

Senedd Cymru

Pwyllgor yr Economi, Masnach a Materion Gwledig

Ymchwiliad: Yr Economi Sylfaenol

Cyf: FE17

Ymateb gan: Cwmpas

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Welsh Parliament

Economy, Trade, and Rural Affairs Committee

Inquiry: The Foundational Economy

Ref: FE17

Evidence from: Cwmpas



- **To what extent has the Welsh Government embedded support for the foundational economy into its overall approach to economic development? What further steps should it take to do this?**

The Welsh Government has sought over a number of years to develop specific foundational economy policy. While a lot can be learned from these discussions and initiatives, it hasn't yet moved beyond limited projects and hasn't been implemented as a government-wide approach, and learning from individual projects hasn't been implemented and built on.

We need discussion to move towards defining “foundational economy policy” and its objectives within a wider approach to economic development.¹

We advocate for a well-being economy approach², which has implications for the economic development policies we adopt and how they relate to the foundational economy. We want to maximise the well-being that is created within the foundational economy and the economy as a whole, rather than maximising traditional measures such as GVA per capita or job creation without regard for economic equality, social value or environmental impact. This requires a renewed focus on the foundational economy as a sector of the economy given its significant share of employment and as it is a key provider of goods and services. It also has implications for the types of foundational economy policies we develop.

We want to see an approach to economic development in the context of the foundational economy that centres on:

- Creating a robust, resilient supply chain of Welsh-owned businesses in the foundational economy that has the capacity to retain money and decision-making in Wales and across Welsh communities.
- Growing the proportion of social enterprises and democratically-owned businesses within the Welsh foundational economy to maximise the social value created through their triple-bottom line models and to anchor profits and decision-making in Wales and across Welsh communities.
- Fostering an entrepreneurial and innovative approach to supporting this development in Wales with Welsh Government, public bodies and anchor institutions pro-actively supporting communities to start and grow these businesses within the Welsh economy
- Supporting the foundational economy to maximise the social value it creates through high-quality, accessible business support that means these businesses are at the cutting edge of latest innovations and digital technology. In contrast to the innovation we associate with high-tech industries, small-scale innovations across the whole foundational economy have the potential to make a significant difference to the quality of services and well-being of communities across Wales.
- Prioritising fair work and net-zero within the foundational economy.

We need foundational economy policy to be at the core of economic development policy, not seen as a distinct section that conflicts with the aims of other parts of government policy. There needs to be a robust understanding of what this approach means and the benefits of it, which requires political commitment. Our case for a foundational economy approach is that it is a recognition of and an attempt to fix the fact that the structures of the Welsh economy are not currently sufficient to create

¹ <https://www.iwa.wales/agenda/2022/01/iwa-analysis-where-next-for-the-foundational-economy/>

² <https://www.iwa.wales/agenda/2024/08/a-new-framework-for-economic-development-in-wales-the-wellbeing-economy/>

sustainable well-being or to create a just transition to an equal Welsh economy without poverty. Government policy should prioritise the creation of a robust Welsh economy and a strong supply-chain of businesses that is resilient to future challenges, distributes profits and wealth more equally, and creates work that is accessible to all.

- **Given the cross-portfolio nature of the foundational economy, how should the Welsh Government create a co-ordinated approach to mainstreaming support for foundational economy sectors across government?**

Achieving these goals requires understanding and active buy-in across government, rather than just within the economic development department. This requires political leadership and buy-in, and for this agenda to be set at a strategic level. The reasons for taking a foundational economy approach to development needs to be understood and agreed across different departments, so all teams can understand why taking this approach will be beneficial to communities and support the Welsh Government to achieve their objectives and missions.

For example, our work has sought to position adult social care as a key foundational economy industry. In relation to social care, we know that demand is going to continue to grow, so how that is planned for in economic terms will be crucial. This is a powerful opportunity to see spending on social care not solely as expenditure but as local investment which will drive good-quality employment, generate local economic 'multipliers', and be a positive driver of more prosperous and sustainable local economies. The Welsh Government should take a foundational economy approach to this sector, proactively engaging and nurturing communities to develop locally- and Welsh-owned social enterprise and democratic businesses to be able to meet this demand and keep the economic value created within Wales and within the communities that need it.

