Social Business Wales

Mapping the Social Business Sector in Wales / 2020 Census



Wavehill: social and economic research

- Wales office: 21 Alban Square, Aberaeron, Ceredigion, SA46 0DB (registered office)
- West England office: 2–4 Park Street, Bristol, BS1 5HS
- North of England office: Milburn House, Dean Street, Newcastle, NE1 1LF
- London office: 52 Cecile Park, Crouch End, London, N8 9AS

Contact details:

Tel: 01545 571711

Email: wavehill@wavehill.com **Twitter:** @wavehilltweets

More information:

www.wavehill.com https://twitter.com/wavehilltweets

© Wavehill: social and economic research.

This report is subject to copyright. The authors of the report (Wavehill: social and economic research) should be acknowledged in any reference that is made to its contents.

Report authors:

Ioan Teifi Oliver Allies

Client contact:

Joelle Campbell Market Development Advisor, Social Business Wales Wales Co-operative Centre

Busnes Cymdeithasol Cymru Social Business Wales

/busnescymru.llyw.cymru/busnescymdeithasol/businesswales.gov.wales/socialbusinesswales









Acknowledgements

We would like to thank the many individuals who gave their time to assist in the evaluation. Several organisations played a vital role in this study by supplying the Research Team with information on social businesses to help us to paint a picture of the social business sector in Wales. We would also like to thank the social businesses themselves, as this evaluation would not have been possible without all of their contributions.



Contents

01	Introduction	7
ΠT	1.1 Definition	8
00	Methodology and context	9
UZ	2.1 Data gathering and Research Team validation	10
	2.2 Survey	11
	2.3 Analysis and limitations	16
	2.4 Policy context	18
00	Composition of the sector	20
03	3.1 Geographical coverage and start-ups	22
	3.2 Organisation type and leadership	29
	3.3 Operational sectors	31
	3.4 Size of businesses	32
0.4	Social value and impacts	37
U4	4.1 Social objectives	39
	4.2 Profit destinations	42
	4.3 Business practices	43
	Business practices, trading performance, and COVID-19	46
U5	5.1 Business growth	48
	5.2 COVID-19	49
	5.3 Trading patterns	55
	5.4 Business capabilities	58
	5.5 Achievements	61
06	Challenges, support needs, and pathways to growth	65
06	6.1 Barriers to growth	67
	6.2 Skills gaps and support needs	70
07	Summary of findings	74
U/	7.1 State of the sector	75
	7.2 Trading performance and barriers to growth	75
	7.3 Effecting social change	76

Table of tables

	ganisation definitions OVID-19 events	8
	restrictions and support interventions tracked against survey responses	14
Table 3.1: Dis	stribution of social businesses by WIMD quintile	24
	stribution of social businesses in 2016, 2018 and 2020	28
Table 4.1: Ma	atched sample analysis: change in employment and turnover from 2016 to 2020	48
Table	of figures	
Figure 2.1:	Number of survey responses per month	16
Figure 3.1:	Distribution of social businesses across Wales	22
Figure 3.2:	% of social businesses and all businesses within each local authority	23
Figure 3.3:	% of businesses that are social businesses per local authority – 2018 vs. 2020	
= : 0.4	(overall sample)	24
Figure 3.4:	Distribution of social businesses across Wales, underlayered by WIMD quintile	25
Figure 3.5:	rankings Business age at the time of survey – comparison between 2016, 2018 and 2020	25
rigule 5.5.	(overall sample)	26
Figure 3.6:	% of all survey respondents and start-ups surveyed within each local authority	27
Figure 3.7:	Types of social businesses surveyed in 2016, 2018 and 2020 (overall sample)	29
Figure 3.8:	Legal status of social businesses surveyed in 2016, 2018 and 2020 (overall sample)	30
Figure 3.9:	% of businesses' senior leadership teams and the most senior employees that fall	
	within different demographic groups	31
Figure 3.10:	Operational sectors of social businesses surveyed in 2018 and 2020 (overall	2.2
Figure 2 11.	sample)	32
rigure 3.11:	Employment bands within social business sector in Wales vs. all businesses (2020)	رر 33
Figure 3.12:	Social business employment bands in 2016, 2018 and 2020 (overall sample)	34
_	Turnover bands within social business sector in Wales (2020) vs. social enterprise.	
3	across the UK (2019)	34
Figure 3.14:	Percentage of businesses, employment and turnover within each operational sec	tor
		36
Figure 4.1:	Main social or environmental objectives (as identified by organisations) –	
F: 4.2	comparison between 2016, 2018 and 2020	39
Figure 4.2:	Main social or environmental objectives (as identified by organisations) –	40
Figure 4.3:	comparison between 2018 and 2020 What do you do with any surplus/profit that you generate? Comparison between	
rigure 4.5.	2016, 2018 and 2020	43
Figure 4.4:	Individuals employed over the last 12 months – comparison between 2016, 2018	
9	and 2020	44
Figure 4.5:	Number of volunteers in 2014, 2016 and 2018 (matched sample)	44
Figure 4.6:	Business services offered in Welsh and English	45
Figure 5.1:	% of social businesses indicating that they had paused trading, by sector	49
Figure 5.2:	% of social businesses in Wales reporting a decrease in turnover in comparison	_
E1. E 3	with UK businesses	50
Figure 5.3: Figure 5.4:	COVID-19 impact on social businesses Measures taken by social businesses in response to the pandemic	51 52
ridure 5.41	ivieasures taken ov social dusinesses in response to the dandernic	7/

Figure 5.5:	Threat from COVID-19 to businesses' financial viability over 3-, 6- and 12-month periods	53
Figure 5.6:	Proportion of businesses reporting a large or critical threat to their financial viability overall vs. businesses reporting a risk to their reserves	54
Figure 5.7:	Expectations for growth	54
Figure 5.8:	Percentage of income generated from trading activities in 2014, 2016 and 2018	
	(overall sample)	55
Figure 5.9:	Sources of income in 2016, 2018 and 2020 (overall sample)	56
Figure 5.10:	Sources of income in 2016, 2018 and 2020 (matched sample)	57
Figure 5.11:		57
Figure 5.12:	Number of Welsh local authorities operated in – comparison between 2016, 2018 and 2020 (overall sample)	3 58
Figure 5.13:	Mean average scores for business capabilities on a scale of 1 to 5 (where 1 is rate very poor and 5 very strong) – comparison between 2016, 2018 and 2020	ed 59
Figure 5.14:	Mean average scores for business capabilities and % scoring themselves a 4 or 5 a scale of 1 to 5 (where 1 is rated very poor and 5 very strong)	
Figure 5.15:	Thinking about the last 12 months, has your organisation []? Comparison	61
Figure 5.16:		62
		63
		64
Figure 6.1:		68
Figure 6.2:	Reasons for selecting access to finance as a barrier – 2018 in comparison with 202	20 69
Figure 6.3: Figure 6.4:		71
9		72
Figure 6.5:		73



Section 01 **Introduction**

>> 01 Introduction

Wavehill have been commissioned by Social Business Wales (SBW) to undertake the latest biennial mapping exercise of the social business sector in Wales. This repeats similar exercises conducted every two years since 2014.

The purpose of this exercise is twofold: to understand the size and scale of the sector, and to conduct a health check of the sector (including identifying some of the challenges and opportunities faced). Linked to the latter, the exercise is also an opportunity to understand how the sector has been affected by the COVID-19 pandemic.

1.1 Definition

Social business is an umbrella term that describes organisations operating within the social economy, which could include social enterprises, co-operatives, mutuals, and employee-owned businesses. A detailed description of what each of these terms means is set out in Table 1.1 below.

Table 1.1: Organisation definitions

Organisation Type	Description
Mutual/Co-operative	A mutual/co-operative is an organisation owned by, and run for the benefit of, its current and future members.
Social Enterprise	A social enterprise is a business with primarily social objectives and whose surpluses are principally reinvested for that purpose in the business or the community, rather than being driven by the need to maximise profit for shareholders and owners.
	 It has three key characteristics: It has a social, community or ethical purpose It operates using a commercial business model It has a legal form appropriate to a 'not-for-personal-profit' status and social ownership.
Employee-Owned Businesses	 The Employee Ownership Association describes employee-owned businesses as businesses that are totally or significantly owned by their employees. Employee ownership can take one of three forms: Direct employee ownership – using one or more tax-advantaged share plans, employees become registered as individual shareholders owning a majority of the shares in their business Indirect employee ownership – shares are held collectively on behalf of employees, normally through an employee trust Combined direct and indirect ownership – a combination of individual and collective share ownership.



Section 02 Methodology and context



3 02 Methodology and context

The study followed a broadly similar approach to that adopted in previous exercises, and can be summarised in three work packages: data gathering, survey work, and analysis. Equally, some adjustments were made to the approach in recognition of the different context brought about by the COVID-19 pandemic. These are outlined below.

2.1 Data gathering and Research Team validation

The first stage involved the collation and deduplication of lists of social businesses in Wales which were held by various stakeholder partners and public registers. This follows the same approach used in previous exercises.

The organisations sharing contacts and the lists reviewed were broadly consistent with those in previous exercises. Most of the 'new contacts' (i.e. not identified in previous exercises) were identified on the Community Interest Company (CIC) register and the Social Business Wales (SBW) active client list. In total, 10 lists were cross-referenced against the 2,022 businesses identified in 2018, generating 2,929 unique contacts.

As with previous exercises, requests were made to each local authority and voluntary council in Wales for any lists that they may hold. Several local authorities who had shared their contacts in the past did so again. Additionally, for the first time, a list of 500 contacts was obtained from Glamorgan Voluntary Services (GVS), 468 of whom were new contacts. Upon inspection, the GVS list was largely composed of small community groups such as the Scouts and the Air Corps, which could not be described as genuine trading entities. Following a discussion with SBW, it was decided that 281 of these businesses should be excluded from the exercise, whilst the remaining organisations (typically larger sports clubs, as well as arts and charitable organisations) would be contacted. This left 2,648 businesses on the survey contact list.

It is important to note that the 174 new contacts obtained from GVS and retained on the list will have affected the geographical distribution of social businesses presented in this report. Obtaining lists from the other 19 County Voluntary Councils (CVCs) in Wales would have, in all likelihood, led to the identification of many more organisations of this type. Thus, it is acknowledged that the scale of the sector presented in this report is likely to be an underestimate. Furthermore, we note that this issue perhaps highlights a need to have clearer parameters in relation to what should and should not be considered a social business — primarily with regard to the scale of the operation.

Whilst the primary purpose of the contact list was to generate leads for survey responses, it also provided a further opportunity for the researchers to validate the status of these businesses. During the Research Team calling, a further 161 businesses (six per cent) were identified as having ceased trading and 178 (seven per cent) either were duplicates or did not consider themselves to be a social business. This resulted in a final list of 2,309 social businesses for the survey exercise.

The approach described thus far is consistent with the approach adopted in previous mapping exercises; however, there was one significant divergence. A further step in the validation process was introduced, given the potential impact of the pandemic upon business closures. Whilst 161 businesses had been confirmed as having ceased trading through confirmation on Companies House, there is a possibility that this may downplay the real number, given the lag between businesses closing and appearing as such on Companies House records. Thus, where researchers could not reach businesses after at least three contact attempts and where they could not confirm that the businesses were active through online checks, these businesses were highlighted as 'potentially not active'. SBW Business Advisors and Market Development Advisors also reviewed this list as a final verification, resulting in 187 businesses identified in total as potentially not active.

2.2 Survey

The other main change to the approach in 2020 concerned the survey itself. Several changes were made to the questions posed to respondents, including a section focusing specifically on the impact of COVID-19 and how businesses had adjusted in response. At the same time, most of the questions from the 2018 exercise were retained, which enables the tracking of trends over time.

As with previous exercises, the survey was divided into two parts: Part 1 was a shorter, 10–15-minute survey that covered factual information about the businesses (e.g. sector, employment, geography, turnover, legal status, etc.), while Part 2 was a longer, slightly more qualitatively focused survey (30–40 minutes on average) which included questions on workforce practices, COVID-19, social value, performance, achievements, and challenges.

In total, 535 businesses completed Part 1 of the survey, although 28 of these indicated that they did not consider themselves to be a social business upon further questioning, leaving 507 valid responses (22 per cent response rate). Additionally, 363 completed Part 2, representing a 16 per cent response rate.

Businesses were also invited to complete Part 1 online. This was a departure from the approach in 2018, wherein all responses were collected through Research Team telephone interviews. The decision was made in response to the pandemic and the fact that increasing numbers of people and businesses are working from home. This was an effective approach, with 85 (17 per cent) respondents completing Part 1 online, whereas all others were engaged through the Research Team. All Part 2 responses were collected through telephone interviews.

2.2.1 Survey distribution during COVID-19

The context of the COVID-19 pandemic is very important to this research. The study is partly concerned with conducting a health check of the sector, and the pandemic will have had a significant impact on that. Accordingly, in Table 2.1 (below) we outline the main developments during the pandemic, which provides an idea of how it may have affected business sentiment at various points in 2020–2021. This is cross-referenced with the survey distribution, which took place from November 2020 to mid-April 2021.

The restrictions imposed during the various national and local lockdowns throughout 2020 and in early 2021 halted many businesses' entire operations and severely impacted others, whilst several restrictions also remained in place in between lockdowns.

As Table 2.1 illustrates, Wales entered a full lockdown between 23 March and 29 May 2020, with people ordered to remain at home and non-essential activities largely prohibited. This was revised from May, firstly with a move towards 'stay local' regulations. However, people were not allowed to move freely across Wales until the 'stay local' regulations were lifted at the beginning of July. There was a gradual reopening of other parts of the economy during that month — starting with self-contained holiday accommodation, through to outdoor areas of the hospitality sector. Even then, there were challenging restrictions on social distancing and indoor mixing with which businesses had to deal.

Wales and the UK experienced a rise in COVID-19 cases in September and the concept of local lockdowns was introduced in an attempt to limit transmission and prevent wider lockdowns. Caerphilly was the first area to experience this in Wales, with a lockdown introduced on 8 September (during which people were not allowed to enter or leave the area). Further lockdowns followed in Rhondda Cynon Taf (RCT) one week later, and several other local authorities and towns towards the end of the month. By 1 October, local lockdowns were imposed in 15 local authorities along with Llanelli, covering the vast majority of the population in Wales.

With cases continuing to rise, Wales entered a 17-day 'circuit break' on 23 October, wherein similar rules to those of the first national lockdown were applied, although schools and childcare settings remained open for all pupils in some age groups. These restrictions were lifted on 9 November with new national measures applied which allowed the reopening of all premises. On the same day, Wavehill launched its survey, with 82 responses (15 per cent of the total) received during that month.

The period leading up to Christmas in December witnessed cases rising sharply, leading to further restrictions at the beginning of the month, with pubs, bars, restaurants and cafes ordered to close by 6 p.m. On 19 December, Wales entered a new national lockdown. There were a further 129 responses (24 per cent) to the survey during this month.

Cases began to fall in January, although the lockdown remained in place throughout the month. During this time, a further 149 survey responses were received (28 per cent). Restrictions also remained in place throughout February, during which a further 60 (11 per cent) responses were received.

The remaining survey responses (21 per cent) were received from March to mid-April (when the survey was closed). There was a gradual easing of restrictions during this time, with the stay-athome restrictions lifted on 13 March and 'stay local' on 27 March.

