

Board Paper

29th September 2016

Paper Title:	Future Approach for Natural Resources Management Funding: commissioning to support collaboration and co-production in the new policy context in Wales
Paper Reference:	Paper NRW B B 58.16
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Purpose of Paper:	Decision
Recommendation:	To approve the strategic direction for the NRW grant funding model from 2018

<p>Impact: To note – all headings might not be applicable to the topic</p>	<p>How do the proposals in this paper help NRW achieve the Well-Being of Future Generations Act principles in terms of:</p> <p>Looking at the <u>long term</u>: This approach will contribute to the implementation of SMNR sustainability principles by NRW.</p> <p>Taking an <u>integrated</u> approach: The Commissioning approach set out in this paper will address the SMNR ‘integration’ ways of working.</p> <p>Involving a <u>diversity</u> of the population: Funding will be allocated to schemes that address equality and diversity.</p> <p>Working in a <u>collaborative</u> way: Grant funding is collaborative as the external partners provide at least half the total projects costs and we will be working collaboratively to achieve shared goals.</p> <p><u>Preventing</u> issues from occurring: Funding will be allocated to schemes that demonstrate a preventative approach.</p>
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Issue

1. The Environment Act and Wellbeing of Future Generations Act form part of a radical new legislative and policy framework in Wales that aims to be transformational, catalysing long-term change. It demands novel forms of collaboration and co-production and challenges us to think differently about how we work. This new legislative landscape requires a re-thinking of NRW's philosophy and approach to funding generally and grants in particular in the context of the State of Natural Resources Report (SoNaRR), Area Statements, Wellbeing Assessments as well as the National Natural Resources Policy, the Wales Marine Plan and the National Development Framework.
2. This paper sets out a proposition for the next corporate planning round moving us from the current model of 'outward funding' (i.e. funding going out of NRW to other organisations through different mechanisms such as grant giving and memoranda of agreement) to a commissioning model involving deeper collaboration and co-production. The current grant funding rounds are coming to an end in March 2018 and we need clarity on the strategic direction beyond this work.
3. The commissioning model that is proposed is based around ideas by leading edge bodies such as the New Economics Foundation (NEF). This is not envisaged as a replacement for procedural mechanisms such as grants, funding agreements or procurement. Rather, it is an over-arching governance framework which will still require these mechanisms but with appropriate adaptations.
4. Definitions of terms such as 'commissioning', 'outward funding', 'co-production' and the like are to be found in Appendix 1. Note that outward funding paid to land owners as management agreements associated with protecting Sites of Special Scientific Interest are not included in the remit of this paper. They are based on legislation and subject to separate consideration linked to new powers in the Environment Act.

Background

5. In July 2014 NRW's first grant scheme round was launched to support projects led by other organisations delivering outcomes for the natural environment of Wales. In June 2015 NRW launched round two for competitive projects targeted at biodiversity, conservation and community outcomes.. Both rounds will see, over the 3 years to March 2018, the commitment of almost £9m to support 170 or so eligible projects to meet our outcomes for sustainable management of natural resources.
6. Appendix 2 provides some further information and details of evaluations to illustrate examples of the type of activity that NRW outward funding has supported in the past.
7. We established a governance structure for our funding work back in 2014 with membership across the business. This provides the overview and guidance across the organisation of all streams of outward funding including for example the Memoranda of Agreement from a wide range of individual NRW budget managers. This Board ensures that all funding given out by NRW is managed in a coherent and efficient way, incorporating the lessons learned from Internal and European audits on both our grants and European funded programmes.

8. Grant funding has been very effective in delivering a plethora of multiple benefits, leveraging in both financial resources in terms of other funding for applicants and human resources in terms of volunteering experiences. It has also secured a good degree of cost-sharing, as NRW's objectives have aligned well with those of other bodies. Typical intervention rates for our grant funded programme average at 50%, i.e. the cost of delivery in one output is shared equally by NRW and the grant funded organisation. This makes for a highly effective use of money. It means that budgets can be stretched much further than the instances where we depend exclusively on procurement for delivering environmental work, where 100% is spent on achieving each output.
9. We are mindful that feedback from applicants' suggests our processes can be further refined and we will apply a continuous improvement approach to implement improvements for our customers' experience. We will in our future approach ensure compliance with the existing Welsh Government Third Sector 'Compact' agreement and actively engage in and influence its proposed review. Area Statements will in future form the foundation on which our discussions with potential partners will be based, ensuring they are empowered and creating truly collaborative delivery of SMNR and wellbeing outcomes. At the same time we will also be guided by ARAC to ensure compliance with appropriate audit and risk management requirements.