In 2022, Cwmpas has developed a Foundational Economy Audit Tool for the Foundational Economy team within the Welsh Government to support the team to go into other departments to see how things were working through a foundational economy lens. The enablement review was intended to prompt thought and action in relation to the foundational economy in the context of the Welsh Government's approach and its commitment to meet key challenges. It created a check list of the preconditions for doing FE better:

1. **Engage with the specifics of sector and place.** So that the limits of one size fits all policies are established and intervention is geared to specifics.
2. **Base actions on relevant evidence and data.** So that assumptions, priorities and established ways of doing things can be tested.
3. **Mobilise stakeholders inside and outside Government** So that change acquires momentum that cannot be achieved by one Division.

Since then, for various reasons, this has not been implemented or utilized across Government. We would urge the Welsh Government to return to this toolkit, update it for the new context and support its utilization.

- **Which of the Welsh Government’s foundational economy policy initiatives have been most successful, and why? Which have worked less well, and why?**

There are several examples of policies, projects and initiatives that have supported the foundational economy but weren’t necessarily given the foundational economy label. Investing in specialist support for social enterprise through Social Business Wales has strengthened the foundational economy in Wales and led to outputs that create increased social value, such as the overall growth of the social enterprise sector. It has led to the development of democratically-owned businesses and triple bottom-line social enterprises that support local economies and keep wealth in Wales, support people into the labour market and into good jobs in communities across the country, as well as providing quality goods and services.

Similarly, support for the development of community-led and co-operative organisations such as in the Perthyn project have led to initiatives that will support local foundational economies. Cwmpas administers the Perthyn small grant schemes, allowing communities to bid for up to £12,500 to fast-track their ideas and build the capacity to drive them forward. In the last year, Perthyn has supported 27 groups and awarded over £260k in grants – many community groups have confirmed they would not have progressed to the stage they are at now without this. The funding has been invaluable and enabled groups to obtain further, larger funding from other sources.

In addition, in the three years Cwmpas has been delivering the Community Shares Wales project we have supported over 500 people, and 18 communities to raise a collective £4,959,840 across Wales to reclaim community assets and hubs, for the benefit of local people. Through reclaiming community assets, these communities are asserting control over their economic and cultural landscape, ensuring that development aligns with the values and aspirations of the people, and promoting a resilient future for Welsh communities. These are examples of a foundational economy approach that has focused investment and capacity on strengthening the foundational structures of the Welsh economy. It is evidence that targeted small-scale investment can act as a catalyst.

Interventions from the Welsh Government with a specific foundational economy focus have been innovative but not sufficiently joined-up. The Foundational Economy Challenge Fund provided key funding to organisations and should be learned from. We believe that maximising the value of these investments would require supporting community-led and -owned enterprises in the foundational economy, with democratic ownership structures and social enterprise models. Learning from projects we have delivered is that the most impact is made when communities and values-driven entrepreneurs are supported to be innovative and develop community-led solutions to challenges and opportunities – the role of Government can be to connect people, provide initial capital investment and provide specialist support for people to develop sustainable foundational economy businesses through models that maximise social value.

- **What examples of best practice exist in different foundational economy sectors and places within or beyond Wales? How could the Welsh Government better support partners to deliver best practice, and to scale it up where appropriate?**

There are several examples across Wales where the foundational economy has been strengthened by developing the community-led, democratic ownership structures discussed above.

One example of where significant progress has been made in transforming a foundational economy sector is adult social care in Gwynedd. In a similar position as other local authorities, Gwynedd found itself in an extremely challenging situation and always in crisis mode. It decided it needed to be courageous and look at its whole system through a different lens. They undertook an honest appraisal and found that they did not fully understand what they were commissioning, where the money was going, and whether they were actually meeting people-focused outcomes.

They learned very quickly that this was not just a tendering exercise, but that everybody would need to change their way of working and their expectations. They found that working together and taking this person-centred perspective, using networks of family, friends and community had a hugely positive impact in delivery care provision that was people-focused and prioritised well-being. They engaged existing co-operatives and community networks where possible, but sought to create a co-operative and community-led mixed market.

