



**Cynulliad Cenedlaethol Cymru  
The National Assembly for Wales**

**Y Pwyllgor Menter a Dysgu  
The Enterprise and Learning Committee**

**Dydd Iau, 8 Gorffennaf 2010  
Thursday, 8 July 2010**

**Cynnwys**  
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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,  
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.  
In addition, an English translation of Welsh speeches is included.

**Aelodau'r pwyllgor yn bresennol**  
**Committee members in attendance**

Jeff Cuthbert	Llafur Labour
Andrew Davies	Llafur Labour
Paul Davies	Ceidwadwyr Cymreig Welsh Conservatives
Nerys Evans	Plaid Cymru The Party of Wales
Brian Gibbons	Llafur Labour
Gareth Jones	Plaid Cymru (Cadeirydd y Pwyllgor) The Party of Wales (Chair of the Committee)
David Melding	Ceidwadwyr Cymreig Welsh Conservatives
Jenny Randerson	Democratiaid Rhyddfrydol Cymru Welsh Liberal Democrats

**Eraill yn bresennol**  
**Others in attendance**

Graham Benfield	Prif Weithredwr, Cyngor Gweithredu Gwirfoddol Cymru Chief Executive, Wales Council for Voluntary Action
Jerr Boschee	Cyfarwyddwr Gweithredol, Sefydliad yr Entrepreneuriaid Cymdeithasol Executive Director, The Institute for Social Entrepreneurs
Lis Burnett	Cynghorydd Arbenigol Specialist Adviser
Simon Harris	Prif Weithredwr, Canolfan Cydweithredol Cymru Chief Executive, Wales Co-operative Centre
Phil Jarrold	Dirprwy Brif Weithredwr, Cyngor Gweithredu Gwirfoddol Cymru Deputy Chief Executive, Wales Council for Voluntary Action
San Leonard	Cyfarwyddwr, Cwmnïau Cymdeithasol Cymru Director, Social Firms Wales
Peter Williams	Cyfarwyddwr, Cymdeithas Ymddiriedolaethau Datblygu Cymru Director, The Development Trusts Association Wales

**Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol**  
**National Assembly for Wales officials in attendance**

Daniel Collier	Dirprwy Glerc Deputy Clerk
Siân Phipps	Clerc Clerk
Ben Stokes	Gwasanaeth Ymchwil yr Aelodau Members' Research Service

*Dechreuodd y cyfarfod am 12.59 p.m.*  
*The meeting began at 12.59 p.m.*

## Cyflwyniad ac Ymddiheuriadau Introduction and Apologies

- [1] **Gareth Jones:** Prynawn da, a chroeso cynnes i'r cyfarfod hwn o'r Pwyllgor Menter a Dysgu. Byddaf yn gwneud y cyhoeddiadau arferol ar ddechrau'r cyfarfod. **Gareth Jones:** Good afternoon, and a warm welcome to this meeting of the Enterprise and Learning Committee. I will make the usual announcements at the start.
- [2] Mae'r cyfarfod yn ddwyieithog, gyda chlustffonau ar gael i glywed y gwasanaeth cyfieithu ar y pryd o'r Gymraeg i'r Saesneg ar sianel 1. Gellir eu defnyddio i chwyddleisio'r sain hefyd, ar sianel 0. Bydd Cofnod o'r cyfan a ddywedir yn gyhoeddus. The meeting is bilingual, with headsets provided to receive the simultaneous translation from Welsh to English on channel 1. They can also be used to amplify the sound, on channel 0. There will be a Record of all that is said publicly.
- [3] Atgoffaf bawb i ddiffodd eu ffonau symudol ac unrhyw ddyfais electronig arall. Nid oes angen cyffwrdd â'r meicroffonau yn ystod ein trafodaethau. Gan nad ydym yn disgwyl ymarfer tân, os clywir y larwm, rhaid inni symud o'r ystafell, ac efallai yr adeilad, gan ddilyn cyfarwyddyd y tywyswyr. I remind everyone to switch off their mobile phones and any other electronic devices. There is no need to touch the microphones during our discussions. As no fire drill has been scheduled, if you hear the alarm, we will have to leave the room, and perhaps the building, under the guidance of the ushers.
- [4] Un ymddiheuriad sydd wedi dod i law, a hwnnw oddi wrth Chris Chapman. Nid oes dirprwy iddi. Dyma'r cyfle i Aelodau ddatgan unrhyw fuddiant. Gwelaf nad oes dim i'w ddatgan, felly symudwn ymlaen. One apology has been received, and that is from Chris Chapman. There is no substitute for her. Now is the time for Members to declare any interests. I see that there is nothing to declare, so we will proceed.

1.00 p.m.

## Rôl Mentrau Cymdeithasol yn Economi Cymru The Role of Social Enterprises in the Welsh Economy

- [5] **Gareth Jones:** Dyma ail gyfarfod ein hymchwiliad newydd. Ar ran y pwyllgor a Lis Burnett, hoffwn groesawu Cyngor Gweithredu Gwirfoddol Cymru. Croeso cynnes i Graham Benfield, prif weithredwr, a Phil Jarrold, dirprwy brif weithredwr. Yr ydym hefyd yn ddiolchgar ichi am y dystiolaeth ysgrifenedig yr ydym eisoes wedi ei derbyn ac wedi cael cyfle i'w darllen. Os ydych am wneud cyflwyniad byr o'r prif bwyntiau, mae hynny i fyny i chi. Byddwn yn falch o'i glywed. Byddwn wedyn yn troi at yr Aelodau iddynt ofyn cwestiynau. Felly, croeso a drosodd i chi. **Gareth Jones:** This is the second meeting of our new inquiry. On behalf of the committee and Lis Burnett, I welcome the Wales Council for Voluntary Action. I extend a warm welcome to Graham Benfield, chief executive, and Phil Jarrold, deputy chief executive. We are also grateful to you for the written evidence that we have already received and had an opportunity to read. If you wish to make a brief introduction of the main points, that is up to you. We would be pleased to hear it. We will then turn to Members to ask questions. So, welcome and over to you.
- [6] **Mr Benfield:** Thank you for giving us this opportunity to give evidence to the committee. Social enterprise is a growing interest for everyone. It is a very broad church. The way that we look at it is that it is a way of doing business rather than a particular sector in its own right. That is because it stretches from very large organisations akin to the commercial sector, such as John Lewis, Network Rail and building societies and so on, through to

organisations operating in a semi-commercial to commercial way in relation to business, such as catering firms, shops and so on, through to organisations that are developing or taking over public services of one kind or another, through to those that are developing new assets that may have a large extent of capital investment from the public sector, such as the Wales Millennium Centre, or those that are taking over assets that would otherwise not remain in the community, such as post offices. It also includes many organisations that are diversifying their funding base, which I suppose is the bulk of the organisations that we come across. According to the Assembly Government's scoping study, these are the organisations that make up the bulk of what you might call social enterprises.

[7] One of the difficulties with a social enterprise is how you define it. If you define it as creating income through 15 to 25 per cent of trading, most third sector organisations, right the way through to household name companies, would be developing some of that activity. What we are seeing is a greater interest in how to diversify the funding base of organisations. We have seen a tremendous demand to develop ways of increasing skills in tendering for public contracts on the one hand, and how to trade on the other. We have developed a number of ways for our members to help develop those services.

[8] So, it is a very broad area of activity. It is a developing and positive area, but we need to target services and support to different aspects of it, depending on what they are.

[9] **Gareth Jones:** Thank you, Mr Benfield. I now turn to Paul Davies for the first question.

[10] **Paul Davies:** A general theme in your paper in relation to the challenges faced by social enterprises in Wales is funding and finance. Do you feel that the Welsh Assembly Government is doing enough to support social enterprise development in Wales? What specific measures do you wish to see in place to grow this sector? What sort of relationship do you have as an organisation with the Welsh Assembly Government? I also note that you state in your paper that:

[11] 'There is an opportunity for a third sector or social enterprise approach to the delivery of public sector services'.

[12] Could you outline the specific sectoral and geographical opportunities in Wales for social enterprises and co-operatives to become involved in the delivery of public services? What are the main barriers to that?

[13] **Mr Benfield:** There were a number of questions there. In terms of our relationship with the Welsh Assembly Government, we work very closely with it and have a partnership agreement that provides support through our county voluntary councils and volunteer centres to third sector organisations throughout Wales. Broadly, it has been well received, and sets out clearly the kind of services that are available. What we are trying to do with that agreement, at a national and a local level, is ensure that the services provided are changing as circumstances, contexts and opportunities arise. For instance, our funding advice used to be around how to apply for grants, but, these days, it is also about getting people geared up to bid for contracts, and showing them how to find those contacts. Our scoping study said that many people did not know about Sell2Wales, including those who said that they wanted to deliver public services. There is quite a long way to go in developing skills in tendering, and many of the organisations that we are working with are looking at ways to develop their own, more commercial activity through enterprises, shops and cafes, looking at where there is a market that they can feed into.

[14] As for public services, and what the Assembly Government can do, it is very much about how big a market there is, and how many opportunities there are, in reality, for social

enterprise or third sector organisations, to bid as well as the issue of whether they have capacity to do so. Clearly, if those opportunities are not there in any great numbers, people will not necessarily gear up to tender for them. There is a bit that the Assembly Government could do to help to shape the market a little, to enable third sector organisations to get more involved in the delivery of services. Phil, can you give some examples?

[15] **Mr Jarrold:** Yes. I was talking to an organisation this week that told me about a local authority—not the Assembly Government—that had pump-primed a spin-off social enterprise from an Age Concern organisation, which was going to provide paid-for services. When the local authority assessed people for support, if it was not able to provide paid-for support to the local authority, but individuals wanted to buy in care, then there would be an agency working with the local authority able to do that. That has had some time-limited funding to get it going, and, at the end of the pump-priming period, the intention is that it will be a viable care provider. That is one model.

[16] Other opportunities, particularly in the public expenditure climate in which we are operating, are around whether social enterprise, co-operative or third sector approaches can offer different ways of providing services that might be squeezed by the current spend. That is particularly the case in the arts and leisure spheres, which one senses could be areas that are hit first. There may be options for alternative organisations to run those services. We know that that has happened with leisure provision elsewhere in the UK, for example.

[17] **Paul Davies:** Does geography act as a barrier to developing those social enterprises?

1.10 p.m.

[18] **Mr Benfield:** I do not think that it does as such. Every situation, in a way, is different. Some geography creates needs and challenges that other geography does not. The driver to take over your village store, for instance, is likely to be greater in an area that is furthest from other provision. You could say that, in one sense, the largely rural geography of Wales could be a stimulus to people taking on services and developing them themselves. One of the elements of all this, especially the sorts of organisations that we are talking about, is that there is a high level of community involvement—call it volunteering if you like—in the delivery of the service. That is one way in which communities are able to do things and to develop or preserve services that otherwise might become uneconomical.

[19] **Mr Jarrold:** The geographical scale may have a bearing, because many organisations are smaller, and, as the drive for the joint procurement of services increases, as it inevitably does, there is a challenge in relation to whether social enterprises have the capacity to deliver over a wide area. Indeed, there is also a challenge in respect of whether private sector small and medium-sized enterprises can deliver very large-scale contracts. So, if we go down a road of more shared commissioning and procurement by local authorities, for example across boundaries in north Wales, it will be a real challenge for organisations to be able to operate on the right scale to deliver.

[20] **Gareth Jones:** Andrew Davies wants to come in on this.

[21] **Andrew Davies:** We took evidence last week from Adele Blakeborough, who described herself as a social entrepreneur—and I think that the emphasis was on ‘entrepreneur’. She said that this had to be kept in proportion, and she felt that social enterprises could deliver in areas in which public services operate, and that there was perhaps an opportunity in niche areas. From reading your evidence, and from what you have said, Phil, there is a lot of nervousness among many, particularly in the trade unions, about whether using social enterprise co-operatives is a way of delivering services on the cheap. I was a bit concerned because you seem to imply that, during a time of public finance constraints—and I

may have misread the evidence or misheard you—that that is a cheaper way of delivering services. That may not be the best way of putting this proposition forward.

