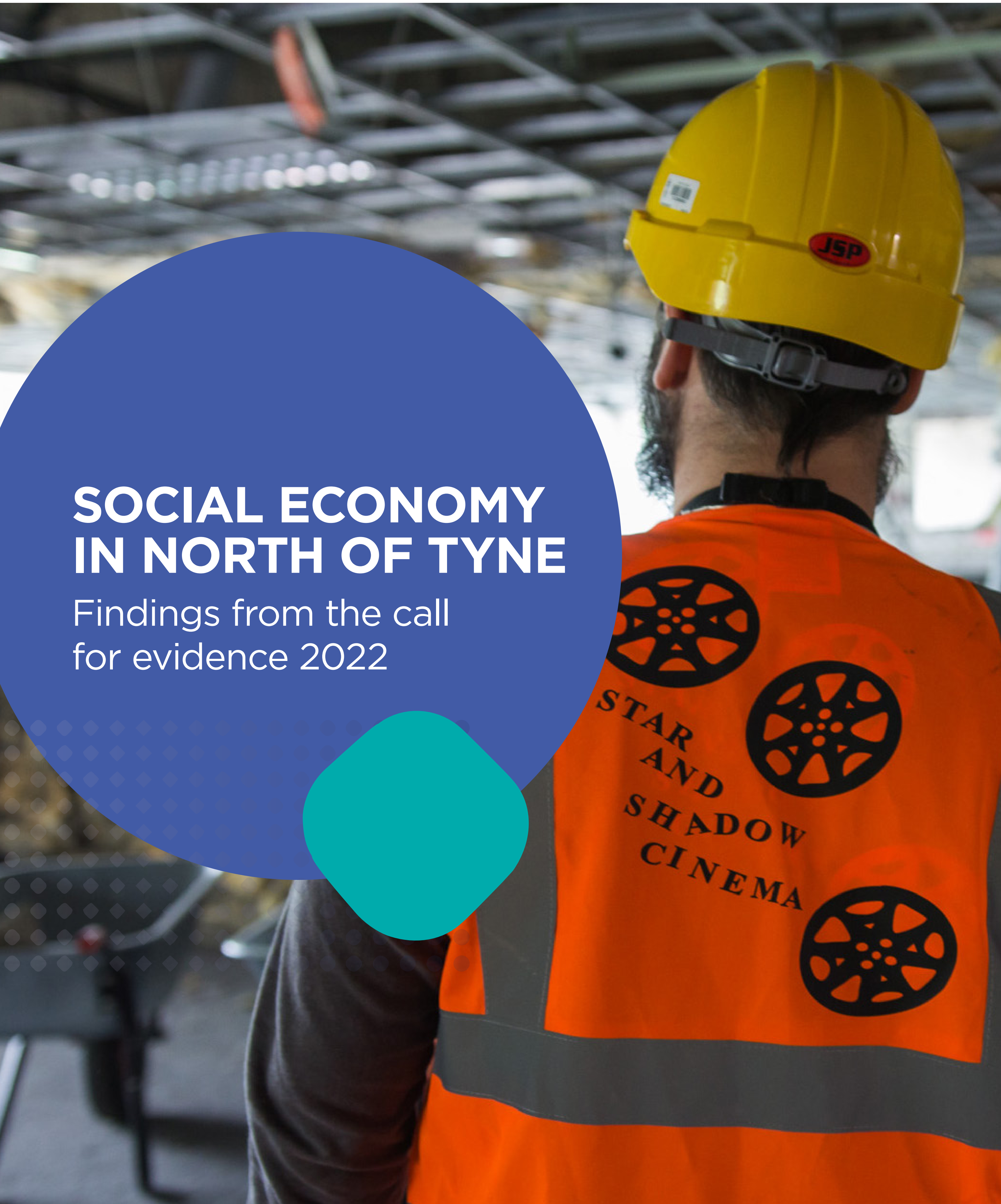
# SOCIAL ECONOMY IN NORTH OF TYNE

## Findings from the call for evidence 2022



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# Foreword

Power to Change is delighted to partner with North of Tyne Combined Authority to jointly run this call for evidence for the demand for social finance in the region, part of shaping a new finance offer for the social economy.

Power to Change has supported the growth and development of community business since 2015. We work in places up and down the country and recognise the importance of local and regional government backing the social economy, offering strategic leadership to grow the sector at a regional scale and bringing people together to deliver this.

We also understand the importance of being led by the needs of the sector, and of taking a flexible and adaptable approach. This joint call for evidence has elicited insights rooted in the reality of the social economy sector in North of Tyne and shines a light on the challenges and opportunities for its growth.

The insights in this report are, however, just the start. Codesign is a powerful way to address complex and systemic problems and we are looking forward to building on the outcomes of the call for evidence with North of Tyne Combined Authority and community businesses in the region. By bringing people together to shape the solutions that meet their needs and giving them a stake in the delivery, we can ensure the sector remains at the heart of innovative responses to supporting its growth.

**Tim Davies-Pugh**,
CEO Power to Change

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We announced a £4 million fund to help local community businesses and co-ops.

But we don't believe in a top-down way of doing things, so we promised to listen to these organisations to make sure this money works for them.

That's what this call for evidence is about: learning from those with expertise and experience.

My thanks to all those who've contributed to this partnership so far. Together, we'll help create solutions to support and strengthen the sector.

