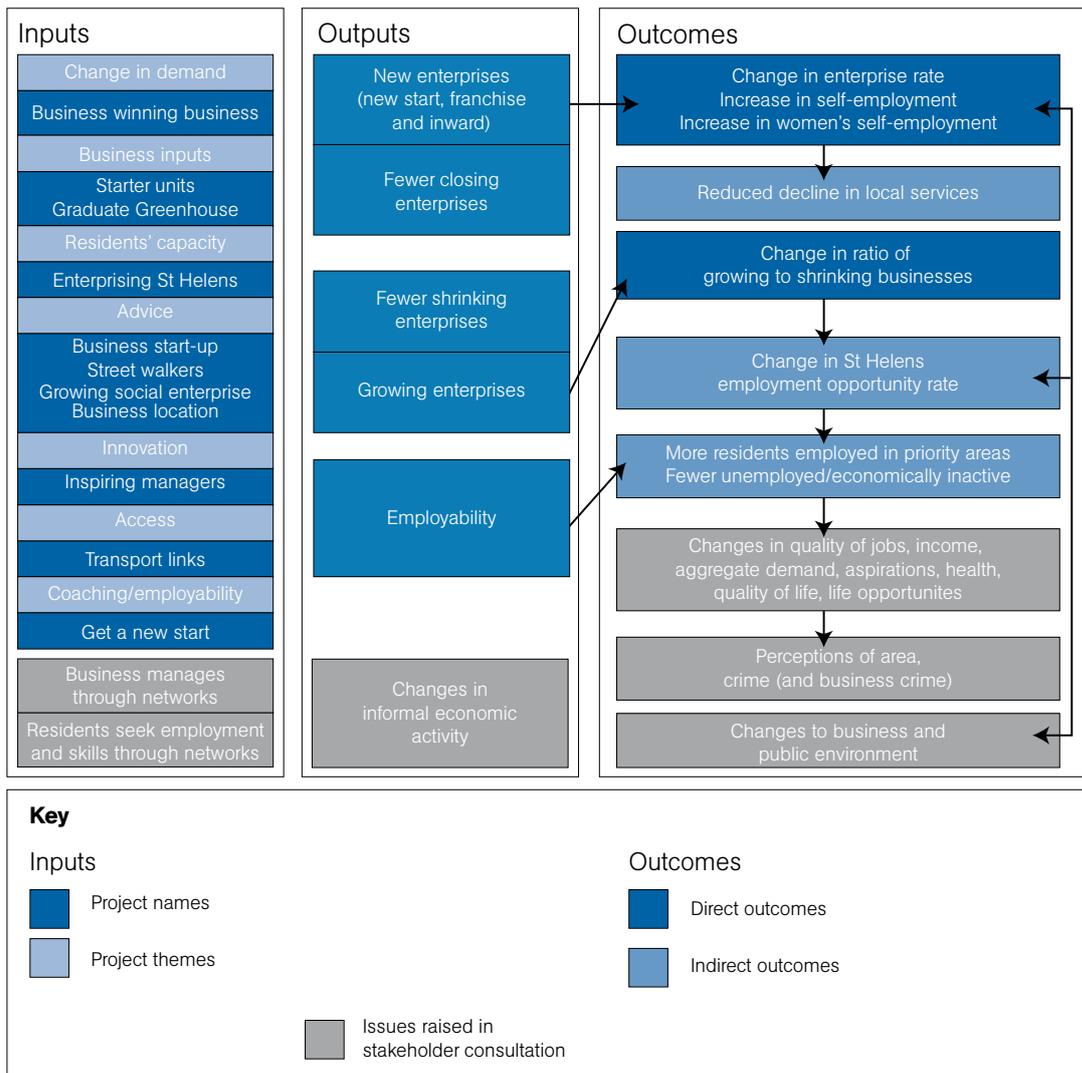
Our research has found that if St Helens LEGI were to meet its goals in the first three years, this would represent a social return of 14:1, or £14 worth of social value for every £1 invested. This is contingent on all of the expected outcomes being achieved, and is based on projecting the benefits over eight years.

Super Output Areas:

A unit of analysis for small geographies. SOAs are small neighbourhoods of 1,500 people, designed to improve the reporting of small area statistics in England and Wales.

In our survey residents tended to talk quite positively about their lives: 25 per cent scored themselves 8 out of 10 or better on a life satisfaction scale and over 80 per cent rated themselves between 6 and 10. Most notably, people scored very positively on their level of satisfaction with personal relationships. Almost 35 per cent ranked their relationships at 10 on the scale and close to 80 per cent gave a rating between 7 and 10. In a survey of schoolchildren and young people, however, almost half disagreed with the assertion that St Helens was a good place to live. More disagreed than agreed with the proposition that there were good job opportunities in the area, although most were undecided on this.

Chart 1: St Helens theory of change



Financial proxies have been used to shape indicators where the indicator does not already have a market value, and a discount rate of six per cent has been used.³⁴

Only after three years of activity – and with the right data available – will it be possible to report fully on the social-value generated. As we will see, the extent to which the LEGI constitutes value for money depends on who gets the jobs created and the degree to which these individuals were previously excluded from the labour market. We are not yet able to measure some indicators of broader community benefit, such as crime levels, as it is too early to estimate what impact LEGI is having in such areas.

The building block of an SROI analysis of St Helens LEGI is the theory of change, or **impact map**, which is shown in Table 1. This started with an assessment of the implicit theory of change within the LEGI and was developed in discussion with stakeholders. It shows how LEGI activity relates to outcomes. While clearly a simplification of a complex system, it is a useful way of making explicit how different projects relate to the overall objectives and the role that staff and users play in making change happen.

The inputs include St Helens LEGI projects (dark green boxes), as well as the contributions made by other stakeholders (grey boxes). For example, one of the key inputs is an increase in demand. This is included because it can contribute to more businesses growing in size and creating more job opportunities for people from deprived areas, improving their incomes and quality of life. This is a

Impact map:

This is a graphic representation of the process through which change occurs. It links a policy's objectives and the interventions associated with those objectives to their observed outcomes.

deliberate simplification of what actually happens, which is a more complex and messy set of connections and interrelationships. But linearity is necessary for ease of demonstration.

3.2 Stakeholders

Measuring change in consultation with local people and engaging those that are not usually involved in designing policies or measurement systems are key innovations in an SROI evaluation. This section sets out what stakeholders told us and how they contributed to our understanding of the way in which change is created in St Helens.

Methods of engaging stakeholders throughout this project included formal meetings, informal conversations with people at their places of work and events in the community.³⁵ Our priorities from a long list of stakeholders were the following groups, based on our assessment of how close they were to outcomes that the LEGI was trying to achieve:³⁶

- New business owners
- New employees
- New and existing enterprises
- Residents
- LEGI delivery partners (government, local authority, Chamber)

What follows is a qualitative analysis of the results of our discussions with over 50 stakeholders. It is important that these engagements are treated not as a quantitative assessment of what has happened but as a means of informing the understanding of an appropriate theory of change.

What unemployed people and residents told us:

Paid work is extremely important and has an impact on many aspects of people's lives, especially their confidence and self-esteem. However, those we spoke to valued sustainable and meaningful employment as much as income and this is reflected on the impact map.

People are motivated to change and improve their lives irrespective of public programmes, and this needs to be accounted for and valued in understanding local economies. That is why emphasis was placed in this study on trying to understand the value that was attributable solely to LEGI activity.

Local services were important to this community and need to be given a high priority in enterprise development. People associated better local services with improvements in their community. Enterprise is important not just for the employment it might create but also for the broader well-being of the community.

Unemployed people told us of prejudices that some employers harbour when examining CVs, particularly if an applicant is older than average, has been out of work for long periods or has been out of the workforce to fulfil caring responsibilities.

Self employment is often seen as a good option for people who cannot get work elsewhere, and was seen as a more desirable employment status by many residents. We have valued self-employment more than conventional employment in our economic calculations as a result.

What businesses told us

Commercial land for new businesses is scarce in St Helens. Local businesses said that this problem had been exacerbated by the reassignment of some land for residential purposes. Changes in this will be monitored throughout the programme.

There was sometimes a gap between what employers were looking for and the skills and experience of those seeking work.

Stakeholders we spoke to

Unemployed people

New businesses

Residents

St Helens management team

Department of Business, Enterprise and Regulatory Reform

Project staff

Other local organisations

Department of Communities and Local Government

Existing businesses

LM3 analysis

Local multiplier 3 helps to measure how an initiative affects the local economy, and to work out where changes need to be made to improve impact.³⁷ LM3 takes its name from the Keynesian multiplier, which has been used since the early twentieth century to measure how income entering an economy then circulates within it. The theory behind LM3 is that a change in income can have a multiplied impact on the local economy that is worth understanding. As with SROI, the process of doing an LM3 evaluation is as important as the information derived from it. Its real value comes from what is done with the information it produces and how this subsequently influences procurement practices.

Further information can be found at <http://www.procurementcupboard.org/>

Small and medium-sized enterprises (SMEs) said they thought that local authority procurement practices could be more favourable to local businesses, particularly smaller ones. St Helens currently procures about 25 per cent of services locally. Using LM3 local multiplier analysis (see box) would enable St Helens to measure the extent to which the LEGI has made an impact on local authority procurement.

What staff among the delivery partners told us:

The focus on full-time employment was viewed as unsuitable for people who had been excluded for a long time from the labour market. We were told that stepping stones into employment need to be created for these people, and short-term employment targets do not reflect the complexity of this challenge.

