

A FRAMEWORK FOR REGIONAL INVESTMENT IN WALES

Wales Co-operative Centre response, June 2020

Key points

- We wish to emphasise the productive and competitive role that social businesses, including social enterprises, employee owned business and co-operatives play within the Welsh economy and the vital contribution that they will make as we emerge from the COVID-19 pandemic
- We welcome the recognition that social businesses may require elements of grant and loan-based funding to maximise their sustainability
- We highlight the need for specialist business support for the social business sector
- We support the idea of regional and local funding delivery and agree that some aspects of investment need to be maintained at a national level
- We believe there is an ongoing requirement for digital skills and inclusion initiatives
- We support the inclusion of the zero-carbon economy as a priority area.

About the Wales Co-operative Centre

The Wales Co-operative Centre is a not-for-profit co-operative organisation that supports people in Wales to improve their lives and livelihoods. We are working for a fairer economy. We help to create and retain wealth within our communities through the growth of co-operatives and social businesses and by providing people with the skills to take more control of their own lives and strengthen their communities.

Our projects are as follows:

- *Social Business Wales* provides intensive, one-to-one support to social businesses which have ambitions to grow and a viable business proposal.
- *Digital Communities Wales: Digital Confidence, Health and Well-being* works with organisations across Wales, in order to help people increase their confidence using digital technology so they can improve and manage their health and well-being.
- Our *Communities Creating Homes* project offers support and advice to new and existing organisations looking to develop co-operative community-led housing schemes in Wales.

We also deliver a range of paid consultancy services which are in line with our values and corporate aims.

Introduction

The Wales Co-operative Centre welcomes the opportunity to respond to the consultation. We were able to contribute to the development of the Framework and support the proposals it contains. The Framework's aim of achieving inclusive growth in Wales will be of increased importance as we seek to recover and rebuild following the impact of COVID-19. As noted by economist Mariana Mazzucuto, the COVID-19 crisis is exposing more flaws in our economic structures and exacerbating existing problems. Social enterprise can play a key role in helping to rebuild a fairer, more inclusive and sustainable economy. Social enterprises are also anchored in their communities; are frequently community-owned; employ locally and often have improving their local area at the heart of their social aims.

Social businesses also play a particular role in creating jobs for and developing the skills of people who are outside the labour market. The social business model will be crucial as Wales seeks to rebuild its economy in the aftermath of COVID-19. Consequently, we are pleased to see reference to the role of social enterprise and the third sector throughout the consultation document.

The proposed model

We welcome that the consultation document recognises that some aspects of investment need to be retained at a national level and are pleased that entrepreneurship and business support is one of the key examples selected.

Whilst there is a continuing need to deliver programmes on an all Wales level, we also support a more regional and local approach to the delivery of funds that allows funding to be flexible to meet the particular needs of different areas and communities within Wales. However, although we support the decentralisation of investment in principle, the framework must ensure that the benefits of this approach are felt equitably by all regions and all social and demographic groups; allowing the sharing and spreading of best practice and lessons learned from across Wales; for example business support services should provide a consistent offer across Wales, to give clarity to businesses, however, each region may then want to enhance that service to focus on a particular industry that is important in their region.

We agree with the proposal that some investments should be led by the community in which they take place. Such an approach will also allow Wales to be more flexible and dynamic in the economic recovery from COVID-19. We were pleased to see the consultation document reference the role of social businesses delivering activities in partnership with local communities. Social business empowers communities to come together to address issues that matter to them. Community-based social businesses can deliver people-centred local economic development that responds to community need and where participation and empowerment are integral. They can address feelings of being left behind by tackling specific failures and stepping into areas that neither the public nor the private sector can address. They develop innovative and diverse ways of increasing community ownership and local control by creating locally owned enterprises, developing and making more productive use of community assets, buildings and land, community owned housing, renewable energy and finance, credit unions and community shares.

Bronllys Community Land Trust has been established as a Community Land Trust to develop a community in the grounds of Bronllys Hospital in Brecon. The Trust is owned by the community and provides affordable homes for local people who wish to stay in the area, as well as reasonably priced transport links and social and leisure opportunities. Bronllys Well Being Park is just one of a large movement of co-operative and community-led housing schemes in Wales that are being championed by the Wales Co-operative Centre with its Communities Creating Homes programme. Research commissioned by the Wales Co-operative Centre found that those living in community-led housing felt less isolated as they were surrounded by a supportive network, had improved mental health and well-being and had further developed their skills set as well as gaining improved levels of confidence.

With around 30 schemes already in place across Wales, communities can be created for various purposes and shared visions. Where some schemes have been created to make housing more affordable for residents, others have been developed for people who want improved eco-friendly lifestyles.