[22] **Mr Jarrold:** It is not necessarily a cheaper way. It could be in some areas where smaller organisations are leaner, and can maybe operate at a lower cost and more flexibly than a large organisation. However, you raise a very real issue, in respect of job losses and so on, and it is a tricky one for us to address. It seems to me that in some areas it may be a question of whether the only possibility is that a particular service closes down and all jobs are lost, or whether there is an alternative way of providing some services that maintains some jobs.

[23] **Mr Benfield:** We are doing quite a lot of work at the moment with the TUC and Unison on these issues. These are sensitive issues, and we do not want to be seen to be advocating the substitution of unpaid employment for paid unemployment, or, indeed, worse conditions. So, we are working out ways of ensuring that the community contribution, which I think is critical to the retention and development of some of these services, is not undertaken in a way that threatens existing jobs. We are making some good progress on that.

[24] **Brian Gibbons:** On that point, is it intended to develop some sort of protocol or memorandum of understanding between you and public sector unions so that you will not be involved in a race to the bottom in respect of jobs and so on?

[25] **Mr Benfield:** We are having a sequence of meetings at the moment with the TUC, and I am fairly confident that they will lead to a charter within the next six months or so.

[26] **Brian Gibbons:** That would be very interesting. There is now a political debate on whether the big society is a Trojan horse. If public sector unions can be assured that there is a protocol or charter, I think that that would be extremely useful.

[27] **Gareth Jones:** To add to that very interesting exchange—I think that we are all aware of what has been talked about here; it has been highlighted—Graham, in answering Paul's question, you mentioned that the Government could be involved in identifying markets. I think you said that about marketing. Does that mean that, when we come up against these changing situations or where it is quite obvious that things will change, the Government can somehow help to identify these areas so that social enterprise can be introduced? Is that the kind of marketing intervention that you have in mind?

[28] **Mr Benfield:** There are two elements to this. Sometimes, one of the problems is that Government or local government are not always clear enough about what they want, and, therefore, the approach is to say to organisations, 'You tell us what you can do, and we will tell you if we want it'. The difficulty with that is that you have to be all-seeing, and it would be a great deal easier if Government and local government commissioners of one kind or another were clearer about where they felt that social enterprise could be of value. Then, I think that there is a process in Value Wales. We and others have been doing a lot of work on this to try to make that commissioning process as friendly as possible to social enterprise, or really to small organisations in general, which may be small businesses. The commissioning process is not easy for many organisations. We are trying to increase people's awareness and skill in understanding it, but we still have some way to go to get a commissioning process that is user-friendly.

[29] **Gareth Jones:** That is a valid point. Brian, I know that you have a follow-up point, and it is also your turn to ask questions.

[30] **Brian Gibbons:** I will just follow up this point first. You refer in your paper to leisure services, and Phil mentioned it in passing. In the context of Neath Port Talbot, where

leisure services were outsourced to a social enterprise called Celtic Leisure, in fairness, the service has probably improved for being redesigned in that way. A couple of months ago I met a fairly senior manager working on a housing stock transfer. They spoke about the change in ambience in the organisation when it became a social enterprise or community mutual, and, again, they felt a terrible weight lifted off their shoulders. They were able to be involved in service redesign and so on and to do new things, which the local authority found very difficult to do. Has any empirical research been done on the living experiment taking place in front of our eyes to evaluate these things? I am not aware that an evaluation is taking place. Is someone evaluating the different business styles emerging from the development of social enterprise in previous public sector service delivery areas? What are the satisfaction levels of the staff? It is obviously a key concern of the unions that this is a race to the gutter, but that is not always necessarily the case.

[31] **Mr Benfield:** You are probably going to see other people who will have a greater knowledge of that variation than we have—

[32] **Brian Gibbons:** Who do you have in mind?

[33] **Mr Benfield:** The representatives of the Wales Co-operative Centre, who are coming in after us, are probably better placed to answer your question. Where evaluations have been done, the difficulty of the broad-brush approach that we are talking about is evident. If you are transferring services, Transfer of Undertakings (Protection of Employment) Regulations 1981 would apply in any case. There have been various examples of where that has been done successfully. As you say, in general, the stock transfer has been welcomed by tenants for being more flexible. It also brings in more capital.

1.20 p.m.

[34] As far as we are aware, people have been more satisfied with that service. It obviously depends on the particular situation, the particular set of circumstances, and the particular way in which the service is developed, redeveloped or changed. I suppose that this goes back to the key that we would stress about all services in any case, which is the degree to which users are involved in the design of the service. I suppose that there is research to show that where you design services on the basis of what users say, you will get services that the users feel are better. That applies to social enterprise or to any other service deliverer. I guess that that evidence would exist. I do not know whether it is specific to social enterprise or not.

[35] **Brian Gibbons:** I am quite interested in the access to finance because you mentioned that in your paper, as well as access to business support. What are the specific requirements of the sector beyond the generic business support that is available? Where do you think those organisations could go to get that sector-specific support if you think that it is needed, both for finance and expertise? Part of the reason why I say this—and I mentioned it at last week's committee meeting—is because I put myself in the position of a budding social entrepreneur and I looked at the web to see whether I could find much help. I have to say that you, the Wales Co-operative Centre and a few others were not very informative with regard to the information that is available. You mentioned the community investment fund. I struggled to find any information about the community investment fund using the search engine on your own site, Google or whatever. It seemed that if there is no need for generic support, that is a good reason why it is not there and there is no need to invent it if it is not needed; however, I think that the argument is that sector-specific support is needed, but why is it not there if it is needed? To where would you advise people to go?

[36] **Mr Benfield:** I will take your point about the community investment fund first. There is no information about it at present because the existing loans scheme is closed. CIF2 has not yet been launched; it is imminent. It is coming within months, but it is not there at the



moment. I think that there are three sorts of support that organisations are looking for, one of which is support in terms of developing ideas, business plans, and things for trading and tendering, which I would hope would be on our website. Then there is the more specialist support that would be available from the Wales Co-operative Centre, through its social enterprise support project, which I think is widely known, and other specialist agencies, such as the Development Trusts Association, social firms, and other particular social enterprise support agencies. Then, there is business support from the business side. Often, what organisations are looking for above that is very specialist support in the area that they want to work in. That will never come from agencies like ours; it will be specific, tailored support. If organisations had their own small budget to do it, they would go off and buy that support. I think that Phil has an example of that.

[37] **Mr Jarrold:** Yes. I was talking to a social enterprise working in the environmental field in mid Wales. It told me that it had a certain level of help, from third sector agencies and from what was then the Business Eye service. However, it had some specific technical needs with regard to the environmental aspects of its service and products. Its frustration was that there was a range of generic support, but that it wanted to buy in some technical know-how about the project that it was developing. As Graham said, organisations having access to the finance to buy in expertise, not just access to existing services, will be important. You could also take that example into a range of other areas of activity.

[38] **Brian Gibbons:** To where would you go if you were looking for bespoke finance services for the social enterprise sector? The new economic renewal programme was announced yesterday, which will narrow your options, rather than increase them.

[39] **Mr Benfield:** Do you mean where they would go for loans?

[40] **Brian Gibbons:** It could be for loans or for grants. Interestingly, your paper stated that equity was not suitable, which surprised me.

[41] **Mr Jarrold:** It is the access to independent financial advice that is the problem for many organisations. With regard to commercial sources of funding, there is still a difficulty in understanding and taking seriously a social enterprise, because it is a different model. The awareness of the commercial banking system is improving, but we still have some way to go. We also now have a risk-averse banking system, which is not easily lending much money to anyone.

[42] **Brian Gibbons:** What about the Charity Bank, the Co-operative Bank, the Triodos Bank and Finance Wales? Do we need a bespoke finance system for the sector or can it plug into the generic system? Does the sector need to be smarter in doing that?

[43] **Mr Benfield:** Anything that makes access to finance easier and sector specific would be welcomed. As you say, there are a number of loan schemes and loan/grant mixed schemes available, and there is a steady take-up of those. It is not an overwhelming take-up, but it is steady. It is whether that demand, which is growing, is sufficient and whether existing facilities are capable of meeting that demand.

[44] **Gareth Jones:** Before I move on to David Melding, I know that Andrew wants to come in, but we have to move on; I will come back to you, if I may. The Welsh Assembly Government mapping exercise showed that 21 per cent of social enterprises over 16 years of age still obtain less than 25 per cent of their income through trading. What are the barriers to growth for those organisations?

[45] **Mr Benfield:** If there is not a market for them to trade in, their initial business plan will not generate the income that they were expecting. So, it is about having realistic business

planning at the beginning of a process, which has been critically and robustly evaluated. That is a prerequisite. Organisations sometimes go into this with fairly unrealistic expectations of what is possible when you get into income generation and beyond the initial investment.

[46] **Gareth Jones:** Andrew, you may ask a quick question.

1.30 p.m.

[47] **Andrew Davies:** First, I need to declare an interest as a non-executive and unpaid director of the Charity Bank. This is an important point, because in my experience many social enterprises do not see themselves as enterprises. Adele Blakebrough said clearly that about the fund that they set up with Permira, and much as they treat them as enterprises—that is, businesses; they may not be for dividend, but they are nevertheless businesses—much of the support that they give is about running a business. I would like you to comment because, in my experience, it is more about the services that people deliver than the running of a business.

[48] **Mr Benfield:** What is?

[49] **Andrew Davies:** Most of the social enterprises that I have seen tend to see themselves as social businesses, or as social organisations rather than enterprises, which is the point.

[50] **Mr Benfield:** In the Welsh Assembly Government's scoping study, if you look at who was below the top 20, the list is of organisations that are very much social organisations. We would say that they look remarkably like what we used to call voluntary organisations. Therefore, they would come at this from a social purpose first, and then stick on a question about whether they could become more businesslike. Many organisations have done that, but I guess that the number of organisations that are what you might call socially driven and 100 per cent self-sufficient is negligible. The reason for that is that there is a relatively small area between what is delivered by the public sector, what is delivered by the private sector and what is delivered by the charitable or voluntary sector in which you can raise a sufficient amount of income. That is why we prefer to think that, with the majority of organisations doing the majority of things as identified in the scoping study, what you are looking at is diversification funding, a mixed economy of funding—part trading, part grant, part loan and part asset development. Those are the organisations that I think are going to flourish, as opposed to the purist models at either end.

[51] **Gareth Jones:** We have to move on; we have about 14 minutes left for this part of the session.

[52] **David Melding:** My question follows on from Graham's last point there. Roughly 3 per cent of economic activity is generated by social enterprises. Do you see scope to increase this? I do not know whether you have any idea of the order of magnitude in other European countries, for instance, or North America of what is generated by social enterprises, but 3 per cent strikes me as low. Alternatively, in the slightly unsettling answer that you have just given, do you think that the model is just not that vigorous in a modern economy? I am sure that most of us, when we agreed to hold this inquiry, thought that it had much greater potential than was perhaps indicated in your previous answer.

[53] **Mr Benfield:** That depends on some of the issues touched on right back at the beginning to do with market making, Government policy and the scope for non-statutory sector delivery of public services in public service development. You grow that by policy, if you wish, or you do not, if you do not wish. It is difficult to see how that it is going to grow unless you encourage the market in that way.

[54] As for the rest of it, I think that you are right; it could grow quite considerably, but again, you need the easy access to the available sources of money and you need organisations to grow and think in that way. I think that there has been a tremendous change over the past three years in how organisations are approaching the way in which they will meet the needs of their community. That could be expanded considerably, because that is a mix of mindset of entrepreneurship and of people thinking and organising in that way. The great thing about the third sector is that it reinvents itself every now and again. What you may see over the next few years is that it will reinvent itself in a way that will develop along those lines, where there is considerable potential. However, it is about getting the balance right between being realistic about what is possible with regard to meeting social, economic and environmental need. It is about getting the balance, the financial support and the mindset in place; then I think that you will see it grow quite quickly.