Those working with the unemployed saw pre-employment coaching and work on attitudinal change, as well as awareness-raising among employers, as ways to help people back into work. In some cases it might take up to a year just to build someone's confidence to a point where employment discussions can begin. However, this can pose a significant challenge for employers. We found that there was sometimes a gap between what employers were looking for and the skills and experience of prospective employees. It is impossible to report on this yet or to measure it properly because of a lack of **distance travelled** measures.

Informal working was important to those on low incomes as a route into self-employment and also as a source of additional income in poor households.

Staff at Starting Point – an advice and guidance centre for jobs and training run by the St Helens Chamber – suggested that the high prevalence of employment agencies in the borough was an indication of the increase in insecure and low-skills jobs in the area.

3.3 How are the benefits shared out?

As mentioned above, the SROI was calculated to be a £14 return for each £1 of investment (see Appendix 5). It is possible to apportion the value of this to various stakeholders as in Chart 2 below.

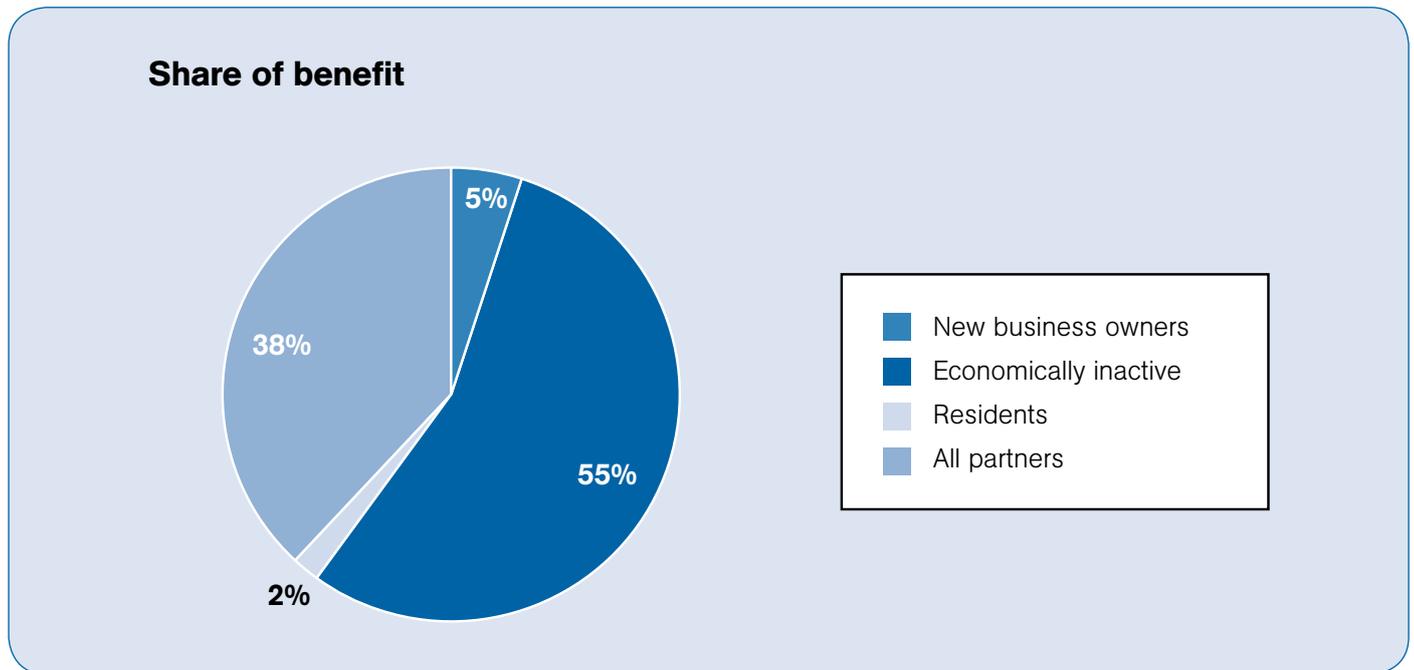
Critically, most of the value (55 per cent) flows to the economically inactive from taking up job opportunities.³⁸ Within the first years of LEGI we would not see a large portion of benefit going to local residents (excluding the economically inactive). However, as the benefits of reduced inequality and higher incomes in deprived areas starts to have the expected knock on effects on crime, health and well-being we should see this increase. Due to a lack of data on the quantity of those expected benefits we have not calculated that far into the future but would hope to in further updates.

This chart could provide a basis for stakeholders to debate whether the distribution of benefit is as they might have expected. The chart should feel intuitively correct. If it does not, it is possible to revisit the proxies and calculations, or ultimately the project design. Once the longer-term outcomes that have not been included in this calculation are monetised, residents should

Distance-travelled:

Generally refers to the progress that a beneficiary makes towards their self-defined goals. This can include differences in people's feelings, attitudes, perceptions or skills over time. The benefit of this type of measurement is that it works within a timeframe that is realistic to the user, and it prioritises and values so-called 'soft outcomes'.

Chart 2: Who should benefit from LEGI activities?



benefit more than this model suggests. There are, however, a number of caveats that need to be highlighted in relation to how the SROI has been calculated:

- There is no **weighting** for employment within the priority SOAs, or for women’s self-employment within our calculations. This means that although there are priority areas and groups, an assessment of performance against projections would not ensure a focus on these priorities. The overall target of changing the economic activity rate could be achieved even if the economic activity fell in the priority SOAs. We have tested the **sensitivity** of the social return to the outcomes below to bring about a better understanding of the value of achieving these outcomes.
- The value of enterprise, with the exception of the value for local services (which makes up three per cent of the total), is restricted to the benefits it brings as a source of employment. No additional value is ascribed to closing the enterprise gap, apart from the value to individuals (over and above income) of being self employed. Meeting the enterprise targets thus becomes little more than a means to an end in achieving the employment targets. Expansion of the analysis to value local procurement by the public sector and by businesses would help address this problem.
- Enterprise will also have value in how it affects people’s aspirations and their perceptions of the local area but the value of this has not been included.

Weighting:

Used in SROI to assign greater importance to a particular outcome within the overall analysis, and making the outcome’s effect on the ratio reflect its importance.

Sensitivity:

An analysis such as SROI is inherently subjective because proxies are being used. It is therefore important to test how sensitive the assumptions and proxies are to change, i.e. the extent to which the ratio is affected by changing different assumptions.

3.4 How subjective is this analysis?

Social return on investment is in part a subjective methodology, so it is important to be transparent about how values are generated. It is also important to test the sensitivity of the social return ratio to certain assumptions, as this helps to build understanding of the relative importance of different outcomes to the overall theory of change. Sensitivity analysis allows us to look at how the value generated is shared between different stakeholders.

St Helens residents of the priority areas earn 20 per cent less than people in the non-priority areas, and there are 20 per cent more men in self employment than women. For the sensitivity analysis we weighted the value of self employment to women and residents of the priority areas more heavily, using a weighting of 20 per cent for both. Improving self-employment is a central aspect of the equality objectives within the LEGI. This changed the SROI ratio to 15:1. It did not have a big impact on the share of benefit between stakeholders.

Priorities for action

The numbers of people securing jobs only tells part of the story. Projects should also track the sustainability of employment and changes in the quality of that employment. (3.2)

If the contribution made by people and their access to other people are important, then these should also be measured. Projects that strengthen networks may lead to better outcomes. (3.2)

As well as overall levels of enterprise, the type of enterprise that provides local goods and services should also be monitored, given the additional value that these generate in disadvantaged areas. (3.2)

Examples of employers' positive experiences with older employees and the long-term unemployed should be shared within business networks, to break down any prejudices that might exist. The differing perceptions of job seekers and businesses may merit more discussion, as there may be implications for activity that is outside the scope of this report. (3.2)

Information on changes in availability of space for businesses should be reported.

Ways of assessing and reporting on progress towards employment should be used, and outcomes should be weighted to take account of factors such as, the period of unemployment. (3.2)

3.5 Enterprise in St Helens

Increasing St Helens' share of enterprise relative to the North West is a key objective for this programme, as the theory of change relies on this outcome for employment and other benefits to be realised.

The LEGI target is for the enterprise rate to be 80 per cent of the North West rate in three years (VAT data). Using BETA model data this translated into a requirement to increase the share of the UK's enterprise that is in St Helens by between four and five per cent.³⁸ On the assumption that the benchmark area does not change (i.e. there is no growth in the North West) this equates to 590 additional VAT-registered businesses or just over 305 additional businesses on the BETA Model.³⁹ St Helens LEGI has reported supporting 320 business starts in the year to April 2007, compared with 206 for 2005-06 – an increase of 114.⁴⁰

Chart 3 shows the change in England's share of enterprise that is in St Helens since 1999. St Helens is increasing its share of enterprise relative to the North West and has been doing so since 2003. However, it is too soon to argue that the trend has been influenced by LEGI activities. One year is not long enough to assess this, as the next section explains.

Can any change in enterprise be attributed to the LEGI?

We cannot assume that improvements in the St Helens economy are directly attributable to LEGI activities, as there are a range of factors that might be influential, including:

- availability of sites and premises
- availability of advice from other sources
- availability of finance
- strength of business networks

Availability of sites and premises

There is a decreasing amount of land available for business use in St Helens, perhaps because of the potential for high profits offered by a buoyant residential market. Any declining share of enterprise could in part be due to there being less land available, while any success in increasing share of enterprise will be dependent on the availability of sites – irrespective of LEGI activities.