They ran pilots with other parts of the market including private businesses in Caernarfon, Nefyn and Tywyn. They learned that autonomy and trusting decision-making to staff leads to better outcomes, and that the outcomes achieved in co-operative and community-led structures can be replicated in the private for-profit sector if the right values and models are integrated, and local networks are used to create added value. They found that through investing locally, the same level of staffing can create more and better care. They are asking service providers to be part of a community resource team, which is a cross-sector and organisation collaboration, on a local patch-based model. Now in the tender process they ask important questions on the understanding of the local community and their networks in the local community, to achieve added social value. Slowly but surely, they are re-shaping the market.

Another inspiring example is Creating Enterprise, a social enterprise in Conwy. A subsidiary of Cartrefi Conwy, it started trading in 2015 and has quickly grown into the social contractor of choice for North Wales. It builds environmentally friendly homes using sustainable materials and is innovative in finding new ways to lower its carbon footprint, such as by sourcing eighty percent of its timber from Wales and constructing its frames onsite. As well as having an environmental mission, it has a social mission to create well-paid, full-time employment opportunities for the local community it serves. Its Creating Futures Academy helps local people find and access training, volunteering, and employment opportunities. In November 2020, it was named as the Fastest Growing Company in Wales. This team is the perfect example of how social enterprise can deliver on its three ambitions: business success, environmental sustainability, and helping people – keeping money in Wales and maximising social value within the foundational economy.

The next step is to expand these models across Wales in a consistent way. The Social Enterprise Stakeholder Group launched its Vision and Action Plan: Transforming Wales through Social Enterprise in 2020 and this year published a progress report. It has several key objectives to achieve its overall mission of making social enterprise the business model of choice in Wales. One of the key objectives within this mission is maintaining specialist support for the sector.

Specialist business support for these enterprises has been identified by the businesses themselves as being crucial. Survey data shows that clients receiving support from this service rated it very highly. The support has helped grow these businesses, created hundreds of good quality jobs and safeguarded many others. An independent evaluation of Social Business Wales highlighted an “ongoing need for specialised support for the social business sector, recognising the multi-stakeholder environments and specific legal, constitutional and financial arrangements that have wide-reaching implications for the successful operational of social businesses”.

The key requirement is that advisors have a specialist understanding of the characteristics of social enterprises – that they are multi-stakeholder, have a triple bottom line, differing legal structures and alternative funding options. This specialist support must be available to social businesses at all stages of the business cycle, from support to nascent entrepreneurs to established firms.

As well as being responsive to the demands of social businesses, the role of mid-level organisations to foster innovation and connect communities is essential. These organisations can be proactive, build new markets and develop social enterprises in response to market needs. The work of Cwmpas has been pivotal to this in Wales. One example of how this is done is through the Start Something Good innovation programme, designed to bring people, organisations, and communities together to develop fresh ideas for social change. The team helps communities and organisations tackle social issues by providing a vehicle to co-design solutions alongside stakeholders in an equal, reciprocal, democratic and fun way. Over 58 hackathons have been delivered, including 2300+ participants, 470 partner organisations. Examples of clients include working with Natural Resources Wales to better connect stakeholders to tackle river purification, working with Rhondda Cynon Taff, Velindre NHS, and GAVO on their food sustainability strategies, and working with Merthyr Valleys Homes and its tenants to identify projects to navigate the “cost of living” crisis.

This is an example of how communities can be supported to develop their own models, enterprises and solutions within the foundational economy and fostering this innovation should be at the heart of the Welsh Government’s role in building a stronger foundational economy in Wales that maximises well-being and social value.

- **What progress has been made in using procurement to strengthen the foundational economy since [our predecessor Committee looked at this issue in 2019](#)? What further actions are required to deliver greater progress, and what innovative examples of best practice could be built on?**

There is a lot of work being done in Wales to put social value at the heart of procurement. The Social Partnership and Public Procurement Act is a big opportunity to embed this even further. There are many examples of good work taking place – on the 18th of June in the Senedd, the Social Enterprise Stakeholder Group launched our Transforming Wales through Social Enterprise Progress Report and heard from Andrea Wayman, Chief Executive of Elite Paper Solutions, a social enterprise in Merthyr Tydfil, and heard about their successes in winning contracts based on their social value capabilities. Our 2022 mapping of the social business sector in Wales found that 20% of social businesses had won a public sector procurement contract within the last year, up from 17% in 2018.