Elected Metro Mayor for
the North of Tyne,
**Jamie Driscoll**

# Executive summary

Community businesses can make a sustainable contribution to the wellbeing of local communities, their neighbourhoods and the nation, but the market needs ongoing support before it can realise its full potential. The coronavirus pandemic threw this understanding into sharper focus, highlighting not only the challenge but also the considerable opportunity.

A strategic partnership between North of Tyne Combined Authority and Power to Change has been reviewing the challenges and opportunities facing the social economy in the North of Tyne, and what support might help build its capacity and capability to realise its ambitions. This report draws out the main themes and insights from its call for evidence in spring 2022, designed to support the next stage of this endeavour in the region.

- Socially trading organisations appear to be in a reasonable position: their turnover had been growing and they have ambitious plans. Their growth and confidence in the future is in line with trends in the national community business market and 80 per cent had received grants in the last 10 years.[1] In the North East, their plans focused on taking on buildings, scaling up trading activity, expanding geographically, launching new services and production sites. However, the appetite and scope for organisations to expand beyond the North East region is not clear.
- The North of Tyne social economy is growing, especially in the food and energy sectors, and there are opportunities in the current post-pandemic era. There is also a perception that a few, larger organisations tend to benefit more, and that funding and support remain challenging. The sector appears somewhat polarised and fragmented and, in line with other research evidence, there are many small organisations and several very large ones.
- Needs for finance and business support are very closely linked, and the two need to be considered together. There appear to be many sources of finance and business support available, however organisations also report a lack of appropriate, tailored support to start up and scale up, including peer support from other social enterprises, support for worker-owned cooperatives and guidance on legal forms for start-ups.

1 Higton J. et al. (2021) Community Business Market in 2021. Power to Change. https://www.powertochange.org.uk/research/community-business-market-in-2021/

- While the social economy is often characterised as reliant on grant funding, almost half of socially trading organisations said they had good knowledge of other finance options and 50 per cent had used loans. There appeared to be a mix of experience of exploring finance options. Given the high levels of knowledge of finance options, awareness of them was surprisingly low, with more than half respondents saying they had minimal if any awareness. Organisations desired more, and accessible, information.
- Some respondents suggested there are gaps in local finance options. Several had successfully accessed finance from national organisations, but noted a gap in local and regionally focused funds. They identified multiple gaps including patient and flexible finance and grant/loan blend. There was also a view that the number of social investors needed to grow, but equally an observation that social finance is not always competitive with bank loans.
- While organisations asked for money and support to be tailored to their needs, there was also a view that, if treated separately, the social economy risked becoming siloed, and that there are commonalities between the support needed by socially trading organisations and more commercially-oriented businesses.
- Multiple barriers and opportunities to growth were identified for new and established organisations in the sector but it is not immediately obvious what the key priorities are. The results suggest a systemic response is needed to provide finance and support socially trading organisations to start up and scale up.

# 1. Introduction

North of Tyne Combined Authority (NTCA) and Power to Change launched a strategic partnership in 2022 with the objective of growing and further developing the social economy in the North of Tyne. This partnership is reviewing the nature and scale of the social economy in the North of Tyne and exploring ways to promote and further develop activity to support it, including investment in a new Social Finance Fund by NTCA and other external partners.

As a first step, the partnership launched a call for evidence with the aim of understanding the current context for the social economy, including details of any support available to socially trading organisations (STOs), the nature and scale of any current activity, and the likely local pipeline of such organisations. A key aim was to explore the sector's appetite for innovative financial products including loans and equity to support organisations starting-up, innovating and scaling-up.

Responses provided valuable insight, including references to research, evaluations and case studies. These will inform how to co-design, with the sector, an innovative new finance initiative to grow the social economy. More than 40 representatives from the sector and a panel of speakers including the Metro Mayor of North of Tyne, discussed a summary of key findings at an open event in Newcastle on 13 June, hosted by Insights North East at Newcastle University.[2]

Along with providing some background to the call, the respondents and their evidence, this report draws out the main themes and insights that emerged and identifies any gaps in knowledge, to support the next stage of the co-design process.

2 A report of the event is publicly available at https://www.northoftyne-ca.gov.uk/documents/growing-the-north-east-social-economy-through-innovative-finance-event-13-june-consultation-event-report/

# 2. The call for evidence

The call for evidence invited views from:

- socially trading organisations ranging from food cooperatives to community energy initiatives, including those wanting to establish similar new projects
- infrastructure and business support organisations and professionals supporting their activity
- organisations providing finance solutions such as fund managers and community development finance initiatives.

### What is a socially trading organisation?

Socially trading organisations set out to deliver social benefits and trade commercially. They include community businesses, community land trusts, community interest companies, social enterprises, cooperatives, some limited companies, and family businesses and local ventures who demonstrate their social purpose through their business behaviours.

It does not include more traditional charities who rely solely on grant income or those organisations who export profits from a locality.

The call ran from 7 March to 13 May 2022 and took the form of an online questionnaire about the barriers and challenges of starting and scaling social enterprises in the North of Tyne. Socially trading organisations were also asked about their experience and expertise with, and attitude towards, finance options.

Along with collecting information on the type, location, size and objectives of organisations, their working practices, knowledge and use of finance, it also sought views on:

- future plans
- requirements for business support and finance, and gaps in provision
- changes in the North of Tyne social economy
- organisations providing business support and finance
- barriers and opportunities for new and established organisations in the region.