[55] **Jeff Cuthbert:** A good part of my question has already been covered, so I will save some time. Arising from a point that Brian made, have you had a chance to study the economic renewal programme? Do you think that there are positive or negative implications for this sector in the programme? You say in paragraph 16—I do not think that I have to declare an interest here—that you have set up an economic inactivity gateway in relation to creating tendering opportunities for smaller organisations. That is focused on structural funds, but do you have anything available more generally with regard to how to procure opportunities or develop products such as advice for this sector?

[56] Finally, with regard to capacity for staff development and training, some social enterprises, such as Glas Cymru, are very large, and have plenty of capacity for that sort of thing, but some are very small, as you have already said. As they have employees who should have the right to develop their abilities and to learn new skills, is that a problem? If so, how might that be overcome and what does an organisation like yours do to assist?

[57] **Mr Jarrold:** To take the last point first, one issue that we have pursued—not very successfully—is for Government policy to take seriously the skills development needs of the third sector. There are 50,000 people working within the sector, and we have not been very successful in having a commitment from Government to a particular programme to meet the skills needs of our sector. The evidence is that the sector is larger than transport, agriculture and communications within Wales. That is largely a Government policy issue to ensure that the overarching skills development programme that we have in place for the Welsh workforce recognises the third sector workforce, and is committed to addressing that alongside all other sectors.

[58] **Mr Benfield:** I have not studied the economic strategy in depth, but I know that it identifies particular growth areas. The issue in that regard is to look at what could be the contribution in those particular areas—creative industries and tourism are other examples—where the third sector has been active and innovative.

[59] **Jeff Cuthbert:** I also asked you about the economic inactivity gateway.

1.40 p.m.

[60] **Mr Benfield:** Part of the new European programme has to be procured, so that has introduced many organisations and people to the procurement process, and they are learning quite quickly about the tendering process. Alongside that, what we have been doing—this has been very popular—is running a series of courses about tendering, including advanced tendering. For many organisations, this is new and different, and although it is something that they can do, it requires a different approach that is tighter and more business-oriented. That is where we have seen the biggest demand and the biggest growth, and that is what we have

been responding to. There is relatively little training about. Procurement has become an industry, with lots of training and so on—although that training needs to be broadened a bit. However, the training and assistance available to organisations that tender is relatively thin on the ground. It is something that we and others have had to develop, because as I say, it is not really there for social enterprises or anyone involved in tendering. The Government does not tender—

[61] **Jeff Cuthbert:** So, you do not just focus on tendering in a European context—it is more general than that.

[62] **Mr Benfield:** The tendering course is about where to look for and how to develop a tender for the sector as a whole. What I am saying is that we have been looking at it from the other side—it has been very useful, in developing the tendering training, to be a procurer on the other side, and to see the difficulties that we as a commissioner, or a procurer, are presenting to people who are tendering to us. That is open to everyone.

[63] **Gareth Jones:** Jenny Randerson has the final question.

[64] **Jenny Randerson:** I will start with an issue that Andrew raised—the fear that, if you transfer public services to third sector organisations, you could see a decline in wages. Of course, wages can go up as well as down, as a result. I read recently about a co-operative of carers providing social care at home to people receiving direct payments; not only were those people getting a better service, because it was more tailored to individual needs, but the carers themselves were taking home significantly higher amounts of money, because they did not have the big overheads that a local authority would have in employing them. My question is: would you recognise that it can lead to an increase in pay as well as occasionally being a threat to pay?

[65] My main question, however, goes back to the economic renewal programme. I do not recall seeing social enterprise as a section there, and I read it pretty carefully. Were you disappointed by that, or do you think that it will fit in well enough with the rest of the Government's plans, so that it is not a matter of any significance whether it is mentioned specifically? As a rider to that, your own research shows that social enterprises prefer grants to loans, but the Government is now moving towards loans. Will that have a practical impact on the number of social enterprise start-ups?

[66] **Mr Benfield:** On the last point, the research is WAG's, not ours. Again, it depends which part of this broad spectrum of activity we are talking about. Organisations that are diversifying their income would prefer a grant to a loan, but then most organisations, whether they are private or third sector—or most people—would rather have a gift than something that they have to pay back.

[67] This goes back to the question of the availability of finance, and the way in which you are setting up and developing your business plan in the first place. For many organisations, the idea of loans is still quite scary. However, we then go back to where people start from, and, for organisations that come primarily from a background where 'social' is the first word and 'business' is the second, the long-term commitment of such a loan is quite challenging. However, over time, certainly with the loan funds that we have run, we see a steady and increasing take-up and people are becoming much more positive about loans. This is a slower process than people might expect, because it is a culture change and is a different way of doing things. On the other hand, people who have had loans find the discipline of what that means refreshing. It means no longer being judged in the same way; it is about whether you have a business case and whether it will work and you will get a return on it. That part is quite encouraging. Going back to the availability of finance, many of the loan givers are what we call 'patient lenders'. They are helpful in that respect, so I would not have thought that

that was an overwhelming obstacle. Sorry, but I do not think that I have answered your first question.

[68] **Mr Jarrold:** The first question was on economic renewal. We would have been pleased had there been specific reference to the third sector and social enterprise because it would have been a positive signal of intent from the Assembly Government but, ultimately, the opportunity is there for social enterprises to grow as part of the strategy, regardless of whether they are explicitly mentioned.

[69] **Gareth Jones:** I have a slight correction to what you have just said, as it is mentioned in this programme, but almost in passing.

[70] **Mr Stokes:** Yes, it is mentioned briefly on page 46.

[71] **Gareth Jones:** However, as Jenny said, it does not loom large in the programme.

[72] That concludes our questions and scrutiny. As David Melding hinted, we started off on this road, seeing social enterprise ahead of us and thinking that it was pretty straightforward, but this afternoon's discussion has been interesting, because there are so many aspects to this concept or idea—how it is interpreted, its limitations and so on. However, we are learning and you have made a major contribution to our learning this afternoon. Thank you both very much indeed.

[73] **Andrew Davies:** On loans and grants, I wonder what would be the outcome of a discussion in America on the balance between loan and grant. I think that we may well have a very different debate.

[74] **Gareth Jones:** This afternoon, do you mean?

[75] **Andrew Davies:** No, I mean generally.

[76] **Gareth Jones:** Because I have a train to catch. [*Laughter.*]

[77] **Andrew Davies:** Seriously, it is an interesting concept because I suspect that, in America, most people would see a grant as a handout and would want to stand on their own two feet. They see themselves as entrepreneurs, but here, perhaps it is more about delivering services.

[78] **Gareth Jones:** Croesawaf ein panel nesaf o dystion, sef Simon Harris, sy'n cynrychioli Canolfan Cydweithredol Cymru, Peter Williams, cyfarwyddwr Cymdeithas Ymddiriedolaethau Datblygu Cymru, a San Leonard, sef cyfarwyddwraig Cwmnïau Cymdeithasol Cymru Cyfyngedig. **Gareth Jones:** I welcome our next panel of witnesses, namely Simon Harris, who represents the Wales Co-operative Centre, Peter Williams, director of the Development Trust Association Wales, and San Leonard who is director of Social Firms Wales Ltd.

[79] Diolchaf ichi, ar ran y pwyllgor, am eich tystiolaeth ysgrifenedig. Yr ydym eisoes wedi cael golwg arni. Gan fod panel o dri ohonoch, a allech roi cyflwyniad byr, fesul un, o ryw ddau neu dri munud er mwyn inni allu ymglyfarwyddo â'r hyn yr ydych yn ei wneud? Cawn ninnau, yr Aelodau, ofyn cwestiynau wedyn. Ni wn pwy sydd am gychwyn—Peter, Simon neu San? Mae i fyny I thank you, on behalf of the committee, for your written evidence. We have already had a look at it. Given that there is a panel of three of you, could you each give a short presentation of around two or three minutes, so that we can familiarise ourselves with what you do? We, as Members, can then ask questions. I am not sure who wants to begin—Peter, Simon or San?

i chi.

1.50 p.m.

[80] **Mr Harris:** San.

[81] **Ms Leonard:** Thank you for that. [*Laughter.*]

[82] Thank you, first and foremost, for inviting me here today to give evidence. I am the director of Social Firms Wales, an organisation that has been around for about five years, so it is quite new to the sector. Primarily, a social firm is a business or commercial operation that offers employment and helps to create employment for the people who will be furthest from the labour market. We are talking about people who have a wide range of disabilities, people who may have offended or who are at risk of offending, and people who have been homeless. I guess that the overarching aspect, however, comes under the mental health banner. With all the enterprises that we are helping to support and develop, we are looking first and foremost at a business model. So, we are adopting business principles and business processes that can ultimately deliver a social objective. It is a solution that will help to bring about future social change.

[83] The work is diverse, very challenging and also time consuming. It is a sector that is growing in Wales. Throughout the UK, our latest mapping shows that, on average, at least 66 per cent of our social firms' income is generated through commercial activity against loans or finance of other sorts. So, that is encouraging and that has grown since the previous mapping that was done. Social Firms UK is about to start another mapping process, and we are hoping that that percentage will be higher—we are certainly seeing an indication of that.

[84] **Mr Harris:** My name is Simon Harris and I am chief executive of the Wales Co-operative Centre. Some of you will know of the centre. We have been around since 1982, so we are 27 years old. We are, essentially, a business support agency. We provide business advice and business development. Originally, we targeted employee-owned businesses specifically and focused on the issues of high unemployment at the time, during the early 1980s. So, the Wales Trades Union Congress established the Wales Co-operative Centre with a view to doing something proactive about the high unemployment levels of the time and supporting employees in the purchase and running of their own organisations.

[85] We are an all-Wales organisation, and we now offer three broad projects. We have enterprise services, which focus on co-operative development, employee ownership, community co-operatives and secondary marketing co-operatives. We deliver the bulk of that work in convergence areas through the social enterprise support project, which is match funded by the Welsh Assembly Government. We also deliver some of that work through the co-op enterprise hub, which is funded by the Co-operative Group in Manchester. The second broad area of activity is financial inclusion services to the public sector and others, which is the promotion and awareness raising of financial inclusion issues and of what it means to be financially excluded. We use the vehicle of credit unions, encouraging people to become members of credit unions and to support their development. The third area of our activity is digital inclusion, which is delivered through an Assembly Government-sponsored project called Communities 2.0. That is all about encouraging people who are not currently using ICT to use it, linking that to co-ops and social enterprises. So, that is what we are about and those are our three broad areas of activity. I will not go through the figures, as I gave you some figures in my written evidence on the size of the sector in Wales and the UK.

[86] **Mr Williams:** I am Peter Williams, director of the Development Trusts Association Wales. We are part of a network of community-based and owned organisations that operate as social enterprises or community enterprises, as they are often called. We are part of a UK

network of some 500 trusts, ranging from seven in the Orkney islands to a large one that owns a large part of the South Bank in London and the OXO Tower and that whole area. You may also know of the ones in Wales, such as Galeri, New Sandfields in south Wales, and a cluster in the Swansea area and across the industrial heartland of south Wales. They are using assets, enterprises and other activities to generate income streams that fund their social and environmental objectives. They share some common themes with other types of social enterprises, but they are focused on using assets, particularly land and buildings, as a base for generating income, which is used to cross-subsidise, I suppose, their social and environmental objectives.

[87] It is a rapidly growing network and it is diverse. There are development trusts in villages, inner-city areas, market towns, and all sorts of areas, often in areas of market decline, so some of the most deprived communities in Wales and the UK. They deliver particular services according to local need, so there is no set model, as with co-operatives. They are not a legal structure. In essence, they are regeneration companies for villages, towns or particular areas within communities.

[88] **Nerys Evans:** Cwestiwn eang iawn sydd gennyf i. Gwelwyd cyhoeddiad go radical gan y Dirprwy Brif Weinidog ar ddydd Llun am raglen adnewyddu'r economi. Er nad oedd ond ychydig ddyddiau yn ôl, hoffwn eich barn am hynny—os ydych wedi cael cyfle i edrych ar y cynllun. Beth yw eich barn am ei effaith ar fentrau cymdeithasol? Mae sôn am fentrau cymdeithasol mewn un lle, er nad oes llawer o sylw yn benodol iddynt, ond mae pethau llawer mwy eang ynddo. Ceir sôn am gaffael, ac yr ydych i gyd yn sôn yn eich papurau am yr angen i symud o ddibyniaeth ar grantiau i fenthyciadau ac ati. Mae'n fwy eang o lawer na mentrau cymdeithasol yn benodol. Felly, beth yw eich barn gyffredinol am y newid sy'n digwydd o fewn Llywodraeth y Cynulliad?