An explanation of change in share methodology

If a neighbourhood has four enterprises in 2002 and its local authority has 12, this constitutes a 33 per cent share.

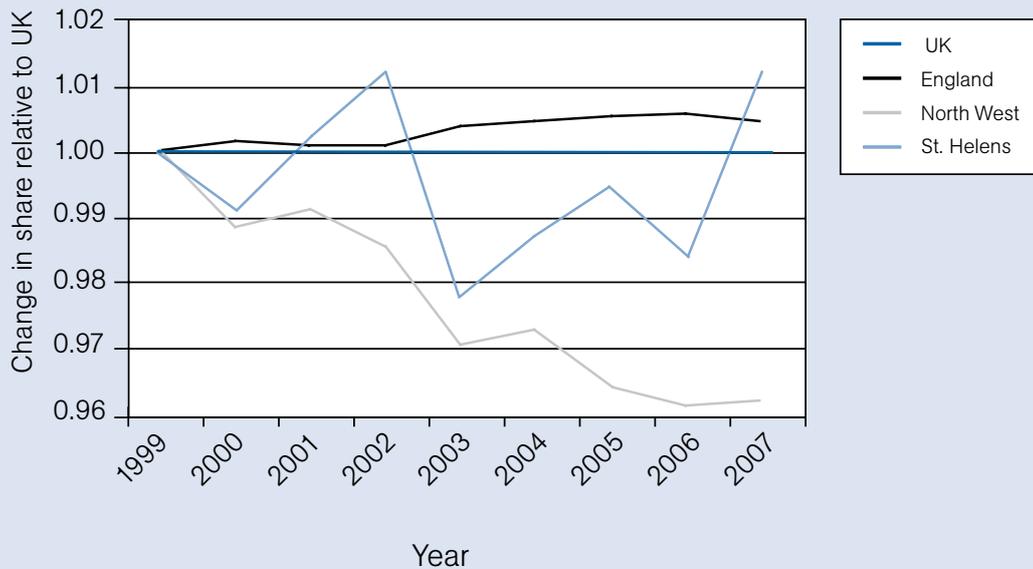
If by 2007 that neighbourhood has five enterprises, and its local authority has 15, its share is still 33 per cent.

Change is 1.00 or 100 per cent of the share in 2002.

If, the neighbourhood has five enterprises by 2007 but its local authority has 20, then its share has fallen to 25%.

Change is 0.75 or 75 per cent of share in 2002.

Chart 3: Change in St Helens share of enterprise relative to the UK



Availability of advice and finance

Changes in the availability of finance and advice would influence levels of enterprise but information on changes in advice is not being related to changes in enterprise. The limited finance available is clearly a barrier to entrepreneurship in St Helens; in a recent survey 44 per cent of people cited it as a reason why they would not consider starting a business.

While some businesses will succeed without any advice, good advice is more difficult to find where market failures occur. St Helens LEGI has recognised this and is supporting accountants to advise its clients. In a recent survey of business networks carried out by Responsibility Northwest, accountants were the most important source of new ideas after employees and friends.⁴¹

The strength of business networks

A survey of existing business networks and a similar survey across the North West would provide a benchmark to help monitor the strength of business networks in St Helens. Some academic literature suggests that business survival, growth and innovation are linked to the effectiveness of businesses' own informal and formal networks.⁴²

LEGI business support

There is no way of knowing the relationship between the numbers of new businesses supported in the shorter term and the proportion that grow over time to be included on the BETA model database or to become VAT registered. This means that there is a focus on the relationship between projects with direct enterprise outputs and the programme outcomes, rather than the entire business stock.

The counterfactual – what might have happened anyway, and unintended consequences

It is possible that any changes in the share of enterprise enjoyed by St Helens might have happened anyway, without the LEGI investment. St Helens was the beneficiary of a range of previous economic development programmes, including a City Growth Strategy and European funding.

However, it is not possible to take a view on the full implications of deadweight on this analysis because:

- more time is required to see if change relative to England is sustained or if the trend relative to the North West changes – especially as this is the first year of the LEGI, when less activity was planned

- the dynamics of changing levels of business formations and closures need further investigation, especially as formations in one year will affect closures in future years.

The measures used in this research sample the business population. It is possible that changes in the measured business population may be offset by changes in the numbers of those businesses that are not measured, with the result that there is no change in overall demand. Perhaps the most important area to consider here is the informal economy, where there may be considerable economic activity. As a result of identifying this issue, further research on a baseline for the informal economy will be undertaken within the priority SOAs and other areas of St Helens in early 2008.

It could be argued that the displacement of some local businesses by economic activity may be a positive thing in terms of overall enterprise development. More information is required on the differences between new businesses, those they replace and those that remain to assess this. In the medium term the benefits from churn need to be reflected in opportunities for people in St Helens, and therefore linked to appropriate skills and employment and growth in new firms. Again, tracking of employment in business starts will be central to understanding this.

Although there is little mention of it in the LEGI, sustainable development ought now to be an imperative, as outlined in the 2006 local government white paper *Strong and Prosperous Communities*.⁴³ This should not be construed as requiring the poor to keep their emissions low while more affluent areas continue to pollute. Instead there is a need for an approach that encompasses broader environmental policy in the region, perhaps where reduced carbon emissions in wealthy areas offset increased carbon emissions from increased enterprise in priority areas. More integration between the council's policies on sustainable development and economic development could be explored.

Although not explored in this report, the potential impact on other social issues of parents (especially single parents) working outside the home should be considered by policy makers. This may be particularly significant where family-friendly employment policy is lacking. Women's contribution to community and family life, not least as carers, has tended to be undervalued. It is likely to have played a more important socio-economic role than has hitherto been appreciated.

3.6 Self-employment

Self-employment is treated as a sub-set of the overall enterprise target. Given its importance as a route to work, and because there are unique issues relating to how it is measured, we have dealt with it separately here.

The three-year LEGI target was to achieve a 1.3 per cent increase in the self-employment rate, or parity with the North West as a whole. The actual number of people who are self-employed in St Helens and other local authorities is unknown, as the figures are based on estimates from the Annual Population Survey (APS). To compensate for this, the BETA model provides a proxy, as it has information on businesses employing one person.⁴⁴ A 25 per cent increase in the share of enterprises with one employee would be required to reach the equivalent relative target.⁴⁵ The SROI calculation assumed that half of new starts were started by people who had been economically inactive and half by people who were previously employed.

Research through the People's Panel found that almost one fifth of people chose fear of failure as their reason for not starting a business, which is less than the UK average of 34 per cent.⁴⁶ But this research also found that:

- aspirations of entrepreneurship were low overall. Only five per cent of people said they had considered starting a business in the past year, and only three per cent said they were actually planning to do so. Only a third of these had progressed the idea

- self-employment is certainly not for everyone. Only 40 per cent of people thought it was more attractive than being an employee
- some people expressed a positive reason for not starting a business. Sixty per cent said they had not pursued the idea because they liked their current jobs too much. This is important to remember, as starting a business should primarily be about greater economic and social well-being for the individuals concerned, rather than being primarily about increased productivity.

Among school leavers a much more entrepreneurial spirit was evident. Only 28 per cent in a similar survey said that they had never considered, or were not interested in starting a business. However, they were more likely to disagree, or strongly disagree, with the assertion that St Helens is a good place to start a business. This seems to reflect national data on entrepreneurship, which have not found an 'entrepreneurship gap' between deprived and non-deprived areas, even though this might not be translating into levels of enterprise in these areas.

As the case study of Paul highlights, self-employment can be 'necessity entrepreneurship' – a route into employment for people who could not otherwise get a job. It also outlines the challenge that self-employment poses for people who have been long-term unemployed.

Women in the UK are less likely than men to be self-employed. Self-employment is seen as one of the avenues to improving women's employability, income and representation in senior management roles.⁴⁷ In St Helens the women's self-employment rate is just over half the national average.⁴⁸ Tackling this problem is a priority for the LEGI programme, and there is a target for one third of all new starts to be by women (66 of the 200 new starts each year) This is in acknowledgement of the fact that women, particularly those with caring responsibilities such as Stephanie (see case study, p23), face additional challenges in starting a business.

3.7 Enterprise and the local economy

If new and measurable change in share of enterprise can be demonstrated, this should lead to the following benefits for local people.

Short-term:

- Employment in priority areas
- Fewer people on incapacity benefit
- A reduction in the decline in local services
- A reduction in business crime.

Longer term:

- Stronger informal and formal networks
- An increase in aggregate demand
- Higher aspirations and levels of entrepreneurship
- More job satisfaction
- Improved health
- More life opportunities
- Higher incomes
- An improved local environment
- Reduced crime
- Improved quality of life
- Improved perceptions of the local area.

This section sets out how we have dealt with each of these indicators in this research.

Case study 1

Paul used to be employed as a draftsman but was made redundant three years ago. He has been unemployed since then. The engineering sector in St Helens has experienced a downturn and he has found it difficult to get a job. He decided to set up his own business after seeing an advertisement in one of the Chamber's papers about support available for those over 50 who want to do this. He was attracted to the idea because it gave him control over his own employment situation.

Paul was always interested in gardening. He began researching the market and decided that there was potential in this area. He had been doing 'bits and bobs' informally up until then and decided to try to formalise this. Rather than just concentrating on gardening, which is quite seasonal, he decided to broaden his offer to include window cleaning and other small jobs.