However, there is a lot more to do. The 2022 mapping report found that 13% of social businesses identified accessibility of commissioning/procurement with public services as one of the four most significant barriers to their business' sustainability or growth. Our work on social value has identified how public bodies can reform their procurement practices to include local businesses and social enterprises - including reserved contracts and supporting consortium working. However, the crucial step is moving beyond this and pro-actively nurturing pipelines and supply chains to include social enterprise solutions. This requires a change in culture and way of working and knowledge of and closeness to local social enterprise markets and communities. It is also important to note that there have been challenges to capacity within procurement teams and investment in this is key to achieving the long-term results we want to see.

- **How effective have the Welsh Government’s actions to deliver fair work in foundational economy sectors been? What further steps should it take within its devolved powers to progress this agenda, and how can it work with the UK Government to drive improvements in non-devolved areas?**

Ultimately, to create a fair work economy in the foundational economy and beyond we need to change the way we do business. We need more democratically-owned Welsh businesses rooted in their communities and social enterprises with a triple-bottom line model that embeds fair work.

Social enterprises are businesses which trade for a social or environmental purpose. There are more than 131,000 social enterprises in the UK, with a collective turnover of £78 billion and employing around 2.3 million people. Research mapping the social enterprise sector in Wales in 2022 showed that post-Covid the sector demonstrated high levels of new entrepreneurial activity. At that point there were 2,828 businesses in the sector, an increase of 22% from 2020 (2309), with a turnover of £4.8bn.

Social Enterprise UK recently published, in partnership with the Living Wage Foundation, a report that delves into the quality of employment created by social enterprises compared to the wider business community. From recruitment to paying the Real Living Wage the report “takes a comprehensive look at why social enterprises represent business at its best when it comes to work, finding that social enterprise employers are more likely to pay better, offer training, involve employees in organisational decision-making, and retain staff.”

Key findings

Social enterprises are significant employers – and employ from across society

- Social enterprises employ 2.3 million people across the UK
- Social enterprises have a diverse workforce:
 - 58% of social enterprise employers report at least half their workforce are women
 - 10% of social enterprise employers report at least half their staff are from an ethnic minority background
- 27% of social enterprises create employment opportunities as one of their core social objectives
- 55% of social enterprises recruit people from disadvantaged, marginalised or vulnerable groups including those furthest from the labour market including ex-offenders, refugees and those with a history of substance abuse. Of those recruiting people from disadvantaged groups:
 - 33% recruit people with mental health problems
 - 27% recruit people with a learning disability
 - 24% recruit people with a physical disability
 - 22% recruit people who have experienced long-term unemployment

Social enterprises pay fairly

- 84% of social enterprises report paying the real Living Wage, that’s 8 in 10 social enterprises compared to an estimated 1 in 9 employers across the wider economy
- 54% of real Living Wage social enterprise employers expect to grow staff numbers over the next year, compared to

- 33% of social enterprises that are not real Living Wage employers
- Over 90% of social enterprises providing financial services, employment services, environmental services and business support reported paying the real Living Wage

Social enterprises train staff and provide flexible, inclusive workplaces

- 77% of social enterprises reported providing some form of formal or informal training opportunities in the workplace, compared to just 60% of other businesses.
- 95% of social enterprises reported offering some form of flexible working arrangement in 2023 - an increase from 83% in 2021.
- 38% of social enterprises include employees as a member of their board

Social enterprises adapt and support staff through crises

- 56% of social enterprises have reported taking actions to cope with the impact of inflation and energy cost increases on

their workforce:

- 15% provided facilities for remote working
- 8% asked staff members to take on more tasks
- 8% provided additional training to upskill staff
- 7% reduced staff working hours
- 3% made staff redundancies

Developing this model in the foundational economy and in sectors across Wales should be at the heart of our ambitions to develop an economy on fair work principles. The ambition of the Social Enterprise Stakeholder Group is to make social enterprise the business model of choice in Wales. This is an ambitious objective but success would lead to significant benefits for workers, wider communities and the environment. We need all stakeholders to proactively nurture the social enterprise sector to achieve this, and putting this at the heart of our approach to the foundational economy is a key example of how this can be achieved.