It is also important to note that there has been an unprecedented package of support with which to help businesses through the pandemic. Generally, those businesses most affected have received the most generous support. This support has come from both UK and Welsh Governments, along with other stakeholders.



The main aspects of this support are:

- Coronavirus Job Retention Scheme
 ('Furlough Scheme') a grant that covers 80
 per cent of employees' monthly wage costs
 where businesses cannot maintain their
 workforce because their operations have
 been affected by COVID-19.
- Coronavirus Business Interruption Loan Scheme – SMEs could apply for a temporary loan, overdraft, invoice finance, and asset finance of up to £5 million, for up to six years, with the government giving lenders an 80 per cent guarantee on each loan.
- Coronavirus Bounce Back Loan between £2,000 and £50,000, with the government guaranteeing 100 per cent of the loan with no fees, interest or repayments required for the first 12 months.
- **Economic Resilience Fund** three rounds of loan and grant funding to support businesses who were affected by pandemicrelated restrictions and unable to operate.
- Cultural Recovery Fund provided funding to support theatres, music venues, heritage sites, events, museums, libraries, galleries, independent cinemas, and freelancers.

- Third Sector Resilience Fund provided direct financial support, including a blend of 75 per cent grant funding and 25 per cent initially interest-free loan funding, to third sector organisations which needed help in getting through the crisis.
- Business Rates Relief including the retail, leisure and hospitality rates relief scheme, the small business rates relief scheme, and charitable and non-profit organisation rates relief.
- Deferring VAT VAT-registered businesses with a VAT payment due between 20 March and 30 June 2020 had the option to defer payment until 31 March 2021.
- Statutory Sick Pay Rebate employers could reclaim Statutory Sick Pay paid for sickness absence due to COVID-19.
- Time to Pay discarding penalties for businesses who could not pay their tax in time because of the pandemic.

Table 2.1: COVID-19 events – restrictions and support interventions tracked against survey responses

Date	Event	Survey Responses
20 March 2020	Coronavirus Job Retention Scheme introduced and forced closure of hospitality sector	
23 March 2020	UK lockdown: public ordered to remain at home and many non-essential activities prohibited	
30 March 2020	Economic Resilience Fund	
29 May 2020	Wales moves to 'stay local' regulations, according to which two households can meet outdoors, although people should remain local	
22 June 2020	All non-essential retail business reopens	
06 July 2020	Requirement to 'stay local' is lifted	
11 July 2020	Some self-contained holiday accommodation can reopen	
13 July 2020	Number of other services/businesses can reopen (including outdoor hospitality)	
25 July 2020	Tourist accommodation with shared facilities is able to reopen	
27 July 2020	Cinemas and museums can reopen and house viewings can take place	
03 August 2020	Hospitality sector can reopen indoors	
10 August 2020	Swimming pools, spas, gyms, leisure centres, etc. can reopen	
08 September 2020	Local restrictions in Caerphilly: people are not allowed to enter or leave area without reasonable excuse	
17 September 2020	Local restrictions in RCT: same rules as in Caerphilly, plus all licensed premises must close at 11 p.m.	
21 September 2020	Local restrictions introduced in Blaenau Gwent, Bridgend, Merthyr Tydfil, and Newport	
24 September 2020	Across Wales, hospitality businesses (pubs, cafes, restaurants and casinos) are ordered to close at 10 p.m.	
26 September 2020	Local restrictions introduced in Llanelli	
27 September 2020	Local restrictions introduced in Cardiff and Swansea	
28 September 2020	Local restrictions introduced in Neath Port Talbot, Torfaen, and the Vale of Glamorgan	
01 October 2020	Local restrictions introduced in Denbighshire, Flintshire, Conwy, and Wrexham; almost 8,000 new cases confirmed over previous month	

Date	Event	Survey Responses	
09 October 2020	Local restrictions introduced in Bangor		
20 October 2020	Phase 2 of the Economic Resilience Fund		
23 October 2020	17-day 'circuit break' for whole of Wales, where people must remain at home and many businesses and venues are ordered to close		
01 November 2020	Almost 30,000 new cases confirmed over previous month	Survey launched	
09 November 2020	All premises that are closed can reopen under new national measures	– 82 responses in November	
01 December 2020	Almost 30,000 new cases confirmed over previous month	129 responses in December	
04 December 2020	Pubs, bars, restaurants and cafes have to close by 6 p.m. and are not allowed to serve alcohol; indoor entertainment and visitor attractions are also ordered to close; a third phase of the Economic Resilience Fund is opened to support businesses affected, including specific fund for hospitality		
08 December 2020	Vaccine rollout begins in Wales		
14 December 2020	All outdoor attractions in Wales, including funfairs, are required to close		
19 December 2020	National lockdown / move to level 4 on alert system: all non-essential retail, close-contact services, and leisure and fitness centres close		
01 January 2021	More than 70,000 new cases confirmed over previous month	149 responses in January	
01 February 2021	Almost 37,000 new cases confirmed over previous month	60 responses in February	
12 February 2021	First vaccination programme milestone of offering vaccination to everyone in first four priority groups is achieved		
01 March 2021	Almost 10,000 new cases confirmed over previous month	65 responses in March	
13 March 2021	Stay-at-home restrictions replaced by 'stay local' rule in Wales		
27 March 2021	'Stay local' restrictions are lifted and self-contained holiday accommodation reopens		
01 April 2021	More than 5,000 new cases confirmed over previous month	45 responses in April	
06 April 2021	Second vaccination programme milestone of offering vaccination to everyone in first nine priority groups is achieved		

In conclusion, most of the responses (68 per cent) were received by the end of January (see Figure 2.1 below). There were severe restrictions in place when most of the responses were received between mid-December 2020 and March 2021, while there were changes within the state of the pandemic (i.e. cases, deaths and vaccinations) and the support offer from respective governments during this time. All of these factors will have affected sentiment and, thus, the responses to this survey.

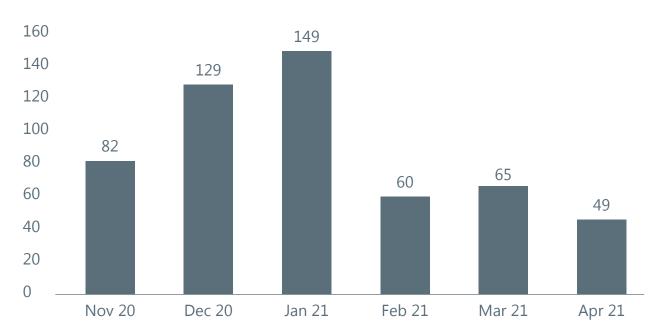


Figure 2.1: Number of survey responses per month

2.3 Analysis and limitations

All survey data was analysed, with top-line findings presented in the remainder of this report.

Wherever possible, the report presents trend analysis in order to demonstrate how the sector has changed since these exercises were conducted. Two approaches are adopted in conducting this analysis: a comparison of overall samples within 2020 and previous exercises, and a panel approach by comparing a matched sample (i.e. the exact same businesses who completed the survey in 2016, 2018 and 2020). The panel approach used 136 businesses who had completed the survey in each year. Additionally, a separate analysis was undertaken of businesses responding in 2018 and 2020 only in order to expand the matched sample to the 220 who completed the survey in the last two exercises but not in 2016.

The obvious caveat with the trend analysis is that the context in 2020 has been completely different. The imposition of restrictions during the pandemic has had a clear impact on the sample obtained from the fieldwork, given the disproportionate effect on different sectors of the economy; for instance, the hospitality sector either was closed or faced severe restrictions throughout the whole period, whilst non-essential retail and other activities well represented within the social business sector (e.g. community groups, youth activity, education, etc.) also faced heavy restrictions. As a result, the sectors that were more inactive during the pandemic because of these restrictions and may have had more free time (e.g. arts, recreation, community groups, etc.) have represented an above-average proportion of the sample in comparison to previous years, whilst sectors that have been more active during the pandemic (e.g. health and

social care) appear to be underrepresented. The impact on the sample's sectoral composition has affected the size of businesses reached – the average size of businesses in the 2020 sample is that of 13 employees, which can be compared with 27 in 2018 and 22 in 2016. This is because businesses within underrepresented sectors (such as health and care) and registered social landlords (RSLs) tend to be much larger organisations, whilst organisations within overrepresented sectors are smaller.

The lack of RSLs responding to the survey was particularly impactful, given that this small group of organisations employ hundreds of staff and generate millions in turnover each. Ten of these RSLs were included in the 2018 sample, whilst only two organisations of this type were interviewed in 2020. The impact of this sampling issue can be most acutely felt when assessing the size of the sector, given that survey averages are used to calculate the value generated and the number of employees within the whole sector. To rectify this issue, employee and turnover data were obtained from financial reports for eight of the RSLs interviewed in 2018 but not in 2020, and these were added to the calculations in order to generate more comparable and realistic estimates. Despite this addition, the average business size remained far below the level recorded in the previous exercise. There was little survey evidence with which to explain this. In fact, the matched analysis of 2018 and 2020 data showed that businesses had experienced modest growth, whilst there is no evidence of fewer businesses operating within the sector. Thus, an alternative approach was taken in calculating the number of employees working within the sector, which allows a more realistic comparison to previous years. This is based on real increases within the matched sample and explained in further detail in section 3.4.

Additionally, the inclusion of the GVS list will have also affected the sample and the estimates with regard to the number of businesses operating within the sector. Furthermore, there have been adjustments to the methodology to account for the likely impact of the pandemic, including a more intensive validation exercise by the Research Team to confirm where businesses were not trading or were 'potentially not active'. Combined, all of these factors make comparisons with previous studies less robust and valid. Thus, any such comparisons should be treated as indicative only.

In addition to the trend analysis, the survey results have also been contextualised through benchmarking with the general business population in Wales and with the social business sector in other parts of the UK. As part of this process, we have drawn on data from the Inter-Departmental Business Register (IDBR) and the latest survey conducted by Social Enterprise UK (2019), although any valid comparisons are limited by the fact that this was done before the pandemic. Finally, we have also drawn on data from Social Enterprise Scotland, who conducted a 'State of the Sector' report in August 2020.

2.4 Policy context

Policy development in Wales has increasingly focused on the concept of inclusive growth, i.e. the concept of ensuring that economic growth is distributed fairly across society and creates opportunities for all.¹ This concept was front and centre of the Welsh Government's core strategy paper leading up to 2021, i.e. 'Prosperity for All', and the accompanying action plan, which states:



This was reinforced in the Economic Resilience & Reconstruction Mission, which was announced by the Welsh Government in February 2021.3 The mission expresses a desire to "build on the progress we were making in delivering a more inclusive economy" by creating a 'well-being economy' which "helps everyone realise their potential [...] reducing inequality and spreading wealth and well-being across all of Wales". Achieving an 'equal economy' represents one of the three goals, according to which the Welsh Government will demand and champion fair work.

There is strong alignment between this ambition and the social business model which combines a desire to make profit with investing that profit to create positive social change. Indeed, this is recognised within the Economic Resilience & Reconstruction Mission, with an explicit ambition to encourage both social enterprise and employee-owned business models as part of the well-being economy:



We intend to help rebuild, grow and strengthen the social enterprise sector so that it is a natural business model of choice for entrepreneurs delivering solutions to social, economic and environmental challenges."4

¹ https://www.oecd.org/inclusive-growth/
² Welsh Government, 'Prosperity for All: economic action

Welsh Government, 'Economic resilience and reconstruction mission', 2021.

Building on this, the concept of the foundational economy is seen to be a key mechanism with which to drive inclusive growth. The foundational economy is the provision of basic goods and services on which every citizen relies, encompassing care and health services, food, housing, energy, construction, tourism, retail, and so on. It involves businesses that are embedded within their communities and is becoming an increasingly important part of the Welsh Government's economic development approach, incorporating a focus on place and making communities stronger and more resilient. Targeting investment in the foundational economy is designed to create good employment conditions, reduce the leakage of money from communities and address the environmental cost of extended supply chains.

The concept is being supported by the Welsh Government through two key components relevant to the social business sector: firstly, an 'experimental' £4.5m Foundational Economy Challenge Fund, which comprises a series of projects through which to test appropriate governmental interventions to support the foundational economy; and, secondly, what has been described as the Preston+ model, which focuses on using procurement to bolster the foundational economy, including by investing more procurement expenditure within local areas. The main thrust of the agenda is to target economic support towards businesses that are grounded within their communities. The social business sector is an important part of the foundational economy, given businesses' propensity to provide core community services and their role in delivering inclusive growth.

There is a significant emphasis on the foundational economy within the Economic Resilience & Reconstruction Mission. Strengthening the foundational economy represents one of five 'beacons' within the Mission. This includes an intention to scale up good practice in the foundational economy from the Challenge Fund, using established networks such as Public Service Boards (PSBs) to do so. PSBs will be encouraged to implement relational procurement programmes which can localise a greater proportion of public procurement. According to the Mission:



Specific attention will be paid to supporting social enterprises, employee owned organisations and SMEs rooted in their communities to engage in public procurement, helping sustain and create local employment opportunities leading to healthier communities."6

The Well-being of Future Generations (Wales) Act (WBFGA) is also viewed as a framework for developing a new economic model that encourages sustainable growth across all parts of Wales, and puts the inclusive growth agenda at the heart of all major policy decisions. The Act creates a legal obligation for public bodies to improve the social, cultural, environmental and economic well-being of the areas that they serve. It is underpinned by seven well-being goals and creates a favourable environment for social businesses because there is a clear, natural fit between the social purpose of businesses within the sector and the purpose of the Act.

⁵ Business Wales website, 'Foundational Economy', https://businesswales.gov.wales/foundational-economy ⁶ Welsh Government, 'Economic resilience and reconstruction mission', 2021.



Section 03
Composition
of the sector





>> 03 Composition of the sector

This section describes the makeup of the social business sector in Wales, including the geographical distribution, types of organisations, start-up activity, operational sectors, size, and other characteristics.

Section summary

- The sector is estimated to include up to 2,309 businesses and up to 56,000 employees, generating £3.1–3.8 billion in value
- Social businesses are particularly concentrated in some of the poorer South Wales Valleys and are more likely to operate in areas of deprivation
- The sector is composed of a core group of well-established social businesses supplemented by a growing group of startups
- There appears to have been a substantial increase in start-up activity over the last two years, which is linked to the Social Business Wales New Start project
- Start-up activity is particularly concentrated in North East Wales — Denbighshire and Wrexham, and areas starting from a lower base of social business activity
- There is a positive gender balance within businesses' leadership, which compares favourably with the general business stock and social enterprises throughout the UK
- However, ethnic minority communities and people living with a disability or long-term health condition are underrepresented within the sector's leadership, whilst there is a lack of young entrepreneurs (which is below the UK average)

- Social businesses cut across a wide range of operational sectors but are primarily based in arts and recreation, community centres/groups, education, and health and care
- Some of these sectors, such as arts/recreation businesses and community centres, account for a high proportion of businesses but a much smaller proportion of employment and value generated
- Conversely, health and care represents a much higher proportion of employment than it does in businesses, whilst the small group of RSLs within the 'property' sector account for most of the turnover generated (excluding the largest social businesses, i.e. Glas Cymru and the Principality Building Society, who were not surveyed)

3.1 Geographical coverage and start-ups

As we highlighted in the Methodology section, there are up to 2,309 businesses operating within the social business sector in Wales. The geographical distribution of these businesses is illustrated in Figure 3.1 below.

