

# **The Enterprise and Business Committee of the National Assembly for Wales scrutiny sessions on Social Enterprise**

## **Response from Wales Council for Voluntary Action (WCVA) March 2014**

### **Background**

Wales Council for Voluntary Action (WCVA) represents, campaigns for, supports and develops voluntary organisations, community action and volunteering in Wales. It represents the sector at UK and national level; and together with a range of national specialist agencies, County Voluntary Councils, Volunteer Centres and other development agencies, it provides a support structure for the third sector in Wales. It has over 3,000 members, and is in touch with many more organisations through a wide range of national and local networks. WCVA's mission is to provide excellent support, leadership and an influential voice for the third sector and volunteering in Wales.

### **Social enterprise in Wales**

Social enterprise is a term alongside many others which describes organisations whose primary purpose is neither profit distribution nor are they established as a result of statute.

While social enterprises may have the same legal form as other third sector organisations with charitable status or incorporated as a company limited by guarantee or a community interest company, they operate as businesses. Therefore, a social enterprise is not defined by its legal status and structure but rather by the nature of its social purpose, aims and outcomes. However, where they differ from conventional business models can be seen through the following: their operation (in many cases) in areas of traditional market failure, a wider range of objectives, 'the triple bottom line' and a different attitude to profit which is re-invested rather than distributed to shareholders. What unites social enterprises is the commitment to a beneficial social impact.

Social enterprise is a vibrant and growing part of Welsh business, and performs an important role in regenerating communities, creating local employment and addressing social, environmental and economic inequalities. The social economy comprises a full range of enterprising activity from commercial, competitive, job intensive businesses such as Primepac Solutions in Ebbw Vale, Calon Wen dairy co-operative in Carmarthenshire and Pack IT logistics in Cardiff, to community based, enterprising organisations that design and deliver services that respond directly to local needs and gaps in provision. What differentiates these businesses from private businesses is what they do with their profits. It would be a mistake for Welsh Government to overlook this end of the social economy as these social enterprises are an additional and important driver in growing the Welsh

economy, over and above traditional SMEs, with a business model which has ethics and sustainability at its heart.

Social enterprises often seek to develop activities in areas of market failure and in response to locally identified needs. This is particularly the case in rural areas, due to the marginal nature of trading conditions, where the private sector may leave gaps in provision, and without social enterprise basic services and infrastructure may simply not exist. The activities undertaken in this way by social enterprises are built on ethical and sustainable foundations and with their approach to employing and buying locally, are arguably more resilient to shocks in the wider economy. Like a private sector business, a social enterprise exists to make a surplus. The main difference is that the surpluses of social enterprises are principally reinvested in the business or used for social good within the community, rather than being driven by the need to maximise profit for shareholders. Both business approaches will be central to Wales' economic renewal and therefore social enterprise is an important tool for the Welsh Government's jobs and growth agenda, which merits targeted investment through the ERDF Programme.

WCVA's Third Sector Anti-poverty Taskforce has been leading calls for the next round of EU structural funds to clearly emphasise the role that social enterprise can play in tackling and alleviating poverty.

The recently released report by the Welsh Co-operative and Mutuals Commission has also added to the debate by making a number of recommendations on advice, support and development as well as investment finance for the sector. These recommendations should be looked at in the wider context of social enterprise when discussing future structures and investment plans.

### **Organisation form**

Organisations use a range of descriptors such as charity, NGO, community group, community co-operative, social, voluntary organisation. Rather than seeking to define all these in a mutually exclusive way, Welsh Government should use a broad definition of third sector to include all, but different organisations will tend to choose which they feel most at ease with.

The majority of social enterprises choose to be charities and companies limited by guarantee as this is the most advantageous tax option and enables access to a wider range of fundraising.

For example, National Botanic Gardens, Techniquet, Wales National Opera, Wales Millennium Centre, Valleys Kids, Llamau are all charities.

Other charities will also develop 'trading arms' or seek to increase their income through entrepreneurial activity (eg Swansea YMCA). This accounts for most of the mapped social enterprises. Those that are not charities but make up the majority of largest social enterprises are Glas Cymru (which dwarfs all else in income) and housing associations (11 of the top 20).