# 3. Who responded?

Almost half of the 47 respondents described themselves as socially trading organisations (see Table 1). Organisations describing themselves as ‘other’ included: charities, advisory services to the commercial sector, a community supported agriculture project, a local authority and two organisations that described themselves as a mix of the other categories.

**Table 1:** Respondents to the call for evidence (n=47)

| Type of respondent | Number | Proportion |
|---|---|---|
| Socially trading organisation | 22 | 47% |
| Fund manager or community development financial institution | 7 | 15% |
| Business support provider | 6 | 13% |
| Infrastructure or representative organisation | 3 | 6% |
| Grant-making organisation | 1 | 2% |
| Other | 8 | 17% |
| **TOTAL** | **47** | **100%** |

# 4. What did we learn from the responses?

Before moving onto the open-ended questions that provided the qualitative feedback and made up the majority of the survey, initial questions captured some basic organisational and institutional information to build a picture of the nature and scale of the social economy in the region.

## The constitution, age and location of socially trading organisations

The dominant forms were 'company limited by guarantee and registered charity', and 'community interest company', which together represented around three-quarters of socially trading organisations (73%).

A relatively high proportion of respondents were new organisations – a quarter (23%) had been established in the past two years. By contrast over 40 per cent of respondents had existed for more than 20 years.

The majority were clustered in Newcastle and there was a smaller cluster in Whitley Bay. More than a third considered that their activity was regional in scope, and a further 18 per cent said it was wider – national or international. An 'other' category included 'mainly Tyne Valley but increasingly in Newcastle as well', 'locally, nationally and internationally' and 'multi community neighbourhoods Tyne Valley'.

**Table 2:** How is your organisation registered/constituted? (n=22)

| Type of Organisation | Number | Percent |
|---|---|---|
| Community interest company | 7 | 32% |
| Company limited by guarantee | 2 | 9% |
| Company limited by guarantee and registered charity | 9 | 41% |
| Company limited by guarantee and mutual or cooperative (inc. community benefit society) | 1 | 5% |
| Mutual or cooperative (inc. community benefit society) | 2 | 9% |
| Registered charity | 1 | 5% |
| **TOTAL** | **22** | **100%** |

**Table 3:** In what year were you established? (n=22)

| Year | Number | Percent |
|---|---|---|
| 1979–1989 | 4 | 18% |
| 1990–1999 | 5 | 23% |
| 2000–2009 | 2 | 9% |
| 2010–2019 | 6 | 27% |
| 2020–2022 | 5 | 23% |
| **TOTAL** | **22** | **100%** |

**Table 4:** How would you describe the geographical scope of your activity? (n=22)

| Scope | Number | Percent |
|---|---|---|
| Regional | 8 | 36% |
| Community/neighbourhood | 4 | 18% |
| National | 3 | 14% |
| Other* | 3 | 14% |
| Town or city-wide | 2 | 9% |
| Local authority | 1 | 5% |
| International | 1 | 5% |
| **TOTAL** | **22** | **100%** |

## The purpose and activities of socially trading organisations

Socially trading organisations had a wide variety of purposes, and engaged in similarly wide ranges of related trading and non-trading activities.

Socially trading organisations reported working in seven ‘sectors’:

- community development/land trust
- housing
- food/hospitality
- support for people with disabilities
- arts/culture
- working with low-income families
- providing community hubs.

Trading activity reflected the sectors and included:

- contracted services
- bistro/café/catering
- community supermarket
- room/event hire
- warehousing
- gardening/horticultural
- ticket sales.

Non-trading activity included:

- healthcare
- education/skills
- broadcasting
- mental health/wellbeing
- caring for older people.

## Managing and promoting democracy, diversity, equality and inclusion

A common approach to ensuring democracy in ownership and diversity in membership was by recruiting a diverse board of trustees, who are often local, have 'lived experience', and are rotated on a regular cycle. Trustee positions were also frequently open to all, reflecting the population or client base the organisations serve.

Organisations similarly cited their recruitment practices for all posts, and having open and transparent structures within the organisation, including regular staff meetings. Several were also cooperatives with worker-owned structures and governance where all members have an equal say. A range of other practices complemented the approach to board structures, including self-managing teams, advisory boards, user forums, a local steering group and online community.

Commonly shared themes in recruitment included being open, advertising widely with a goal of recruiting people from across the community, having easily understood job descriptions and selection processes – in some cases without needing to complete a formal application – and holding relaxed and informal interviews. Organisations also emphasised 'ethos and values' and having lived experience.

Employment practices were similarly inclusive and featured:

- offering flexible/part-time working
- being a living wage employer
- having a non-discriminatory pay structure
- induction, training and scope for personal development
- accommodating disability and changes in family circumstances

Approaches tend to reflect the primary activity of the organisation and the needs of their audience, and are therefore similarly diverse. More formal approaches included equality, diversity and inclusion policies and procedures, impact assessments, and codes of conduct, open access policies and embedding equal opportunities in the constitution. In practice, several respondents mentioned the design, look and feel of buildings as a way of creating accessible, comfortable and welcoming places for service users – examples included décor, like wall art, and raised garden beds for wheelchair users. Pricing policies such as free or heavily discounted services, working with people regardless of ability to pay and 'pay what you feel' days also made services accessible and inclusive.

Communication methods have a role to play and organisations reported using different media channels to reach all members of the community, supporting a mix of languages and culture, providing 'easy read, accessible material' and enabling people to choose a way of communicating that reflected their preference or need.