Figure 3.1: Distribution of social businesses across Wales



Source: All identified social businesses with a valid postcode (n=1,816)

The geographical distribution of social businesses is broadly comparable with the business stock in general, as shown in Figure 3.2 below, although there is evidence that businesses are particularly concentrated in some of the poorer South Wales Valleys relative to the overall business stock. For example, three per cent of identified social businesses are located within Merthyr Tydfil, which is three times higher than the proportion of all businesses located within the area. A similar trend, albeit to a lesser extent, can be found in RCT and Blaenau Gwent. Conversely, the more rural areas in East Wales are much less well represented by social businesses – Powys makes up eight per cent of all Welsh businesses but only four per cent of social businesses, and Monmouthshire makes up four per cent of businesses but only one per cent of social businesses.

The figure for the Vale of Glamorgan is an outlier, given the addition of the GVS list of businesses, which was not replicated elsewhere in Wales; thus, it does not provide a comparable outline of social business activity within the area.

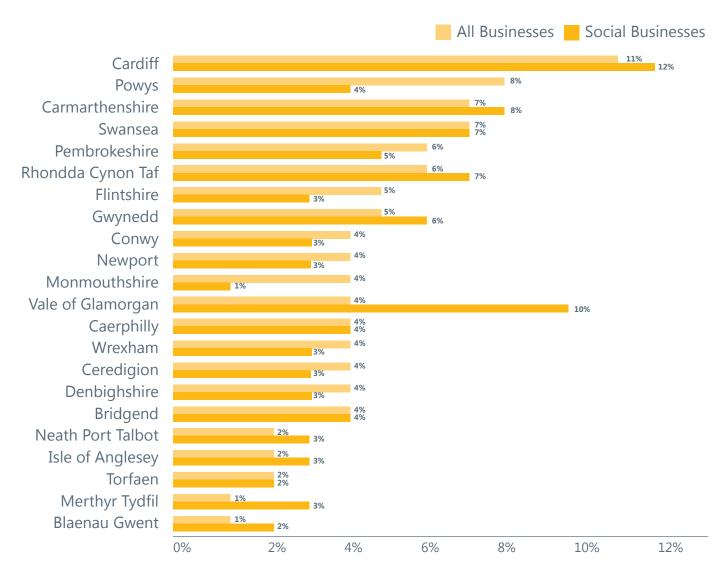


Figure 3.2: Percentage of social businesses and all businesses within each local authority

Source: All identified social businesses where the local authority was identified (n=2,276), and all businesses in each local authority (IDBR)

An alternative approach is to consider social businesses to be a proportion of all businesses within each local authority (see Figure 3.3 below). This chart also compares these figures with what we found in 2018, revealing a minimal shift. Again, it highlights the prominence of social businesses within the South Wales Valleys, making up more than five per cent of all businesses in Merthyr Tydfil and around three per cent in Blaenau Gwent and RCT. This can be compared with around only one per cent in Monmouthshire and Powys, whilst the contribution of social businesses to the overall business stock throughout Wales stands at 2.2 per cent.



Figure 3.3: Percentage of businesses that are social businesses per local authority – 2018 vs. 2020 (overall sample)

Source: All identified social businesses where the local authority was identified (n=2,276), and all businesses in each local authority (IDBR)

Finally, businesses' postcode data was also used to track their location against the Welsh Index of Multiple Deprivation (WIMD) rankings, which rank each community in Wales from the most to least deprived areas. This shows that social businesses are more likely to operate in areas of deprivation, with 45 per cent of social businesses operating in the top 40 per cent most deprived areas in Wales, and only 30 per cent operating in the 40 per cent least deprived areas. The findings are broadly consistent with the analysis presented in 2018 and are indicative of the modus operandi for social business activity, i.e. to enact positive social change. Furthermore, they are consistent with previous findings demonstrating above-average social business activity within the South Wales Valleys. The importance of social businesses within areas of deprivation demonstrates the sector's role in contributing towards a more inclusive economy and the synergy with the foundational economy. However, it should also be noted that this analysis is limited by the lack of comparable data for the general business stock; for instance, it may be the case that a greater proportion of businesses in general are located in more deprived areas.

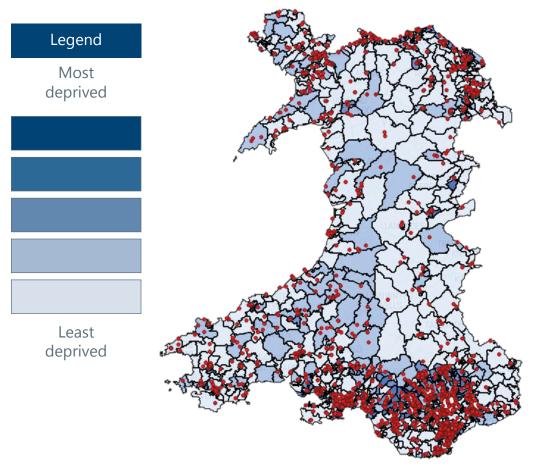
Table 3.1: Distribution of social businesses by WIMD quintile

WIMD Quintile (1=Most Deprived, 5=Least Deprived)	2020		2018	
1	372	20%	241	21%
2	453	25%	282	25%
3	452	25%	269	24%
4	333	18%	212	19%
5	206	11%	119	11%
	1,816		1,123	

Source: All identified social businesses with a valid postcode (n=1,816)

These data are illustrated graphically in Figure 3.4 below, showing the higher concentration of businesses in the more deprived areas (darker colours) and a much more sparse distribution within the least deprived areas (lighter colours).

Figure 3.4: Distribution of social businesses across Wales, underlayered by WIMD quintile rankings



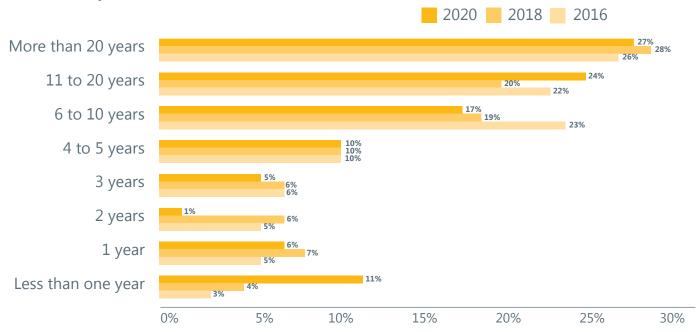
Source: All identified social businesses with a valid postcode (n=1,816)

3.1.1 Start-up activity

An analysis of business age reveals similar patterns to those in previous years, with a core group of well-established social businesses supplemented by a growing group of start-ups. There does, however, appear to have been a substantial increase in start-up activity since the last mapping exercise, with 17 per cent of all businesses surveyed in 2020 having started trading within the last two years (11 per cent in 2018 and eight per cent in 2016). The main difference is that of businesses that have been operational for less than one year (11 per cent in 2020 vs. only four per cent in 2018), which can be linked to the Social Business Wales New Start project (which was launched in November 2019 and provided a considerable enhancement in SBW provision explicitly targeting start-ups). Our analysis reveals that 46 per cent of all these businesses (i.e. less than one year) had received support from the SBW New Start project.



Figure 3.5: Business age at the time of survey – comparison between 2016, 2018 and 2020 (overall sample)



Source: Part 1 survey respondents (n=488)

Two analyses were conducted to identify the geographical distribution of this start-up activity and the growth in social business activity. Firstly, we examined the proportion of start-ups located in each local authority and compared this with the overall distribution of respondents in each local authority. This suggests that start-up activity is particularly concentrated in North East Wales – Denbighshire and Wrexham account for 15 per cent of all start-ups surveyed, almost twice as high as all survey respondents based in these areas (eight per cent). The data also suggests that whilst the South Wales Valleys represent a high base for social business activity, start-up activity appears to have been comparatively low in these areas – only eight per cent of start-up respondents were located in Merthyr, RCT, and Blaenau Gwent in comparison with 11 per cent of all respondents.

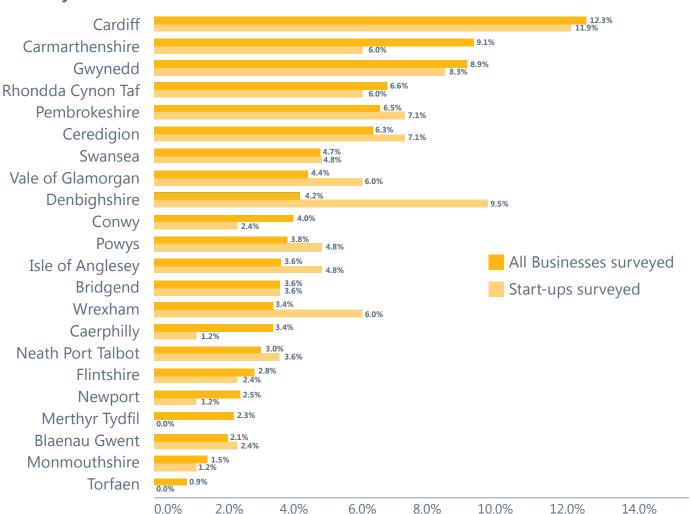


Figure 3.6: Percentage of all survey respondents and start-ups surveyed within each local authority

Source: Part 1 survey respondents (n=488)

We also examined the total number of social businesses identified in each local authority from 2016 through to 2020, drawing on the initial data-gathering exercise. Again, this suggests that growth in social business activity appears to have been concentrated in areas starting from a lower base. For example, social businesses in Newport grew by 51 per cent, despite the sector accounting for only 1.7 per cent of all businesses in the area (below the national average). Additionally, there was a 27 per cent growth in Wrexham, wherein only 1.9 per cent of businesses are social businesses. This might be explained by the high start-up activity found within the area (see previous chart), whilst it is also understood that Wrexham has a very active Enterprise Hub. Conversely, the opposite effect can be observed in the South Wales Valleys (which constituted the areas starting from the highest base), with the number of social businesses identified in Merthyr, Blaenau Gwent, and RCT below what was found in 2018. In Torfaen, 17 per cent of social businesses were no longer trading, which is well above the average (seven per cent). High death rates were also recorded in Blaenau Gwent (14 per cent), Conwy (13 per cent), Caerphilly (11 per cent), and Bridgend (10 per cent). This may reflect the long-term decline of members clubs, which is apparent across the whole of the UK. The Valleys are among the areas in which you are most likely to find a workingmen's club, but numbers have been declining consistently since the demise of heavy industry and because of changing leisurely habits.⁷ There is not much credence in the growth figures for the Vale of Glamorgan, given the addition of GVS contacts to this exercise.

⁷ https://www.walesonline.co.uk/news/wales-news/traditional-working-mens-clubs-declining-12146047

Table 3.2: Distribution of social businesses in 2016, 2018 and 2020

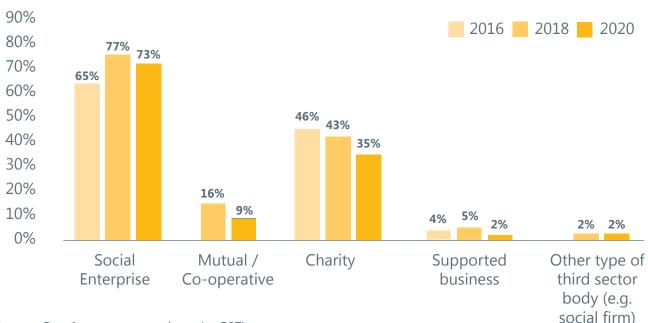
Local Authority	2016	2018	2020	Difference	% Increase
Vale of Glamorgan	28	41	217	176	429%
Cardiff	138	228	265	37	16%
Newport	32	51	76	25	49%
Swansea	148	135	158	23	17%
Wrexham	47	62	78	16	26%
Ceredigion	42	71	79	8	11%
Flintshire	28	65	70	5	8%
Monmouthshire	22	29	34	5	17%
Anglesey	47	56	60	4	7%
Caerphilly	68	99	98	-1	-1%
Conwy	48	76	78	2	3%
Denbighshire	50	71	72	1	1%
Bridgend	72	83	85	2	2%
Gwynedd	100	127	128	1	1%
Merthyr Tydfil	66	67	64	-3	-4%
Pembrokeshire	69	121	115	-6	-5%
Neath Port Talbot	93	79	73	-6	-8%
Rhondda Cynon Taf	142	162	155	-7	-4%
Carmarthenshire	202	174	164	-10	-6%
Blaenau Gwent	42	45	38	-7	-16%
Powys	69	110	100	-10	-9%
Torfaen	48	51	40	-11	-22%
Total identified	1,601	2,003	2,247	244	12%

Source: All identified social businesses where the local authority was identified (n=2,276), and all businesses in each local authority (IDBR)

3.2 Organisation type and leadership

Previous mapping exercises found an increase in the proportion of social businesses that identified as social enterprises, along with fewer businesses that considered themselves to be a charity, reflecting a trend towards a more commercial focus within the sector. Survey data suggests that the proportion identifying as social enterprises has been sustained, whilst the proportion that consider themselves to be a charity continues to fall.

Figure 3.7: Types of social businesses surveyed in 2016, 2018 and 2020 (overall sample)



Source: Part 1 survey respondents (n=507)

Whilst only two per cent selected the 'supported business' option, previous research has shown that many more businesses fit the supported business criteria than they realise. This is important because there are reserved opportunities for supported businesses incorporated within public procurement. Thus, two follow-up questions were asked for respondents not selecting this option to understand the true scale of supported business activity. Firstly, 23 per cent of respondents indicated that they understood the supported business concept; thus, it is assumed that these are not supported businesses. Secondly, where businesses were not aware of the concept, a full definition was outlined and respondents were asked again whether their operation met the criteria. Against this backdrop, the survey found that 11 per cent of social businesses can be classified as supported businesses, which is slightly down on the proportion reporting this in 2018 (15 per cent).

The legal status of social businesses has remained broadly the same as in previous exercises, with around half operating as companies limited by guarantee.

51% 53% Company Limited by guarantee (CLG) 51% Charitable Incorporated Organisation (CIO) / 32% Registered Charities 25% Community Interest Company (CIC) 19% 15% Industrial and Provident Society (IPS) -5% 2020 5% Community Benefit Society 2018 Industrial and Provident Society (IPS) – 2016 Co-operative Society 3% Company Limited by Shares (CLS) 2% 1% Unincorporated organisation 1% Sole proprietorship 0% 0% 10% 20% 30% 40% 50% 60%

Figure 3.8: Legal status of social businesses surveyed in 2016, 2018 and 2020 (overall sample)

Source: Part 1 survey respondents (n=507)

The survey also found that two per cent of social businesses were a trading arm of a charity, a further two per cent were part of a chain of social businesses, and one per cent were a subsidiary of a private sector organisation.

3.2.1 Leadership profile

With regard to the composition of the leadership team and the most senior employee, the data shows a fairly even gender balance and, thus, a much higher female representation than is typical within the private sector. For example, the latest Small Business Survey data (2019) found that only 15 per cent of SME employers were female-led.8 In Wales, 51 per cent of social businesses are led by women. The data in Wales also portrays a more diverse sector with respect to the gender balance than across the UK (wherein only 40 per cent were led by women, according to the 2019 SEUK report).