### **Enterprise support**

In 2009 Welsh Government commissioned a report entitled 'Mapping social enterprise activity in Wales: Understanding in order to Influence'. This report looked at a range of indicators including who social enterprises looked to for support, and the report concluded that -

*Local councils were mentioned as one of the main sources of support by 41% of survey respondents, with 37% identifying them as the most important source of advice.... This support is unlikely to be structured business development and capacity-building support, rather it is likely to comprise information about funding availability and contract opportunities, as well as signposting to other sources of funding and support.*

*The next most important support provider is the WCVA, along with County Voluntary Councils (CVCs) which provide advice and information to local voluntary and community Organisations, including assisting organisation undertaking or looking to under social enterprise activity... Support from WCVA is more in demand by those organisations registered as charities - 77% of organisations which said WCVA was a main source of support were charities - and 'embryonic' social enterprises - 41% citing WCVA were in the 15% to 24% earning income bracket, compared to only 20% of those which earned 100% income through trading.*

*Specialist social enterprise support providers were the next most common sources of business support, particularly the Wales Cooperative Centre (17%), Community Enterprise Wales (4%), DTA Wales (4%) and Social Firms Wales (2%)... Business Eye and Business Connect, the main government business support programmes, were used by only 8% and 4% of respondents respectively.*

This mapping exercise shows that those organisations that fall within the broadly defined social enterprise term predominately look to providers associated with social enterprises, charities, the third sector or co-operatives rather than to mainstream business advice for their support. This highlights the importance of specific social enterprise support provision that organisations will feel comfortable in accessing.

Most, if not all of the support services (eg training, information, trading, finance, media, marketing, affinity schemes) developed for the third sector will be relevant to both social enterprises and voluntary organisations. A training course, for example on 'winning tenders' will not be different for a social enterprise audience.

Similarly the range of social finance products (loans) available from WCVA are available and relevant to any third sector organisation.

Equally, support and finance from business agencies will be sought and relevant to some.

With the next round of European funding due to start soon there is a real opportunity to implement an enhanced support and financing structure for social enterprises that is more cohesive, collaborative and increasingly focused on furthering the income growth and job creating potential of social enterprise in Wales.

### **Networking**

Social enterprises that want to raise concerns or provide a 'voice' can use a variety of existing channels to do so. At a local level they might access the Local Authority or Local Service Board via their CVC or nationally via their national umbrella (eg Children in Wales) or via generic business or third sector organisations like WCVA.

However, there will be some organisations who will not be comfortable within either a 'charity' or 'local' or 'business' or 'thematic' box and will not feel represented but the numbers are likely to be relatively modest.

In other areas this need has been met by a variety of informal/formal networks which are directly responsive to the needs and appetite for engagement of their members such as the Third Sector Equality and Human Rights Network, the Voluntary Arts Network or the Substance misuse and Community Justice Network.

WCVA's conclusions are that;

- Support needs should remain with providers already supporting social enterprise to avoid duplication of effort and service.
- Mainstream third sector representation organisations will take into account and will seek to engage with social enterprises in developing a voice.
- Occasionally the social enterprise voice will differ but this will be rare.
- A network solution based upon views and appetite for engagement of practitioners with some level of paid support is probably the most sustainable option.

### **WCVA's activities**

WCVA's Enterprising Communities project aims to provide practical support to third sector organisations to help them move towards becoming more financially sustainable. The project "strap line" sums up its purpose in "growing local social enterprise". It aims to equip organisations to operate in a more businesslike manner and generate more income themselves, including through bidding for and providing public services. This support covers issues around organisational development and governance as well as volunteer development and support. The project is funded in part through the Convergence ERDF programme, Priority 5, Theme 2 (Community Economic Development).

WCVA is the lead sponsor of the project on behalf of the Infrastructure partnership. However, crucially the project is delivered by a designated officer working at each CVC in the Convergence areas. The project enables each CVC to work with local organisations to support and improve their contribution to the local economy, and also the CVC's will work with other local support agencies and referrals will be made to specialist organisations as appropriate. Therefore, by utilising a combination of local knowledge leadership and guidance coupled with strategic central support from WCVA the best possible support is provided to emerging and embryonic social enterprises.

WCVA also offers a range of training courses such as procurement, organisational change, social investment, project management, lean and quality assurance and managing risk that are applicable to all organisations.

In addition to these major activities WCVA also -

- Operates [www.3to3.org.uk](http://www.3to3.org.uk) which provides a platform for organisations to trade goods and services with other organisations and the general public.
- Provides advice and e-learning modules on diversifying funding from WCVA's Sustainable Funding Cymru project and portal.
- Produces introductory information and guidance on how to begin trading
- Runs a Funding Conference each year that provides high quality speakers and workshops on all aspects of funding including trading, procurement and social investment.

### **Social investment**

An area of real change in profile and emphasis since the Enterprise and Learning Committee's report into 'The Role of Social Enterprises in the Welsh Economy' (November 2010) is that of Social Investment and WCVA has worked hard to create a range of 'products' that we are offering to organisations in Wales so that they can access the finance they need to invest in new or expanded trading activities.

