

Welsh Economy and Covid 19

Welsh Affairs Select Committee Inquiry

Wales Co-operative Centre response, 15th May 2020

About the Wales Co-operative Centre

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

Our projects are as follows:

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

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

Introduction

The Wales Co-operative Centre welcomes the opportunity to respond to this consultation. We consider that the social business sector is key to achieving inclusive recovery and growth in Wales as we deal with and recover from the economic impact of COVID-19. As noted by economist Mariana Mazzucuto, the COVID-19 crisis is exposing more flaws in our economic structures and exacerbating existing problems. Social enterprises can play a key role in helping to rebuild a fairer, more inclusive and sustainable economy. They are anchored in their communities; are frequently community-owned; employ locally and often have improving their local area at the heart of their social aims. Social businesses also play a particular role in creating jobs for and developing the skills of people who are outside the mainstream labour market. The social business model will be crucial as Wales seeks to rebuild its economy in the aftermath of COVID-19.

Questions

- **Does there need to be a UK-wide progressive lifting of restrictions or will Wales need its own plan for easing the constraints on business and the public?**

It would be preferable to have a consistent and coherent UK wide plan to lift lockdown restrictions. This would be easier to enforce and provide for clearer and more consistent messaging to the public and to the business community. However, given the devolved nature of Government and the fact that different areas have different rates of infection, the priority for Wales must be to protect its own communities. This is particularly important for rural communities, the National Parks and tourist destinations which are vulnerable to high numbers of visitors from across the UK. Any changes to the restrictions in the future need to emphasise the requirements and practicalities for border communities.

- **Would there be any benefits from Wales having its own plan for easing lockdown restrictions, separate from the rest of the UK and how feasible would it be to have such a plan?**

A completely separate plan could cause confusion, contradictions and conflict at or near the borders. However, this should be balanced against the need to protect Welsh communities. The Bevan Foundation has found that Wales's demographics leave people here potentially more exposed to the dangers of the deadly disease. As the virus affects older people more severely, and those with underlying health conditions, Wales is particularly exposed. By having its own plan for easing lockdown, Wales will be better able to protect its own population.

- **What additional flexibility is needed to support seasonal industries, such as tourism and agriculture, during the pandemic?**

A significant number of social enterprises in Wales are 'place based'. The most commonly identified sectors include arts / entertainment / recreation; health and care; education; and community centre / social spaces / youth club services. Taken together, these four sectors account for 65% of all social businesses and these would include those working in seasonal industries such as tourism. Consideration should be given to:

- Maintaining the financial support schemes currently available to reflect the fact that many seasonal businesses will not be able to generate any revenue until Easter 2021;
- Providing a gradual exit approach from the furlough scheme, reflecting the fact that seasonal businesses will have lost their entire 2020 trading season and may need to bring staff back on a part-time basis initially;
- The continued provision of specific social enterprise business support to reflect the different needs of these social businesses, for example in terms of finance and structure;
- Additional sector support (financial and business support) to offer a positive transition or succession strategy for people wishing to exit their business. Legislation with infrastructure and financial support should be in place to support either employee buyouts, or creation of co-operatives and co-operative consortia.

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

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

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

- **What additional financial support does the Welsh economy require in order to survive during the pandemic and to recover afterwards?**

Many social enterprises rely on a matrix of funding streams to survive; this matrix is usually comprised of contracts, trading income, grant funding and loan funding. In recent years, many social enterprises have sought to grow their income derived from trading activity and ironically, it is those with a higher level of trading income which have been hit hardest by the COVID-19 crisis.

Funding from Welsh Government and UK Government, such the business rate grants, the Economic Resilience Fund and the furloughing scheme, have all been essential in support social enterprises to survive the pandemic. Government in Wales and at the UK level acted promptly to protect businesses and jobs. At this stage we do not know how many social enterprises have been successful in their applications for funding. We are monitoring the situation to assess what further support might be necessary. More money and an extension to these funding schemes may be necessary the longer this situation continues.

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

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

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

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

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

Funding streams based around the principles of the Wellbeing of Future Generations Act, should be considered. We welcome proposals from Welsh Government for regional investment framework in Wales to be built on these principles.

Consideration should also be given to region specific, and town specific, funding. The Centre for Towns report draws attention to the effects of COVID-19 on coastal towns and Welsh Valleys towns. For some valleys communities the pandemic is coming on top of recent flooding recovery as outlined above.