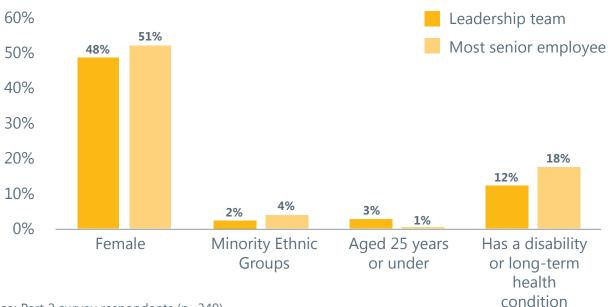
Only four per cent of businesses are led by ethnic minority communities, which is significantly below the 13 per cent found across the UK, although the different demographic composition of the population in Wales and the UK as a whole should be considered. Nevertheless, the 2011 Census revealed that, at the time, seven per cent of the population in Wales are not 'White Welsh/British'; thus, ethnic minority communities do appear to be underrepresented among social business leadership. There was some variance geographically, with eight per cent of businesses in Cardiff led by ethnic minority communities. However, even then, this is well below average (where almost 20 per cent of residents in Cardiff fall into groups other than 'White Welsh/British', according to the 2011 Census).

⁸ https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/889656/LSBS_2019_employers.pdf

The data also suggests that people living with a disability or long-term health condition are underrepresented within the sector's leadership. Despite accounting for 23 per cent of the population (according to the latest Census data), only 18 per cent of businesses are led by people with a disability or long-term health condition and only 12 per cent are represented within the leadership team as a whole.

Engaging young entrepreneurs appears to have been another challenge for social businesses in Wales, with only three per cent of the leadership team below the age of 25. This can be compared with seven per cent across the UK, according to the 2019 SEUK report. However, anecdotally, it is understood that this appears to be changing.

Figure 3.9: Percentage of businesses' senior leadership teams and the most senior employees that fall within different demographic groups



Source: Part 2 survey respondents (n=349)

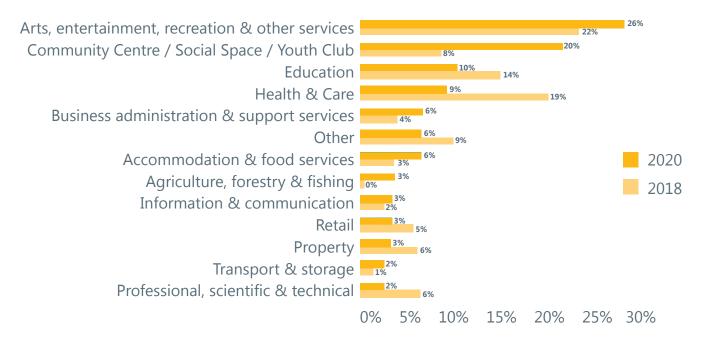
3.3 Operational sectors

The operational sector of social businesses was identified through a mix of self-classification and based on a description of their services. Figure 3.10 demonstrates the issues discussed in the Methodology with respect to the influence of COVID-19 upon the accessibility of different operational sectors for this research. The sectors that are more likely to have paused trading, such as arts and recreation, community centres, and accommodation, were easier to reach, whilst the more active sectors with regard to the pandemic response, e.g. health and care, were much more difficult to reach.

Nevertheless, the data (again) confirms the variability of the sector, with a wide range of activity cutting across many sectors of the economy. It confirms the importance of the sector within the foundational economy, with many providing services in, for example, education or health and care. Equally, it also shows that a large proportion of social businesses are smaller community groups or providers of arts and recreational activity, incorporating community arts organisations, heritage charities, sports clubs, governing bodies, leisure centre operators, providers of gymnastics and dance classes, and much more.

The description provided by businesses of their activity also demonstrates the synergies with the WBFGA. The community assets that facilitate activity and community groups have an important role in bringing communities together and creating a Wales of cohesive communities. What is more, there are several examples of organisations that aim to protect important community assets and services and bring them back into use. The health-and-care-focused and many education-focused businesses have an important role in creating a healthier and more equal Wales, e.g. by providing training for people with learning disabilities or through social care and mental health services. Others have a specific remit to promote their areas; for instance, one organisation aimed to promote shops on Bangor High Street through financial support and through projects such as street cleaning, thus aligning strongly with the ambition of creating a more prosperous Wales. There are several other examples of businesses also contributing towards this aim through activities such as employability support, whilst there are several important heritage organisations that are important in creating a Wales of vibrant culture and the economic opportunities that provides.

Figure 3.10: Operational sectors of social businesses surveyed in 2018 and 2020 (overall sample)



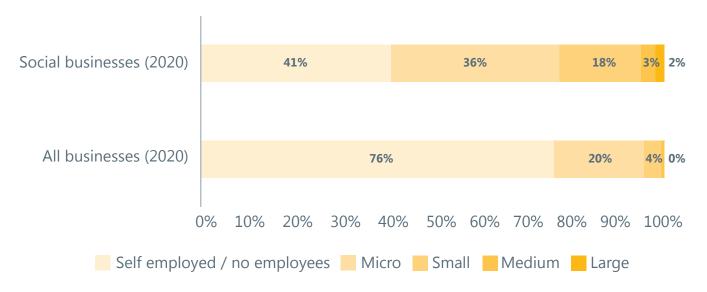
Source: Part 1 survey respondents (n=470)

3.4 Size of businesses

The duality of the sector, combining an above-average proportion of medium-sized to large organisations with a large proportion of very small organisations, is evidenced again in the survey. The data shows that five per cent of social businesses are medium-sized to large (i.e. have at least 50 employees), far above the equivalent for all businesses within the Welsh economy (only one per cent). Equally, 32 per cent of social businesses that we surveyed had no paid staff at all, whilst a further nine per cent only had one, perhaps reflecting the prevalence of start-ups but also indicative of all the very small community groups operating within the sector. It is important to note that this is higher than the proportion found in 2018, given the sampling issues discussed in the Methodology section; however, even then, 25 per cent of social businesses in 2018 did not have any paid staff.

The mean average size of businesses was that of 17 employees. In previous mapping exercises the mean average figure was used as a figure with which to generate a sector-wide estimate for all employees working within social businesses. Adopting the same approach, this would equate to up to 40,000 employees working within the sector, which is below the 58,000 identified in 2018. This is because the average size is well below what was found in 2018 (with 27 employees per business). However, an analysis of the matched sample reveals that businesses surveyed in 2018, representing 220 businesses or 43 per cent of our entire sample in 2020, had grown by 1.8 per cent on average. Additionally, the research found relatively little business closures and suggested, in fact, that there has been modest growth in the number of businesses operating within the sector. Accordingly, there is little evidence with which to suggest a decrease in the number of employees within the sector. The drop in the average size within the overall sample, which affects the calculations on the overall size of the sector, is likely explained by the impact of the pandemic and the types of businesses that we were able to survey. Thus, a different approach has been taken to estimate the size of the sector, drawing on a real increase from the matched sample (1.8 per cent on average) which is applied to the 2018 employment size figure. On that basis, we estimate that there are 56,000 employees working within the sector.

Figure 3.11: Employment bands within social business sector in Wales vs. all businesses (2020)



Source: Part 1 survey respondents (n=497)

⁹ This is based on the inclusion of employee data for seven RSLs who did not take part in the survey, but was sourced from their financial records (see Methodology section)

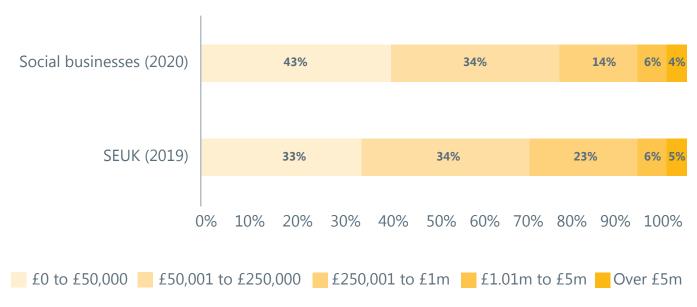
35% 2020 2018 2016 32% 30% 30% 28% 25% 25% 22% 20% 15% 15% 12% 10% 5% 3% 2% 0% 10 to 24 None 1 to 4 5 to 9 25 to 49 50 to 249 250 +

Figure 3.12: Social business employment bands in 2016, 2018 and 2020 (overall sample)

Source: Part 1 survey respondents (n=497)

Turnover data (again) shows the diverse nature of the sector with regard to greater concentrations of social businesses found at both ends of the scale. What is more, it shows that turnover bands are fairly consistent with social enterprises from across the UK.

Figure 3.13: Turnover bands within social business sector in Wales (2020) vs. social enterprises across the UK (2019)



Source: Part 1 survey respondents, excluding those who had not completed a financial year, 'rather not say', and 'don't know' (n=432)

The mean average turnover level was £1.25 million.¹⁰ This figure is largely driven by a small number of very large organisations who generate tens of millions each in turnover. If we assume that the turnover for businesses who have not been surveyed mirrors this average, we can estimate the total value generated by Welsh-domiciled social businesses. The analysis also includes adjustments for the addition of the water company Glas Cymru and the Principality Building Society (both of which are known 'outliers' with very high turnover), along with the RSLs as described in the Methodology section.

The total value of the sector, based on the estimated turnover of known and identifiable social businesses in Wales, is estimated to be £3.1–3.8 billion. These estimates of Welsh-domiciled social business activity do not account for the contribution made by other social businesses operating in Wales but headquartered elsewhere, such as the Co-operative Group and John Lewis & Partners. The contribution made by all social business activity in Wales is, therefore, even greater than what is shown here.

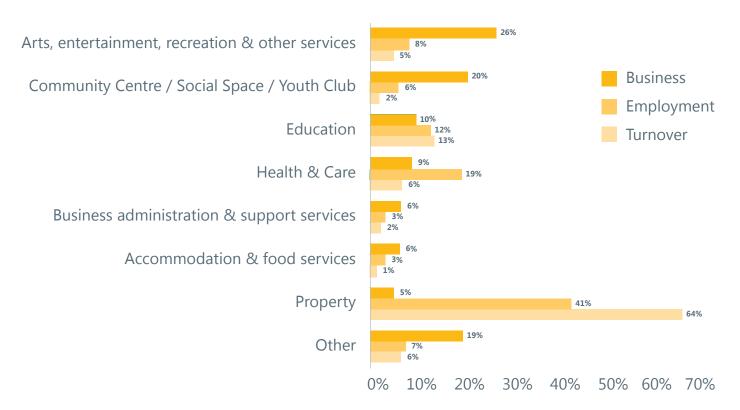
3.4.1 Size of operational sectors

An analysis of business size by operational sector further reveals the variability within the sector. The arts/recreation businesses and the community centres account for almost half of all businesses surveyed (46 per cent); however, they make up only 14 per cent of employees and six per cent of turnover generated by respondents. Conversely, the small number of 'property' sector employers (including RSLs) account for 64 per cent of all turnover generated by respondents and 41 per cent of employment, whilst health and care also accounts for disproportionately high levels of employment. Seventeen social businesses included in the aforementioned sector value estimate, only 0.7 per cent of the sector, account for 34 per cent of the total value generated by the sector.



This is based on the inclusion of turnover data for eight RSLs who did not take part in the survey, but was sourced from their financial records (see Methodology section).

Figure 3.14: Percentage of businesses, employment and turnover within each operational sector



Source: Part 1 survey respondents, excluding those who had not completed a financial year, 'rather not say', and 'don't know' (n=432)



Section 04 Social value and impacts





3 04 Social value and impacts

Social businesses are different from both classic private sector companies and traditional charities because they strike a balance between the two, looking to trade as any other business but also primarily existing to deliver on their social mission. Having discussed business and trading performance in the previous chapter, we now turn our attention to exploring their social value and impacts.

Section summary

- There has been an increasing focus on supporting communities and individuals that are socially or financially excluded
- Overall, businesses described more social objectives this year, which potentially demonstrates the sector's role in broadening their support to address the increasing social needs created by the pandemic
- Seventy-three per cent are aware of the WBFGA and most believe that it is having an impact on their business by, for example, informing their support offer, incorporated into their governance document or used within funding applications
- Fifty-four per cent are aware of the Social Services and Well-being Act and, again, the majority reported that it affects their business through, for example, forming part of their safeguarding policies and staff training
- Only 20 per cent are aware of the foundational economy
- Forty-four per cent measure their social impacts, although only 12 per cent use this to promote their business

- Sixty-eight per cent pay the Living
 Wage to all staff, which is slightly below the equivalent SEUK figure
- Thirty-six per cent employed people who were unemployed directly before taking up the post, highlighting the sector's role in supporting those furthest from the labour market
- Sixty-nine per cent of businesses' workforce live within 10 miles of their workplace, demonstrating the sector's role as local employers
- There appears to have been a drop in volunteering activity as a result of COVID-19 restrictions
- However, it is estimated that there are 36,000–47,500 volunteers within the sector in Wales

4.1 Social objectives

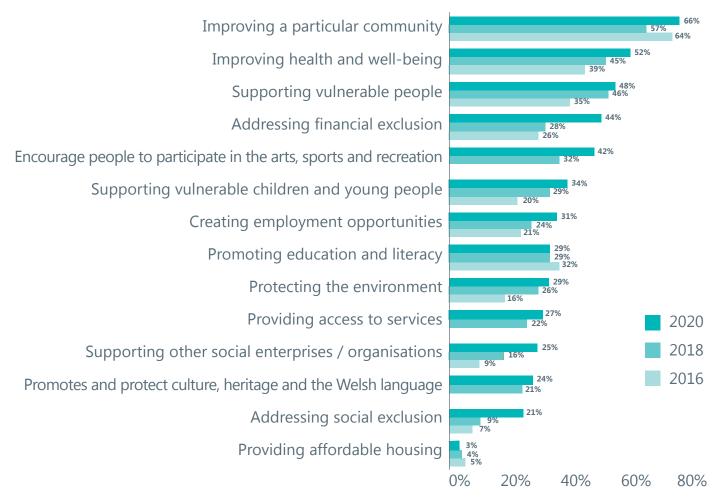
4.1.1 Overview of social objectives

The data shows a very similar pattern to that of the priorities outlined by businesses in previous exercises. A desire to improve a particular community remains the top priority for businesses, followed by improving health/well-being and supporting vulnerable people. Support with respect to social exclusion and financial exclusion appears to be much higher this year, which is likely to reflect some of the needs presented by the pandemic, during which lockdowns will naturally isolate people and lead to financial concerns.

There is also an increase in the proportion of businesses encouraging people to participate in the arts, sport and recreation, although this is likely to reflect the higher proportion of that operational sector within the sample.

Overall, businesses described more social objectives this year than they had in previous exercises – on average, businesses described a fit with five social/environmental objectives in 2020 in comparison to four each in 2018. This is perhaps indicative of the increasing social needs created by the pandemic, with more businesses deciding to focus on areas such as social and financial exclusion; for example, anecdotally, there have been many examples of social businesses providing a foodbank-type service. This is further evidence of the sector's responsiveness to the pandemic and the role that it has had in attempting to mitigate some of the harmful social and economic impacts.