## What are organisations aiming to achieve?

Participants were asked about their economic, social and environmental objectives.

The fact that respondents interpreted objectives somewhat differently meant there was considerable variety in the nature and scale of ambition – ranging from very specific objectives such as 'upcycle and reuse furniture' to broad, far-reaching strategic aims like 'to reinvent the future of care work' or 'eliminate social and economic exclusion'.

Specific objectives for the economic wellbeing of individual communities included developing skills, providing employment opportunities and increasing the availability of affordable housing. Others reflected organisations' broader endeavours like fostering a new generation of innovators, increasing spend in the local economy and boosting the regional and national economy by creating businesses and jobs.

Social objectives were equally varied and reflected the nature of an organisation and the audience for its services – for example, 'to supply food to low income households' and 'provide healthy, affordable food'. Several health-related objectives focused on improving physical and mental health and wellbeing. Aspirations for social justice also featured – to secure inclusion, independence and choice for disabled people – along with community objectives to 'improve community relations and interactions', build stronger communities and create social capital.

Environmental objectives were not the exclusive preserve of environmental businesses involved in reducing food waste or reusing furniture or managing green space, and socially trading organisations in other sectors referred to using sustainable transport and being paperless or home-based operations.

## Organisations' turnover, trading and assets

Socially trading organisations are as varied as the communities they were established to serve and respondents ranged in size from very small – turning over less than £10,000 – to extremely large, including one with an annual turnover over £5 million.

Half of respondents reported that trading activity accounted for 90 per cent or more of turnover and an overwhelming majority of established socially trading organisations reported that their turnover, trading or operations had increased over the last decade (or since they were established). This included increasing staff and the range of services they provided and, in one case, regional expansion. Only one reported reduced turnover as a result of losing service contracts. Those more recently formed organisations felt unable to comment.

**Table 5:** What was your organisation's turnover for your last complete accounting year?

| Turnover for the last complete accounting year | Number | Percent |
|---|---|---|
| Less than £10,000 | 4 | 18% |
| £10,000–50,000 | 3 | 14% |
| £50,000–250,000 | 4 | 18% |
| £250,000–£1 million | 9 | 41% |
| £1–5 million | 0 | 0 |
| More than £5 million | 1 | 5% |
| Blank | 1 | 5% |
| **TOTAL** | **22** | **100** |

**Table 6:** What percentage of your turnover normally comes from your trading?

| Percentage of turnover from trading | Number | Percent |
|---|---|---|
| Up to 25 | 2 | 10% |
| 30–50 | 4 | 20% |
| 65–80 | 4 | 20% |
| 90 plus | 10 | 50% |
| **TOTAL** | **20*** | **100%** |

* Two organisations did not provide a figure

As a business's assets inevitably reflect the nature of their work, socially trading organisations consequently reported a wide variety, not only specific to their operation like residential and commercial properties, buildings and leasehold land, vehicles, tools and equipment, but also essential business assets like business furniture and office equipment, IT and software. More specialist assets included a mobile studio, sound equipment, radio transmission equipment, polytunnels and gardening tools.

Nine respondents reported the total value of their assets, which clustered into three ranges:

- £10,000–40,000 (radio, sound and office equipment)
- £100,000–300,000 (musical instruments, vehicles and property)
- £1–2 million (plant, machinery, land, residential and commercial property).

## Organisations' plans for the future

Almost half of respondents said they planned to increase trading activity or turnover and future plans included new projects and organisational changes. Specific projects included:

- revitalising the high street
- purchasing a production unit
- building a community hub
- acquiring suitable storage
- developing new services

Organisational changes and new approaches being considered included:

- working more closely with local producers
- exploring the feasibility of working with new client groups
- increased partnership-working
- innovative projects
- expanding geographically.

One organisation explained that 'first we are planning to reach sustainable levels of operating, and then we will be looking to expand', and another noted how the challenges resulting from Covid-19 and the cost of living crisis were making it harder to increase revenue.

## What support is required and where are the gaps in provision?

Participants were asked about the business support they felt they required and where they expected to obtain that, and were invited to report on their experience of local support infrastructure, and their sense of any gaps in provision.

Wide-ranging responses included observations about general and more tailored business support and advice, and the nature and range of finance options available.

Four broad requirements for business support emerged:

**Advice and guidance** including:

- HR and legal advice and advice on new business development, including risk management and financial forecasting
- how to secure more and bigger contracts
- understanding how to approach community groups to find out their needs and funding available to provide services

There was a view that advice should be delivered by organisations that understand what socially trading organisations need and where advisers have experience of running social enterprises.

**Finance and investment** in many forms, for example:

- grants for specific projects
- private sector funding
- statutory funding from local authorities
- investment loans
- finance linked to developing trading activity and scaling up
- acess to finance to acquire assets.

**Traditional business support** covering services such as:

- accountancy
- legal
- administration
- training
- high-quality funded IT support
- market research to develop a business case for diversification and growth
- accommodation e.g. reduced-price or free office space close to similar organisations with opportunities to network.

**Specialist support** such as:

- expertise in property development and financial modelling for a project of such scale
- technical support from equipment suppliers in the absence of credible local alternatives (e.g. in Manchester)
- building development expertise
- funding and sponsorship (for a new contemporary centre).

