

## **A call for information – Welsh Government Draft Budget proposals for 2021-22**

### **Consultation response**

This response has been prepared by the Social Enterprise Stakeholder Group, which acts as a voice for the sector in Wales. The Group is formed of the following social enterprise sector support agencies; Development Trusts Association Wales, Social Firms Wales, UnLtd, Wales Co-operative Centre, WCVA.

### **Role of social enterprise in recovery and reconstruction**

The social enterprise sector in Wales can play a key role in helping to rebuild a fairer, more inclusive, and sustainable economy. Social enterprises 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. Social enterprise also play a particular role in creating jobs for and developing the skills of people who are outside the mainstream labour market. The social enterprise model will be crucial to the green recovery as well as the overall recovery and reconstruction of Wales in the aftermath of COVID-19. We therefore need to ensure that funding streams are available to the sector to allow it to rebuild and grow.

### **Consultation questions**

1. What, in your opinion, has been the impact of the Welsh Government's 2020-21 budget including recent funding related to COVID-19?

Our report "COVID-19 and the impact on social enterprises in Wales" highlighted how the sector had responded to the additional funding made available in response to the crisis. Social enterprises have utilised each of the phases of the Economic Resilience Fund, Third Sector Resilience Fund as well as other funding made available through sector bodies such as Sports Wales, Arts Council for Wales and the WCVA.

Our report found a high number of successful applications and quantity of funds allocated, which validates the necessity of this emergency funding source. Many social enterprises are still in "survival mode" – accessing the funding necessary to keep the business going while maintaining its operations or accessing the funding while entering a "hibernation mode". The impact of this additional funding has been clear, in that many of the social enterprises operation in Wales would have had to close without it. However, there is also some evidence of social enterprises falling

through the gaps and entrepreneurs having to turn to universal credit or self-employment grants.

Naturally, the funding made available in response to Covid-19 has been short-term focused in order for businesses to survive the lockdown and economic crisis. However, it is clear that there will be long-term consequences of this period, with social enterprises losing out on long-term funding as a result of these resources being diverted to emergency short-term funding, development officers being placed on furlough, and many social enterprises operating in seasonal industries.

## 2. How do you think Welsh Government priorities for 2021-22 should change to respond to COVID-19?

The social enterprise support agencies consider that recovery provides an opportunity to adopt a 'ground up' and inclusive approach to rebuilding a resilient economy in Wales. We feel that Welsh Government's budget priorities should focus on building a strong foundational economy, embedding the principles of the Well-being of Future Generations Act.

In many respects, Covid-19 has simply exacerbated trends which were already emerging. Traditional approaches to economic development were not working. Economic growth had become unbalanced. Income inequality has been increasing. To combat these trends and make the Welsh economy more resilient, we believe economic strategy must create the conditions where social enterprises and other businesses working in the foundational economy are supported and where co-operatives, supported businesses and social businesses can flourish.

In the medium term, consideration should be given to 'open' funding streams for social enterprise. The sector has raised concerns that emergency funding which is very flexible, may run out before income streams recover. Many non-emergency funding streams are only open to certain sectors or have very defined application /evaluation criteria. Having 'open' project funding, during the post Covid-19 recovery phase, would allow for greater project innovation, flexibility and impact resulting in sustainable community benefits. Future funding streams, for all sectors, should be based around the principles of the Wellbeing of Future Generations Act.

3. How financially prepared is your organisation for the 2021-22 financial year, and how can the budget give you more certainty in planning and managing budgets given the ongoing volatility and uncertainty?

N/A

4. Given the ongoing uncertainty and rapidly changing funding environment do you think there should be changes to the budget and scrutiny processes to ensure sufficient transparency and Ministerial accountability?

N/A

5. Does the Fiscal Framework adequately reflect the impact of the public health emergency in Wales compared to other UK countries and do you support increasing the annual and/or overall limits to current Welsh Government borrowing within this Framework?

N/A

6. The Committee would like to focus on a number of specific areas in the scrutiny of the budget, do you have any specific comments on any of the areas identified below, particularly in light of the COVID-19 situation and how these should be reflected in the 2021-22 budget?