Figure 4.1: Main social or environmental objectives (as identified by organisations) – comparison between 2016, 2018 and 2020



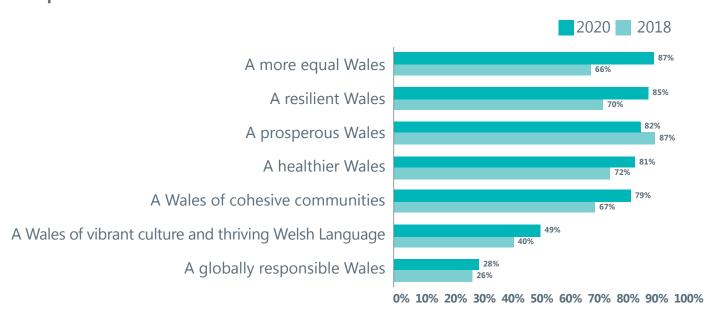
Source: Part 2 survey respondents (n=363)

4.1.2 Synergies with Well-being of Future Generations Act and other policy areas

The WBFGA represents a recent key piece of legislation in Wales which will have a bearing on the opportunities created for social businesses for years to come. The purpose of the Act is to improve the social, cultural, environmental and economic well-being of Wales through the legal obligation placed upon public authorities to operate in accordance with the principles of the Act. The Act includes seven well-being goals which have been cross-referenced against the social objectives described above. The analysis suggests that most social businesses' core purpose leads them to work towards five of the seven well-being goals, including a more resilient, prosperous, equal, healthy Wales and a Wales of cohesive communities.

There has been greater synergy with social aims linked to creating a more equal, resilient and healthier Wales this year in comparison to the last exercise, but slightly less of a focus on creating a more prosperous Wales. All of these are consistent with the changing needs created by the pandemic, with less emphasis on prospering and more on maintaining health and living standards.

Figure 4.2: Main social or environmental objectives (as identified by organisations) – comparison between 2018 and 2020



Source: Part 2 survey respondents (n=363)

The vast majority of businesses (73 per cent) are aware of the WBFGA and 87 per cent of those who are aware indicated in an open-ended question that the Act is having an impact on their business. Thematic coding of these responses reveals that the main impacts can be categorised as follows:

- Twenty-six per cent reported that it influences their activity, e.g. using the Act to plan future projects, guide their activity, and support services, and is incorporated within their business plan
- Twenty-one per cent reported that it is incorporated with their governance and policy documents and guides their strategic aims
- Sixteen per cent reported that it is an important reference point within funding applications
- Seven per cent indicated that it is an important lobbying tool with which to make the case for why their services need funding and to market their activity
- Four per cent reported that it is used as a basis upon which to measure their impact

Examples of the comments made are shown below to demonstrate this sentiment:



The Well-being of Future Generations Act is included in our policies and we use it a great deal when we do grant applications. Since the Act we have more of a focus on health and well-being in our activities."



The Well-being of Future Generations
Act is vital to our advocacy services, as
it gives us the legal authority to
pressure local authorities to provide
services for the people we support."



It's the hub of everything we do and feed into, all the initiatives and workshops we do, and all funding we get through the Arts Council feeds off that Act."



We use the Well-being of Future Generations Act when planning our future projects and considering their impact on the community."

Additionally, 54 per cent of all respondents to Part 2 of the survey were aware of the Social Services and Well-being Act. Where businesses were aware of the Act, 81 per cent reported that it had an impact on them, with some of the same themes expressed, although this Act was also important in many businesses' safeguarding policies and training provided to employees:

- Twenty-one per cent reported that it is central to the work that they undertake
- Nineteen per cent reported that it is incorporated within their governance and policy documents
- Nine per cent explained that they are legally obliged to adhere to the Act
- Nine per cent explained that it formed part of their safeguarding policies
- Eight per cent reported that it informed their staff-training programme
- Seven per cent explained that it could be used for lobbying/marketing purposes



The Social Services and Well-being Act is central to all of our care activities and all of our staff are trained in the safeguarding elements of the Act."



We work with older people and the Social Services and Well-being Act is a key part of our safeguarding training for staff. We also use the Act in our advocacy services for older people when it comes to heating their homes."

The third and final policy area tested in the survey was the foundational economy, of which only 20 per cent were aware. This suggests that further work is required in order to raise awareness of the concept and how it can be used by social businesses to access opportunities. Where businesses were aware, 65 per cent reported an impact, with 44 per cent explaining that it had formed part of their business proposals or that they had delivered projects funded under the foundational economy agenda:



We have used the foundational economy in our business proposal to the local authority and will be delivering a project for them in the future."

4.1.3 Measuring social impacts

Forty-four per cent of respondents indicated that they do measure their social impacts. However, of those, only 12 per cent reported that they use this to promote their business.

4.2 Profit destinations

The key difference between a mainstream and a social business is that any surpluses made by the latter are principally reinvested in the business or the community, rather than being driven by the need to maximise profit for shareholders and owners. Figure 4.3 shows that 93 per cent of respondents reinvest their profits into their business and 23 per cent put them towards their community or social/environmental objective. These findings are very similar to what was reported in 2018 and 2016, albeit with a slight shift towards investing in the business over investing in their social aims, likely because of the uncertainty surrounding their finances caused by the pandemic.

It is important to note that very few businesses within the sample are employee-owned or membership-based. Thus, the other options shown in Figure 4.3 are not relevant to the vast majority of respondents.

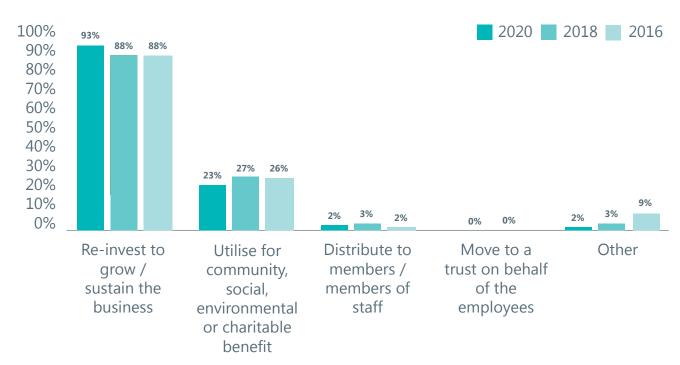


Figure 4.3: What do you do with any surplus/profit that you generate? Comparison between 2016, 2018 and 2020

Source: Part 2 survey respondents (n=362)

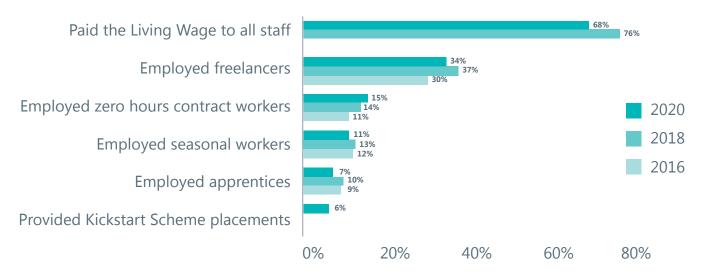
4.3 Business practices

Part of the social value that the sector is perceived to have lies in its role as fair employers, offering a fair wage and conditions. The survey found that 36 per cent of employers who had taken on new employees in the last 12 months reported that these included individuals who were unemployed immediately before taking up the post, demonstrating the sector's role in providing employment opportunities for individuals who are further away from the labour market. Furthermore, the data suggests that social businesses are good local employers, with 69 per cent of businesses' workforce living within 10 miles of their workplace, up from 57 per cent in 2018.

Additionally, it was found that 68 per cent of social businesses pay the Living Wage¹¹ to all staff, which is slightly below the equivalent SEUK figure in 2019 (76 per cent) and what we found in 2018 (also 76 per cent). This is potentially due to the differences in sampling, with a higher group of smaller businesses in this exercise.

 $^{^{11}}$ At the time of the survey, the UK rate (as defined by the Living Wage Foundation) was £9.30 per hour.

Figure 4.4: Individuals employed over the last 12 months – comparison between 2016, 2018 and 2020



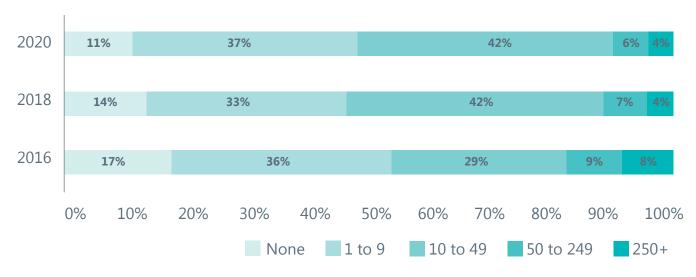
Source: Part 2 survey respondents who have employees (n=248)

4.3.1 Volunteering

Social businesses are also known to provide opportunities for people through volunteering, although there does appear to have been a drop as a result of the pandemic. The survey found that 52 per cent reported that at least some volunteers were unable to work during the pandemic in comparison to only 11 per cent stating that there was greater volunteering activity (which is discussed in greater detail in section 5.2).

The matched sample analysis reveals that there has been a drop in volunteers among 131 businesses completing the survey in 2016, 2018 and 2020. Up to 2018, these businesses had 24 volunteers each on average; however, this decreased to an average of 21 volunteers in 2020.

Figure 4.5: Number of volunteers in 2014, 2016 and 2018 (matched sample)



Source: Matched samples (n=131)

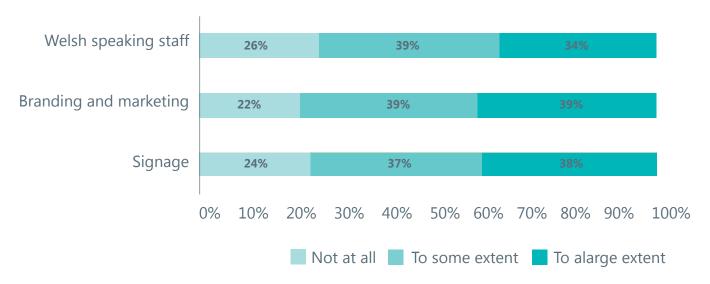
In total, 89 per cent of social businesses offered volunteering opportunities in 2020, which is, in fact, an increase on 2018 (86 per cent) and 2016 (83 per cent). However, the scale of volunteering within those organisations has decreased, with an average of 20 volunteers recorded in 2020 in comparison to 29 in 2018 and 34 in 2016.

On the basis of this data, there are an estimated 36,000–47,500 volunteers within the social business sector in Wales.

4.3.2 Welsh language

The survey also explored, for the first time, business practices with regard to the Welsh language, revealing that the vast majority do provide essential services in Welsh (at least to some extent). However, there were a relatively small group of employers (15 per cent) who did not offer any Welsh language provision at all with respect to staff, signage or marketing.

Figure 4.6: Business services offered in Welsh and English



Source: Part 2 survey respondents (n=363)



Section 05 **Business practices, trading performance, and COVID-19**

5

3 05 Business practices, trading performance, and COVID-19

This section examines trading performance, current and desirable markets, the impact of COVID-19 and the response to it, as well as business capabilities and achievements.

Section summary

- There was a consistent rate of growth from 2016 through to 2019, before levelling off up to when the respondents were surveyed at the end of 2020/the beginning of 2021 (when the pandemic was having its effect on the economy)
- COVID-19 has had a significant impact on the sector, with 63 per cent forced to pause trading, 69 per cent reporting a lower-thanexpected turnover, and 38 per cent citing a risk to their reserves – the data appears to suggest a greater adverse impact on the social business sector than on the economy as a whole.
- Several measures have been taken, such as providing remote support and/or developing their online market, and there has been significant uptake of various funding and governmental support
- Businesses have focused on maintaining their operations (rather than on seeking to diversify their markets)
- Forty-five per cent of social businesses
 perceived COVID-19 to be a large or critical
 threat to their financial viability over the next
 12 months (at the time of the survey),
 demonstrating an ongoing risk

- The commercial focus of social businesses found in the previous mapping exercise has been sustained in 2020, with 64 per cent generating at least half of their income through trade
- Trading with the general public has consistently been the main income source for social businesses since 2016, replacing grant funding as the primary income source
- There appears to have been a slight drop in trade with the public sector; however, the data shows that the vast majority of businesses not currently trading with the sector wish to do so
- Businesses were least proficient in procurement, followed by accessing external finance, marketing, and online marketing/sales
- There is extensive collaboration within the sector, with 67 per cent engaged in sectoral networking, 57 per cent in peer-to-peer support, and 42 per cent of those undertaking public procurement having entered joint bidding arrangements

5.1 Business growth

A matched analysis of the 136 businesses completing our survey in 2016 through to 2020 suggests modest growth within existing businesses over the last two years. The mean average employees within these businesses in 2016 stood at 7.6, increasing to 8.1 in 2018 and increasing again, albeit at a slower rate, to 8.4 in 2020. Part 2 of the survey also included a question on the number of people employed 12 months ago, allowing us to track changes in employment from 2016 to 2018, 2019 and 2020 for 88 respondents who completed Part 2 and were able to respond to each of these questions. This analysis showed a mean average of 7.9 employees in 2016, increasing to 8.8 in 2018, before rising at a similar rate to 9.3 in 2019, with the growth then slowing and there being an average of 9.5 employees recorded in 2020.

Furthermore, examining the overall sample, the proportion of businesses reporting a change between their employment level at present and 12 months ago split equally between 20 per cent reporting an increase, 20 per cent reporting a decrease, and the remainder (60 per cent) reporting no change. Overall, there was a very slight increase of 0.1 employees from 2019 to 2020. In the last mapping exercise (2018), we found much more notable growth over the preceding 12 months, with 33 per cent reporting an increase in employees in comparison to only 17 per cent showing a decrease, and social businesses had grown by 0.8 employees on average.

Taken together, these data show a consistent rate of growth from 2016 through to 2019, before levelling off up to when the respondents were surveyed at the end of 2020/the beginning of 2021 (when the pandemic was having its effect on the economy).

Table 4.1 shows a similar trend within the turnover data, too. The matched sample analysis reveals that the growth from 2018–2020 was less than half of the level of growth from 2016–2018. (We did not collect turnover data for 2019; therefore, we cannot isolate change during the year of the pandemic.)

Table 4.1: Matched sample analysis: change in employment and turnover from 2016 to 2020

	Employment		Turnover	
		Change from 2018 to 2020 (n=131)		Change from 2018 to 2020 (n=116)
Decrease	28%	27%	33%	39%
Stay the same	39%	40%	0%	6%
Increase	33%	34%	67%	55%
Average	0.5	0.2	£78,691.50	£31,045.10

Source: Matched analysis (n-value shown in table)

5.2 COVID-19

COVID-19 has had a major impact on most aspects of the economy. The data from this research shows that the impact extends to the social business sector.

In total, 63 per cent of social businesses had paused trading at some point during the pandemic. There was some variance across the different operational sectors, with, for example, many more arts/recreation groups pausing than organisations within health and care; however, most businesses in every sector had paused trading at some point.

90% 82% 80% 71% 69% 70% 63% 60% 56% 50% 40% 30% 20% 10% 0% Overall Education Health & Arts. Community entertainment, Centre / Care

Figure 5.1: Percentage of social businesses indicating that they had paused trading, by sector

Source: Part 2 survey respondents (n=363)

Additionally, 69 per cent of businesses reported that their turnover was down on what they would normally expect during the same period, including 38 per cent reporting that their turnover was down by more than half of what they would expect. Only six per cent reported that their turnover was higher than usual expectations.