Social Investment has seen huge attention in England through various Cabinet Office, BIG Lottery and Big Society Capital initiatives that are aimed at increasing the availability of social investment and the number of organisations that are deemed 'investment ready'.

To some extent in Wales we are ahead of the curve with WCVA's Communities Investment Fund (CIF) in that we have a fully operational mechanism for providing the kind of risk capital investments that commercial banks are not able to provide. Earlier this year the Department for Business, Innovation & Skills (BIS) asked WCVA to present the CIF model and provide advice to their 'Social Investment Expert Group'. This group is tasked with driving the design of social investment activity in England for the next round of European funding and our model of operating was held up as a model of best practice that they should look to try and replicate through their Local Enterprise Partnerships (LEPs).

WCVA's social investment activities to date have meant that £4.5 million has been invested into organisations across Wales with the loan repayments received from these investments currently totalling £1.9 million and rising each month. This repaid finance is now being put to use in further investments back into the sector. Although we are not at the stage yet where we can call ourselves a fully self sustaining loan fund we are well on the way.

Where Wales is seemingly lacking behind England is in the number of investment ready opportunities for WCVA and the main commercial lenders to the sector in Wales namely Unity Trust Bank and Charity Bank. We believe this is due to a number of factors, including-

- Investment ready support. Wales has a number of projects that are providing social enterprise support but these projects were conceived and developed before the rapid development in Social Investment activity. Any future support that is funded should be closely aligned with supporting organisations to become 'investment ready' and should also go on supporting organisations through the initial trading period after investment where chances of failure are highest.
- Grant availability. Grants are an important part of the funding makeup of the sector and will always have a role in helping organisations but at a time of considerable financial squeeze on public funding, funders should question each grant application with an enterprising or trading aspect as to whether or not some kind of social investment either in part or full can play a role in providing the requested funding. This should include how future European Structural Funds are deployed to support social enterprises to maximise impact and legacy of the funding received.
- Knowledge of social investment. There is still a huge amount of work to be done by all those working in the sector to better educate those running organisations of the availability of social investment and how it can play a role in enabling them to develop their organisations.
- Risk taking. Taking risks is part and parcel of making and receiving investment, it is not a risk free operation; however risks can be managed and mitigated. Further work needs to be done with organisations, and especially their trustees, to help them better understand the risks involved of using social investment and how they

might be mitigated. This better understanding of risk should then lead to more organisations being willing to use social investment to help drive their growth.

It is recommended that these areas should be considered as focal points for our efforts going forward to ensure that organisations make best use of the finance that is available for them to invest into growth and expansion activities.

## **Social Enterprise Support Provision**

There is a wide range of support being offered to social enterprises across Wales with most of it being funded by ERDF. WCVA through its Third Sector European Team (3-SET) has taken a lead in trying to co-ordinate activity delivered under Convergence Priority 5, Theme 2: community economic development in the best way possible to share intelligence and also ensure collaboration on any overlapping areas of engagement.

However this myriad of support programmes, some also with grant support, has created a confusing climate for organisations on where they can turn to for support and a unified 'Business Wales' type approach is not currently in operation.

There is clearly a large role for future social enterprise support activities to help drive forward an increasingly vibrant sector however WCVA believes that this activity should -

- Be joined up and easily accessible with organisations having a clear single point of contact where they access the information, advice and guidance that is available to them.
- Ensure that there is a wide range of information, advice and guidance available to support organisations from start-up and early stage formation through to larger scale growth initiatives and accessing investment.
- Bring in social investment providers to ensure there is a clear link between the business plans being developed and the finance to make them happen
- Be delivered with and by existing bodies that already communicate with and support the wide range of organisations that fall within the broad social enterprise sphere.

## **Summary**

The term social enterprise is clearly one that has resonance and it is at its strongest when used as a loose overarching term that encompasses the wide variety of organisations that undertake business in the way we have described above.

To enable social enterprise in the widest sense to grow and create employment in some of our most deprived communities in Wales WCVA believes there are some key principles Welsh Government should work to, to help maximise the potential of social enterprise -

- The provision of Enterprise Support services should be provided by those that best understand the nature of the myriad of organisations who fall beneath the social enterprise banner and who already have a relationship with those organisations through their existing activity.
- A joined up approach to Enterprise Support services must be implemented, that is better co-ordinated with the Business Wales approach, promoting more cross-referral.
- Representation of social enterprise should be undertaken in a way that mirrors how many other representative groups come together and create a collective voice.

- The availability of social investment and support to make organisations investment ready should be seen as the most sustainable and value driven way of supporting organisations to grow.
- The provision of future grant funding schemes should be designed with the access to social investment clearly taken into account for those applications that have an income generating or trading aspect.