- **How effectively are the UK and Welsh Governments working together in ensuring sufficient support is provided to the Welsh economy during, and after, the pandemic?**
- **What additional financial powers and budgetary flexibility should be provided to the Welsh Government in response to the pandemic?**

Economic development is devolved to Welsh Government. Our sector believes that Wales is the best place for decisions to be made about funding to respond to the economic effects of Covid-19.

We welcome the short-term flexibility of Welsh Government and the Welsh European Funding Office which have enabled programmes to switch their emphasis from growth and job creation to survival and job safeguarding. This flexibility has allowed us to respond to the urgent needs of the social business sector. This flexibility should continue into the medium- and longer-term to allow support for rebuilding the sector.

We would support a more regional approach to the delivery of funds that allows funding to be flexible to meet the particular needs of regions. However some programmes, such as business support, will need to have national co-ordination to ensure consistency across Wales.

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

- **What support is needed from the banking sector to support businesses and organisations during the pandemic and the reconstruction period that will follow?**

We have been part of the campaign for a co-operative community bank in Wales and are involved in helping establish Banc Cambria. We believe a community bank would redress regional inequalities and, significantly increase the proportion of bank lending going to the 'real' economy and SMEs. At present, Wales lacks money supply infrastructure owned and controlled within its borders. By creating money and recirculating wealth within the Welsh

economy, a community bank has the potential to be a key agent in developing resilient and sustainable economies and communities.

- **What support do key sections of the population, including the elderly and the newly unemployed, need from the UK and Welsh Governments during and after the pandemic?**

It is considered that support is needed in the following areas:

Support for the newly unemployed to set up new businesses:

- Newly unemployed people should be encouraged to consider social business models such as social enterprises and co-operatives. Starting a new business can be daunting but setting it up with other people - using a co-operative approach - could help the newly unemployed build a healthy and effective business based on fairness and shared responsibility.

Community support to combat isolation amongst all sections of the population:

- Co-operatives and co-operation can play an important role in building resilience to help reduce feelings of loneliness and isolation. Co-operatives are rooted in their communities and controlled by local members meaning they can re-create physical links in the community and help to build resilience.
- Digital technology can also be used to help young people form meaningful and resilient social connections. Our Digital Heroes programme is a good example of this in action.
- Co-operative and Community-led housing can help to reduce loneliness and social isolation. Co-operative and community-led housing (CCLH) involves local people in playing a leading and lasting role in solving local housing problems, creating genuinely affordable homes and strong communities.
- There is an opportunity to the role of social enterprise in the provision of bespoke, local and quality care services for the elderly and vulnerable groups.

- **What work can be done to make the Welsh economy more resilient in the face of future crises and potential outbreaks of Covid-19 and other pandemics?**

The Centre considers that recovery provides an opportunity to adopt a 'ground up' approach to rebuilding a resilient economy in Wales. We feel that consideration should be given to building a strong foundational economy embedding the principles of a greener and circular economy.

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

The Covid-19 crisis has clearly demonstrated the societal importance of the foundational economy to the day-to-day functioning of life. When the pandemic is over, we need to

rebalance away from the tradeable and competitive economy towards the foundational economy producing daily essential goods and services which underpin quality of life and sustainability. Supporting this section of the economy will improve physical infrastructure such as utilities, operating infrastructure such as banking, food supply chains and services such as social care. Furthermore, foundational businesses are anchored in their communities; investment in them stays in the community and is recycled for wider economic and social benefits. Strengthening these businesses will make local communities more resilient and self-sufficient.

- **How will supply chains need to evolve after this pandemic and how can the two governments work together to support these changes?**

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

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

- **What lessons can be learnt from the pandemic and from the response of other countries for the future of the Welsh economy?**

The epidemic has seen communities come together in a way which has not happened in the post-war period. Large numbers of people have volunteered within communities and mutual aid groups have sprung up across the country. This provides a strong base to change our future economic focus and for new businesses to be formed. We should provide support to these Covid 19 mutual aid groups and help them become vehicles for local economic development following the pandemic.

Social enterprise empowers communities to come together to address issues that matter to them. Community-based social enterprise can deliver people-centred local economic development that responds to community need and where participation and empowerment are integral. They can address feelings of being left behind by tackling specific failures and stepping into areas that neither the public nor the private sector can address.

Social enterprises develop innovative and diverse ways of increasing community ownership and local control by creating locally owned enterprises, developing and making more productive use of community assets, buildings and land, community owned housing, renewable energy and finance, credit unions and community shares.

We need to re-build our economy differently and in a fairer way. Social enterprises should be at the heart of this new economy.

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