A few respondents specified which support providers they would use: local business enterprise support agency, local enterprise partnership, Key Fund via the business innovation centre North East BIC, The National Lottery and 'The Big Issue Fund'.

Organisations experienced several shortcomings and gaps in local infrastructure for business support and finance:

**Business support**: especially for small rural enterprises and support in the North East for expansion to regional, national and on to international. One socially trading organisation reported difficulty in finding low-cost digital marketing support to grow online sales. There was a lack of support for worker cooperatives in general, and much less for those in early stages. Accelerator or pre-accelerator programmes were considered entirely inappropriate for worker cooperatives because of the way that profit and surplus is handled.

**Finance options**: uncertainty and lack of timeliness associated with grant funding. Perceived gaps in the local authority offer were linked to a sense that 'larger, longer serving charities" are looked on favourably to the exclusion of smaller organisations. Equity investment is harder for social impact start-ups to obtain and there is disparity in the loan finance sector for cooperatives, with ready access to unsecured loans, no personal guarantee and favourable lending terms available at a national level but nothing comparable at a local level. Social finance is also lacking as one socially trading organisation looking to expand to renovate more properties, using rental income to buy new-build properties as well as expand its heritage offer, reflected:

> 'Social finance is often too expensive and we are in the fortunate position that we have assets with no loans secured against them, ensuring we are low risk for a high street loan. The blended loan/grant mix once offered by social lenders was perfect ... but this is no longer available."

## Finance and funding

The finance and funding landscape for socially trading organisations is complex, and awareness, experience and attitudes across the sector are comparably varied. As a key aim of the partnership's call for evidence was to explore the sector's appetite for innovative financial products, findings in this area are explored in some depth, and yield some helpfully rich insight.

In terms of current circumstances, grants, loans and contract payments for services account for the bulk of financial receipts (77%) with grants by far the most widespread form of finance. Four respondents received none of the listed options.

**Table 7:** What type of finance has your organisation received over the last ten years (or since you formed)?

| Type of finance | Number* | Percent |
|---|---|---|
| Grant | 17 | 33% |
| Contract payment for services from the public sector | 11 | 22% |
| Loans | 11 | 22% |
| Investment or equity stakes | 3 | 6% |
| Other (bond scheme, annual membership fee, social finance, private sector donations) | 5 | 10% |
| None | 4 | 8% |
| **TOTAL** | **51** | **100%** |

*Respondents could select more than one category

**Table 8:** The reported types of financing were further analysed to provide more granular detail of the variety of arrangements and combination of sources.

| Combination of finance | Number | Percent |
|---|---|---|
| Grant only | 1 | 6% |
| Grant, contract payment for services from the public sector | 2 | 12% |
| Grant, contract payment for services from the public sector, investment or equity stake | 1 | 6% |
| Grant, contract payment for services from the public sector, investment or equity stake, loans | 1 | 6% |
| Grant, loans | 3 | 18% |
| Grant, loans and contract payment for services from the public sector | 6 | 35% |
| Grants, loans, investment or equity stakes, bond scheme | 1 | 6% |
| Grant and membership fee | 1 | 6% |
| Grant, loans, contract payment for services from the public sector, social finance and private sector donations | 1 | 6% |
| **TOTAL** | **17*** | **100** |

*four respondents replied ‘none’ and one did not respond

Grant, loans and contract payments was the most frequent combination, reported by 35 per cent, followed by grants and loans (18%). Loans were used in combination with other forms of finance by 12 socially trading organisations (70%) of those reporting any combination of options and, taking account of the four organisations who didn’t report any form of finance, over half of the all socially trading organisations responding to the call for evidence.

Organisations were asked about their attitude to and experience of securing funding to enable expansion, and encouraged to share views about the suitability of a range of different types of funding to support growth – loans, equity investment, and grant, for example.

**Grant funding** was viewed as beneficial to small organisations and in driving innovation and growth, and amounts can be significant (e.g. Innovate UK grants). Grants tend to go towards activity benefiting the community rather than the development of the organisation. However, reported issues ranged from the competitiveness of grant funding and the difficulty of getting funding for large-scale plans, to how timing affects cashflow when grants are paid quarterly in arrears. The process of applying for grants was viewed as bureaucratic and can be 'stressful and worrying'. One respondent was not aware of all the grants that become available, and said that the frequently short application timescales can prevent consortia and partners from working together. Opportunities for industrial provident society grants were considered limited.

Experience and attitudes around loans was mixed. A few respondents noted the benefit of loans to secure cash flow, including one who had recently taken out a Bounce Back loan as a result of the pandemic. Another said that if the business case makes sense then 'nothing beats a cheap bank loan at rates the social lenders can't compete with'.

'We were successful in obtaining a Covid Bounce Back loan, the terms of which were actually better that what was being offered by national cooperative loan fund providers.'

**Worker-owned co-op**

A few socially trading organisations had raised **equity investment** but this was not without challenges: it is much harder to secure equity as a social impact start-up and there are few impact investors. One organisation raised the co-ordination of investors as an issue, in the context of needing to find multiple angel investors who wanted to invest because of the social impact of the organisation through separate individual routes. It could prove useful for organisations in future if groups of angels who specifically want to invest in social impact could be brought together to respond collectively. One organisation felt that equity investment could help secure a building for long-term operations.