- *How resources should be targeted to support economic recovery and what sectors in particular need to be prioritised.*
- *To what extent alleviating climate change should be prioritised in supporting economic recovery.*
- *Welsh Government policies to reduce poverty and gender inequality.*
- *Approach to preventative spending and how is this represented in resource allocations (Preventative spending = spending which focuses on preventing problems and eases future demand on services by intervening early)*
- *Sustainability of public services, innovation and service transformation*
- *How evidence is driving Welsh Government priority setting and budget allocations*
- *How the Welsh Government should use taxation powers and borrowing.*
- *Support for businesses, economic growth and agriculture after EU transition ends.*
- *What are the key opportunities for Government investment to support 'building back better' (i.e. supporting an economy and public services that better deliver against the well-being goals in the Well-being of Future Generations Act)*

Further to the approaches discussed in the response to question 2, we would like to add:-

### **Localised support**

Consideration should be given to the provision of local/town support packages. The recent report 'The effect of the Covid-19 pandemic on our towns and cities' a report, published by the Centre for Towns, acknowledges:

"The immediate short-term crisis is presented by the shutdown of large parts of the economy; many of which are disproportionately found in small and medium sized towns. In the medium- and long-term, the capacity of these towns to be able to recover from Covid-19 may be impeded by their existing status."

A number of coastal towns and valleys communities within Wales are specifically mentioned in the report including Rhyl and Tredegar.

We would support a more regional approach to the delivery of funds that allows funding to be flexible to meet the particular needs of regions. However some programmes, such as business support and provision of repayable finance, lend themselves more naturally to national programmes due to the volumes involved and the specialist skills required as well as to ensure consistency across Wales

We believe that investments should be led by the community in which they take place. Such an approach will allow us to be more flexible and dynamic in the economic recovery from Coronavirus.

### **Building Welsh supply chains**

There is an opportunity for Welsh and UK Governments to embed social value into both public sector and private sector supply chains. Building social value into procurement alongside stipulations for reuse and repurposing would help to maximise economic and social value. Welsh Government should consider a minimum social value weighting of 20% in public sector contracts. Currently, social and community benefits to public contracts are not well-monitored. Contracts often ask for community benefits plans but these are not scored or audited.

England and Wales are producing more food and more goods within our rejuvenated local industrial and farming sectors. This offers greater self-sufficiency, reduced CO2 and improved balance of payments creating a stronger economy. We welcome a much greater role for local procurement and opportunities for social enterprises but also for more (strategic) Fairtrade initiatives, for food that cannot be produced in UK.

## **Inequalities**

The pandemic has exacerbated already intolerable inequalities, the people who will be most affected will be those who are already struggling: the young, low-skilled and poorly paid, and those in already more deprived communities. Social enterprise empowers communities to come together to address issues that matter to them. Community-based social enterprise 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.

## **Climate Change**

We consider that alleviating climate change should be prioritised in supporting economic recovery . 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 enterprises 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.

## **Specialist Business Support**

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.

### **Impact of Covid-19 combined with the loss of EU Funding**

When considering future funds, it must also be noted that many social enterprises are still concerned about the loss of European Funding. Businesses, communities and individuals across Wales have benefited significantly from European Union funding. Social enterprises and co-operatives have been helped to grow and create new jobs as a result of business advice, grants and loans funded by the EU.

Social enterprises in Wales are strongly concerned about the impact of Brexit on their businesses and the loss of EU structural funds. The most recent sector mapping research, undertaken by Social Business Wales (2019), found that half of social businesses in Wales have experienced or expect to experience an impact on their business from Brexit. Of these, 94% expected this impact to be negative. For a sector which is worth an estimated £2.4 billion to the Welsh economy, this could have serious ramifications for the sector but also for the communities that they serve.

Nearly 60% were also concerned about the impact of the loss of EU funding on their organisations. Continued uncertainty over the new Shared Prosperity Fund is unhelpful for assisting these businesses to plan for Brexit. There is an urgent need for clarity on the proposed Shared Prosperity Fund that is set to replace EU structural funds across the UK.

The continuation of the funding to grow the foundational economy level in Wales e.g. the foundational economy challenge fund, is critical. In the long term, this will strengthen foundational essentials such as health, housing, energy and food which ensure that individual communities are more self-sufficient, community centred, and less reliant on global supply chains and government support.

### **Opportunities**

The Covid-19 crisis has clearly demonstrated the societal importance of the foundational economy to the day-to-day functioning of life. As we emerge from the pandemic we need put even more emphasis on growing the foundational economy which produces daily essential goods and services which underpin quality of life and sustainability. Supporting this section of the economy will improve physical

infrastructure such as utilities, operating infrastructure such as banking, food supply chains and services such as social care. Furthermore, foundational businesses are anchored in their communities; investment in them stays in the community and is recycled for wider economic and social benefits. Strengthening these businesses will make local communities more resilient, sustainable, and self-sufficient.

Social enterprises 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. They focus on the triple bottom line of People, Planet, Profit.

We need to re-build our economy differently and in a fairer way. Social enterprises should be at the heart of this new economy, as outlined in the vision and action plan 'Transforming Wales through Social Enterprise', which was launched in July 2020.

For further information or for clarification of any points raised in this response, please contact Dr. Sarah Evans ([sarah.evans@wales.coop](mailto:sarah.evans@wales.coop)) on behalf of SE Stakeholder Group.