Paul's biggest challenge is that he has a bad credit record from a £100 debt. Although he has a business account with Barclays, he cannot get a loan for working capital. He needs his own transport and cannot purchase a van without a loan, which is holding him back. The Chamber can only do so much to support him. They have given him advice and support and will give him a year's supply of free broadband, as well as help with buying tools. He has also received support from the job centre with training and a grant for printing flyers.

Paul is currently on Job Seeker's Allowance. He believes he will be able to retain a small portion of his benefits for a while because he has been out of work for so long. However, he will lose his Council Tax exemption and other benefits, which will put additional pressure on him. Paul is therefore relying on the Chamber start-up grant to see him through the initial period.

In three years Paul hopes to be established in his business, ideally with a couple of people working for him. He would like to develop a social dimension to the business by taking on young people that have not done well in school to help them get a start in life. He already knows particular people that he would like to take on if he is in a position to do so.

Increase in employment in St Helens

Labour market policy in the UK has focused for some time on the working-age inactivity rate, which has remained high since the early 1990s. Inactivity has increased most among the least skilled. St Helens has a higher-than-average economic inactivity rate (25.2 per cent of the working age population, compared to 23 per cent in the North West and 21.3 per cent nationally).⁴⁹ Whether this can be influenced by changes in enterprise will become clear over time. As we can see from Chart 4, however, this trend has been improving against two variables – there have been fewer people claiming JSA and claiming all other benefits compared to the North West as a whole each year since 2003.⁵⁰

In June 2006, three months into the LEGI programme, the economic activity rate in St Helens was 71.8 per cent against a North West rate 72.5 per cent. However, the time lag in the evaluation of economic activity rates makes it difficult to use this indicator until the end of the second and third years of the programme. LEGI activity reported 829 jobs created in the first year of which over 390 were from business starts and 352 were from inward investment.

Increase in employment in St Helens priority areas

The employment projects will specifically target the priority areas, and 670 of the 1,500 jobs created through the LEGI should go to residents of those areas. This is the first of our indicators for which the trend was moving in the wrong direction between 2002 and 2006 – the share of St Helens claimants in total and for JSA claimants in the priority SOAS has been increasing (Chart 5).

This suggests that there is increasing inequality between the less deprived parts of St Helens borough and its priority areas. There is a need not only to target priority areas but also for projects in these areas to support those that are most excluded from the labour market – the acid test of the success of the LEGI. To help achieve this, the space for innovation within the programme should be maintained.

One of the biggest predictors of high levels of well-being is employment.⁵¹ This was reflected in conversations with people who are unemployed in St Helens, who talked of the feelings of shame and worthlessness that unemployment brought about in their lives.

Case study 2

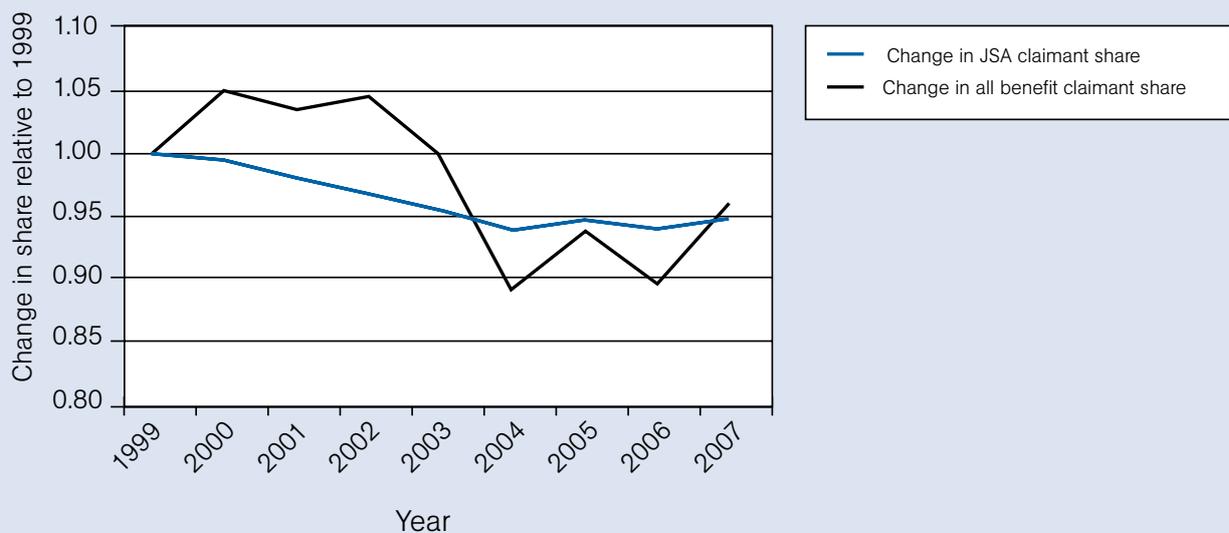
Stephanie runs a company that delivers lifestyle courses to people that want to improve their health or fitness. She was previously employed as a financial advisor at an estate agent's. When she was made redundant she decided to follow her passion and start a business.

She works in a holistic way with clients covering weight loss, nutrition and exercise. Her ambition is to take her product into companies, where she believes there is a big market for her work. She is also keen to capitalise on the Government's healthy lifestyles initiatives.

Stephanie lives in one of the priority areas in St Helens, and she has found that it is difficult to change people's perceptions about their health. She believes there are additional barriers to women starting businesses. She has to manage domestic chores and raising children alongside the pressures of the business, and could do with more support. She regards her business as a big opportunity to do something special with her life, as she wants to do something in addition to being a mother.

Stephanie puts a lot of work into formal and informal networking. She finds that she reaps the rewards of this in unexpected ways. Her advisor at the Chamber has worked on confidence building, and she has found his belief in her very motivating. Stephanie wants to grow her company. In a few years, she hopes to be hiring staff and reaching more people in the community with personal training, weight management and nutrition services.

Chart 4: Change in share of Northwest claimants in St Helens (November)

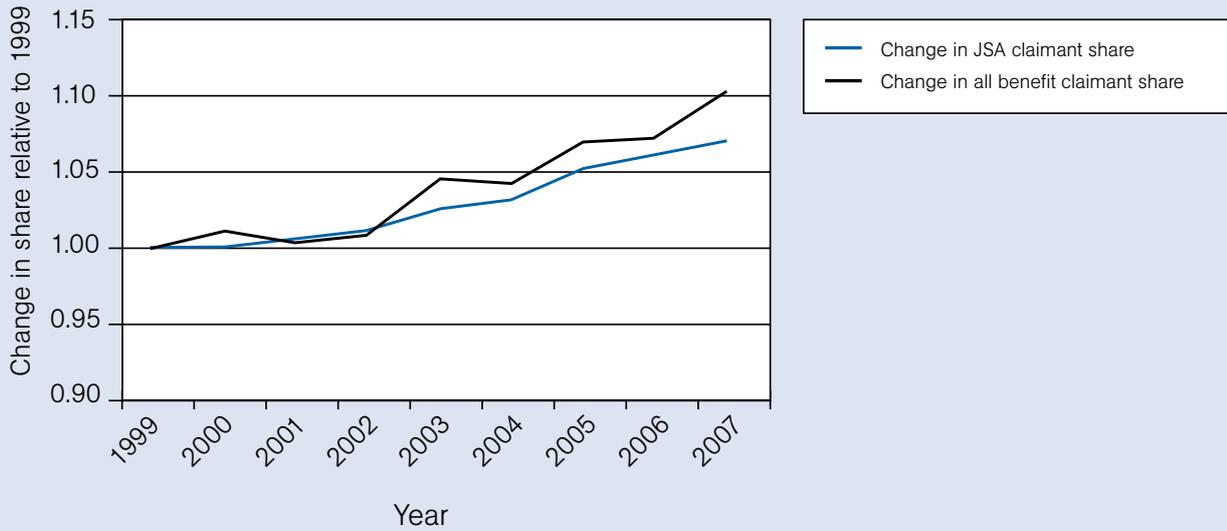


Incapacity benefit claimants

The majority of those who are economically inactive in St Helens are in receipt of incapacity benefit (IB). Over half of claimants who are aged below 50 have mental and/or behavioural disorders. In several parts of the borough over 20 per cent of the working-age population is claiming IB. National research suggests that many people on incapacity benefit do not consider themselves as disabled, saying they would like to do something meaningful with their time.⁵² The St Helens LEGI management team said that there should be a particular focus on people who are claiming IB. However, as the project activity does not record whether or not those supported are on benefits, it will not be possible to explore the relationship between numbers of people on incapacity benefit and the achievements of the LEGI.⁵³

During our consultation, unemployed people told us that they felt frustrated with the availability and quality of jobs through employment agencies. One resident had been working on short-term, sporadic contracts for two years, while others talked about being offered shifts at unsociable hours only.

Chart 5: Change in share of St Helens claimants in the priority SOA (to May 2007).