**Nerys Evans:** I have a broad-ranging question for you. We saw quite a radical announcement from the Deputy First Minister on Monday about the economic renewal programme. Although that was only a few days ago, I would like your opinion on that—if you have had an opportunity to read the plan. What is your view of its impact on social enterprises? Mention is made of social enterprises in one place, although it does not pay them much attention, but it goes far wider than that. There is talk of procurement, and you have all talked in your papers of the need to move away from a dependency on grants towards loans and so on. It is far broader than social enterprises specifically. So, what is your general view of the change happening within the Assembly Government?

[89] **Mr Harris:** I do not know how we will manage this between the three of us, but I guess that I am happy to kick things off.

[90] You are right that I have not read it in detail yet, but we have scanned through it and there is a significant change in emphasis. The broad view, from reading observers' comments on this, seems to be that it is generally seen as a good thing. We recognise that the Assembly Government has a limited amount of public money available to promote economic development in Wales, and so focusing on six target sectors is probably a good thing. There is then a move away from offering grants, which is a nervous thing, I think. We have an economy—a business support economy, certainly—that is, and has been for years, reliant on free business advice and perhaps too much grant, to an extent. My view is that we need to maintain some element of grant to get businesses up and running and to get existing businesses to expand and to grow. That applies just as much to social enterprise as to any other organisation. The challenge for us is to recognise that social enterprises are enterprises in their own right, as has been identified in all the papers, so they have to identify a product or a service that they can sell to a market. Grants would be welcome to help them to set up, to expand and to grow, but, in essence, our challenge is to get them to shift the emphasis away from grant dependence and to capitalise on market opportunities.

[91] On the six priorities—and I see that San has a copy there; thanks—there are opportunities in energy, environment, ICT and the creative industries. I think that the other activity outside the six areas could be supported by the economic programme within the Assembly Government, but also by the Department for Social Justice and Local Government—although I think that we need to move away from silos and departments in our approach to this. The department sees itself as having the responsibility of delivering the social enterprise action plan and providing support services. At the moment, that is done through support to a number of European funding projects. So, it is nervy, and we recognise that there is limited public money, but there is an opportunity for us to get on with it, really.

[92] **Ms Leonard:** I am quite encouraged by the entire document. I particularly like the fact that it is very well written, in language that can be understood by all individuals in the community.

2.00 p.m.

[93] I endorse all of what Simon was saying and, to underpin that, I want to say that I particularly like the fact that we are looking at an environment in which we will create robust business models to help us to move away from a grant culture. However, as Simon said, the grant culture does exist, and we have to manage that. Perhaps not every project will make it in the commercial world, so where does that fit? However, using grants as part of a much broader start-up package or even a development package for a business that has moved into growth needs to be encouraged as well. So, I would be quite fearful about the idea of grants being taken away totally. However, as part of that wider package, I think that that would work very well. It would certainly encourage business growth and help people who are very risk-averse with regard to commercial loans, which are the norm for some, but very difficult for others. I think that it will help to create that steady path and route forward for them to move into more of a risk environment.

[94] **Mr Williams:** We also welcome the economic renewal programme. We wrote a paper specifically on this that set out our views. We particularly welcome the fact that sustainable development was picked as a fundamental organising principle for the economic programme that the Government thinks will be the way that the global economy has to go, given the pressures of climate change and other key drivers. We also welcome the emphasis on assets. Private sector assets were mentioned in particular, but what has been said about making more productive use of the assets that we have in Wales can also be applied to assets held in community ownership and other models. We also liked the emphasis on anchors. Again, private sector anchor companies were referred to, but we would see development trusts and other community-based social enterprises as community anchors for anchoring wealth, skills and assets in communities.

[95] The six areas correspond with many of the areas where we see opportunities in terms of social enterprise, particularly around renewables, cultural industries—some of our members are heavily involved in that—and so on. So, I think that you could have quite a dynamic model that looked at a shared agenda across sectors, rebranding Wales in terms of it being less dependent on grants. Obviously we must look at inward investment and attracting new companies to Wales, but we must look at some of the assets that we have in communities and businesses of all types in Wales.

[96] **Andrew Davies:** To be frank, the economic renewal programme will mainly apply to the private sector. Social enterprise may have a role, but I think that it will be marginal. Speaking as a critical friend of the sector, given that it is not just about grants from the Department for the Economy and Transport, but European funding and money from the Department for Social Justice and Local Government, I have been struck by how unsustainable most organisations in this sector are. Whether we are talking about a



development trust or a social enterprise, they are not particularly well run, sustainable businesses.

[97] **Mr Harris:** I have set out in the paper that there are a couple of fundamental challenges. The skills and abilities of the individuals running these things must be one of those challenges. As other people have said before us, in their written and oral evidence, they must be proper, well run, professional businesses. That is something that we must up the ante on. There is an association with broader voluntary activity, and everyone is thrown into the same sort of pot, but they are clearly not a social enterprise if they are not employing people and trading. There is a clear challenge to raise the skill levels within these organisations. From a financial perspective, we really have to strengthen the balance sheets of these organisations. They must have strong balance sheets, as any private sector small or medium-sized enterprise would have. We must strengthen them through asset development, asset transfer and asset ownership. If they have a product, a market and are charging for services, we should strengthen them through loans and equity. I am really keen to promote and raise awareness of the opportunities for community investment and for social bonds. So, it is about raising equity and attracting equity. We have done grants, we are moving into loans, and we should be considering the whole package of support for developing the balance sheets of social enterprises. So, there are two real challenges to up the ante, as I said.

[98] **Ms Leonard:** I would like to focus a little more on having the right team in place for the social enterprise or social business. A turning point that we often see with a company that is moving from a more social aspect arena to becoming more commercial is when we start appointing a board that brings in not just social skills but commercial skills, which can be quite high profile, and the appointment of someone who will manage and be the face of that organisation or business. Therefore, it is when we bring in a commercial manager, perhaps, or someone of that nature, that we start seeing a slightly different tack being taken and you start to see a slightly different climb.

[99] I believe that it is very difficult to teach entrepreneurial and commercial skills. Much of that comes from very deep inside an individual. It is a slightly different skill set. However, we find that we can teach the social aspect of that business. Therefore, we bring in the commercial skills, and so long as the person has a leaning towards the social side, we can teach all of that. From our experience, that is the point at which we start to see a change happening. It is a slow growth, but at least it is in the right direction.

[100] **Mr Williams:** There is skills need in the sector, as there is in the private sector and other sectors, in relation to professional development. From my own experience, when I go out and visit these enterprises, I see incredibly dynamic leaders developing what is a complex business model, because they are managing a triple bottom line, not just maximising profits for shareholders. They have to think about three different aspects of their business. I think that they are incredibly successful. They do not attract the sort of investment that an organisation in the commercial sector or other sectors perhaps would. Therefore, they have to look at mixed income streams, meet what sometimes could be competing priorities in terms of the commercial aspect of generating income, and cross-subsidising things, which, effectively, do not generate a profit. Again, from our own experience, some of these organisations have been going for 19 or 20 years; they are not businesses that are here for a few years with initiative funding and then disappear. Any business that can sustain itself over time in areas of market failure, often with a lack of public sector resources, providing a vital service, is a success. If your question was about how we could scale this up, which means growing the skills of the sector so that it is able to do more, I think that there is a need there. We want to attract in graduates and all types of people and to grow our own skills within communities so that they would seriously think about working in a social enterprise as opposed to leaving the area or working in the private or public sector.

[101] **Gareth Jones:** A oedd gennyt **Gareth Jones:** Did you have another gwestiwn arall, Nerys? question, Nerys?

[102] **Nerys Evans:** Nag oedd. **Nerys Evans:** No.

[103] **Gareth Jones:** I will turn now to David Melding.

[104] **David Melding:** It would be useful for the committee to have some idea of what you consider to be the potential of the sector. The data are not absolutely bullet-proof but it seems that around 3 per cent of economic activity is generated by social enterprises. Is that quite low; and should we be aiming higher? Also, would there be some value in saying that we think that it should be 6 per cent or 9 per cent and that 10 years of generation, or whatever, would be a reasonable timescale to send those signals to the economy, public services and such?

[105] My second question is on finance. It seems that there is a possibility of developing credit unions to become mini economic regeneration bodies, dealing with finance and lending moneys to social enterprises and to microbusinesses in communities, where they are rooted and understand the economic needs. As we are all praising the economic renewal programme—as I did; I gave it a robust C+, which is not bad from a jaundiced Tory—

[106] **Brian Gibbons:** Is that a C for conservative? [*Laughter.*]

[107] **David Melding:** If public funds are limited and you want to use them in a more enterprising way in any case—to reduce the grant-giving and increase the loan-giving, so that you would have a higher velocity of lending of resources—could some of the regeneration moneys that are currently given out as grants nearly exclusively be used, perhaps, to get local economies going, particularly through social enterprises, and perhaps making some of these resources available for credit unions to lend?

[108] **Mr Harris:** There has clearly been a significant investment in credit unions from the Welsh Assembly Government over the years. They face the same challenges as the broader social enterprises in terms of the sustainability that has been achieved, and some are very successful. Llandudno and Merthyr Tydfil credit unions are ones that are used as examples.

2.10 p.m.

[109] One of the key things to me about finance is that we have existing financial infrastructure. We have, for example, the Charity Bank, Finance Wales, the Co-operative and Community Finance and the existing base of credit unions, and they should all aim to direct resource and energy. We have a responsibility, as do funders, to get them to work and to be possible lenders to social enterprises at a micro scale. A small amount of loan is difficult to get hold of; it is often quite easy to get hold of £0.5 million, but to get hold of £5,000 or £10,000 is not so easy. The rules have changed, with credit unions now lending to businesses as well as to individuals. We must try to get this working, but the same issues are faced by the credit unions with regard to the skills of the people within the unions. We need to strengthen credit union boards.

[110] A citizens' bank has been mentioned. I am not sure that there is a need to create another institution, but a focus could perhaps be provided by citizens' bank or a people's bank type of institution that could include small business in the social sector within its remit. I do not know about that; it needs to be looked at. Possibly, we could tap into funds across all Assembly departments, such as regeneration moneys, as you say, to fund sectors or areas that need that assistance that the economic renewal programme will not be able to provide, because, as you say, it is not necessarily entirely for social enterprise.

[111] With regard to the 3 per cent and 6 per cent—I do not know whether the social enterprise action plan has a headline figure, but as a strategic vision it should aim to be ambitious, as all strategic visions should, but that must be tempered with being realistic. Managing expectations, particularly in times of big society public services and considering what can be done within those, must be done, as well as to be ambitious. We need to try to strike a happy medium.

[112] **Ms Leonard:** In parallel to the financials, a lot of work needs to be done on the ground at the formative planning stages of any business model to be able to present a business case to a lending institution of any description. Business start-up, in particular, is incredibly hard to finance, and we find that some of our more ambitious social entrepreneurs are dipping into their own pockets. I find that encouraging because it shows a commitment to what they are doing. However, we need to provide help so that those business plans and processes are in place and are robust and so that the figures stack up. Within the funding mix, which was mentioned earlier, there needs to be a clear indicator that business plans must not be reliant on training grants of any description. A clear business model must be identified, indicating that, over three to five years, there will be business growth that will sustain that business.

[113] Start-up finance needs looking at. It needs to be linked to a robust business plan and a strong business case, but there is still some discussion to be had around start-up finance. There are many people who are willing to invest in growth, but it is those early stages that are the issue. In addition to that, another area that I feel is often overlooked, which is highlighted in this document, which was refreshing to read, is around supporting sole traders. It is my experience that sole traders can go on to grow a business that then employs one and then more people and takes on business premises. So, your white-van man and whatever he is selling from that van goes on to be part of a much larger economy. I want to see more support around that, particularly from where I am sitting in the social firms sector for people with certain disabilities who find it difficult to be part of a larger organisation. That would very much help them.