Assessment

10. The new policy context calls for a new funding philosophy for two reasons. Firstly the Well-being of Future Generations Act requires NRW to fundamentally change the way it relates to, involves and collaborates with others on the ground. It also requires a preventative approach. Secondly the Ecosystem Approach and the concept of adaptive management similarly requires adopting the above principles. It will also require development and co-ordination of collaborative groups and management of projects to take forward activities for the sustainable management of natural resources. SoNaRR will provide the evidence base and NNRP and Area Statements will prove to be critical in developing NRW's approach.
11. This has direct implications for much of NRW's 'outward funding'. In future we will have to:
 - Work with others for mutual benefits rather than have them deliver work for our benefit
 - Work at an 'Area level' and be able to apply flexibility for staff at this level but also within a wider strategic context.
 - Look at the long term – this marks a shift from a funding model focused solely on outputs.
 - Have in place systems to evaluate the difference that our funding makes to achieving outcomes.
 - Learn with others and devise ways of continually improving.
 - Support networks of organisations and stakeholders where these are important to securing sustainable solutions.
12. The new policy will require new processes including:
 - Funding processes capable of being adapted to the activity being supported and less 'one-size fits all'.
 - A holistic approach to risk – more willingness to adopt a 'portfolio approach'. (See definition of terms).

- Claim and payment procedures that are proportionate: reflecting both the level of funding, degree of risk and being adaptive to reflect the particular activity funded.
- A much greater focus on funding for outcomes rather than for outputs. (See Definition of terms on 'Outcome Funding').
- More sharing of information as a basis for improvements and co-learning.

13. This will enable us to:

- Support joined-up, collaborative action at the right scale.
- Work with others rather than directing others
- Realise joint outcomes that are shared by others
- More effectively join-up our resources with others to secure a coherent and concerted alliance of organisations all working for a single set of goals.
- Truly harvest the efficiencies that such collaborative action can yield.
- Undertake more evaluation and identification of what works and learn from that.
- Better obtain information at programme level
- Focus on improving outcomes for the long-term
- Achieve more towards the environmental, social, well-being and economic objectives.

Recommendations

It is proposed that we:

14. **Develop a new commissioning model**, one that reflects sustainable development and the new policy arena in Wales, that:

- a) Incorporates co-production as a central feature, with NRW staff working in partnership with others to secure lasting outcomes as opposed to one-stop outputs.
- b) Captures the full range of well-being outcomes: environmental, social and economic, and
- c) Is empowering to our customers' and our own aspirations.

See Appendix 3 on the comparison between conventional understanding of commissioning and that advocated by the New Economics Foundation (NEF).

15. **Implement such an approach through the allocation of a central budget** so as to provide for national efficiency combined with local flexibility and have an overarching governance framework in place. Further work will be undertaken to develop and refine how such a commissioning model will look. A preliminary outline of how this could work is set out in Appendix 4.

16. **Might allocate the central funding budget in the following way:**

- Commissioning of activity relating to SMNR in each of the Areas of Wales [50%-60% of budget]
- Commissioning of activity relating to SMNR at an all-Wales level [15%-20% of budget]
- Small grants to support NRW's role in PSBs [5%-10% of budget]
- Small grants to support various unforeseen priorities as they arise [up to 5% of budget], but only applied *if money becomes available in year through underspend in the rest of the central funding budget*.
- A Match Funding Budget - to support large bids led by NRW or by others, aimed at drawing down money from major funders [10%-15% of budget]

17. As part of the corporate plan cycle, explore viewpoints as to how perceptions, hopes and experience of funding approaches can best support collaborative working. This might also explore the issue as to when collaborative funding is appropriate in preference to competitive grant approaches and procurement as the preferred tools.
18. **Maintain an overview of outward funding** through local budgets and seek to ensure appropriate alignment of these with the central governance framework for commissioning for long-term outcomes.
19. Next Steps
- Engage with NEF to refine our commissioning and coproduction approach – Autumn 2016
 - Internal discussion/consultation including with ARAC – Autumn 2016
 - Workshops for relevant NRW customers and staff – February 2017
 - Paper to Executive Team on NRW's proposed more detailed approach - Spring 2017
 - Preparation of guidance March - October 2017.
 - Run training workshops November 2017 - February 2018.