In terms of suitability, **grant funding** was still widely regarded as an option despite the issues associated with it, and there was a particular desire to see grants made available for smaller organisations. Views towards **loans** were generally positive –cheap loans to support cashflow, for example, could be useful. Despite their caution towards loans, one small organisation said that they would be prepared to take one if the business case made sense. There was a call for more local and regional loan finance with fair terms, to suit the non-profit and co-operative sector. Practically, decisions were not always about the relative merits of any option – one organisation was open to loan finance but was constrained by a lack of assets.

For some organisations the current range of options did not meet their particular, specific needs – finding bridging funding to obtain planning permission prior to accessing social investment, for example – or were inaccessible because of the difficulty in meeting the criteria for demonstrating grassroots community involvement that most funders apply. In other cases organisations were seeking different kinds of support, often 'in-kind', such as places to operate, office space, preference for socially trading organisations in procurement, grants for certain kinds of work, or ways of reducing the cost of purchasing assets.

Awareness and understanding of the available funding and finance options was also mixed across the sector – five organisations felt they did not have a good awareness of the options and while almost half of socially trading organisations judged that they had a 'good' or 'very good' level of knowledge of available finance options, almost half were ambivalent.

Awareness was felt to be low because the overall picture was confusing, it was difficult to devote time to research and apply for funding when the business was already stretched and organisations needed to focus on keep trading activity active. Five organisations reported some awareness, with one reporting they were unsure how to start the process of applying and to ensure advice was independent. Eight organisations said they felt they had good awareness albeit with caveats, like understanding the national rather than the regional or local picture for cooperatives.

Several organisations suggested improvements ranging from a trusted source to broker information and workshops, such as North of Tyne Combined Authority, someone with experience who could do an overview or audit, and one place like a hub or regional directory, where all options can be found.

**Table 9:** How would you describe your knowledge of the finance options that are available to you?

| Level of knowledge | Number | Percent |
|---|---|---|
| Very good | 1 | 5% |
| Good | 9 | 43% |
| Neither good nor poor | 10 | 48% |
| Poor | 1 | 5% |
| Very poor | 0 | 0% |
| **TOTAL** | **21*** | **100%** |

*One organisation did not respond

# 5. The evolution of the social economy, business support and finance options

To get the broadest picture of activity, awareness, experience and attitudes across the social economy in the North of Tyne, the partnership sought a wide range of evidence not only from socially trading organisations but also other types of organisation operating in the region with interest or influence in the community business sector.

The responses revealed some distinct characteristics of organisations operating in the region's social economy, and respondents provided a range of examples, case studies and data to enrich understanding and aid future planning:

- concentration of organisations and start-ups in urban areas vs fewer ('small and sporadic') in rural parts of the region
- mixture of different types of organisation – cooperatives, charities, community groups and a growing number of community interest companies
- relatively small size of organisations in North of Tyne compared with the rest of the country
- split between many micro and small organisations which are newer and a few older, larger, more established or consolidated national organisations
- growing number of organisations involved in food-related activity, tackling food waste, providing community energy
- relatively greater reliance on public sector finance than elsewhere in the UK
- concentration of 'traditional' charities and organisations for member benefits (cooperatives)
- traditional charities are diversifying their income, with encouragement and support from local and national funders and infrastructure organisations
- relatively few socially trading organisations and social enterprises, often younger and smaller than traditional charities
- newer socially trading organisations often focus on environmental issues, including food security and waste.

Socially trading organisations were more prominent in revealing challenges and weakness that reflected the decline in funding in recent years, relatively high levels of poverty amongst client groups, a lack of strategic support, and how capacity within the sector was often reliant on particular individuals. The sector was also described as 'fractured' and neither well-connected nor promoted. Some other respondents concurred with the view that infrastructure to support socially trading organisations is weak, fragmented and under-valued in the region.

Conversely, organisations other than those socially trading were more upbeat, describing the sector as ‘vibrant’ with ‘great potential’ and growing. More people with ‘lived experience’ and more ‘women entrepreneurs’ were being supported. However, they were also concerned about changes in funding, the pressure of social challenges and how larger and higher profile organisations were able to access funding and support.

In reflecting on how the nature and scale of the social economy had evolved over the last ten years, several respondents attributed the growth they had noted to people’s increasing desire to benefit others and do more in their communities – in spite of the shift to a service-based economy, communities remain important. Other perceived trends include a new sense of confidence in young people coming forward to start a business and digital advances providing more democratic access. The sector had seen a growth in businesses addressing environmental issues, health and wellbeing. New governance structures had enabled community interest companies to establish and contribute to growth, and these organisations were seeking support on governance, HR, funding and opportunities to collaborate. However, despite growth and acceptance, it remains a relatively marginalised model.

Although very small and large enterprises had increased in number, middle-sized organisations were being squeezed, and rural areas were being left behind in terms of transport networks and digital inclusion.

Respondents said that the social economy enjoyed less local authority support and fewer specialist business support providers. It was already becoming increasingly challenging, with few opportunities for grant support and blended finance, and now EU funds had closed, quite aside from the huge negative impact of the pandemic on organisations that relied on trading.

Social businesses have had to become more enterprising to survive – ‘out there’ on social media platforms, for example – and, as consumers are expecting the private sector to demonstrate a social conscience, commercial businesses are narrowing the gap with the sector by acting in ways that once distinguished organisations in the social economy.