Social Space / Youty Club

recreation

It is difficult to compare how social businesses have been affected by COVID-19 in comparison to the economy at large, as Office for National Statistics (ONS) surveys such as the Business Insights and Conditions Survey (BICS) ask slightly different questions. However, some comparisons can be made and these suggest that the social business sector in Wales has been more adversely affected. For example, the BICS did ask a similar question on the impact on businesses' turnover in its biweekly survey. The data presented in Figure 5.2 (below) reveals the BICS results in the final survey conducted in each month in which the SBW survey was conducted. It shows a substantially higher proportion of social businesses reporting decreases of their turnover than for the economy as a whole. Moreover, the proportion reporting a decrease of more than 50 per cent was also much higher among social businesses, ranging from 34 per cent to 55 per cent each month for social businesses in Wales, and from only 12 per cent to 14 per cent for UK businesses. It should be noted, however, that the BICS data was not available at a Wales level; thus, it is not an exact comparison. Nevertheless, it provides some indication that social businesses may have been more adversely affected.

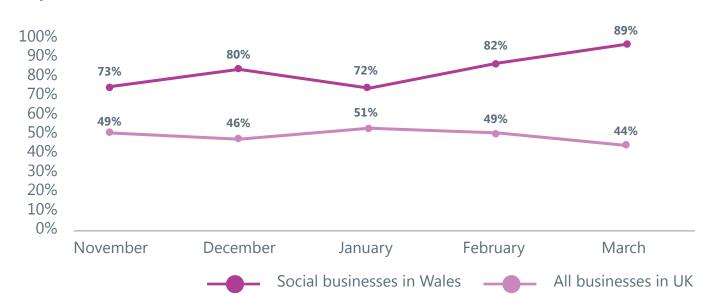


Figure 5.2: Percentage of social businesses in Wales reporting a decrease in turnover in comparison with UK businesses

Source: Part 2 survey respondents from November to March (n=303) and businesses surveyed in the BICS during the same time period; these data exclude 'don't know' responses

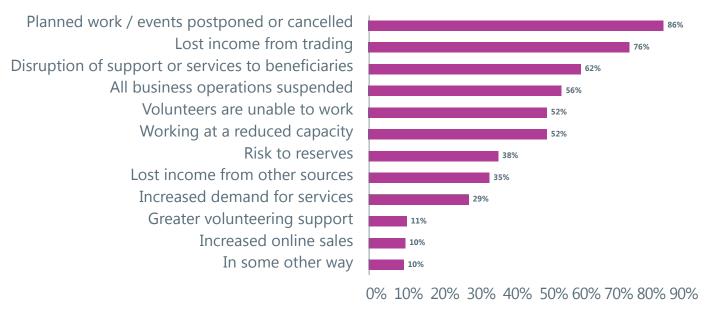
A further, more detailed question was asked on the different ways in which businesses had been affected by COVID-19, which is shown in Figure 5.3 below. The vast majority of businesses experienced planned work and/or events that were postponed or cancelled, whilst 38 per cent reported a risk to their reserves, which may pose a risk to the sustainability of their organisation in the longer term.

The data also provides insights into the important role that the sector has had in combatting the pandemic, with 29 per cent reporting an increased demand for their services (including 41 per cent of health and care organisations reporting this). However, this increased demand, combined with volunteers' inability to work within pandemic-related restrictions (as reported by 52 per cent), resulted in a reduced operational capacity for 52 per cent of businesses.

A similar question was posed to the social enterprise sector in Scotland in August 2020, revealing comparable results. The results do suggest, however, that the sector in Wales may have had a more active role in the response, with more reporting an increased demand (29 per cent vs. 13 per cent in Scotland) and more reporting reduced capacity (52 per cent vs. 34 per cent in Scotland).

Again, there were some sectoral differences, although the adverse impacts far outweighed any opportunities for even the most active sectors during the pandemic; for instance, even within health and care, 68 per cent of social businesses reported lost income from trading.

Figure 5.3: COVID-19 impact on social businesses



Source: Part 2 survey respondents (n=363)

Several measures have been taken by social businesses to adjust their services and alleviate some of the pressures caused by the pandemic. Half of the businesses adjusted their offer to provide remote support, whilst the respondents were split almost equally between those who made other adjustments to their services and those who continued as usual but with social distancing, whilst around one fifth focused on developing their online market. Businesses in Scotland were less likely to have provided support remotely (43 per cent vs. 50 per cent in Wales) and adapted their services in other ways (31 per cent vs. 46 per cent in Wales), again suggesting a more active role among the social business sector in Wales with regard to the pandemic response.

There was significant uptake of various funding and governmental support, with almost half accessing Welsh Government grants. Social businesses appear to have made greater use of governmental loans. The BICS conducted up to 18 April 2021 showed that 35 per cent of UK businesses had received government-backed loans or financial agreements (excluding 'don't know' responses). Again, this is consistent with other findings suggesting that social businesses have been more adversely affected by the pandemic and, thus, required greater support.

The Furlough Scheme has also provided vital support, with 37 per cent of social businesses using the scheme, whilst the data also shows that 24 per cent of all employees had been placed on furlough, whereby demonstrating the scale of uptake. This is, however, slightly below the equivalent for all Welsh employees. Based on claims made by 14 April, the ONS reveals that 466,300 in Wales had been placed on furlough.¹³ This is equivalent to 32 per cent of all people in employment as of 31 December 2020.¹⁴

There were substantial sectoral differences, with health and care (85 per cent) and education (71 per cent) much more likely to provide remote support, whilst only 40 per cent of arts/recreation and community centres did so. Additionally, 71 per cent of health and care organisations reported that they had continued to operate as normal in comparison with only 30–40 per cent of other sectors reporting this. The proportion of employees placed on furlough also ranged from 12 per cent within education to 66 per cent within arts and recreation.

¹³ https://www.gov.uk/government/statistics/coronavirus-job-retention-scheme-statistics-6-may-2021

¹⁴ https://statswales.gov.wales/Catalogue/Business-Economy-and-Labour-Market/People-and-Work/Employment/Persons-Employed/peopleinemployment-by-area-occupation

Provided support remotely over the phone or using digital tools Received Welsh Government grants 49% Adapted current services to meet beneficiaries' Continued operating as usual with social distancing measures in place Furloughed staff Developed new services / products to diversify income streams Developed / improved existing online marketing Accessed financial initiatives e.g. Commercial rent 18% freeze, Business rates holiday Developed / improved existing online e-commerce **17**% platform Received funding from the Third Sector Resilience Fund Received UK Government backed accredited loans or finance agreements Made staff redundant Received other funding support Something else 0% 10% 20% 30% 40% 50% 60%

Figure 5.4: Measures taken by social businesses in response to the pandemic

Source: Part 2 survey respondents (n=363)

Positively, only six per cent reported that they had made staff redundant, with the total number reported in the survey accounting for two per cent of all employees. It should be noted that, although there is no data that can be used to make a direct comparison between social businesses and the economy at large, the Federation of Small Businesses (FSB) found that one in five firms reduced headcounts in the three months leading to December. Additionally, the Labour Force Survey suggests that redundancies peaked in Wales in the quarter leading up to November 2020, with an estimated 16,000 redundancies. (Prior to the pandemic, the level had not been higher than 10,000 since the quarter leading to March 2016. However, social businesses appear to have been able to use the Furlough Scheme and other support to avoid further losses.

¹⁵ At least 250,000 UK small businesses set to fold without further help, new study warns | FSB, The Federation of Small Businesses.

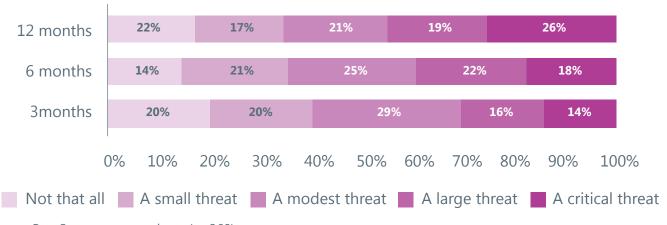
¹⁶ https://gov.wales/sites/default/files/statistics-and-research/2021-01/key-economic-statistics-january-2021-402.pdf



More concerningly, at the time of the survey, 31 per cent perceived the pandemic to be a large or critical threat to their business' financial viability over the next three months. A different but similar question was asked in the BICS, wherein 89 per cent of businesses stated that they had high (48 per cent) or moderate (41 per cent) confidence that they would survive the next three months, whilst 11 per cent had low (eight per cent) or no (two per cent) confidence (excluding 'don't know' responses). Thus, it appears that social businesses are more likely to perceive an immediate threat from the pandemic with regard to their viability.

We also asked about sentiment over longer time periods, which showed even greater concern over a six-month period (with 40 per cent citing a large or critical threat) and greater still over a 12-month period (45 per cent). This does not appear to have changed substantially over the five-month period in which the survey was open, with respondents in November and December generally just as likely to express this concern as those responding from February to April.

Figure 5.5: Threat from COVID-19 to businesses' financial viability over 3-, 6- and 12-month periods



Source: Part 2 survey respondents (n=360)

The cause of this concern is likely to be based on fears surrounding a new wave of the pandemic and an end to the governmental support, particularly the Furlough Scheme (which is now due to end in September 2021). It may also be explained by the damage already caused to businesses' sustainability, with 38 per cent expressing a risk to their reserves (as outlined previously). A crosstabulation of respondents expressing this risk to their reserves (with their stated threat levels over the three-, six- and 12-month periods) does show a correlation (see Figure 5.6 below).

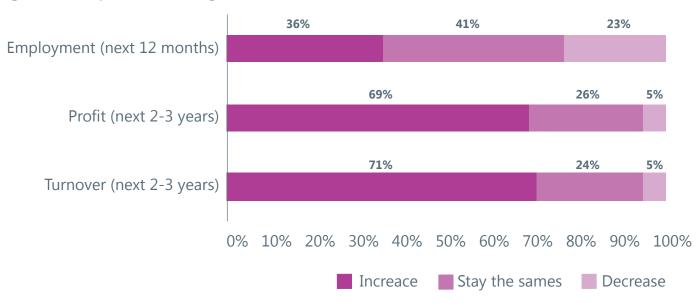
Figure 5.6: Proportion of businesses reporting a large or critical threat to their financial viability overall vs. businesses reporting a risk to their reserves



Source: Part 2 survey respondents who reported a risk to their reserves (n=134)

Looking further ahead, the vast majority of businesses did expect their turnover and profit to increase over the next 2–3 years. This is strikingly similar to the proportion expressing growth optimism in the previous study, with 72 per cent of those interviewed in 2018 expecting their turnover to increase over 2–3 years, and 67 per cent expecting the same for their profit. Whilst businesses are more positive about their longer-term prospects, we should potentially expect to see higher optimism levels than those found in previous exercises, given that the economy is entering a period of recovery.

Figure 5.7: Expectations for growth



Source: Part 2 survey respondents (n=363)

In conclusion, the pandemic is perceived to have had a significant impact on the sector, with the vast majority having to pause trading and experiencing a loss of work and income. However, businesses have utilised the various support provisions, primarily the Furlough Scheme and Welsh Government grant support, and (through them) have been able to largely maintain their staff and turnover levels. The effect of the pandemic appears to have been that of stalling business growth, as opposed to resulting in decline. There are, however, concerns surrounding businesses' financial viability and potential warning signs with regard to the risk to reserves (as highlighted by a large proportion of businesses). For context, this risk to reserves was also reported by a large proportion in the Social Enterprise Scotland report, with 45 per cent reporting a 'long-term risk to charity reserves' and 41 per cent reporting a short-term risk in comparison to 38 per cent reporting a risk to reserves in Wales.

5.3 Trading patterns

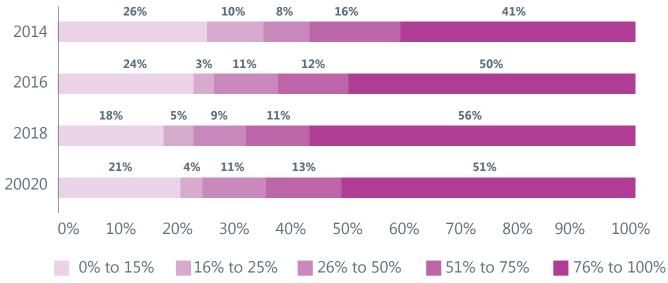
The 2018 mapping exercise found that the sector in Wales was becoming more mature and commercially focused, as demonstrated in the proportion of income generated through trading activity, i.e. income generated by the goods or services that they offer as opposed to the receipt of grants or donations. This commercial focus is what differentiates social businesses from other third sector organisations.

The data in this survey, as shown in Figure 5.8 below, reveals a similarly high level of trading activity, with 64 per cent generating at least half of their income through trade in comparison to 67 per cent in 2018. Although this is slightly down on the previous exercise, this might be explained by the smaller businesses within the sample in comparison to those in previous years. Moreover, it may be linked to the increased use of grants in response to the pandemic.

Figure 5.8: Percentage of income generated from trading activities in 2014, 2016 and 2018 (overall sample)

26% 10% 8% 16% 41%

2014



Source: Part 2 survey respondents (n=357)

The matched sample analysis confirms this pattern, with only a small increase between 2016 and 2018 with regard to the proportion of income generated through trading, whilst this was exactly the same in 2018 and 2020.

5.3.1 Source of income

The previous mapping exercise found a trend of businesses generating their income through a greater diversity of income sources, suggesting a broadening of trading activity. This has been maintained in 2020, with similar proportions generating trade through the different income sources listed in Figure 5.9. Furthermore, the data suggests that the commercial focus of social businesses has been maintained through to 2020, with there being a significant shift in the sector since 2014 (when grant funding was the main income source). Since 2016, trading with the general public has consistently been the main income source for social businesses.

Trade with the public sector was substantially higher in 2018 than in 2016 and, again, it is higher this year than what we found in 2016, albeit below the level found in 2018. The level of trade with the public sector is well below what was reported in the 2019 SEUK report (32 per cent in Wales vs. 47 per cent across the UK). Interestingly, the proportion reporting this across the UK was also down on what was reported in the 2017 SEUK report (54 per cent), suggesting that there may have been fewer procurement opportunities for social businesses at a UK level over the last two years.

64% 63% Trading with the general public Grants from the government/local authority 49% / public sector Other grants 39% 32% 2020 40% Trading with the public sector 23% 2018 33% **Donations** 24% 2016 Trading with third sector organisations 32% 25% Trading with the private sector 17% Trading with other social businesses 22% 10% 20% 30% 40% 50% 60% 70%

Figure 5.9: Sources of income in 2016, 2018 and 2020 (overall sample)

Source: Part 1 survey respondents (n=496)

The matched analysis reveals a similar pattern to that observed in the previous chart. It shows that 41 per cent trade with the public sector, up on the 28 per cent doing so in 2016, albeit slightly down on 2018. Furthermore, there has been an increase in accessing governmental grants, which is to be expected when considering the plethora of financial support provisions made available in order to support businesses through the pandemic.