[114] **Mr Williams:** In response to the first question, there is huge potential for the sector to grow. It is already happening on a global level, with leading people in the private sector and in all sorts of leading economic think tanks looking at social enterprise as a way of affecting the way that the private sector works its business model. So, at that end of the scale, there are global-facing companies that will orientate themselves more towards a social-enterprise-type model, particularly with regard to climate change and driving some of those agendas forward. With regard to investment—

[115] **David Melding:** BP might be good at this. It would hope to get salvation, perhaps.

[116] **Mr Williams:** There is an interesting point here in that perhaps in the past, we would not have put so much pressure on getting the investment back in to ameliorate some of the damage that is caused. However, there is, perhaps, more public pressure now on companies to be socially and environmentally responsible. Perhaps some of that money could be reinvested in growing other social enterprises.

[117] However, at a local level and in terms of investment in regeneration, one of the first development trusts in the UK, Coin Street Community Builders, has influenced international design in terms of mainstreaming regeneration. Before then, we were talking about retail, housing, and commercial zones, but the idea of mixed-use developments has come to the fore. For example, the original proposals for the south bank were to turn a back on the river. However, it has been responsible for opening up the whole of the south bank. The Oxo tower was going to be destroyed and now it has been retained and there is a vibrant community around it. We should not think so small; we should think that we can influence the way in

which the private sector economy and economic models will change and consider how, in the United States, a requirement for much regeneration money is that it should be reinvested into communities. That is what has funded and driven a lot of the socio-enterprise movement in those North American countries.

[118] **David Melding:** I feel like we are drinking champagne instead of pale ale now. [*Laughter.*] I have no further questions.

[119] **Jenny Randerson:** The three organisations here represent different aspects of the sector, but I can well envisage people who are seeking advice and assistance going to all three of you or two out of three of you. How do you work together to ensure that there is a seamless whole so that there is no gaping hole in the middle, but that at the same time you do not tread on the others' toes? The WCVA, in its evidence, talked about the importance of public sector support being more seamless and better dovetailed together. So, from your perspective, how do you work?

[120] **Mr Harris:** This question is asked of anyone who has developed any European bid. We developed a social enterprise support project that was submitted to the Wales European Funding Office and what came out of that was the need to ensure that organisations that are doing similar stuff are brought together so that there is no duplication and so that public money is invested in the most efficient way. However, what has dropped out of that process is a structure that ensures that the three of us as, essentially, organisations that can provide support and development advice specifically to clients on the ground, can share our expertise and knowledge. We focus on co-operative development and co-operative ownership; so that is employee and community ownership. We do not enter into the murky world—or perhaps it is not the murky world—of asset transfer and asset development, because we see that as something that sits quite neatly with the development trust model and association. The same is true of social firms. There are clear lines on this. We are able to get it right at this level, but on the ground, whoever the punter is and whatever they want to do will get the most relevant support from the most relevant agency, as long as we make it work behind the scenes. The same applies to the WCVA, which has a role to represent the voluntary sector and voluntary organisations; it does not provide business support and business development. I am on the board of the WCVA, to declare that interest, and as long as I am involved with it, it will not be doing that. We work very well alongside the WCVA, but it is up to us to ensure that we get it right so that the punter on the ground does not get confused. We do that quite well at the moment.

[121] **Ms Leonard:** We openly communicate and are quite transparent in our ways of working. We are very strong and we major very much on staying core to what it is that we do and we try to do that very well. We do not waver from our core business objectives. We recognise that, as an organisation, we are lean and small and yet we cover the whole of Wales.

2.20 p.m.

[122] The only way that we can do that and deliver those specialisms in the sector is by brokering that support from our partners. Both of my partners here today plus other organisations, including the WCVA, come into our broader brokering model and it seems to work well. There are clear areas of expertise, especially when we are looking at the externalisation of day services that employ people with disabilities. We are also now working in the ex-offender arena, and, once again, these are clearly defined areas and approaches.

[123] **Mr Williams:** I do not think that people generally start by saying 'I want to set up a social enterprise', but they are clear about either the sector in which they want to work or the type of business model to which they want to work. We do not impose solutions on people;

we respond to the people who find us. A lot of it happens through what we call a practitioner learning network. So, people see other communities or people who have done similar things and say ‘We’d like to do something like they’re doing’ so they get inspired by someone else. If it was someone from outside our sector, such as the waste sector, you would think of the umbrella body, Cylch, for a community recycling initiative and it has pioneered all sorts of innovative approaches towards social enterprise. Cylch would be the specialist in that area. People join trade federations because they are attracted to that particular model.

[124] It is similar for us with social firms. We have developed a European model to work with people with learning disabilities or other disabilities. Co-operatives are a well-established model and cover a range of fields, from employee-owned co-operatives on one end to more community-based ones. So, it is a choice for people according to what they want to do. A lot of our businesses are community-based enterprises, but occasionally they will grow to become organisations with social enterprises attached. The Cynon Valley Crime Prevention Association started off as a charity, but now has a trading arm with several million pounds of turnover and operates outside the immediate geographical area, but the benefits go back into that area. There are also other models for social enterprise, which is a good thing with regard to diversity of choice. It is not an imposed, fixed model, but allows people to respond to the type of business model that suits their needs.

[125] **Gareth Jones:** Do you have a follow-up question on that point, Brian?

[126] **Brian Gibbons:** Yes, and it may lead on to other supplementary questions. I take issue with Simon’s point that this is an area in which performance is good, following on from Jenny’s question. I have tried to look at this in the last couple of weeks, since we have been undertaking this inquiry, to try to find out, if you were a budding social entrepreneur, where you would go for support. My experience is that the Wales Co-operative Centre is not too bad at describing the type of social enterprise models that you might wish to follow comprehensively. It is not easy reading, it is a bit like *Pravda*, but the information is there—

[127] **Mr Harris:** I will jot that down. [*Laughter.*]

[128] **Brian Gibbons:** The information is there if you want to read it. The WCVA has a bit on where you can get finance, but, quite honestly, that is about the end of it. There is a massive hole in the middle and there is no single structure or framework, no website or portal that brings any of this together in a coherent way. The signposting is not good. So, there is a real issue in relation to effective signposting. Once you leave the WCVA website with its information about grants and so forth, there is a dearth of advice on the internet about where people could look for support. There is no signpost to Flexible Support for Business. I accept that the economic regeneration strategy was only published on Monday and you do not expect people to change their website in two or three days. However, I take serious issue with that and it is a significant challenge for the sector to address that deficiency.

[129] If I may raise a point that follows on from that, I would be interested if Simon could say a bit more about the enterprise hub, and the movement at the UK level in promoting this. The information on the website is not great, but it seems to be an exciting opportunity. I have one last point related to this, if I may, Chair: if you look at the paper from the WCVA, you will see that paragraph 15 states

[130] ‘Private sector SMEs in Wales can access risk capital through equity investments from Finance Wales and other small venture capital sources, but third sector organisations cannot access this type of equity investment’.

[131] However, I think that at least one if not two of the contributors took a different view, and did see a role for equity investment within a social enterprise setting. I just wondered

what your view was on that.

[132] **Mr Harris:** To start with that last point, I do not agree with that. For us to take the next step forward, we have to strengthen the balance sheets of social enterprises, and they should be able, if they present a strong business plan, with a strong team of staff, a strong market and a strong product, to attract equity.

[133] **Brian Gibbons:** I am not clear whether they are saying ‘cannot’ in the sense that they cannot be bothered, or in the sense that it is prohibited.

[134] **Mr Harris:** There are two issues, one of which is the culture of these organisations. We should be looking for them to move in that direction. As to whether they cannot—as I said to Peter earlier about Charity Bank, equity investment is available for social enterprises and third sector organisations. I will go backwards, if I may. On co-operative enterprises, for years, the Wales Co-operative Centre would try to get money out of the Co-operative Group, which is a big, private organisation based in Manchester, which has money. For it to fulfil its social and ethical aims and objectives—which it does admirably—it should support the development of smaller co-operatives like us. It is doing that now through providing money, and has developed the co-operative enterprise hub, which provides funding for business support towards the development of co-operatives. We have used it in Wales to match, or bolster, the convergence social enterprise support project, which does not cover non-convergence areas. So, as a Wales agency, we had a gap, and that gap in business support is now plugged by the co-operative enterprise hub. That is great news, and there is talk of the Co-operative Group investing more money in that and growing it. So, as long as you all shop in the Co-operative shops, and contribute to its profits, then it can distribute those profits to social enterprises like the Wales Co-operative Centre. I do not know whether that is a point worth making.

[135] We can always do more and better. Defining ‘social enterprise’ is difficult. We are internally having a session asking the question, ‘How do you tell people what social enterprise is, and what it does?’. It is difficult to put that into a succinct statement in a form of words that looks good from a marketing perspective. That has come through from an observation that you have made about accessing information from us, which is often not easy reading. We need to do something about that.

[136] Finally, on the issue of whether there is a single place, we have done what we can under our social enterprise support project, but we have these broader activities around digital and financial inclusion, and co-op focus and the co-op enterprise hub, so the Assembly Government has set up and sponsored a Welsh social enterprise coalition, which could be a central focus, acting as a single place to go for all the information that anyone would need on any form of social enterprise.

[137] **Mr Williams:** I will work the other way. We have identified the same problem, and do not forget that social enterprise is a relatively new term; it is not something that the sector has used. It has emerged in the last few years, and now we are trying to fit everything under that umbrella. If you Google community enterprise, you would come up with a lot about development trusts, and if you Google community asset development, you would come up with a lot of information—

[138] **Brian Gibbons:** Where should someone in Wales go to try to get started?

[139] **Mr Williams:** That is where this Welsh social enterprise coalition’s role could be quite important, acting as a portal and bringing different strands of the coalition together—social enterprise networks and practitioners. That would help to focus demand. However, you really need to demystify this by using a simple definition, such as ‘organisations trading for a

social purpose'. Some will be doing so within a defined community, or a community of interest like a social firm. That is easy for people to get their heads around, but as soon as we start talking about triple bottom lines, it is difficult for people to understand. I think that people are starting to understand, however, the principle that we need to better account for what we do and the impact that we have.

2.30 p.m.

[140] On finance, on the equity side, there are huge opportunities for that type of investment. It is happening at the larger end of the social enterprise scale. We produced a written paper for this committee some time ago on Regen School in which we learned with a set of learning practitioners. An element of that is about investment-readiness. We did a joint project with Cylch on that, in which it identified that a number of its members were not yet in the social enterprise model and that they were not yet investment ready, so Charity Bank was involved in some funding to seed that, to investigate how to take businesses on a journey so that they became more open to this type of investment. Five years ago, few people would look at that type of investment in social enterprises in Wales. There was Finance Wales and Community and Co-operative Finance—ICOF as was. Now, there are 12, and we are continually approached by people wanting to invest, which is the opposite of what is happening in the private sector.

[141] **Brian Gibbons:** That is remarkable. Do you put that information in the public domain?

[142] **Mr Williams:** Yes, we usually do. There is stuff on our website about sources of finance for asset development and so on. There is a list of organisations that will invest in that.

[143] **Brian Gibbons:** I think that that is excellent.

[144] **Mr Williams:** You are right about it needing to be all in one place and accessible and simple, so that people can find their way around it.

[145] **Ms Leonard:** I am very disappointed to hear that you have had such a poor experience of Google, Dr Gibbons, and that some of us did not come up. I agree with my colleagues that the newly formed coalition will address that, as it should. It should be the point where people go to be signposted to a collection of organisations that can help them along the way.

[146] On the size of the sector, the spectrum that we operate on in social enterprise, and what defines social enterprise, is very broad. At one end, you have community activities that have an element of trading, which could be very small and have a high input from voluntary activity and support. Right at the other end, you have the highly commercial organisations that operate full business models and also provide a social solution and trade for a social purpose. I think that the spectrum needs to be developed and recognised. I would also like to bring that back to the sole trader, which is the softer element at one end that could potentially grow and move over to the more hardcore side of commerciality in the social enterprise sector.