Key Risks

20. New approaches need to be compatible with sound governance, accountability and focus on the public good.
21. Co-production and collaboration need to be managed for the public good. They need to be critically applied.
22. The wealth of partnership working skills among NRW staff will be a relevant foundation to a transition to a co-production model. There is a risk that, as a result of recent VES rounds, this pool of experience may have been depleted. It will be important that we assess this and lay on further training and development activity if required.

Financial Implications

23. This approach seeks better utilisation of funding going out to other organisations so as to improve its capacity to deliver the outcomes sought by the new policy context in Wales.

Equality impact assessment (EqIA)

24. Equality issues will be integrated as one of the cross-cutting themes in the implementation of the next commissioning and grant funding approach by Natural Resources Wales.

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Appendix 1 Definition of terms

Appendix 2 Past projects and good practice

Appendix 3 Distinction between conventional commissioning and that proposed by the New Economics Foundations (NEF)

Appendix 4 Outline for an NRW Commissioning Approach

APPENDIX 1 – DEFINITION OF TERMS

Co-production – An approach to providing public services or public goods centred on equal and reciprocal relationship between professionals and people using the services or helping to provide the public goods. Such pooling of expertise aims to create more effective, sustainable outcomes. Involvement of others often extend to co-commissioning, co-design, co-delivery and co-evaluation. Co-production goes beyond *engaging* other stakeholders.

Outward funding – This term is used in this paper as a convenient way of referring to funding going out of NRW to other organisations through different mechanisms such as grant giving and through via memoranda of agreements.

Outcome funding – An approach to funding which focuses less on the ‘purchase’ of outputs and more on outcomes i.e. the long-term change being sought. For example, funding for the creation of a footpath would be an example of output funding. In contrast, funding for the creation of a footpath that is actively used by the local community for recreation and appreciation of wildlife and threatened habits would be an example of outcome funding.

Portfolio approach to risk management – A clear statement of this is found in the Guilford Review submitted to the Welsh Government in 2013:

“A portfolio approach accepts that some projects, despite the best efforts of all involved, will not be as successful as was hoped. Others will overachieve but ultimately what matters is whether the overall return on investment criteria across the portfolio are met. The approach does not, in general, concern itself with whether an individual project is the “best” thing that could be done; rather it is concerned with whether a project is a “worthwhile” activity in the context of the overall objective....In Wales we have sometimes... sought to de-risk projects to a level that is difficult to achieve when one is dealing with economic development” (p. 41).

Dr Graham Guilford (March 2013) *Investing in Growth and Jobs: An Independent Review of Arrangements for Implementation of European Structural Funds Programmes 2014 – 2020* (Cardiff: Welsh Government).

<http://gov.wales/docs/wefo/publications/130312guilfordreporten.pdf>

APPENDIX 2 – PAST PROJECTS AND GOOD PRACTICE

NRW and its predecessor bodies have a long history of grant funding. CCW, at its creation in 1991, inherited grant giving powers from the Countryside Commission and maintained a central programme of grants throughout its life as an organisation.

These supported activities such as habitat creation, species conservation, access to and understanding and engagement with the natural environment. Forestry Commission also provided grants for activities such as woodland creation and improvement.

Environment Agency also supported a wide range of environmental projects through financial contributions to other organisations working on riverine improvements, angling, flood awareness and alleviation, tourism and the like.

Further details about NRW funding via grants in Board papers:

Partnership Funding Strategic Approach - NRW B O 25.14 – 3 April 2014.
See Appendix 1 for Estimate of value of funding to external partners

Partnership Funding Proposals – NRW B B 83.14 – 4 December 2014
Includes list of applications received for NRW partnership funding.

Natural Resource Management - Partnership Project Funding 2015-16 - NRW B B 29.15 -7 May 2015.
To agree how partnership funding for 2016/17 and 2017/18 should be targeted.