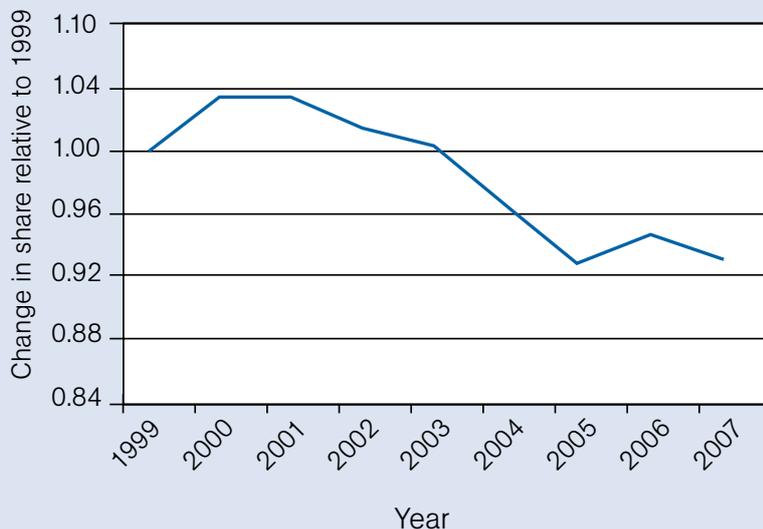
Local shops and services

Businesses that provide services for local people in the priority areas in St Helens are currently in decline. Their share of the UK’s local services is 95 per cent of what it was in 1999. The target is for the same increase in share for all enterprise.

nef’s research has found that where there is a decline in local services, this has a negative impact on people and communities. The high streets of the UK have seen a concentration in ownership of retail stores in recent years – often with the support of large regeneration budgets – with little regard for the role that locally owned enterprise plays in economic development. Businesses that are locally owned are more likely both to buy locally and to make a broader social contribution that is more difficult to quantify.⁵⁴

Residents talked of boarded-up shops and desolate streets in their area. One man explained that after his local food store closed down, he had to take two buses to do his food shopping. He thought that the council should be aware of the value of these services to local people over and above the value to the local economy.

Chart 6 Change in share of local shops and services in St Helens priority areas relative to St Helens



Although the St Helens LEGI is not directly supporting local services, it is intended that they will be among the businesses started by the enterprise programme. Change in local shops and services can be estimated through the Beta model by reference to a subset of enterprises employing between one and five people (in particular Yellow Pages classifications), as set out in Chart 6 below.

Outcomes that have not been monetised

There are a range of outcomes that have not been included in the SROI projections, either because there are insufficient data on which to base calculations, or because changes were unlikely to happen within the timescale (eight years). The table below summarises these outcomes and Appendix 2 provides a full description of each.

If it could be shown that there were improvements in these areas, then the benefits of the LEGI programme might be significantly higher. Baselines have been noted for all of these outcomes so that they can be revisited in future years. The following table sets out each of these outcomes and how they will be measured.

One out of every six people will be diagnosed with depression or a chronic anxiety disorder at some point in their lives, and there are one million people on incapacity benefit in the UK as a result of mental illness. A report by the London School of Economics estimates that the total cost of this in terms of lost output is in the region of £12 billion per year, or one per cent of total national income. In St Helens as a whole there is a 1.19 per cent prevalence of reported mental health problems, compared to the national level of 0.6 per cent, however in some GP surgeries this is as high as 5.37 per cent.

	Outcome	Measured by
Outcomes relating to enterprise	Stronger informal and formal networks	Survey
	Aggregate demand (public, private, consumer)	Quarterly Economic Survey, LM3
	Business crime	Police database
Outcomes relating to people	Aspirations and entrepreneurship	Schools survey
	Quality of jobs	Questions asked through People's Panel and income used as proxies
	Health	Mental health used as a proxy – prevalence at GP clinics
	Life Opportunities	People's Panel
	Income	CACI ⁵⁵ data
Outcomes relating to place	Environment	Fly-tipping and contaminated land used as proxies
	Crime	British Crime Survey and Merseyside Police data
	Perceptions of the local area	People's Panel
	Quality of life	People's Panel

Priorities for Action

The availability of land for commercial use should be tracked, and changes reported, as part of this project. (3.5)

Given the role of St Helens Chamber in supporting networks and the possible contribution that investing in this could make to overall LEGI objectives, this survey (or similar) should be completed on an annual basis. (3.5)

Data on numbers of men and women who are self-employed in priority areas would be useful, as it is not possible to monitor performance against targets when they are based on estimates of self-employment numbers derived from a sample. (3.6)

Self-employment is an important option for people who are struggling to find work. It will be important to track the success of new business starts, often prone to high failure rates, in enabling people to earn a decent wage over time. (3.6)

The informal economy and networks research should be carried out, and the issue of a North West benchmark should be considered.

Although not explored in this report, the potential impact on other social issues of parents (especially single parents) working outside the home should be considered by policy makers. The effects may be particularly significant where family-friendly employment policy is lacking. Women's contribution to community and family life, not least as carers, has tended to be undervalued. It is likely to have played a more important socio-economic role in the community than has hitherto been appreciated.

Research shows that people on Incapacity Benefit (IB) are unlikely to become employed. In addition, the age profile of those on IB will have an impact on the rate at which people stop claiming. It would therefore be useful to find sensitive ways of recording the benefits status of Starting Point clients, as the contribution of LEGI activity to changing benefit status may be significant.

There should be a discussion between project managers about the relationship between current project outputs, in order to consider whether the activity as currently designed will be effective enough to reverse the trend in Chart 5.

For all of these outcomes issues of attribution and deadweight will be important, albeit difficult to establish. Benchmark data for each would be useful. Questions were not asked through the People's Panel about perceptions of crime and safety but it might be useful to include these in future versions of the panel. It might also be valuable to drill into the reasons behind some of these responses, as they have the potential to inform local policy-making.

Given the importance of improved incomes to poor households, it would be particularly useful to access a good-quality dataset on income from benchmark areas.

An analysis of local money flows, such as an LM3 analysis, should be conducted. Given that part of the aim of an LM3 is to improve local procurement policy, the impact of the research itself and of discussions with suppliers would have to be taken into account. Comparable LM2 data is already available.

The availability of private-sector support could be estimated by reporting on any change in numbers of businesses that provide business support.

4. Priorities for action

4.1 For St Helens

1. Linking up project, St Helens and national indicators

- Counting the number of start-up businesses supported by LEGI projects may over-emphasise the importance of these outputs compared to other interventions that are more difficult to measure. Ways of understanding the contribution of project activity to changes in the size and survival of existing businesses should be developed
- The numbers of new businesses supported, and the proportion that grow over time to show up on the BETA model database or become VAT registered, should be monitored
- Data are needed on self-employment and women's self-employment in priority areas and in St Helens, in order to link project activity with national sample-based targets. If a survey of the informal economy in deprived areas goes ahead, this could include questions on formal self-employment
- It may be possible to follow up annually or biannually with individuals supported by Starting Point, in order to measure income, satisfaction, security of employment and the benefit status of those that are supported into jobs
- The extent to which people stay in work should be monitored over the same timescale as for enterprise starts.

2. Attribution

- The availability of land should be tracked, and changes should be reported.
- The availability of private sector support could be estimated by tracking a relevant set of businesses, for example accountants, and comparing the change with the overall level of change.
- Changes in employment numbers and ranges of businesses in St Helens should be monitored.
- Given the role of St Helens Chamber in supporting networks and the possible contribution that investing in this could make to overall LEGI objectives, the Responsibility Northwest survey of business networks should be completed annually in St Helens.

3. Longitudinal tracking

- Those supported through the aspirations projects in schools should be tracked.

4. Other sources of value

- Income data for St Helens and the priority areas should continue to be collected
- Plans to carry out an LM3 analysis should be taken forward
- Questions were not asked about perceptions of crime and safety through the People's Panel but it might be useful to include these in future versions of the panel. It might also be useful to drill into the reasons behind some of these responses, as they have the potential to inform local policy-making.

5. Project findings

- One year is not long enough to ascribe trends in enterprise and employment to LEGI activity. Detailed consideration needs to be given to the longer term trends since 1999, and in particular to the differences in claimant counts in priority areas relative to England as a whole, if measurement in this area is to be made possible.

4.2 For policy makers

1. **nef** advocates a new approach to evaluation that incorporates the principles of measurement outlined in Appendix 5. One of the biggest challenges in moving towards outcomes-focused measurement is encouraging staff who have been trained in a target-driven culture to take more responsibility for understanding and managing the change that their service is bringing about. Findings from the work in St Helens suggest that an SROI approach will contribute to this but will not be sufficient on its own.
2. It is essential that a long-term view is taken of the programme. The expected outcomes are not likely to accrue, and cannot therefore be fully analysed, in the short term.
3. If not addressed, gaps in the data will hamper future evaluations. Timely and appropriate data are missing at a local and national level for a number of indicators. For example, the data on self-employment at the local level is sample-based, and therefore not a reliable means of assessing the contribution of project outputs to self-employment. There are no employment data available at the neighbourhood level.
4. Pre-employment coaching and work on attitudinal change with the unemployed, as well as awareness-raising amongst employers, were seen as important.
5. While paid employment was very important to those seeking work, meaningful work was also considered important. Negative experiences of casual and insecure employment can be discouraging for those with already low levels of confidence. Future plans for the WNF should take the quality of jobs (sustainability, conditions, satisfaction etc) into account, as this issue matters to stakeholders.
6. Applications for funding under schemes such as the LEGI may be informed by an implicit but unstated theory of change. In future programmes this should be explicit and transparent. Innovation in economic development should not be limited to individual projects but should also apply to the programme design. An acceptance of risk is essential to achieve innovation. For example, engaging stakeholders highlighted the importance of the following factors in the development of a theory of change or economic development:
 - a. Formal and informal networks and their role in getting people into the labour market
 - b. The informal economy and its importance to those on low incomes and intending to move into self-employment.
7. A joined-up approach is required to dovetail policy in this area with initiatives by other departments. For example, the recent Green Paper on employment made no mention of enterprise, despite its importance to the policies of the Department of Communities and Local Government and the Department for Business, Enterprise and Regulatory Reform. Neither did the Green Paper refer to the issue of sustainable development, a major concern of the Department for Environment, Food and Rural Affairs and the 2006 Local Government White Paper.
8. There is still a significant gap in the evidence about what works in relation to economic development policy. It is essential that policy becomes more informed and less political if we are to build an evidence base and use public investment as effectively as possible to combat inequality.