[147] **Paul Davies:** Andrew mentioned that enterprises in the sector are not, in the main, run well and that they are not sustainable businesses. Is that your general view? You have mentioned that there are different models in the sector itself. Do you think that the existing social enterprise models need fundamental change? San, you mentioned that a clear business model needs to be identified, so perhaps you might just outline what sort of business model you were referring to.

[148] **Ms Leonard:** For me, the business model is the bit that makes the money, quite simply. It is looking at the commercial element of whatever it is that your activity is going to be. I will go back to what I said in my last point, though: not all social enterprises could be, or are, able to move forward into that commercial aspect. If you cannot identify that, however, then you clearly do not have a full business model, but it will sit somewhere on that very broad spectrum.

[149] I think that they are well run, from my perspective, around the social aspect, which is why we often have to look at how we bring in and help those organisations to develop, to become more commercially minded, to understand what business is about and to understand how the business works closely and in parallel with the social objective.

[150] I have already stated that we often see a turning point when a commercial manager is appointed and when there is a very strong board. However, it is not a process that happens quickly, and I am not convinced that it should do so. If we move it too fast, we could lose a very high proportion of the social aspect of the operation. So, there is a whole mix of ingredients that is the DNA of a social business, but it depends where you are on that spectrum and what it is that you are ultimately looking to achieve. Not everyone wants to become totally commercial. I am not quite sure whether I have fully answered your question.

[151] **Mr Williams:** I would echo some of those comments; it is not a fixed business model—it is a dynamic business model, and that is why it is such a creative one. It can embrace the two ends of the spectrum that you talk about. However, in terms of whether they are well run or not, they are driven in many cases by a social or environmental mission; that is their primary driver. The social mission of a global enterprise such as One Water, for example, is about providing water to generate profits to reinvest in the water supply of the poorest countries. However, the enterprise is run on a commercial scale, because it has to compete in a commercial market with other water companies. However, the market is quite small at a local level, and these are often areas of market failure. So, these enterprises are growing new opportunities and engaging local communities in developing their skills and creating employment. That is not a commercially oriented model—that is often something that requires an investment. So, we have to look at where they are on the spectrum of businesses, as it might not be appropriate for all of them to grow to the scale where they would be operating on a Wales-wide basis. Appropriate types of investment are needed at different levels to grow the businesses to fit the markets and the social and environmental needs in the area in which they work.

[152] **Paul Davies:** So, there is no one ideal social enterprise model out there.

[153] **Mr Williams:** No, and I would hate to see it being classified and fixed into a ‘This is a social enterprise’ model, because it would kill it dead to do that.

[154] **Ms Leonard:** Being a social enterprise is a little mysterious at times, but it is ultimately just a business that operates like any other business in the mainstream market. One of my fears is that we are too inward-facing and that we look at other social enterprises to see how they are doing it. We need to look outside, because that is how business works, and we need to look at whether we can take up those models and marry them with a social cause.

[155] **Mr Harris:** I am going to stick up for the co-op cause, which is 150-odd years old, and I do not want to change it. We have to focus on what we have all talked about, namely the enterprise professional business approach.

[156] **Gareth Jones:** Andrew, do you have a follow-up question on that?



[157] **Andrew Davies:** When I said that organisations were not being well run, what I meant was in terms of financial sustainability. I will give you an example, although I will not say which organisation it is. The organisation that I am thinking about was very grant-dependent—it was providing a good service to the local community, but it was funded by money from Europe and Communities First. However, there was no sustainable income revenue source. For example, the enterprise ran a community cafe and the private company that ran it was not paying anything towards the utility costs, and the social enterprise organisation was paying the electricity bills and so on. The local authority had a library there, but it was not paying any revenue or rent. My point is that, although the enterprise was providing a very good service, sustainability was not built in. San's point about having commercial expertise was well made. A retired regional bank manager came in and helped to turn that business around, but it took five or six years. That is very important. However, it is a very diverse sector, which is a point that we must recognise; it may only be relevant for certain opportunities, and not across the piece.

[158] **Gareth Jones:** That is an interesting point. Do you want to make a final point, San?

[159] **Ms Leonard:** No, I was just going to join this debate. My fear is that we have a lot of European money, which is very well intended, but I am not convinced that it is appropriately used. If you use European money and build the business model underneath, you could do something if the model is right.

[160] **Gareth Jones:** We need to contact Dallas in about five minutes, but there is time for one last question from Jeff Cuthbert.

2.40 p.m.

[161] **Jeff Cuthbert:** In terms of Brian's difficulty on the internet, I should point out that it took him a week to learn how to switch on a computer, to put it in context. Most of what I wanted to say has been dealt with, but in the sixth bullet point of your written evidence, Peter, on the challenges facing social enterprises, you mention the need to develop skills, business acumen, investment readiness, confidence and so on. In the earlier session, we pointed out that social enterprises can vary from being very large, like Glas Cymru, to three or four people. As we discussed earlier, their need for support in terms of abilities to tender management and technical skills in whatever enterprise that they are pursuing will be considerable. So, I suppose that this is a capacity issue—how can your organisations, working collectively or separately, assist in the process? Is there enough support? Do the sector skills councils consider social enterprises in the same way as they would more conventional organisations in their occupational area? Ensuring that the skill levels are adequate is a big issue.

[162] **Mr Williams:** You are right. However, things are improving because this area used to be classed as the third sector generally. Including social enterprises was seen as being marginal and worthy. Now the sector is professionalising and is getting some support in terms of skills development. Furthermore, some of these skills can be learnt in different ways, for example, from just conventional training, where people can learn from others and experienced board members talking to other board members and practitioners talking to others. However, in my view, there is no substitute to buying in professional advice, for example, when you are going for the very technical aspects of developing a business or of running it; it is a very specialist area.

[163] Another point is that you do not always have to have all of the skills in-house. Some very successful social enterprises buy in some of those skills. So, if you do not have the financial management skills in-house or in a particular community at a particular time, you can buy those skills in. However, others have taken on people at a basic level who, as a result

of working in a social enterprise, have developed their skills and have then gone on to operate successfully in that area.

[164] You need a mix of approaches: you need the mainstream skills sector providing more support and you need practitioners learning from other practitioners about what does and does not work as well as professional expertise coming in where it is required. However, an enterprise such as New Sandfields Aberavon has developed a very successful scheme, also outsourcing it to the wider community and working with people who are very far from the market in terms of their basic skills level and disadvantage. That enterprise is building that process into helping others. So, some are specialised on skills development and I would like to see a lot of inter-trading between social enterprises as well as the buying in of professional development and credited-type skills.

[165] **Mr Harris:** I would like to get into schools and colleges so that we also start there. We need to get this type of thinking and a different way of doing business into people's minds early on. We can learn from the public sector and—dare I say—the private sector. We all talk about learning from the private sector, but I do not think that it has all of the answers. I think that we can also learn from the public sector. We do not know what will happen, but there may well be lots of public sector employees who are able to offer skills and abilities to help social enterprises in the future. However, to answer your question: yes, we can do more with the sector skills councils.

[166] **Ms Leonard:** On what Simon said about linking arms with other sectors, one thing that often gets overlooked is industry-specific skills. You have your generic business skills that run through the core of any business, but this is about those industry specifics. So, for example, has your café got someone who is a chef and not a bus driver, who actually understands how to cook?

[167] **Jeff Cuthbert:** That would be a mobile cafe. [*Laughter.*]

[168] **Ms Leonard:** Possibly. That needs to be engaged with. Coming back to the point on public services, the public sector has a huge depth of knowledge around public service delivery and what is required. Could that be linked with the private sector and with the social enterprise sector to deliver a model that provides support? At the end of the day, we are redesigning services that we will be using in the future.

[169] **Gareth Jones:** On that note, it has been a very interesting and quite varied discussion. We anticipated that we would get three different perspectives, in a way. I believe that we have covered some useful ground, as far as the committee is concerned, as regards the purpose of this inquiry and drawing up a report on what is turning out to be a complex issue, in many respects. However, we must keep the faith, as it were. There is potential here that we need to review, and, hopefully, we can come up with some recommendations.

[170] On behalf of Members, I thank you very much for your attendance and for sharing your expertise with us. Best wishes to you with the social enterprises. We shall take a break for a couple of minutes now while we establish contact with Dallas.

*Gohiriwyd y cyfarfod rhwng 2.45 p.m. a 2.51 p.m.  
The meeting adjourned between 2.45 p.m. and 2.51 p.m.*

[171] **Gareth Jones:** Welcome back.

[172] **Mr Boschee:** Good morning.

[173] **Gareth Jones:** It is certainly a good morning for you, sir, as I think that it is quite

early where you are. I extend a warm welcome to you to this audio-conference. We have all been eagerly anticipating your contribution. As a scrutiny committee, we are looking at the role of social enterprises in the Welsh economy, in the hope of finding some way ahead in coming out of the recession and in getting to grips with the difficult economic situation. We have read your papers, and we are grateful to you for that written evidence. As is the norm with this scrutiny committee, if you want to say a few words of introduction, just to give us some brief background—as you know the background of what we are looking at here—you would be welcome to do so, and then I will turn to individual members of the committee who will have some questions for you. So, it is over to you.

[174] **Mr Boschee:** I do not have many preliminary comments to make. As I indicated to Daniel, I am not all that familiar with the situation in Wales, although I did two weeks of workshops there some six years ago, travelling to various communities. Perhaps the best way for me to begin is by giving you a sense of how we define social enterprise here in the United States, and to see how that balances with how you are talking about it in Wales, so that we can begin from a similar starting point at least. Does that make some sense to you?

[175] **Gareth Jones:** Indeed, it does.

[176] **Mr Boschee:** There are two or three elements to social enterprise that are quite important here. The first is that social enterprises can take place in the private sector as well as the voluntary and community sectors. In either case, they are rooted in earned revenue, as opposed to charitable contributions or, for that matter, Government grants—as opposed to Government procurement, which is a major part of social enterprise in the UK and in the United States. In the United States, social enterprise began in the private sector and migrated to the non-profit sector only after around 30 years. It came from a slightly different avenue than was the case in Wales. In addition, beyond that, whether they are in the private or public sector, all these social enterprises are pursuing either a double or possibly even a triple bottom line. Some of them do it alone as a social sector business, which means that they need to be profitable, or they do it as a significant part of a charitable organisation's mixed revenue stream. That mixed revenue stream might also include charitable contributions, public sector subsidies, or both, but earned revenue is nonetheless a significant portion of that mixed revenue stream. It is in the order of two thirds to three quarters, at least, of the overall revenue.

[177] Secondly, our core definition of a social enterprise is that it directly addresses a social need through its product and service or through the numbers of disadvantaged people whom it employs. That distinguishes social enterprises in the US from what are known as 'socially responsible businesses'. Those businesses indirectly create positive social change by practising corporate social responsibility, by doing things such as setting up a foundation, paying equitable wages, using environmentally friendly raw materials, providing volunteers to help with community efforts, and that sort of thing.

[178] Finally, we draw a distinction between social innovation and social enterprise. We believe that they exist along a continuum and, taken together, they define the larger field of social entrepreneurship. The difference between the two is that social innovation does not require earned revenue but social enterprise does. Most social innovators do not create social enterprises. So, you could say that every social enterprise is run by a social entrepreneur, but not every social entrepreneur starts a social enterprise; they may simply be social innovators doing new things in different ways, but not using earned revenue.

[179] We also divide social enterprise into three different categories, which I think will be familiar to you. The first is what is known in the UK as 'social firms', and we call them 'affirmative businesses' here in the US. Those businesses are created specifically to provide four things for people who are either mentally, physically, economically or educationally

disadvantaged. Those four things are: permanent jobs—that is real jobs, not make-work jobs; competitive wages; career tracks within companies, so that they are not just pass-through training companies; and, eventually, even ownership opportunities. Most of those kinds of businesses take place in the non-profit sector for a couple of reasons. One is because of the untapped workforce that no-one else is using, and another is that these businesses are more difficult to scale because they are rooted in job creation, workforce development and career development, so the only way to scale them is by growing the number of employees, not the number of sales, if you will.