Board papers available on the following link:
<http://naturalresources.wales/>

NRW and its predecessor bodies also has experience of **integrating social and economic dimensions into grant funding**. Examples include:

- The *Come Outside!* project, part-funded by lottery money, used an innovative approach that enabled 260 organisations to involve nearly 3,500 people from deprived communities in outdoor activity. The evaluation of this work provided NRW with important learning in this field.
- The *Communities and Nature* (CAN) strategic £14.5m project was funded by European Convergence programme and sought to increase the economic benefits from visits to the Welsh countryside. It funded the creation and improvements of visitor attractors likely to increase visits spending in local communities. It also stimulated the creation of 12 new business enterprises and over 30 jobs. Cardiff Business School undertook an economic evaluation of this project, which has given NRW important insights into how to better incorporate economic benefits in its funding. CAN also sought to ensure that disadvantaged groups were given opportunities for involvement in project and a social evaluation of this was carried out by the Wavehill consultancy.
- The Wales Coast Path project has yielded a significant amount of learning which is encapsulated in several evaluation reports covering economic benefits, benefits to local businesses and health impacts of walking on the path.
- *Wild Fishing Wales* (a £2.7m project original run by Environment Agency Wales) and CAN were featured in the guide to good practice produced by the European Commission: *Guide to Multi-Benefit Cohesion Policy Investments in Nature and Green Infrastructure* (European Commission 2013). This illustrated how investment in nature and green infrastructure can contribute to several policy objectives, in particular, socio-economic development.

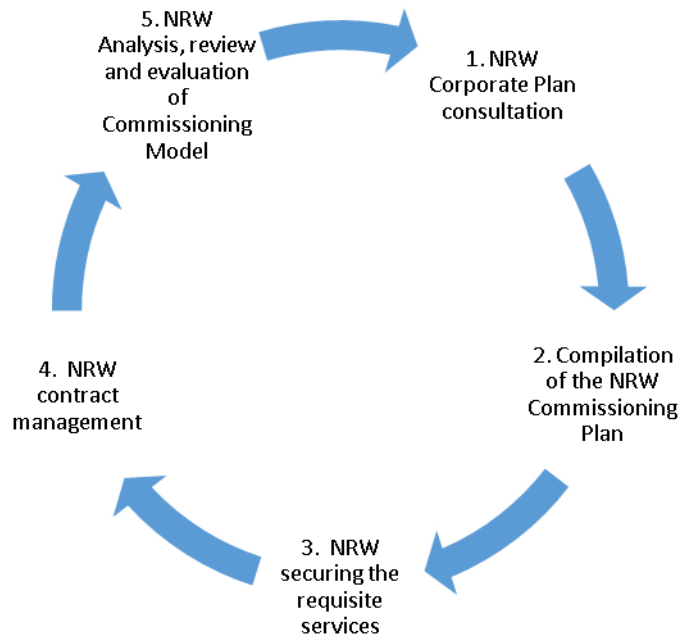
APPENDIX 3 – DISTINCTION BETWEEN CONVENTIONAL COMMISSIONING AND THAT PROMOTED BY THE NEW ECONOMIC FOUNDATIONS (NEF)

Funding model associated with a conventional commissioning	A new funding model associated with a NEF commissioning approach*
Focused on buying very tightly defined activities and outputs that are specific and focused on a narrow problem	Focused on commissioning for social, environmental and economic outcomes
Focused on unit costs and short-term efficiencies	Promotes the creation of long-term value across social, environmental and economic costs and benefits and emphasises the importance of prevention
A poor level of insight into what works and what doesn't. Data requirements are led by needs and deficits, asking only what is wrong with an area or group.	Explores needs and assets to build a picture of what works and current strengths, as well as what support is needed.
Hierarchical and paternalistic e.g. third sector perspectives are not considered part of commissioning or delivery.	Has co-production at its heart: the commissioning process is co-produced,
Closes down space for innovation, because commissioning is highly prescriptive and specifies which activities and outputs should be delivered and what the service should 'look' like.	Promotes innovation by moving away from over-specified activities to asking providers and people using services to come up with ideas and activities to meet the outcomes.
Work is centred around set targets and outputs. Deviation of these is often considered a breach of contract. Very little flexibility exists to adapt to changing local circumstances or ideas.	Iterative and adaptive: requires continuous reflection and evaluation, and flexibility to adapt accordingly to more effectively focus on outcomes sought.
Competitive and in silos: providers are in competition with each other and have little incentive to cooperate or work in partnership.	Collaborative: with both a mindset and processes that support strong relationships across sectors (local authorities, other statutory agencies, the voluntary and community sector, civic groups and local people).