We also consider that it is appropriate for Prosperity for All and the Well-being of Future Generations Act to be at the heart of the National Framework for regional economic investment.

Repayable finance

The consultation acknowledges the importance of repayable finance for social enterprise in allowing the sector to move forward sustainably. However we also welcome that the document recognises that a fully repayable model may not be viable across all activities and that elements of grant funding or other co-investment may be necessary in some circumstances to maximise the sustainability of the regional investment resource.

Transition period

We welcome the proposals that future investments are used to maintain transitional projects prioritised at national level and through the Regional Economic Frameworks being developed for each region. This will help to maintain a level of consistency in delivery across Wales.

Cross border and international working

The potential of social enterprise to contribute to this agenda should also be considered. The "Mapping the Social Business Sector in Wales", published by the Wales Co-operative Centre in June 2019 found that the proportion of social enterprises trading with other areas of the UK and internationally is steadily growing. We want to ensure that social enterprises are eligible for 'Agile Seed Funding' investment opportunities. We would also like to see the social enterprise sector in Wales engaging in European networking opportunities and being eligible for European programmes, such as Erasmus+.

Priority areas for investment

We welcome the priority areas for investment and believe that social businesses can play a key role in helping to deliver across them.

Productive and competitive businesses:

We support the inclusion of productive and competitive businesses as a priority area for investment. We also welcome the specific inclusion of social businesses within increasing the number and size of enterprises. Social businesses can help to deliver against a number of policy areas identified in the consultation document.

Social businesses can contribute to increasing the number and size of enterprises, particularly in areas of greatest need. Social enterprises create jobs and tackle poverty in difficult economic conditions, particularly in rural, post-industrial, inner city and coastal communities. They operate and thrive in areas where other businesses cannot or do not want to. In this way, they help to ensure that economic growth is inclusive and reaches all people and places in Wales, reducing poverty and inequality.

Social businesses can also contribute to the fair work agenda and there are indicators to suggest that the social economy is a fair work sector. The report 'Mapping the Social Business Sector in Wales' shows that 76% of social businesses in Wales pay the Living Wage to all staff which is higher than found in Scotland (72%) and similar to across the UK (78%), Almost nine in ten involve their staff in decision making and pay ratios tend to be smaller.

They can also help to deliver against the aim of increasing the number of enterprises owned by local people and employing local staff. They are anchored in their communities; are frequently community-owned; employ locally and often have improving their local area at the heart of their social aims. Welsh Government could further consider the role of employee ownership in supporting the success and retention of home-grown businesses. Employee ownership is an established but often overlooked succession route for business owners who want to retire. It is rarely an option that is presented to them when they are looking to exit the business. The Welsh economy is dependent on small businesses. In Wales we have a higher proportion of older business owners and therefore the issue of business transition failures is greater.

Research with clients of Wales Co-operative Centre confirms that the employee owned sector outperforms businesses with other ownership structures in terms of productivity, financial returns and business resilience. Employee ownership is a business model with potential for stimulating sustainable wealth creation and equitable distribution within our communities. Additionally, employee owned businesses are far less likely to move outside Wales or be sold to large corporations. These businesses also make a considerable contribution to economic growth in Wales.

Serving some of the world's leading companies, Gwynedd-based ETL Solutions started life in 2002 as a management buy-out of PrismTech's Transformation Manager technology, a data migration software. When the founding director who had led the management buy-out was approaching retirement, a number of exit options were considered. It became clear that venture capitalists' interest was in owning the software only, not in retaining employees. This ran counter to the founding director's intentions. Employee ownership was therefore considered as a way of ensuring continuity while offering a tax efficient exit route.

Fully converting ETL into an employee owned company was a two-year process and was accomplished in 2016. A separate company, Menai Trustee Limited, was set up to hold all the shares on behalf of the employees. All employees are treated equally, and none own any shares directly.

Transferring to an employee ownership model has allowed the company to develop more robust processes. Directors now have specified responsibilities for different areas of the business while employees can contribute through the employee forum. Being able to share responsibilities and garner more diverse inputs has, for example, led to the development of a more robust HR function, forecasting process, and a strategy with short and long-term objectives.

ETL can now make better use of the people and skills it has at its disposal. The company has experienced a change in culture towards more forward planning and proactive actions, as opposed to the more reactive approach of the past. Recent sales performance cannot be directly attributed to the transfer of ownership, but the hope is that profitability and growth

will increase going forward, for instance through a marketing approach of proactively engaging with potential clients.

ETL's clients are almost entirely national and international organisations and, as a data management company, it does not have a significant supply chain. Consequently, the company's relationship with its local community is limited. The company is based in Gwynedd primarily for historical reasons as this is where the original developers were based. Employee ownership has secured continuity for the employees and the business. Their main asset, the people who work for them, have remained with the company and maintained seamless relationships with clients.