[180] The second kind of social enterprise is not so much employee based as customer focused. These address social needs other than job creation and workforce development. You can divide those enterprises into things like human service businesses, environmental businesses, educational businesses, and so on. The point is that they provide services to people who are in need, whether that is in adult day care, hospice care or assistive devices for people who are physically challenged or whatever the case may be. The third category is a hybrid of the two, because there are sometimes social enterprises that employ members of a target population and also deliver a product or service to that same population or to a different population.

[181] So, that is an overview of how we view social enterprises in the United States. In every case, there is a double bottom line, so a social enterprise has an impact on a social need as well as being sustainable or even self-sufficient through its own resource.

[182] **Gareth Jones:** Thank you for that overview and classification, Mr Boschee. That has been very helpful to us. In the first part of our meeting, we took evidence from some of the groups that you just identified, so it is all starting to fit into place. I should have introduced you at the beginning as the executive director of the Institute for Social Entrepreneurs, and so I am very pleased to do that now.

[183] **Mr Boschee:** I am having a bit of a problem understanding you. You are speaking somewhat speedily and your accent is giving me a bit of a problem.

[184] **Gareth Jones:** Right, okay. I should have welcomed you as the executive director of the Institute for Social Entrepreneurs. Am I right?

[185] **Mr Boschee:** That is correct. I am also currently serving as interim president and chief executive officer for the Social Enterprise Alliance, which is the largest membership organisation for social entrepreneurs in North America. I have been in this position for the past five months on a temporary basis, and I will be moving onto the board of directors in a few weeks when our new CEO arrives. I helped to co-found the organisation with five others 14 years ago.

3.00 p.m.

[186] **Gareth Jones:** That is excellent news and we congratulate you on that. That is important for us to know for the record. I will now turn to one of the committee members, David Melding, who will ask you a couple of questions.

[187] **David Melding:** Good afternoon, as it is here, but I suspect I should be saying 'good morning' to you where you are. Your opening remarks were interesting. Most of the witnesses from whom we have taken evidence so far have emphasised the difficulty for social enterprises to access finance to grow their business or to start it up, particularly starting up, for which it is difficult to get funding. However, it is equally difficult for them when they wish to innovate. Does the same sort of barrier exist in the United States or are your commercial banks a bit more aware of the social enterprise sector? Do other institutions like

credit unions lend more to this sector than is the case in Great Britain or do you issue bonds that you sell to the public or anyone who wants to buy them as a means of generating income or funding to further the business?

[188] **Mr Boschee:** I would agree that the acquisition of finance has been a significant barrier for social enterprises in the United States and, by extension, in Canada because Canada also has membership of our alliance. This has been true over the years both at the start-up phase and in the working capital and growth phase of social enterprises, but it is important here to distinguish between those social enterprises that have grown up in the private sector versus those that have grown up in the non-profit sector.

[189] In the private sector, years ago, back in the 1960s, major corporations, entrepreneurs and small businesses began to hear the social markets calling, if you will, and we began to see them starting businesses in arenas that had traditionally been more attached to the voluntary and community sectors because these for-profit businesses found a way to make money out of doing that and at the same time a way to address a social need. Most of these businesses were not social firms. For the most part, they had products or services that were directed at people who had a social need of one kind or another—I mentioned some of them before such as adult day care, childhood learning centres, rehabilitation centres, wind power schemes or any number of such things. For the most part, those companies did not have trouble finding finance because they were operating in the private sector; they were building business plans with financial returns that were appealing to traditional investors and they were able to build those businesses over a 30-year period from the late 1960s to the late 1990s, frankly, before non-profit businesses began to notice that those opportunities existed. So, the non-profit sector lost around—[Inaudible.]—in attempting to deal with that.

[190] The affirmative business or social firm side, on the other hand, has not been nearly as attractive to the private sector because, as I said before, it is very difficult to scale those organisations without growing the number of employees.

[191] I would like to make another point about finance. You hear all the time—at all of the conferences here, all of the meetings, in the literature and at small gatherings—people saying that they need access to capital. Those of us who have been in the field for quite some time will now often respond to that by saying that that may be true, but that is much further down the line. What you really need is a strong business plan and a strong management team, a genuine market opportunity and a competitive advantage. In other words, you need a whole lot of things that would qualify you to acquire finance. You do not just go out and say, ‘Well, here is a social need; I think I can address it, so please give me some money’. That does not work. We are talking about living in the marketplace and there is no colder hearted animal in the world than the marketplace.

[192] Social enterprises live in the marketplace, not in the charitable world. Because of that, when they look for angel money, seed money, working capital and so on, they will always be hit with the questions ‘Is there a need? Can you meet it? Do you have a competitive advantage? What does your management team look like? Do you have a business plan? Are there any flaws in it? When will you break even? Is there going to be a profit?’. All those questions will come first. Most people in the voluntary and community sector have no previous skill in dealing with those kinds of issues, and that is also true of the non-profit sector here. So, when they say that they need access to capital, they are really saying that they need help to develop the kind of business plan and management team that will deserve capital. Capital is out there and it can be found. We need new vehicles and new sources of financing—I prefer to use the word ‘financing’ rather than ‘funding’—for social enterprises, there is no question about that, but the other side of the equation is that we also need a flow of qualified social enterprises. We cannot just spend money on these things because they happen to be nice guys and they want to address a social need.

[193] **David Melding:** Thank you; that was very clear.

[194] **Gareth Jones:** Mr Andrew Davies has a follow-up point on that.

[195] **Andrew Davies:** I largely agree with your points on business development. Are there any differences between the US and Britain, and indeed Wales, in terms of institutional frameworks? I know that philanthropy probably plays a much greater role in the US than it does in Britain. Are there any tax breaks or any other financial incentives for this sector that may help it to draw down additional sources of funding?

[196] **Mr Boschee:** They are not many. The philanthropic community has been a follower, not a leader, in the development of social enterprise. As I indicated, social enterprise began in the private sector, and once the non-profit sector began to understand that the rules of the game had changed, that its costs were going up and its resources were flattening, and that there were more social needs and more non-profit organisations competing for funds, and then started looking at starting social enterprises, it had to scramble, because there were no foundations—I should not say that there were none, but there were very few foundations or philanthropic sources that were willing to put money into these new-fangled kinds of ideas. They have got around that. We have gradually gone through a process in which some of the foundations began providing business development grants to non-profits to enable them to develop business plans for social enterprises. We still have a major gap in working capital for social enterprises here. There are more and more sources such as start-up and planning grants coming from foundations, but, for the most part, people have been lifting themselves up by their bootstraps and it has only been in very recent years that some of the more enlightened foundations have begun to see that by financing social enterprises, they can create organisations that can become self-sustaining and self-sufficient and that will not be dependent on philanthropy from year to year.

[197] The banks are not looking at social enterprises in a special light right now; they simply look at them as they would any other small business that comes through the door and they apply the same kinds of criteria to them. We have had attempts to start social enterprise investment funds, which have mostly been unable to mature. One of the missing pieces has been Government, which has been all but non-existent in supporting the social enterprise movement in the United States. Over the last couple of years, it has begun to take a more aggressive role both at the White House and at the state houses throughout the nation.

3.10 p.m.

[198] We are passing new legislation, triggered in part by the community interest companies in the UK, but taking a different formation; the low-profit limited liability companies or L3Cs here are being passed state by state, allowing foundations to invest in social enterprises and take the first risk—they will be the first in and the last out if something goes wrong, but because they will have been able to put more money in at the front end, that will attract institutional and individual investors to follow them. Caps are being placed on how much profit individuals, institutions and foundations can make by investing in those enterprises. That is one of the things that are beginning to happen, but there are many others than need to be instigated by Government here: making procurement simpler, providing Government-sponsored loans, and helping to stimulate the creation of equity funds by using match funding. Frankly, in the UK—whether it is England, Wales, Northern Ireland or Scotland—Government has been more active in the development of social enterprise than it has been here.

[199] **Andrew Davies:** I was going to say that, in the United States, Wales's devolved administration would be seen as equivalent to the state Government, and so I wondered if

there were examples at a state level that were more innovative, whether involving the state legislature or the state Government.

[200] **Mr Boschee:** State legislatures here have a better chance of getting things started, piloting them and making them work than we do on a national basis. We are just too big, so it is the states that have been taking the lead in passing these L3C operations. Other things are happening, like the B corporation designation, which is a kind of certification process. We at the Social Enterprise Alliance are launching our own certification process for social enterprises, and a couple of states have set up independent financing agencies to provide seed money and business development assistance for social enterprises. The states have more flexibility and can move more quickly than we can at a national level, so I think that a lot of stuff that will emerge from Government here will come from the states upwards. Not everything will work, obviously; some of the stuff that we try will fail. That runs smack bang into the attitude here, and I think that it is probably the same everywhere: there is a lot of risk-averse behaviour, with organisations unwilling to take a risk unless they think that it is almost guaranteed to succeed, and of course that is not really a risk at all.

[201] **Gareth Jones:** We now move on to a question from Nerys Evans.

[202] **Nerys Evans:** Thank you for the evidence. Following on from that answer and your view that the Governments in the UK have been more supportive in general than the US in helping social enterprises, are there any other barriers to the growth of social enterprises? How would you think that the Welsh Assembly Government can overcome those?

[203] **Mr Boschee:** Could you repeat that a little slower, please? Were you asking how the Welsh Government can be supportive?

[204] **Nerys Evans:** Yes, and how can the Welsh Government overcome barriers to the growth of social enterprises?

[205] **Mr Boschee:** How can the Welsh Government overcome some of the barriers that exist right now?

[206] **Nerys Evans:** Yes.

[207] **Mr Boschee:** To me, it has always been the case that the greatest advantage that Government agencies can bring to the table is their ability to act as a catalyst and to give an imprimatur to what goes on. It is similar to what Prime Minister Blair did eight or 10 years ago, when he declared that social entrepreneurship would be a major plank in his administration and he created the social enterprise unit within the Department of Trade and Industry. It was under those auspices that I spent a lot of time in the UK going to the various regions in England, and also to Wales, Northern Ireland and Scotland, and talking about social enterprise. An education process needs to take place. I noticed that some of your materials state that you have found something like 3,000 social enterprises throughout Wales right now, and I would look at those numbers and wonder how many are really businesses that are able to compete independently in the marketplace versus how many of them are still being propped up by the old ways of doing things.

[208] If we are to see a significant shift away from the traditional ways of doing things, then social enterprises will have to leap further into the ocean, as it were, and take more risks than they are taking today. It would be helpful to them for the Government to say, 'Hey, it's all right to do that; we're going to provide the kind of technical assistance that you need and some of the start-up capital that you need, but we are not just going to throw money at you. We're going to ask you to demonstrate social impact and to measure it in a reputable way that is agreeable to us and others who would look at it independently, and we're not going to be

afraid of the fact that you might make money on this. There's nothing wrong with profit, because profit is really the only way that you can finance tomorrow. So, we're not requiring you to somehow remain at break even or below, and it's even okay to distribute some of these proceeds to individual investors, because that's the only way you're going to get those individual investors to put their money into these things'. So, this is Government as educator, as provider of the imprimatur, and as the provider of some of the seed capital to create these social enterprise investment funds. I know that a certification process for social enterprise is already underway in England. I am not sure whether it has extended into Wales as yet, but that is another thing that the Government could get involved with. I think that the Social Enterprise Coalition is doing that in England, and I know that Wales now has its own social enterprise coalition—my good friend John Bennett is the new head of that, and I believe that he is testifying before you guys next week.

[209] So, some steps are being taken in the sector itself to raise the profile of social enterprise, and it is incumbent upon Government to encourage that and to meet that growth halfway by doing the kinds of things that Government is good at doing.

[210] **Gareth Jones:** Thank you. We now have a question from Jeff Cuthbert.

[211] **Jeff Cuthbert:** Thank you, and good morning. I wish to clarify a point or two, if I may. During your introduction, you referred to social responsibility, and the attitudes that some of the big private sector firms might have. Is it normal, then, that some of the large private sector companies in the States might directly sponsor or otherwise support social enterprises as an act of social responsibility, or do groups of smaller private companies in a particular occupational area get together to do the same thing? Is there evidence of that happening?