*Based on New Economics Foundation (NEF)

Appendix 4 – Outline for an NRW Commissioning Approach

The following is a proposed *generic* cycle for Commissioning within NRW:



1/ This first phase, conducted by NRW as part of its corporate 5 year cycle, equates to the initial planning and stakeholder consultation phase of the commissioning model. This will be a very high-level identification of priorities using evidence from, for example, SoNaRR and Area Statements.

2/ The Commissioning Plan will be compiled by the Strategic Funding Team using feedback from NRW Area and national Teams on those elements of the corporate plan that can be better delivered by others or in partnership with others. It is likely to require further co-productive, facilitated events (e.g. at Area level) and draw on the evidence base to further clarify needs, benefits, practicalities and details of options to 'put out to market'.

3/ This stage in commissioning is where NRW goes out to the 'marketplace'. This could take several forms:

- a. Procurement (where an NRW priority can be better delivered by others)
- b. A competitive grant round (where NRW's priorities align with those of external partners and they can be delivered cheaper in partnership)
- c. Collaborative agreements (where there is a market failure – i.e. there is no potential supplier - and NRW needs to encourage capacity building)

4/ The NRW contract management stage is the period where services that have been procured or grant aided are contract managed by NRW area teams and KSP staff to ensure that the outputs agreed are delivered on time, within budget and to the standard expected.

5/ The final stage is conducted by the NRW Strategic Funding Unit to analyse, review and evaluate the external funding commissioning model - identifying gaps, updating the evidence base e.g. SoNaRR and making recommendations to NRW leadership for the next iteration of commissioning.

More detail on steps 2 – 3:

1. **Commissioning of activity relating to SMNR in each of the Areas of Wales.**
Area teams established under the Senior Management Review would be asked to develop a Commissioning Plan. These individual plans would set out the needs of each area that could be addressed by the application of additional funding; how funding from the central budget would be aligned with funding from individual area budgets currently distributed through supporting MoAs (memoranda of agreement) and now termed collaborative agreements.
2. The plans would also include a commissioning strategy (setting out activity to be procured; activity open to existing competitive grant and to (non-competitive) funding via collaborative agreements).
3. The process of preparing Commissioning Plans would be facilitated and coordinated by the Strategic Funding Team, working with the SMNR team in Evidence, Policy & Permitting (EP&P), Area staff and Finance Business Support staff. There would be full involvement of place based staff in this.
4. Once approved by the Strategic Funding Board, these plans would then have a slice of central budget transferred to the Area teams for implementation and delivery.
5. This approach provides for national efficiency combined with local flexibility.
6. **Commissioning of activity relating to SMNR at an all-Wales level.** This will be coordinated along the lines set out above, except that most of this work would be delivered across Evidence, Policy and Permitting (EP&P) rather than the Areas.
7. **Small grants to support NRW's role in PSBs.** It is not yet clear what funding demands would be made in this role but it is important that NRW has funding lined up in advance.
8. **Small grants to support various priorities identified through the commissioning process.**
 - Example: Commissioning yields a widely supported need to support community groups to work on NRW land and a streamlined grant process as a means of taking this forward, involving a maximum level of grant of £10,000 per applicant. This might require the design of new systems of advance payments and reduced administration for small organisations, supported by an agreed risk framework based on approval from NRW's Audit and Risk Committee.
NOTE: This small grants 'pot' is to support various unforeseen priorities as they arise *if money becomes available through slippage in-year*. This is not to be a formal allocation and does not therefore duplicate other budget allocations. It would be up to no more than 5% of total budget.]
9. **A Match Funding budget** could support bids delivering priorities identified through the commissioning process. This would enable the drawing down of large sums of money for the environmental sector in Wales from major funding bodies such as the Heritage Lottery Fund and Big Lottery Fund.