5. Conclusion

Inequality has become embedded in the socio-economic make-up of the UK. Efforts to address this have made little impact, and evaluations have failed to enrich our understanding of why this is the case.

As outlined, there are challenges in building a rigorous evaluation approach, not least because of inadequate data. However, there are strong grounds for optimism that the SROI process and its results will better reflect the effectiveness of the LEGI programme over the next three years than any alternative approach. The next stage of this research will compare the actual results achieved with the projected performance set out in this report. This relies upon a longer timescale and better information being available. Once this is available, however, it will be possible to:

- provide a measure of the value of LEGI activity that not only takes into account the main targets of the programme, but also allows for people's related objectives and considers equality
- assess the impact of changing the calculations of deadweight and attribution. This would rely on the programme's investment in capturing data and the Government's investment in providing consistent data both at the borough level and in benchmark areas
- interpret the difference between actual and projected returns in terms of standard variance analysis against each of the sources of value, in order to inform the development of the programme. On the assumption that the LEGI continues after three years, the budget for additional years should only be finalised after this assessment (which would not be available until the end of the first quarter in Year 4)
- carry out further research on the trends in share of employment and enterprise and the identification and agreement of appropriate benchmarks. Further research is also needed into areas where there is no information, for example the informal economy, on the strength of networks and local money flows, and how much time is needed with people before they are ready for employment.

At the end of this first year, much has been learned about the complex dynamics of St Helens and the current role of LEGI activity. The foundations for the evaluation have been established. The objective of Years 2 and 3 will be to create a robust evaluation.

The scale of some of the challenges facing St Helens is considerable; particularly to reverse claimant trends in the most deprived areas. Future Measuring What Matters publications will be more conclusive with regard to the aspects of economic development programmes that are likely to work in a community such as St Helens. We should also be able to grapple with some of the issues that this report has only been able to touch upon. Although the LEGI will not be continuing in its current form, it is hoped that this approach to measuring change will influence those designing policies and programmes to move beyond output targets and take a longer-term view of the things that matter to those communities they are seeking to support.

Appendix 1 – Stakeholder map

The following table charts all the stakeholders in the programme, together with the outcomes that they would hope to share. A number of other sources of value were identified as part of the SROI process but these were not included in the projected SROI calculation because it is too soon for sufficient meaningful data to be available. Instead we have provided baseline data which can be used to assess value retrospectively when more data become available.

Stakeholder	Outcome	Reason for inclusion in/omission from the SROI projections
New owners who were previously unemployed	Self employment (6.2)	Included Data available and measurable over the first three years
New owners who were previously employed	Self employment (6.2)	Included Data available and measurable in the first three years
New employees	Employment (6.3)	Included Data available and measurable in the first three years
New and existing enterprises	Business crime (6.5)	Included Data available and measurable in the first three years
	Increased demand	Excluded No baseline for public sector; only baseline for private and consumer demand.
	Formal networks	Excluded No data available
Residents	Improved local services (6.4)	Included Data available and measurable in the first three years
	Increased aspirations	Excluded Likely to take many years to see changes – only baseline available.
	Improved quality of employment	Excluded Likely to take many years to see changes in this, and no data with which to make projection
	Life opportunities	Excluded Likely to take many years to see changes in this, and no data with which to make projection
	Health	Excluded Likely to take many years to see changes in this, and no data with which to make projection
	Improved perceptions of the local area	Excluded Likely to take many years to see changes in this, and no data with which to make projection
	Local crime	Excluded Likely to take many years to see changes in this, and no data with which to make projection
	Local environment	Excluded Likely to take many years to see changes in this, and no data with which to make projection
	Informal economy	Excluded Likely to take many years to see changes in this, and no data with which to make projection
	All partners (government, St Helens, society etc.)	Reduced social exclusion

Appendix 2 – Non-monetised outcomes

Enterprise outcomes

Informal networks

Formal networks, which include membership organisations and institutions such as breakfast clubs, are easy to measure and analyse. Less research has been done on the role that informal networks play in economic development.⁵⁶ As part of this project we have carried out a street survey of informal networks in deprived and non-deprived SOAs in St Helens to compare the quality and quantity of networks and how they have contributed to residents' economic activity. LEGIs' impact on informal networks is likely to be felt only over a long time period, and we would not expect to see changes in this that are attributable to LEGI in the first three years.

Aggregate demand

Without creating demand within St Helens, the local economy cannot thrive. Three types of demand will be measured as part of this project: demand from residents, and demands from the private and public sectors. For enterprises serving local markets an increase in demand can come from gaining demand that was previously fulfilled outside the area or through offering new products and services. Given that self employment may be more likely to occur in serving local markets, this will be an important issue if a net increase in enterprise is to occur. The best opportunity for increased demand in the short term is not from local residents but from business-to-business sales and the public sector. Public sector procurement is an effective way to boost and stimulate local demand, given that public sector contracts are a potentially lucrative and sustainable source of income for local businesses.

Private sector demand will be measured through the Quarterly Economic Survey. Income will be used as a proxy for customer demand and will be measured through CACI market data.

Business crime

As part of the City Growth Strategy, business crime was identified as a key barrier to business survival and growth in St Helens (theft, criminal damage etc). Business crime is not normally reported by the police but Merseyside Police have agreed to monitor it as part of the data requirements of this project.

Outcomes relating to people

Aspirations and entrepreneurship

This outcome related to young people and residents of St Helens. The Regional Economic Strategy draws attention to the high numbers of people without qualifications in the area, and draws a strong causal link between skill levels and unemployment. This will be measured through surveys of residents and young people, reporting on their aspirations in relation to enterprise and employment, which can be returned to in later years.

Quality of jobs

When we talked to people who were unemployed, job satisfaction and security were often as important to them as income. This was also measured through the People's Panel. Over half of people surveyed said that they were happy with their current employment, with only 17 per cent either disagreeing or strongly disagreeing. We do not know how this compares to overall levels of job satisfaction but it certainly suggests a positive picture overall. Also, more people felt secure than insecure in their current employment. Changes in income will also be used as a proxy for quality of jobs. Data are available on this for deprived and non-deprived areas and can be compared with other areas to control for deadweight.

Income/earnings

Changes in income and indebtedness will help us to understand whether the benefits of the LEGI are reaching people on low incomes in priority areas. The average income for St Helens households in December 2006 was £30,796. For the priority SOAs the average was £23,759, with a median of £20,824 – 80 per cent

of the median for St Helens as a whole. In a resident survey people were almost equally split as to whether their income met their current needs; 37 per cent said it did not but 43 per cent said their needs were covered. Clearly this is a proxy indicator for actual income levels, as people will interpret the statement and their financial needs differently. Nonetheless it will be interesting to track satisfaction with income over the life of the LEGI.

Health

There is an assumption that a stronger local economy will lead to positive health outcomes for people in the borough. As a proxy for changes in health, it was decided to use a mental health dataset, as mental health was an area of particular concern for residents. Nine out of ten of those presenting with mental health problems do so in a GP surgery.⁵⁷ In St Helens borough as a whole there is a 1.19 per cent prevalence of reported mental health problems compared to the national level of 0.6 per cent but in some surgeries in St Helens the prevalence is as high as 5.37 per cent. Given that the link between change in enterprise levels and changes in outcomes such as health and crime is speculative, it will be some time before we can attribute change in this specifically to the LEGI.

Life opportunities

It is important that people feel that they are able to fulfill their ambitions within St Helens. Otherwise the borough will be in danger of losing talent to other areas. Only 10 per cent of people agreed with the statement that there were not many opportunities for people in St Helens...Almost half of respondents said they had changed something positive in their lives in the past year but 30 per cent said they had been unable to change something they wanted to change.

Outcomes relating to place

Changes to the environment

This outcome refers to the physical environment in St Helens. Two proxy indicators will be used to measure this: the prevalence of fly-tipping and the amount of contaminated land. Contaminated land is land that has been polluted with harmful substances to the point where it poses a serious risk to human health and/or the environment and therefore cannot be built upon. These factors could be compared with other boroughs and LEGI areas.

Decrease in crime

Two methods of monitoring crime are being used by the Local Area Agreement (LAA) – the British Crime Survey (BCS) and the numbers of crimes reported to Merseyside Police. According to the BCS overall crime has been falling marginally in St Helens, although violent crime has been increasing. Any improvements in this area are likely to take years to become evident, therefore this would need to be measured over the long term and account would need to be taken of deadweight.

Perceptions of the local area

Our survey of people's perceptions found that residents tended to think that people could be trusted in the local area, that it was friendly, that they enjoyed living there and that they were proud of St Helens (approximately 20 to 25 per cent disagreed with these statements). Most people seemed to think that things were improving and did not think that living in St Helens held them back from achieving things. Without benchmark data it is difficult to draw conclusions about how good these scores are, however it certainly does not paint a picture of social decline in the community.

Quality of life

Respondents were positive about their quality of life. A quarter scored eight out of 10 on a life satisfaction scale and over 80 per cent scored themselves between six and 10. Most notably, people scored very positively on their level of satisfaction with personal relationships. Almost 35 per cent of people ranked their relationships at 10 on the scale, and close to 80 per cent gave their relationships a rating of seven or above. It is clear that despite St Helens' low ranking according to the Government's indices of deprivation, the area offers many things that contribute positively to individual well-being. Research on well-being suggests that employment and relationships are two of the most important factors that influence life satisfaction.