[212] **Mr Boschee:** Yes, there is some of that going on. Some of the more enlightened large corporations understand that it is a win-win gain, because, if they support certain groups of social enterprises, those social enterprises then become suppliers or distributors to the large corporations. They also help to bolster the large corporations' image in the community, which is always something they want to do as part of their CSR-type activities. Some of the large corporations are also starting divisions or programmes of their own that could be classified as social enterprises, and then, of course, there are some major corporations here that I would classify as social enterprises, some of which have grown from very small organisations some 30 years ago to very large ones now. An example would be hospice care, which came to the US from the UK back in the 1960s. One of our most successful hospice care companies here began in the basement of a church in the mid 1970s, and today it is an \$800 million company. However, it is still providing hospice care in the home, and still meeting a social need. It makes a profit and provides a financial return to its investors, because it is a for-profit company. In my mind, however, it qualifies as a social enterprise, because its primary reason for existence is to address a social need, and it uses business methods to do that.

[213] To give a direct reply to your question, there are not many major corporations taking it upon themselves to encourage the development of social enterprise. However, there is an increasing number of them. Some do it through their corporate foundations, and some do it through their corporate marketing—it depends on the nature of the corporation itself. Companies such as UPS or Citigroup have taken the lead in playing a major role in trying to encourage the development of social enterprise here in the United States.

3.20 p.m.

[214] **Gareth Jones:** We now move on to a question from Dr Brian Gibbons.

[215] **Brian Gibbons:** Good afternoon and good morning. One of the questions that you



were asked was about the role of the state. This may be a stereotypical view, but one reason why the state probably contributes in the United States is because of the lack of socialised public services, as we would understand them, in the States.

[216] **Mr Boschee:** I think that that is very true.

[217] **Brian Gibbons:** Also, the relatively narrow tax base, while it does not guarantee that the wealthier will be philanthropists, gives them more money to be philanthropic with if they choose to go down that route. A third factor is that many services that we regard as universal public services by right, almost, would not be so in the States. For instance, there has been controversy around Obama's health programme.

[218] **Mr Boschee:** Indeed. Even in that context, there would be the concept of privatisation, with which you folks are quite familiar from the 1980s and 1990s. Some of that takes place here as well. Back in the 1960s, President Lyndon Johnson created the great society, and when President Reagan came into power in the 1980s, more and more of the responsibility for the delivery of human services was devolved to the non-profit sector, but the Government funding did not come with it. That strained the non-profit sector considerably, and was one of the parts of the pincer movement that caused people in the non-profit sector in the 1990s to begin looking at social enterprise.

[219] There is a very clear difference between the origins of how we address social needs in the UK versus the United States. You have a socialised approach to doing this thing, and a communal approach to addressing these needs, whereas here in the States there has been much more of an individualised approach, and the individual entrepreneur has been much more prevalent in the United States, until recent years at least, than it has been in the UK. All of that feeds into how this movement has evolved. When I came to England in 1997 to speak at a conference that was trying to look forward 10 years to 15 years on how to address social needs, I was asked, 'How do you think that social entrepreneurship and social enterprise compares in the UK with the US?', I had to say that, at that point, I thought the US was years ahead of the UK. By about 2004, that had flipped completely, because the UK Government took such a major role in providing financing, technical assistance and the bully pulpit, frankly, to say, 'This is stuff that you guys should be doing, and we want to help to do it, let's all get in there together and make it happen'. A lot of the 'making it happen' proved to be futile and did not work, but a lot of it did work. As one of our leaders here said years ago, you get 1,000 flowers to bloom, many of them will wither but some will continue to grow and blossom and become the future. As a result of the Government's support, the UK has taken social enterprise to places that the United States is only now trying to reach.

[220] **Brian Gibbons:** I thought that it was Mao Tse-tung that said about 1,000 flowers blooming, but I gather that Chinese finance is taking over the United States, according to some of what is in *Time* magazine. Perhaps that accounts for it.

[221] My second question is about the other end of the spectrum. Are there any critical factors in the development of charitable organisations and voluntary organisations that would suggest to them that it is time to leave a dependency culture and start to look towards becoming an enterprise business?

[222] **Mr Boschee:** There are some things going on to encourage them to move in that direction, and there are some things that are blocking them from taking advantage of the new opportunities. In the United States in the 1990s, non-profit organisations began to see that the rules of the game had changed because the operating costs for non-profit organisations had escalated dramatically. In just the 12 years from 1977 to 1989, there was a sea change in the financial underpinnings of the voluntary sector in the United States. In 1977, the average non-profit organisation in the US had more than three months of operating capital in reserve at any

given time. That is not a lot, but at least it is three months. By 1989, the average nationwide figure was only four days, which meant that the average non-profit organisation did not even have enough money in reserve to pay next week's payroll. So, they came very close to the bone in their dependence on traditional sources of financing from Government, philanthropic sources and the like. At the same time, those sources were at best flattening—they were not getting any larger—and many more non-profit organisations were coming into existence.

[223] My goodness, in the US today we have three times as many such organisations as we had 30 years ago, and they are all gathering at the same watering holes, which have not become larger. On top of that, all you have to do is open a newspaper to see that the number of people who need our help is increasing every day. Meanwhile, people are calling for more accountability and greater results. There has been a number of scandals in the non-profit sector here over the last 20 years or 30 years. Everything changed, and some far-sighted non-profit executives had seen those changes coming and had begun to look at social enterprise in the 1970s and 1980s, but not very many of them had done so. However, by the mid 1990s, we had critical mass, and many more of the trustees and executive management team members began to understand that they had to do things in a new way. That is when they ran into a difficult challenge here in the US.

[224] There is an embedded organisational culture here in the United States—it is true of the UK as well, but it is not as significant—that is rooted so firmly in philanthropy that it is very difficult for people who have grown up in that world to consider it even legitimate to try to make money while they provide these kinds of services. It is a mindset that says that these services should be provided free of charge to people, we should not be making money off the backs of the poor and that we should not be reducing our quality levels. Those people make many legitimate points, but they are whistling in the wind, because those days are gone. We need to find ways to strike a balance between mission and money, and between what we refer to here as moral imperatives and the profit motive so that we can continue to serve these people. If we do not, our organisations are not going to be around in any case to be part of the conversation, and the whole argument becomes moot.

[225] So, the single greatest obstacle here in the United States for social enterprises emerging from the non-profit sector has been the embedded organisational cultures that have locked people into old ways of thinking. It has been very difficult for them to break out of that. I work in other countries around the world, and it is much easier in those places to start social enterprises and help them thrive, because they do not have this long-standing philanthropic tradition that has trained them to behave in other ways. So, when you have social workers in charge of the non-profit sector and they know nothing about business or how it works, it is a very frightening thing for them on top of everything else. When you have business people trying to come into the sector and they do not really understand the nitty-gritty aspects of the social services perspective, they tend to err in the opposite direction. So, we get culture wars going on between these two classes of people.

3.30 p.m.

[226] It has been a long tough struggle but we are coming out of that now, and the movement is accelerating rapidly around the US. We are finding a rapprochement between the traditional social work mentality and the new social enterprise mentality, but it has not been an easy battle.

[227] **Gareth Jones:** Thank you, Mr Boschee. Your last comment was very interesting indeed. We have a final question for you from Jenny Randerson.

[228] **Jenny Randerson:** I think that I have solved the problem: we should say 'good day' instead of 'good morning' or 'good afternoon'. I have a very simple follow-up question to

some of your comments addressing a key issue that we face in Wales, namely the distrust of the profit motive. You talked about other countries being much better than the USA at embracing this change. Can you give us some examples of countries that you think have embraced this change really well and where this sector is strongly represented and effective?

[229] **Mr Boschee:** Take India or Bangladesh as examples. You may be familiar with Building Resources Across Communities, known as BRAC, which is based in Bangladesh. It is one of the world's largest not-for-profit organisations, but it is also a social enterprise in that 80 per cent of its budget is covered by earned revenue. It runs dozens of businesses that employ people. In fact, it touches the lives of 99 per cent of people living in Bangladesh and employs more than 500,000 people in various capacities. It grew from a very small economic revitalisation organisation, which began when Bangladesh came into existence in 1971. Today, it is a model that is being exported to other nations. There are a number of organisations in India that have taken root in the same way. It really has to do with economic-development-type activities and community-development-type activities—or economic-regeneration-type activities, as you say.

[230] A more interesting story for me is the international organisation, of which I am the board chair, that works with social entrepreneurs in secondary schools—teenagers between that ages of 14 and 18. We will have our eighth world cup competition in a couple of weeks in Cape Town. We went to Shanghai four years ago, and we have been to Ukraine, Brazil and Nigeria. I see these secondary school students starting social enterprises and doing remarkable things, to the extent that the Government of Nigeria—to return to your question—has decided to install our programme in every secondary school in Nigeria, because it believes that social enterprise is the way of the future and something that it needs to inculcate at the very early stages of young people's lives, so that they understand the fact that there are a number of different ways to effect social impact in a positive way. One is to start a business, make a lot of money and then donate money to the cause; another is to start a business that actually addresses the need itself—a social enterprise.

[231] So, I am seeing that sort of activity taking place. Various countries are at different stages in developing this sort of thing. There are excellent examples of individual social enterprises in a number of nations around the world, for example in Brazil, in Scandinavia and in Germany. However, when you talk about a country or region that is moving aggressively to do this, the UK is pretty much in the vanguard of what is going on.

[232] **Gareth Jones:** Thank you, Mr Boschee. We are coming to the end of our scrutiny session. Do you have any final comments?

[233] **Mr Boschee:** I was very pleased to hear that you were taking this on as a challenge at the state level, which I guess is what you would call it. I was quite impressed with what I found when I spent a couple of weeks in Wales, moving from town to town doing these lectures six years ago. There seemed to be a genuine hunger on the part of people out in the field to make a difference in the lives of their fellow citizens. They were choosing to do it by beginning to explore social enterprises because they genuinely believed that creating sustainable, even self-sufficient, organisations was a better recipe for long-term success than to constantly be dependent upon charitable contributions or the largesse of Government. I applaud you folks for taking this seriously and for trying to do the things that Government can do to help encourage this, but also to avoid doing the things that Government should not be doing; among which would be trying to start the businesses themselves, trying to dictate that these businesses look or feel a certain way. Entrepreneurship is an individual kind of thing. If you can create a playing field, give people enough space to manoeuvre, and provide them with some resources from which they can draw, but which are not dictated to them, I think that you will have gone a long way to creating a healthy social enterprise environment in Wales.

[234] **Gareth Jones:** Thank you for those very sensible and positive comments. We very much hope that our report, with its recommendations, will move things forward in Wales in terms of social enterprises.

[235] **Mr Boschee:** If I can be helpful in going forward, please let me know; I would be glad to help.

[236] **Gareth Jones:** That is very kind of you. Thank you for sharing with us your expertise and knowledge in this key area. On behalf of the committee, I wish you all the very best and, as Jenny Randerson said, I wish you a very good day. Diolch yn fawr. Thank you.

[237] **Mr Boschee:** Thank you so much, everyone. Take care.

3.37 p.m.

### **Cofnodion y Cyfarfod Blaenorol Minutes of Previous Meeting**

[238] **Gareth Jones:** There is one paper to note. The paper is therefore noted.

### **Cynnig Trefniadol Procedural Motion**

[239] **Gareth Jones:** We now need to move into a private session. I ask a Member to move the appropriate motion.

[240] **Paul Davies:** Cynigiad fod

**Paul Davies:** I move that

*y pwyllgor yn penderfynu gwahardd y cyhoedd o weddill y cyfarfod yn unol â Rheol Sefydlog Rhif 10.37(vi).*

*the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 10.37(vi).*

[241] **Gareth Jones:** Gwelaf fod y pwyllgor yn gytûn.

**Gareth Jones:** I see that the committee is in agreement.

*Derbyniwyd y cynnig.  
Motion agreed.*

*Daeth rhan gyhoeddus y cyfarfod i ben am 3.37 p.m.  
The public part of the meeting ended at 3.37 p.m.*