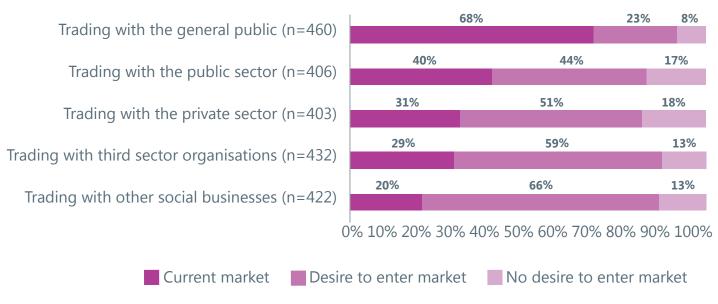
Trading with the general public 48% 45% Grants from the government/local authority / public sector 46% Other grants Trading with the public sector 28% 30% Trading with third sector organisations 41% 2020 Trading with the private sector 2018 31% 35% 2016 **Donations** 26% 30% Trading with other social businesses Other 10% 20% 30% 40% 50% 60% 70% 80% 0%

Figure 5.10: Sources of income in 2016, 2018 and 2020 (matched sample)

Source: Matched sample (n=101)

For the first time, businesses who did not generate income through those different sources were asked whether they would like to enter those markets in the future. Figure 5.11 reveals that there is a desire among social businesses to enter those markets within which they do not currently trade. The analysis suggests that 83 per cent of social businesses either currently trade with the public sector or would like to enter that market, suggesting that there is sufficient demand for policymakers to use procurement to support the growth of the social business sector.

Figure 5.11: Current and desired markets

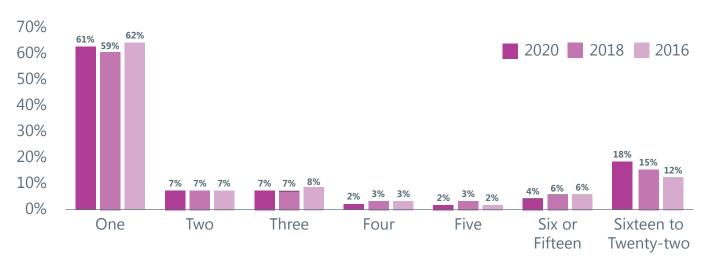


Source: Part 1 survey respondents where they provided an answer (n-value shown in chart)

5.3.2 Geographical markets

Respondents were asked how many local authorities in Wales their organisation delivers services/products to, in order to identify the extent of the geographical market served. The data suggests that there has been little change in the geographical reach of social businesses since 2016, with most (61 per cent) operating in only the one local authority, while 18 per cent operate in almost all local authorities in Wales.

Figure 5.12: Number of Welsh local authorities operated in – comparison between 2016, 2018 and 2020 (overall sample)



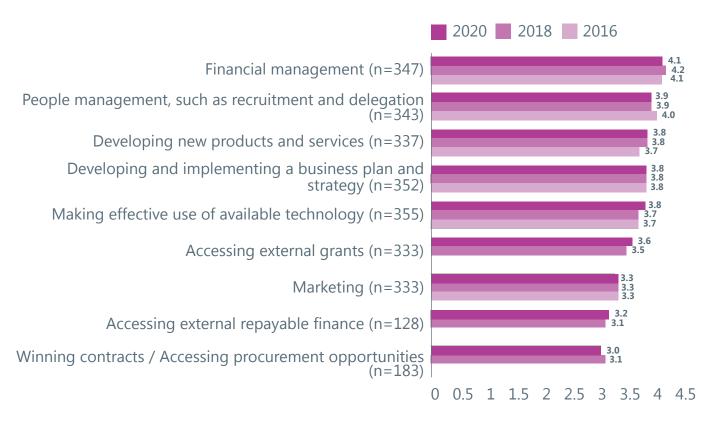
Source: Part 1 survey respondents (n=502)

Fourteen per cent reported that they trade with other areas in the UK, which is similar to what was found in previous exercises (16 per cent in 2018 and 13 per cent in 2016). There has not been much evidence of change in the proportion reporting that they export since 2016 either, accounting for only five per cent in 2020, which is only marginally different from the eight per cent found in 2018 and four per cent in 2016. This appears to be well below the UK average, with 13 per cent reported to be exporting in the 2017 SEUK report (no figure for this was provided in the 2019 report), whilst 28 per cent of social enterprises in London are exporters.

5.4 Business capabilities

Survey respondents were asked to rate their own business capabilities over a range of different business practices on a scale of 1 to 5 (where 1 is rated as very poor and 5 as very strong). The mean score provided for each of these areas is shown in the chart below and reveals that self-reported business capabilities are generally consistent with those in previous years.

Figure 5.13: Mean average scores for business capabilities on a scale of 1 to 5 (where 1 is rated very poor and 5 very strong) – comparison between 2016, 2018 and 2020



Source: Part 2 survey respondents, excluding 'don't know' and 'not applicable' (n-value shown in chart)

Two new business capability areas were also considered in this survey, i.e. online sales and marketing, whilst we also examined the proportion of businesses providing a high score for themselves (i.e. 4 or 5 out of 5) with regard to these different capabilities.

Again, the data shows most confidence in areas such as financial and people management, with more than 70 per cent scoring these highly, whilst businesses were least proficient in procurement (with only 35 per cent providing a high score). This lack of knowhow may explain why many of the businesses who would like to trade with the public sector have yet to do so, and represents a clear skill shortage within the sector.

Additionally, businesses felt less capable of accessing repayable finance in comparison to grant finance. Up until the pandemic, there had been an emphasis on providing more repayable finance options in an attempt to discourage grant dependence. Should this pattern continue when the pandemic-related support ends, this lack of capability with regard to accessing repayable finance may represent a barrier for the sector. What is more, it is worth noting that much less than half of those asked this question provided a score for accessing repayable finance, with the majority citing that it was not applicable to their business.



Finally, the data shows that marketing continues to be one of the least proficient areas, whilst businesses were even less proficient in online marketing and sales. With the digital market becoming increasingly important within the economy, and the pandemic accelerating consumer trends towards this direction, the lack of knowhow within this area represents another clear skills gap.

Figure 5.14: Mean average scores for business capabilities and % scoring themselves a 4 or 5 on a scale of 1 to 5 (where 1 is rated very poor and 5 very strong)



Source: Part 2 survey respondents, excluding 'don't know' and 'not applicable'

5.5 Achievements

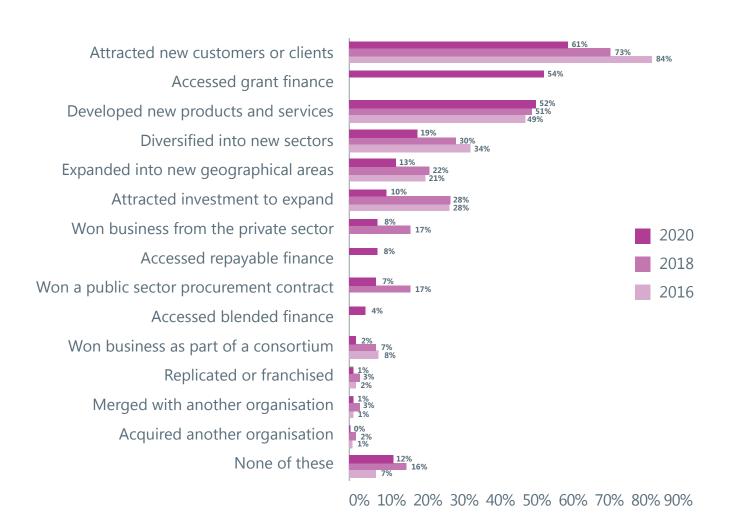
5.5.1 Overview of achievements

Respondents were asked about a range of indicators relating to the development of their business and whether they had achieved any of those listed.

The data appears to be illustrative of the current climate, wherein businesses have focused on maintaining their operations and have not sought to diversify – the proportion diversifying into new sectors and/or expanding geographically is down on previous years. It suggests that because businesses have been able to access grant support to help them through the pandemic, they have not been forced to diversify.

There is a sharp decline in the proportion looking to expand, in comparison to previous years, and fewer have attracted new customers, both of which are unsurprising when considering the current context.

Figure 5.15: Thinking about the last 12 months, has your organisation [...]? Comparison between 2016, 2018 and 2020¹⁷



Source: Part 2 survey respondents (n=363)

¹⁷ Access grant and repayable finance are new categories in the survey.

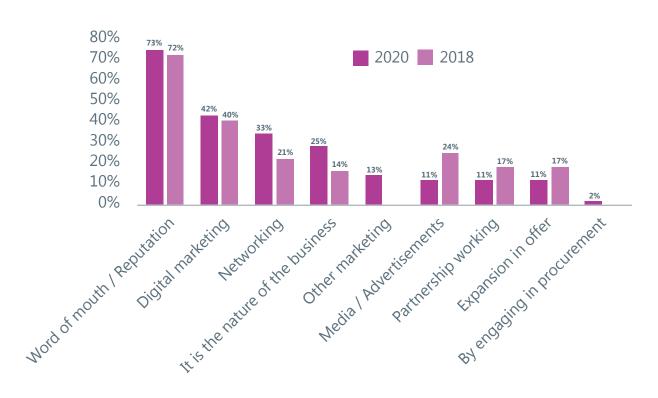
5.5.2 Developing new markets

New customers

Despite fewer reporting this than in previous years, the main achievement cited by respondents was that of attracting new customers.

Figure 5.16 shows how these businesses stated that they had attracted new customers, highlighting the importance of word of mouth and businesses' reputation as a means by which to do so. Networking appears to have been a more important avenue for attracting new customers in 2020, whilst there appears to have been less use of media/advertisements, potentially due to a tightening of resources as a result of the pandemic. There is no significant change within digital marketing, which is surprising when considering the increased emphasis on it over the past year, perhaps again illustrating the skill shortage in this area.

Figure 5.16: Methods of attracting new customers or clients



Source: Part 2 survey respondents who had attracted new customers/clients (n=218)

Areas of expansion

Only 13 per cent had expanded into new geographical areas. This primarily involved accessing markets in new local authorities in Wales, with 74 per cent of those expanding into new areas reporting this. A further 41 per cent had expanded into other areas elsewhere in the UK, along with 11 per cent into new areas in the EU and 13 per cent into new areas elsewhere in the world.

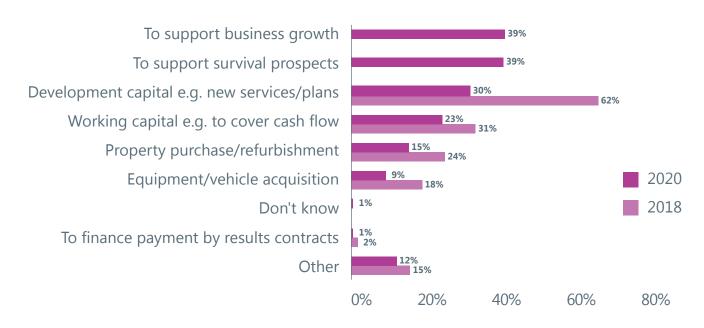
5.5.3 Accessing finance and innovation

The data reveals that access to grant finance was, by far, the preferred option over the last 12 months, with 54 per cent accessing this in comparison with only eight per cent accessing repayable finance and four per cent accessing blended finance (i.e. mix of grant and repayable finance). Whilst this is a continuation of a trend observed in every mapping exercise since 2014, the context over the past 12 months is completely different with the increased availability of finance with which to support businesses through the pandemic.

Around four in 10 businesses who accessed finance did so in order to support their survival prospects, reflecting the threat posed by the pandemic and the importance of the financial support in helping businesses to survive.

Although the answer options to this question were different in 2020, some of the same options have been retained and can be compared with those in 2018. This shows that whereas in 2018 the majority accessing finance did so for developmental projects or new schemes often used to facilitate growth, much fewer cited development capital during this year (30 per cent vs. 62 per cent). Again, this is consistent with the theme running throughout these data, wherein businesses have not sought to grow or diversify over the last year; rather, they have sought to maintain their operation/offer as best they can. Equally, it is important to note that a similar proportion of businesses to in previous years (52 per cent) have developed new products/services over the last year, although this may reflect the work undertaken by businesses to adapt their offer in a COVID-19-safe environment, as opposed to diversifying their market.

Figure 5.17: Intended use of finance

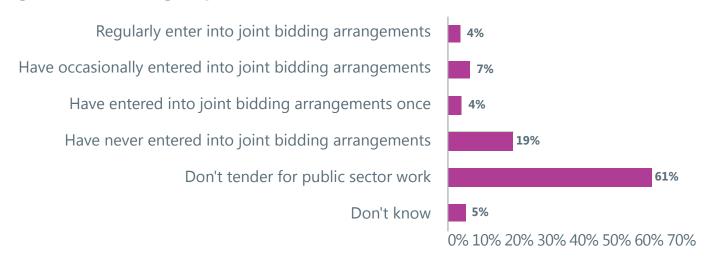


Source: Part 2 survey respondents who had accessed finance (n=200)

5.5.4 Collaboration and joint bidding

Figure 5.18 confirms that most businesses do not tender for public sector work. However, of those that do, 42 per cent indicated that they have entered joint bidding arrangements (including 20 per cent who do so occasionally and 11 per cent who do so regularly).

Figure 5.18: Tendering for public sector work



Source: Part 2 survey respondents (n=359)

In addition to joint bidding, the survey found strong levels of other collaborative activity within the sector. Most businesses (67 per cent) engage in sectoral networking and peer-to-peer support (57 per cent). The latter refers to mentoring or learning opportunities accessed through programmes delivered by social enterprise support agencies operating in Wales.



Section 06
Challenges, support needs, and pathways to growth



Challenges, support needs, and pathways to growth

This section examines the main barriers identified by businesses that are preventing growth and their ability to achieve their social objectives. Furthermore, it discusses the skills gaps identified within the sector and the support needed in order to address them.

Section summary

- The vast majority of businesses indicated that COVID-19 restrictions will continue to be a barrier to growth
- Besides those restrictions, access to grant finance remains the most commonly cited barrier, primarily because businesses did not know where to look for finance
- Most businesses are aware of the blended finance model and would be interested in accessing such a fund
- Advice, information or mentoring support in relation to finance (primarily how to find appropriate finance) was the main support need stated
- Thirty per cent have experienced or expect to experience an impact from Brexit, primarily because of the withdrawal of EU funding
- Marketing remains one of the main barriers and, aside from finance, is the second most commonly cited support need
- Support in relation to digital marketing and social media is a particular need
- Support in relation to procurement was also one of the most commonly cited needs

6.1 Barriers to growth

As with the previous mapping exercise, respondents were asked to select their four main barriers to sustainability or growth. Unsurprisingly, COVID-19 and its associated restrictions constituted, by far, the main barrier cited by businesses, with 72 per cent citing this. More positively, only nine per cent thought that there would be less confidence among consumers because of the pandemic, which suggests that the principal barrier for many is that of the restrictions, and once they are removed it can be expected that consumers will return.