Some benchmark data for quality of life in other boroughs may be available, and it would be interesting to make comparisons. Although the factors behind higher-than-average levels of life satisfaction have not been explored in this research, it may be enlightening to explore the connection between this and satisfaction with personal relationships, perceptions of the local area and high levels of social capital.

Appendix 3 – Stages in an SROI analysis

1. Boundaries	<ul style="list-style-type: none">● Define the organisation or programme, the geographical area to be covered, and a time period.● Explain how, if at all, income and expenditure are divided into social and economic elements.
2. Stakeholders	<ul style="list-style-type: none">● Identify stakeholders, their goals and their specific objectives for the programme.● Prioritise key stakeholders and objectives.● Identify common or overriding objectives.
3. Impacts	<ul style="list-style-type: none">● Identify how the programme works and how it affects key stakeholders (linking this to stakeholders' objectives).● Capture this through an analysis of inputs, outputs, outcomes and impacts.
4. Indicators	<ul style="list-style-type: none">● Identify appropriate indicators for capturing inputs, outputs, outcomes and impacts.● Identify monetised equivalent values for the indicators, using averages and estimates where information is not available.● Use deadweight to take account of the extent to which outcomes would have happened without the intervention.
5. Data collection	<ul style="list-style-type: none">● Collect data relating to indicators.
6. Model and calculate	<ul style="list-style-type: none">● Create a discounted cash flow model using gathered data and projections.● Calculate the net present value of benefits and investment, total value added, SROI and payback period.● Use sensitivity analysis to identify the relative significance of data.
7. Consider and present	<ul style="list-style-type: none">● Consider and present the results in a way that brings out the subtleties and any underlying limitations and assumptions.

Appendix 4 – Description of St Helens LEGI

St Helens is delivering 11 projects under three themes, which correspond to the three outcomes of LEGI. These are as follows:

Theme 1. Increasing entrepreneurial activity

1a Enterprising St Helens

This project's aim is to ensure that future generations of school leavers understand work and enterprise and see their future in that context, especially those young people for whom work and enterprise are not currently part of their home life.

1b Get a New Start

This project aims to inspire and assist people not currently in work, with a particular focus on SOAs with the highest levels of unemployment.

1c Business Start-Up

This is the key measure to address the scarcity of small businesses and the low levels of self employment in St Helens.

1d Growing Social Enterprise

A facilitation and support service is provided to get social enterprises through the concept and business planning stages, before moving them into 'mainstream' support.

Theme 2. Supporting local businesses

2a Business Winning Business

This project helps local businesses to win more business and increase productivity, through supply chains. The aim is to grow local businesses, reducing their failure rate and creating more jobs.

2b Street Walkers

This project idea is imported from the United States. Its aim is to decrease failure rates and enhance the productivity of small and medium-sized companies, by helping them to deal with bureaucracy at local, regional and national levels and helping them to improve their relationships with official bodies (e.g. the local council, the police, health and safety enforcement and business support agencies).

2c Inspiring Managers and Leaders

A small project that aims to provide the owners of small and medium-sized companies with a range of formal and informal development opportunities to inspire and motivate them. The project also hopes to promote a learning culture in these businesses, leading to increased productivity and business growth.

Theme 3. Attracting investment

3a Promoting St Helens as a Business Location of Choice

This project is developing and delivering an integrated marketing campaign, including newly designed promotional material and branding, to promote the borough as a good place for businesses to invest.

3b Graduate Greenhouse

Serviced work accommodation, with built-in IT connections, secretarial support and business advice and support on tap.

3c Starter Units

This project helps the private sector to secure suitable premises by taking a head-lease on a scheme and using LEGI funding to subsidise rents for up to two years for each new business.

3d Transport Linkages to Jobs

This project works with Merseytravel and bus operators and community transport initiatives to improve public transport linkages.

(See <http://www.neighbourhood.gov.uk/publications.asp?did=1755> for more information)

Appendix 5 – Seven principles of good measurement

Measure for social, economic and environmental well-being

nef believes that measures should provide meaningful evidence about the extent to which government policies contribute to a better, fairer and more sustainable society. This means that, ultimately, measures should increase our understanding of whether policy interventions contribute to enhanced social, economic and environmental well-being.

Measure with people

In developing measures, government should, as far as possible, involve the people closest to or most affected by a policy or public service. This ensures that measures are relevant and that they reflect what really matters to people. The process we are advocating should be about giving a voice to those not already involved in the policy-making process – in this case unemployed people from deprived areas – rather than seeking out interest groups that are already well represented.

Measure outcomes

Putting things in terms of outcomes – rather than the more easily measured outputs, resources or activities – is more meaningful as it allows us to assess policies in terms of how they affect people's lives. Policy makers also need to factor into decision making a much stronger concern for important future outcomes. For instance, it might be pertinent to give some factors much greater prominence in policy decisions than they currently have, where those effects are more likely to be felt in the future.

Develop a learning and responsive culture

Effective measures will provide evidence that can be used to inform future implementation and decision making. But what is also required is that government should be able and willing to learn from what the evidence says, and from past experience.

Measure the difference made

Measures should identify the difference that particular policies have made, and how much of a policy's impact can be attributed to specific interventions. This helps to avoid double-counting of policy impacts, and allows decision makers to pinpoint those policies that bring about desired outcomes.

Be transparent about priorities and values

Decision makers should be able to justify why they have chosen the measures used. This involves making explicit the basis on which they have prioritised what to measure.

Measure assets, strengths and opportunities as well as risks, failures and deficits

Measuring people's strengths and abilities allows policy makers to focus on how best to enable people to succeed and flourish, rather than focusing solely – as many policies do – on what people lack and why they fail.

We advocate the adoption of such an approach to ensure better accountability for resources invested in this area and to promote a broader understanding of the value of economic development.

Appendix 6 – Projections, costings and proxies

1. Financial proxies used in the projections

Stakeholders	Proxy
New owners previously economically active	Increased salary ⁵⁸ and 25 per cent of wage for the additional value of being self-employed
New male owners previously economically inactive, non priority area	As above – not weighted differently
New female owners previously economically inactive, non priority area	As above – not weighted differently
New male owners previously economically inactive, priority area	As above – not weighted differently
New female owners previously economically inactive, priority area	As above – not weighted differently
New employees previously economically inactive, non priority area	As above – not weighted differently
New employees previously economically inactive, priority area	As above – not weighted differently
Residents using local services	Time and travel costs of accessing services elsewhere
All partners in relation to social inclusion in St Helens ⁵⁹	Taxes earned and benefits saved from economically inactive gaining work

2. Suggested proxies for non-monetised outcomes

Stakeholders	Proxy
Businesses – business crime	Cost of crime to businesses
Residents – networks	Cost of membership of networking clubs
Businesses – change in public, private, consumer demand	Value of change in demand
Young people – change in aspirations	Cost of enterprise training
Residents – quality of jobs	Increased income
Residents – change in income	Increased income
Residents – improvements in health	Costs to NHS
Residents – increased life opportunities	Explore travel costs to access opportunities
Residents – crime	Costs of crime to victims and the state
Residents – perceptions of local area	Changes in property prices

2. St Helens SROI projections

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Total
New owners previously economically active	122,354	293,651	489,418	489,418	489,418	489,418	489,418	489,418	3,352,510
New male owners previously economically inactive, non priority area	126,573	303,775	506,292	506,292	506,292	506,292	506,292	506,292	3,468,103
New female owners previously economically inactive, non priority area	62,342	149,621	249,368	249,368	249,368	249,368	249,368	249,368	1,708,170
New male owners previously economically inactive, priority area	126,573	303,775	506,292	506,292	506,292	506,292	506,292	506,292	3,468,103
New female owners previously economically inactive, priority area	62,342	149,621	249,368	249,368	249,368	249,368	249,368	249,368	1,708,170
New employees previously economically inactive, non priority area	1,943,687	4,664,849	7,774,749	7,774,749	7,774,749	7,774,749	7,774,749	7,774,749	53,257,027
New employees previously economically inactive, priority area	1,943,687	4,664,849	7,774,749	7,774,749	7,774,749	7,774,749	7,774,749	7,774,749	53,257,027
Residents using local services	234,920	563,809	939,682	939,682	939,682	939,682	939,682	939,682	4,557,456
All partners in relation to social inclusion in St Helens	3,793,650	9,104,760	15,174,600	15,174,600	15,174,600	15,174,600	15,174,600	15,174,600	73,596,810
Total benefit	8,416,129	20,198,710	33,664,517	33,664,517	33,664,517	33,664,517	33,664,517	33,664,517	163,272,906
Cost									
Three years LEGI	4,266,667	4,266,667	4,266,667						
Net value	4,149,462	15,932,043	29,397,850	33,664,517	33,664,517	45,098,599	45,098,599	45,098,599	45,098,599
Present Value	4,149,462	14,179,462	24,683,002	26,665,450	25,156,085	31,792,733	29,993,144	28,295,419	
Net present value	184,914,757								
Total value	184,914,757								
Total cost	12,800,000								
Social return	14								