A few respondents noted that the ‘barriers to entry’ for social enterprises was low – as many operate in labour-intensive sectors like catering and childcare, for example, they do not require capital. However, these businesses also tend to be ‘low margin’ and lack the ability to raise prices to generate surpluses, which can affect obtaining loan finance. Short funding cycles are also a barrier to expansion, and early-stage community enterprises do not typically enjoy the right conditions to offer community shares.

Several respondents also considered the confusion about defining social enterprise and the variety of different legal entities, as barriers to establishing new enterprises.

## Available business support and finance options for the sector

That finance and business support organisations were mentioned by many, reflects how successful applications for funding frequently go hand-in-hand with business support and advice. Several organisations provided both business support and finance.

These are the organisations that respondents reported as providing business support:

**Table 10:** Available business support

| **Local support organisations** | |
|---|---|
| Accounting for Good CIC | North East Growth Hub |
| Advance Northumberland | North of Tyne Combined Authority |
| Brewin Dolphin Start-Up Plus Programme | Northstar Ventures |
| Business & IP Centre Newcastle (Experts in Residence) | Northumberland Business Support |
| CAN | North Tyneside Business Factory |
| Connected Voice (formally CVS) | North Tyneside VODA |
| Creative Fuse North East | Project North East |
| Dynamo | The Reach Fund (The Access Foundation) |
| Federation of Northumberland Trusts | RTC North in Sunderland |
| Food and Drink North East | Social Enterprise Acumen |
| Federation of Small Businesses | Talbot Jones Insurance Brokers |
| Generator North East | Tyne and Wear Community Foundation |
| GLT Partners | Transmit Startups |
| Junction Point CIC | Upstart Enterprise |
| KEDA Consulting | VONNE (Voluntary Organisations' Network North East) |
| Leading the Way | Social Investment Business |
| Local housing hubs | TEDCO – North East Enterprise Agency (NEEA) |
| Millin Charity | UnLtd |
| NELEP | Vounteer It Yourself |
| NEBSF (Tyne and Wear) | |
| Newcastle City Council | |
| North East BIC | |
| North East England Chamber of Commerce | |
| North East Community Business Club | |

| **National support organisations** | |
|---|---|
| Co-operative & Community Finance | Plunkett Foundation |
| Co-operatives UK | The Prince's Trust |
| Co-op Loan Fund | The Reach Fund (Access Foundation) |
| Heritage Trade Up programme (Heritage Lottery Fund) | Social Enterprise Places |
| Locality | Social Enterprise UK |
| Local Trust | Social Investment Business |
| Lloyds Start Up Programme | TEDCO – North East Enterprise Agency (NEEA) |
| National Business Support Helpline | UnLtd |
| Power to Change | Vounteer It Yourself |
| School for Social Entrepreneurs Yorkshire and Humber | |
| | |
| **International** | |
| SheEO (now known as Coralus)* | |

* 'global organisation who provided us an interest free loan as a female founded organisation'

Responses did result in a fairly sizable list of supporters at local and national level and several respondents commented on the extent of support available. Respondents also mentioned courses and pro bono support provided directly by business or via intermediaries.

However, support was also described as 'very limited locally' with limited 'meaningful help' for small enterprises that needed help with basic accounting, data protection and health and safety, and little for organisations that are established or experienced. Others noted that it did not match needs – it was 'traditional business start-up support' or was not backed up with finance. Specialist support is thin on the ground and relies on a few key individuals.

Infrastructure providers in particular gave details of their programmes and demonstrated they were adapting to need, by developing social enterprise modules alongside mainstream provision, for example.

The equivalent list of the finance options available to socially trading organisations includes several that also provide business advice and support:

**Table 11:** Finance Options

| **Local:** | **Specialist** |
|---|---|
| Community Foundation (Tyne and Wear) | Green New Deal |
| Five Lamps | Landworkers' Alliance (Lottery supported) |
| Fresh Ideas Fund | Rural Community Energy Fund |
| North East Social Investment Fund (managed by Northstar Ventures) | |
| North of Tyne Innovation Recovery Grant | **General sources** |
| North Tyne Business Forum | Bank loans |
| North of Tyne Combined Authority | Bond schemes |
| North East Limited | Central government funds |
| Northumberland County Council | Community share capital |
| Northstar Ventures | Crowdfunding |
| VONNE (Voluntary Organisations' Network North East) | Equity investment |
| | Grants |
| **National:** | High street banks |
| Big Issue Invest | Innovate UK |
| Big Society Capital | Loans |
| Charities Aid Foundation (CAF) | Match Trading |
| Charity Bank | Overdraft |
| The Coalfields Regeneration Trust | Private finance |
| Community Impact Partnership | Social impact bonds |
| Co-operatives UK | Trusts and foundations |
| Key Fund | Venture capital |
| National Lottery Fund | |
| Power to Change | |
| Sir James Knott Trust | |
| Triodos Bank | |
| Unity Trust Bank | |
| UnLtd | |
| The Virgin Money Foundation | |

Respondents recommended several portals with search facilities for finance options: Responsible Finance and Good Finance.

Although there was no shortage of finance options either regionally or nationally, take-up seems relatively low, particularly for repayable finance options. Repayment terms are often less favourable than those offered by high street banks.

‘We find social investors struggle to get take up for their investments because interest rates are not as favourable as banks. And for the smaller VCSE orgs we work with, risks of lending often outweigh any potential benefits.’