To help deliver against the aim of increasing the number and resilience of social businesses, we believe it is essential to invest in sector specific business support services for social enterprises. While social businesses face many of the same challenges as any mainstream business, they also face particular challenges too. They have different drivers and need to balance environmental and social objectives with economic ones. For these reasons social businesses need specialist business advice and support and bespoke funding systems. These businesses need to be supported in ways which are sympathetic to the means of delivery and the social impact. This point was highlighted in a report published by the Welsh Co-operative and Mutuals Commission (2014). The Commission concluded that provision of specialist business advice, support and mentoring that meets the specific needs of social business has a crucial role to play in the development and prosperity of the sector in Wales.

There is also a consensus amongst social enterprises that where specialist support is withdrawn then the sector suffers. This point has been emphasised in a recent report 'Social Enterprise and COVID-19' (SEUK, 2020) which highlighted the absence of appropriate business support available to social businesses in England and the lack of understanding of social businesses models amongst the generalist business support agencies. This is in direct contrast to countries such as Scotland, where specialist business support services have seen the social enterprise sector develop, grow and thrive.

Reducing the factors that lead to income inequality:

Social businesses can also play an important role in delivering against this priority area, particularly in improving labour market participation levels for people from groups where the gap in levels of economic activity is most severe. Social businesses play a particular role in creating jobs for and developing the skills of people who are outside the labour market. For many this is their social mission.

We would also highlight how digital inclusion initiatives can reduce essential costs for people on low incomes. Digital inclusion enables people to fully reap the benefits of being online, such as saving money online and paying less for essentials, improved health and well-being, and improved access to online public services. The lockdown during COVID-19 pandemic has highlighted the need for digital inclusion as the most vulnerable members of our communities utilise digital services, for example, for work, for learning and to combat isolation. The 'Lloyds Bank UK Consumer Digital Index 2020' (Lloyd Bank, 2020) found that Wales was one of the regions with the highest proportions of digitally disengaged people. It also highlighted that the population in Wales was falling behind most regions in terms of foundation digital skills.

Zero-carbon economy:

We applaud the inclusion of this priority area. We are working for a fairer and a greener economy. We want to help change the way the economy works so that our environment is protected for future generations. Because social businesses balance environmental and social objectives with economic ones, they understand the imperative behind this goal, are pre-disposed to work in a carbon neutral way and well-placed to help achieve a zero-carbon economy.

Healthier, fairer and more sustainable communities:

We welcome the recognition of the role of social enterprise in empowering people and communities across Wales to co-produce solutions to shared problems. As we have outlined earlier in our response, social business empowers communities to come together to address issues that matter to them. Community-based social businesses can deliver people-centred local economic development that responds to community need and where participation and empowerment are integral.

Fern Partnership was established in 2008 as 'Friends of Ferndale', the Parent Teacher Association at Ferndale Community School. Since then, the Trust has transferred from being a standalone Charity to a Company Limited by Guarantee with Charitable Status. Today, Fern Partnership's delivery model is twofold including a quality childcare provision and a programme for community development. Since 2014, Fern Partnership has provided a childcare service for the Rhondda Fach area. The school wanted to develop an on-site crèche and a local councillor suggested that Fern Partnership (then the Friends) should bid for Flying Start funding. Their application was successful, and the service has gone from strength to strength ever since with expansion to Rhondda Fawr and further afield. It was the catalyst for growing the business into what it is today.

Another crucial development in 2015 was the completion of the asset transfer of Maerdy library that had been closed. This became a hub for the delivery of community development services. The community hub facility provides opportunities for community members to socialise and develop skills through services including a computer club, one-to-one employment support, accredited and non-accredited training opportunities, Welsh in the Community taster sessions, an IT suite and a dementia café held once a month in partnership with the Alzheimer's Society.

Fern Partnership also completed an asset transfer of the former Ferndale Infant School and has since developed the facility, named 'Hwb', to offer a wide range of services locally including full day nursery, library, employment support, meeting rooms, and a sensory room. In contrast with their original self-perception as a small charity without an explicit focus on community development, the team at Fern Partnership now see themselves as a business, with everything they do focussing on benefitting the local community.

Evaluating and evidencing delivery towards outcomes

Broadly we welcome the proposed approach to evaluating and evidencing outcomes. We particularly welcome the proposal to ensure a comparable set of indicators across interventions and geographic areas. This will help ensure that where projects are delivering similar activities, that they are measured in the same way.

We would welcome the opportunity for social enterprise and the third sector to be represented on the relevant working groups as monitoring and evaluation processes are designed.

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The Wales Co-operative Centre is happy to provide any further information on the points raised in our response, and for our response to be in the public domain.