Endnotes

- 1 See Dorling D *et al* (2007) *Poverty, Wealth and Place in Britain, 1968 to 2005* (York: Joseph Rowntree Foundation); cf. Orton M and Rowlingson K (2007) *Public Attitudes to Economic Inequality* (York: Joseph Rowntree Foundation).
- 2 Dorling D and Thomas B (2007) *Identity in Britain: A Cradle-To-Grave Atlas* (Policy Press, Bristol).
- 3 See for example, evaluations from Enterprise Zones, Regional Selective Assistance and Phoenix Development Fund: Kornblatt T and Troni L (2006) *City Markets: business location in deprived areas* (London: ipp); ODPM (2003) *Business-led Regeneration of Deprived Areas: A Review of the Evidence Base*, Research Report 5 (London: Office of the Deputy Prime Minister); and Ramsden P (2005) *Phoenix Fund: final evaluation for SBS*, available from www.sbs.gov.uk [26 February 2008].
- 4 See Simms A *et al* (2005) *Clone Town Britain: The survey results on the bland state of the nation* (London: **nef**) and www.pluggingtheleaks.org [26 February 2008].
- 5 <http://www.communities.gov.uk/communities/neighbourhoodrenewal/deprivation/deprivation07/>
- 6 Five years is a standard period over which to project the returns, and so for a three-year programme the projection is over eight years.
- 7 This was close to the one-year LIBOR rate as of January 2007 when the calculations were made. It would also be possible to take a longer-term average but it is unlikely that this would have an impact on the overall SROI ratio.
- 8 Issues of equity are only considered in so far as a closing of the St Helens enterprise gap makes the achievement of the employment outcomes more likely.
- 9 For more, see http://www.neweconomics.org/gen/tools_bizfizz.aspx?page=938&folder=150&
- 10 These figures are drawn using data from the Office of National Statistics (ONS).
- 11 www.hm-treasury.gov.uk
- 12 Leunig T and Swaffield J (2007) *Cities Limited* (London: Policy Exchange).
- 13 ONS data.
- 14 <http://www.publichealth.thpct.nhs.uk/PublicHealthReport/index.aspx?pid=55>
- 15 Orton M and Rowlingson K (2007) *Public Attitudes to Economic Inequality*, op cit.
- 16 Wilkinson R and Pickett K (2006) 'Income inequality and population health: a review and explanation of the evidence'. *Social Science and Medicine*, 62; pp1768-1784.
- 17 The work of Michael Porter at the Harvard Business School has been particularly influential. For the Treasury's thinking on regeneration, see HMT (1999) *Enterprise and Social Exclusion* (London: Her Majesty's Treasury); for its Neighbourhood Renewal Strategy, see www.neighbourhood.gov.uk
- 18 HMT (2007) *Review of sub-national economic development and regeneration* (London: Her Majesty's Treasury).
- 19 <http://www.communities.gov.uk/publications/communities/workingneighbourhoods>
- 20 LEGI spent £300 million during 2007-09 – the Neighbourhood Renewal Unit: £1.05 billion during 2006-08; the Regional Development Agencies: £2.297 billion during 2007-08; the English Partnerships: £586 million during 2006-07; the Local Authority Community Regeneration Fund: £107.272 million during 2007-08. The European Social Fund is set to spend £2 billion over the 2007-13 period.
- 21 Dorling D *et al* (2007) op cit.; cf. Lyon F *et al* (2002) *Measuring Enterprise Impacts in Deprived Areas* (London: **nef** and Centre for Enterprise and Economic Development Research).
- 22 ODPM (2003) *Business-led Regeneration of Deprived Areas*, op cit.
- 23 Lyon F *et al* (2002) *Measuring Enterprise Impacts in Deprived Areas*, op cit.
- 24 Richard D (2007) *Richard Review of Small Business and Government: Interim Report* (Richard Review Task Force).
- 25 Sacks J (2005) *Public Spending for Public Benefit* (London: **nef**).
- 26 Aeron-Thomas D *et al* (2004) *Social Return on Investment: Valuing What Matters* (London: **nef**); cf. Nicholls J *et al* (2007) *Measuring Real Value: A DIY Guide to Social Return on Investment* (London: **nef**).
- 27 The current VAT registration threshold is £64,000. The size of the enterprise gap was based on labour market calculations of the number of enterprises per thousand residents. In an area which is a deprived Super Output Area (SOA) but includes part of a city centre with a high number of businesses, the enterprise gap will appear narrow; in an area which has a higher population because there is a high level of outbound commuting to work elsewhere – such as St Helens – the gap will appear wide.
- 28 Katungi D *et al* (2006) *People in Low-paid and Informal Work: Need not Greed* (Bristol: Policy Press).
- 29 SROI was pioneered by REDF, a San Francisco-based venture philanthropy fund. The concept has since evolved into a widely used, global framework, which has been supported and co-developed by **nef**. In 2003 **nef** began exploring ways in which SROI could be tested and developed in a UK context.
- 30 Appendix 3 sets out the key stages for conducting an SROI analysis.
- 31 The partnership consists of the St Helens Chamber and St Helens Borough Council.
- 32 Household income in these areas is only 80 per cent of the St Helens median.
- 33 This was close to the one-year LIBOR rate as of January 2007 when the calculations were made. It would also be possible to take a longer-term average but it is unlikely that this would have an impact on the overall SROI ratio.
- 34 For a full description of stakeholders and an audit trail showing why and how they were included in the analysis, see Appendix 1.

- 35 It became clear when talking to people that the LEGI would create different types of value for certain sub-groups, depending for example on their relationship with the labour market prior to benefiting from the intervention.
- 36 See www.pluggingtheleaks.org for more information.
- 37 Although this excludes many of the outcomes as described above, comparison of actual results against the projections will enable us to take these into account when new information becomes available, which should increase the social return ratio and reapportion the share of value.
- 38 Equating these relative targets with the absolute targets needed by project managers requires an initial assumption that any change in the benchmark area is taking place at the same rate as the change in St Helens.
- 39 For the reasons discussed earlier, the enterprise gap is narrower using data from the BETA model. These targets are based on a labour market approach in which enterprise rates are calculated. An alternative measure is the business stock approach, which results in a smaller absolute gap.
- 40 Residents of the priority areas should take up 65 of these and people who had been economically inactive 163. As mentioned earlier the BETA target is smaller because there is a higher concentration of businesses below the VAT threshold in deprived areas.
- 41 Although the survey has not been published, you can find out more about the work of Responsibility Northwest on their website, www.responsibilitynw.org
- 42 For example, see McQuaid R (1996) 'Social networks, entrepreneurship and regional development'; Devins D (1996) 'The use of external advice by established SMEs: some survey evidence'; and McNicoll A (1996) 'Social networking: a comparative behavioural study between would-be entrepreneurs in Scotland and Boston, Massachusetts' in Danson M (ed.) *Small Firm Formation and Regional Economic Development* (London: Routledge).
- 43 DCLG (2006) *Strong and Prosperous Communities – The Local Government White Paper* (London: Department of Communities and Local Government).
- 44 There are limitations with this indicator as well, for example some businesses with two or more people may be a partnership where both are self-employed.
- 45 The absolute was equivalent to 185 new starts per year, or, an increase of 275 self-employed people.
- 46 Harding R *et al* (2005) *Global Entrepreneurship Monitor: United Kingdom* (London: London Business School).
- 47 http://www.womensenterprise.co.uk/stats_wetf.asp [26 February 2008].
- 48 Women's self-employment will be measured through the Annual Population Survey but only at borough level, as data do not exist at the SOA level. There are further reliability issues with this data source because self-employed women make up such a small percentage of the total population.
- 49 Economic activity is measured through the Annual Population Survey, which uses a sample-based methodology (approximately 1,000 borough residents). However, as the unemployed form a small percentage of the population, the unemployment estimates within local authorities are based on very small samples. This raises reliability issues. For the LEGI programmes that focus their efforts around a small number of priority SOAs there is no reliable measure of economic inactivity at SOA level, and claimant count is therefore used as a proxy measure.
- 50 As this information is not available for April 2007, claimant counts available up to November 2006 have been used as proxies. The claimant count is not itself a measure of unemployment but is strongly correlated with unemployment. As it is an administrative count, it is also known without sampling error. However, it is not an entirely satisfactory substitute, as it excludes those out of work and not on benefits. We will be using a composite of all benefits to derive an overall figure for worklessness which excludes those on Job Seekers Allowance, as they tend to be transitory claimants rather than long-term unemployed.
- 51 Layard *et al* (2006) *The Depression Report: A New Deal for Depression and Anxiety Disorders* (London: Centre for Economic Performance, London School of Economics).
- 52 OECD (2005) *Economic Survey of the United Kingdom 2005: From incapacity to rehabilitation and employment* (UK: Organisation for Economic Co-operation and Development); Chapter 6. Summary available at http://www.oecd.org/document/47/0,2340,en_33873108_33873870_35461999_1_1_1_1,00.html [26 February 2008].
- 53 In addition, it has not been possible to access projected changes for people on incapacity benefit that take into account natural changes as people retire.
- 54 Rubin G *et al* (2006) *The Last Post: The social and economic impact of changes to the postal service in Manchester* (London: nef); cf. Simms A *et al* (2005) *Clone Town Britain*, op cit.
- 55 For general information on CACI, see their website: <http://www.caci.co.uk>
- 56 See McQuaid R (1996) 'Social networks, entrepreneurship and regional development', op. cit.
- 57 These data are recorded by GPs and collated by the Quality Management and Analysis System, which makes them available at SOA level.
- 58 We have used salary as the proxy for the value to someone of getting a job, whilst acknowledging that it probably undervalues the importance of getting a job to someone who has been out of work.
- 59 This replaced financial returns to government at the request of stakeholders, who did not believe that the public service was motivated solely by financial savings.

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