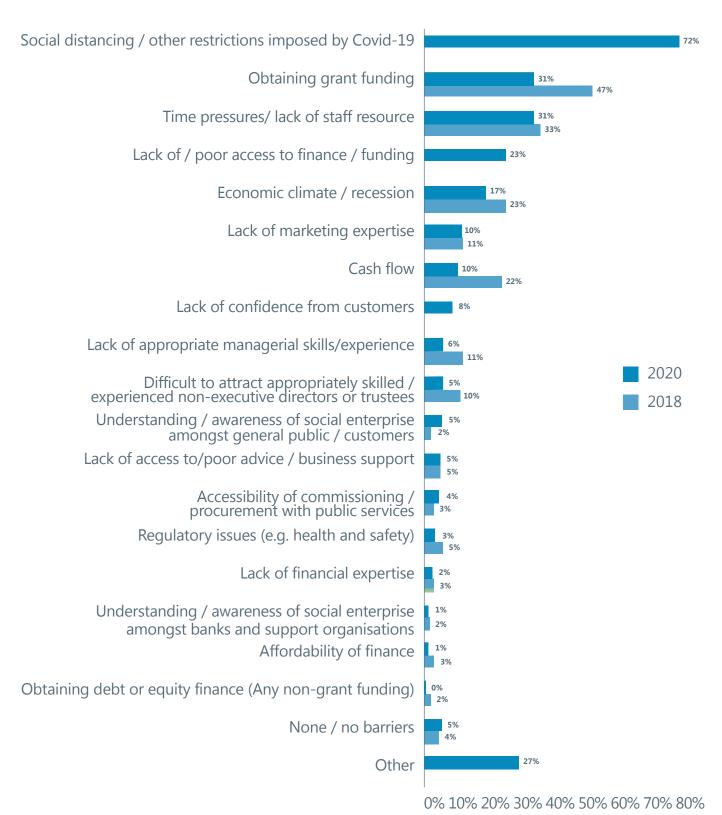
Other than COVID-19-specific issues, access to finance is (again) the most commonly cited barrier, reflecting previous mapping exercises. More specifically, it is access to grant funding that is perceived to be a barrier. It is worth noting that there were much fewer reporting it as an issue in 2020 than in 2018 (31 per cent vs. 47 per cent); however, this is likely to be explained by the increase in grant offers during the pandemic and may not be sustained once those finance offers end.

The lack of resource remained a barrier for around one third of businesses, whilst just under one fifth cited the economic climate. The latter is lower than may have been expected, given the economic challenges posed by the pandemic. It may reflect the timing of the survey, which coincided with a period of recovery following the first wave of the pandemic.

The lack of marketing expertise also features fairly highly, with 10 per cent citing this as a barrier — a similar proportion to in 2018. This is consistent with the findings presented earlier in the report, which revealed that marketing and, in particular, digital marketing were some of the businesses' least proficient skill areas.

With regard to those reporting 'other', a wide range of themes arose without much commonality in the responses. Several respondents did refer to changing consumer habits, particularly as a result of the pandemic, e.g. travelling patterns and the effect of how people consume television upon independent cinemas. Additionally, several respondents referred to a lack of suitable premises, whilst others cited recruitment issues.

Figure 6.1: Self-reported barriers to sustainability or growth for social businesses

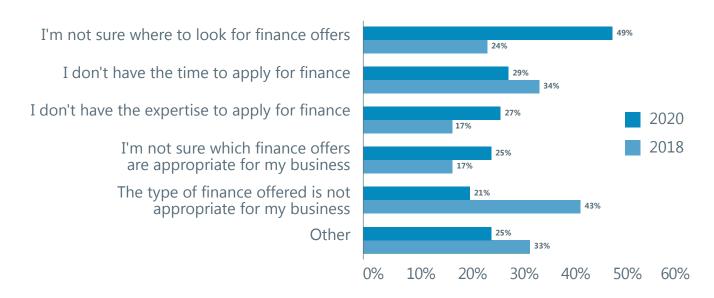


Source: Part 2 survey respondents (n=363)

6.1.1 Access to finance

A follow-up question explored why access to finance was reported as a barrier, with the results shown in Figure 6.2 below. There are a range of reasons, encompassing issues surrounding awareness, skills and resource. The reasons stated are substantially different from what were reported in 2018, with the introduction of COVID-19-related funds likely to have had a significant impact on responses. The main issue in 2018 was the type of finance offered, specifically the emphasis on repayable finance over grant finance. However, there were much fewer selecting this as an issue in 2020 (21 per cent vs. 43 per cent in 2018), presumably because there has been so much more grant funding made available. Accordingly, this appears to have created the opposite challenge, wherein there are so many options available that businesses are uncertain as to which are the most appropriate offers for them and where to look for the financial offers. Twenty-seven per cent also indicated that they did not have the appropriate expertise with which to apply.

Figure 6.2: Reasons for selecting access to finance as a barrier – 2018 in comparison with 2020



Source: Part 2 survey respondents who reported access to finance as a barrier (n=119)

Businesses were also asked about the blended finance model, which was used for funds such as the Third Sector Resilience Fund and the Social Business Growth Fund (i.e. a mix of grants and loans) and may become more prevalent in the future. Most businesses (55 per cent) are aware of the funds and, where they are aware, most (55 per cent) indicated that they are interested in the model. This is despite the fact that only four per cent accessed blended finance in the past year (see Figure 5.15), suggesting that there is good scope to increase this type of offer as an alternative for businesses who are eager to access grant funding.



6.1.2 Brexit

Only 11 per cent of respondents reported that they had been affected by Brexit to date, although a further 19 per cent reported that they expected an impact in the future (bringing the expected impact up to 30 per cent) — 64 per cent did not expect any impact, whilst six per cent did not know.

Where businesses had experienced an impact or expected to do so, the most common explanation was in relation to the withdrawal of EU funding (with 42 per cent reporting this). Many businesses who import goods cited higher import costs, with 19 per cent of those experiencing/expecting a Brexit impact reporting this. Whilst the sector is not renowned for exporting (only five per cent), the higher costs and regulations associated with exports (either for themselves or for the organisations that they support) were cited by nine per cent of businesses experiencing/expecting a Brexit impact. The other impacts are as follows:

- Fourteen per cent cited an inability to deliver services in the EU
- Eight per cent highlighted the indirect impact on the economy and on people's disposable income
- Seven per cent reported a lower demand for their services (six per cent indicated a higher demand)
- Six per cent felt that there would be greater competition for accessing grant funding
- Three per cent explained that it would be more difficult to recruit staff and/or volunteers.

6.2 Skills gaps and support needs

Two questions — one closed-ended and one open-ended — were asked at the end of the survey to identify what type of support businesses would find most beneficial. Perhaps unsurprisingly, given that access to finance is consistently highlighted as a barrier, information and advice on funding was the favoured option. The data presented in Figure 6.2 (above) suggests that businesses need support in relation to the different aspects of accessing finance, including not only bid-writing skills but also awareness/understanding of the different financial offers, where to find them and how to assess their appropriateness.

Almost one third would value marketing support, which is consistent with previous findings in which this was cited as being one of the main barriers and least proficient skill areas.

Information and advice on funding and finance 44% Support around marketing, 34% promotion and telling our story Advice and support on technology **17**% and how to use it in our business Support to find new business **15**% Support to re-align our business, 14% vision and business planning 11% Advice and support on measuring our impact Advice and support on health, safety and compliance guidance Advice and support on HR 4% and Employment issues Unsure / Don't know Nothing 4% Other, please describe 11% 0% 5% 10% 15% 20% 25% 30% 35% 40% 45% 50%

Figure 6.3: Support to address barriers caused by the pandemic (closed-ended question)

Source: Part 2 survey respondents (n=363)

A further, open-ended question was asked about support needs in general (not merely related to the pandemic). These responses have been coded and are shown in Figure 6.4 below.

Responses included a mix of the preferred mode of support along with the support themes. Financial and marketing support were (again) the main themes highlighted, with businesses elaborating on the former that they needed a better understanding of the finance available/appropriate to them, whilst comments on marketing primarily focused on digital marketing (principally social media). There was strong support for a mentoring service, with many advocating, for instance, for an expert in finance or marketing to deliver one-to-one mentoring.

Support in relation to procurement was also one of the most commonly cited needs, reflecting the low proficiency in that area (as highlighted previously in the report).

Finance 22% Staff training 19% Mentoring Understanding finance available / applicable 14% Marketing 13% Social media / Digital marketing 8% Business planning Networking 7% Procurement 7% Recruitment Government policy Meet the funder Leadership / Management / Governance Promoting the sector Legal Recruit volunteers Finance support to manage Covid issues Finding premises

0%

5%

10%

15%

20%

25%

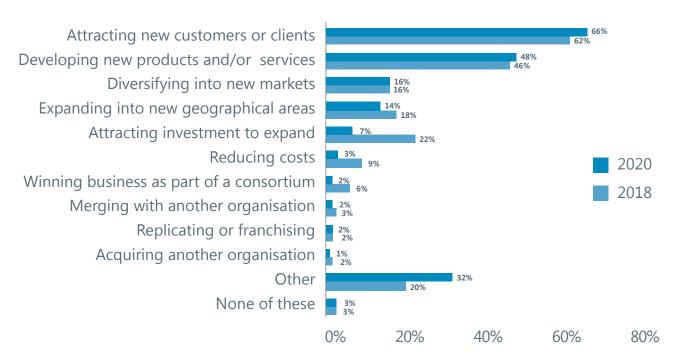
Figure 6.4: Support to address barriers to sustainability or growth (open-ended question – coded response)

Source: Part 2 survey respondents (n=324)

6.3 Pathways to growth

The 71 per cent of businesses expecting their turnover to increase in the next 2–3 years were asked how they expected to achieve this. As with previous years, the most common ways of achieving this growth were expected to be through attracting new customers or clients (68 per cent of respondents) and developing new products and/or services (48 per cent). The proportion reporting that they intended to reduce costs so as to generate efficiencies was extremely low at only three per cent, which is less than that reported in 2018 (nine per cent) and far below the 49 per cent found in the SEUK 2019 report.

Figure 6.5: Businesses' pathways to growth - comparison of 2018 and 2020 responses



Source: Part 2 survey respondents who expected their turnover to increase in the next 2–3 years (n=238)



Section 07 **Summary of findings**



7.1 State of the sector

The 2018 Mapping Social Business Census found a sector that was growing, maturing, becoming more commercially focused, and making an increasingly significant contribution to the Welsh economy – with a positive outlook for future growth. This research finds that the social business sector continues to make an important social and economic contribution in Wales, with up to 2,309 businesses employing up to 56,000 people, offering a similar amount of volunteering opportunities, and generating up to £3.8 billion in value. Whilst the COVID-19 pandemic has, undoubtedly, had a significant impact on the sector, it has also shown a surprising amount of resilience where the COVID-19 effect appears to have manifested in stalling growth, rather than decline.

The majority of businesses have been forced to pause trading and have experienced a loss of income; however, there has been high uptake of the various support provisions, which has helped to maintain their operations. Generally, businesses have not attempted to diversify their offer and markets; rather, they have sought to maintain their operations as best they can, with some adjustments to their processes (e.g. remote support and developing their online market). The fact that businesses have not been forced to diversify (again) highlights the resilience shown in the face of the pandemic. There are, however, concerns surrounding businesses' ongoing financial viability and potential warning signs that the pandemic has caused a risk to reserves, thereby affecting businesses' sustainability.

Recommendation 1: Social Business Wales should closely monitor the impact on businesses' reserves and, thus, overall sustainability.

7.2 Trading performance and barriers to growth

There appears to have been significant start-up activity over the last two years, perhaps linked to the Social Business Wales New Start project. This start-up activity has been particularly prevalent in North East Wales in areas such as Denbighshire and Wrexham.

Data on trading patterns reveals that the higher level of commercial focus found in 2018 has been sustained. Businesses have not sought to enter new markets during this period and, as a result, there has been no growth in trade with the public sector. However, there is a strong desire within the sector to develop that market, although the prospect of doing so is hindered by businesses' capability in the area – procurement was rated as the least proficient area, whilst it was also one of the main support needs highlighted in the survey.

Recommendation 2: The findings suggest that there is sufficient aspiration for policymakers to use procurement to support the growth of the social business sector. Equally, accessing public procurement opportunities represents a clear skill shortage and should receive appropriate focus in the ongoing support provision for the sector.

Aside from the ongoing challenges caused by the pandemic, access to finance remains the other main perceived barrier to growth and sustainability. Very few businesses have accessed repayable or blended finance, and the former was rated as businesses' second least proficient area (after accessing public procurement). This was also the main support need stated, with the evidence suggesting that support is particularly needed in relation to helping businesses to find appropriate packages that address their needs.

Whilst few had used blended finance, there was high awareness of it and interest in accessing such opportunities. Given the consistent finding that businesses bemoan the lack of grant funding and appear to be reluctant to access repayable finance, the blended finance model could provide an important bridge between the two.

Recommendation 3: The blended finance model is becoming a more prominent feature of the funding landscape, e.g. through funds such as the Third Sector Resilience Fund and the Social Business Growth Fund. However, it is accessed by relatively few businesses, despite the strong awareness of and interest in it. There should be a continued drive to offer this model as a way of encouraging businesses to move away from grant support.

Marketing skills, particularly digital marketing and social media, were the other main deficiencies reported by businesses, and also featured high on the list of barriers to growth and support needs. Moreover, many businesses highlighted their preferred mode of support, with mentoring representing the favoured approach.

Recommendation 4: Ongoing support provision should ensure that sufficient focus is placed upon the main skill deficiencies, barriers, and support needs highlighted in this research — primarily themes such as finding appropriate finance, digital marketing, using digital and new technology effectively, and utilising mentoring methods.

7.3 Effecting social change

The research suggests that social businesses appear to have a particularly important role to play in areas of greater deprivation, with the South Wales Valleys a particular hotbed of social business activity.

Social businesses are good employers, with the vast majority offering the Living Wage to all of their staff and employing people who are further away from the labour market. There is a very positive gender balance within the leadership of these businesses, although ethnic minority communities and people with disabilities are underrepresented. What is more, there are few young entrepreneurs leading these businesses relative to the UK average.

Recommendation 5: Broadening leadership to encompass more members from the ethnic minority communities as well as people living with disabilities represents a clear need within the sector. There also needs to be a focus on encouraging younger members to join leadership teams, which would serve to enhance the sector's sustainability (among other benefits).

The data also demonstrates the sector's important role in combatting the effects of the pandemic, with an increased focus on supporting communities and individuals that are socially or financially excluded. Overall, businesses appear to have contributed towards a greater range of social objectives this year, suggesting that the sector has sought to broaden its offer in order to combat the social and financial crises created by the pandemic.

Having shown considerable resilience amidst the COVID-19 pandemic, social businesses are on course to continue making an important contribution to social and economic life in Wales in the years ahead, with the survey showing high business confidence over the next 2–3 years. Businesses have been able to focus on their core markets whilst diversifying approaches in order to serve their customers and clients in light of the restrictions placed upon them during the pandemic.

Published by Social Business Wales

Social Business Wales is funded by the European Regional Development Fund through Welsh Government and delivered by the Wales Co-operative Centre.

> Phone: 0300 111 5050 Email: SBWEnquiries@wales.coop Twitter: @SocialBizWales

The Wales Co-operative Development and Training Centre Limited (trading as the Wales Co-operative Centre) is a registered society under the Co-operative and Community Benefit Societies Act 2014, number 24287 R.

This publication is available in Welsh. Other formats, such as large print or braille, are available on request.

We welcome correspondence in English or Welsh and aim to provide an equal standard of service in both languages.