**Infrastructure/representative organisation**

Other reasons for low take-up were:

- funders were less keen to support organisations that are not registered charities
- funders being more comfortable with ‘charitable’ giving, or with ‘commercial’ investment propositions
- typically financing requires security in the form of a charge over an asset or a debenture, and securitisation can be problematic as many such entities have a low asset base or, if part of an incorporated charity, trustees are reticent about providing security
- commercial lenders find income streams that mix trading with grants and donations very difficult
- social enterprises can find it difficult to generate income through trading if they operate in deprived areas, therefore cannot compete with their commercial counterparts and resort to pursuing grants.

An alternative view was that a plentiful supply of social finance (loans) is available for small to medium investments and property deals but the issue is that there are not enough fundable proposals coming forward – a long-term issue within the sector that has been exacerbated by the Covid-19 pandemic.

In recent years more social businesses have been using crowdfunding to access shorter-term funding although this relies on a solid campaign, investment in profile-building activities and a supportive community to succeed.

# 6. Opportunities and barriers for socially trading organisations

As a key aim was to find out more about expectation and optimism for future growth in the social economy, and what might help, respondents were asked for their sense of recent local expansion, the nature and scale of the current ‘pipeline’ of socially trading organisations, and the kind of obstacles that might hinder development.

## New organisations

The majority expressed a high or strong likelihood of socially trading organisations being established, especially with a motivated younger generation keen to make a difference and new organisational forms like community interest companies available to help. However, many also felt that in the absence of some of the essential conditions that would be required, new socially trading organisations would be unsustainable.

Conditions for successfully establishing a business in the sector included:

- an identifiable market for trade
- an increase in resources and funding
- networks for people to learn from each other
- support from local government and a better [unspecified] devolution deal
- an ecosystem to support the development and growth of the social economy in future.

It was commonly felt that a general lack of resource and start-up funding made it much harder now to set up socially trading organisations.

Opportunities exist as more people in the region become aware of the social economy and demand grows for products and services that make a difference. People are wanting to help address issues such as health and social inequalities although optimism was tempered by the need to find ‘paying customers’ – either individuals with disposable income or local government and statutory providers letting contracts.

Specific sectors and types of activity most likely to offer opportunities were community pubs and shops, community energy schemes, asset transfers of community venues and the green economy.

Examples of broader economic development and social sector trends that might also offer opportunity included:

- in the supply chain development of larger anchor organisations who seek social businesses to meet their social and environmental objectives
- the community wealth-building agenda
- 'Levelling Up' agenda
- improved infrastructure and networks
- availability of financial products
- leveraging additional venture capital
- the availability of under-utilised potential workspace
- disrupting established high street models
- finding more effective ways of delivering public services
- increased tourism and footfall.

Respondents were equally clear about the extensive range of barriers likely to prevent growth and hinder evolution:

- the economy and the pressure on local authority budgets, reduced disposable income as a result of cuts in benefits and increases in the cost of living
- investor and funder risk appetite, grant funders who remain 'suspicious' of social enterprises
- changing the culture of grant and public sector funding dependency
- a lack of specialist support knowledge and negative perceptions amongst mainstream business support providers
- lack of accessible information about funding opportunities
- confusion and uncertainty over legal structures, appropriate business models and regulatory requirements
- confusion over definitions with language and terminology orientated towards commercial entities
- lack of political support
- inadequate supply of affordable office space
- shortfalls in support and infrastructure for incubation activities
- a lack of a single representative body for socially trading organisations with which councils and funders can engage to develop strategy
- lack of opportunities to share knowledge, skills and resources amongst social businesses and limited buddying and mentoring schemes

Similarly notable gaps were identified in the market for suitable finance options for establishing new socially trading organisations, particularly in the next few years:

- seed funding grants
- micro grants to unlock capacity needed for start-up
- feasibility grants
- start-up grants
- accessible venture capital
- funds that reward increasing turnover
- gap funding (say for 12 months) would help enterprises establish their trading and income streams
- blended finance – a mix of loan and grant
- a revolving loan fund supported by grant that recycles the loan to support future businesses
- cheap loans
- reduced cost social finance based on grant providers and social investors coming together
- funds that do not require equity stake
- long-term patient capital
- finance for training and providing guidance
- specialist funding for cooperatives.

Finance options alone were considered insufficient to enable the kind of market development sought, and there is a need to integrate funding with business support, local knowledge and expertise, with 'structures and models developed that fit within the social economy and with the entrepreneurial mindset of a social entrepreneur' (Business support provider).

Inevitably, finance was difficult for organisations to access without a record of effective trading and newer organisations need time and flexibility to establish and embed their business models. Consequently more public sector and grant funders should develop a culture of informed 'risk' to give new enterprises and chance to succeed or share learning from failure.

## Existing organisations

Established organisations faced a mix of similar and distinctive challenges to growth and sustainability. Perhaps most notably, many existing organisations successfully navigating the pandemic have emerged in a weaker position and need additional support. Conversely, as the operating environment has also changed there was an opportunity for social businesses to build on the goodwill towards community endeavour that developed in response to the pandemic.

Opportunities were considered widespread and several respondents suggested raising the profile and showcasing the success of existing organisations, establishing a network offering peer support and collaborative trading opportunities. Collaboration could be enhanced as commercial companies become more socially conscious and traditional charities more commercial. Partnerships with local authorities, and social housing associations where residents were often beneficiaries of services, also featured in feedback.

In specifically local terms, the commitment of North of Tyne to build the social economy, the shift away from EU funding regulations and the opportunity to rethink economic development in the UK Shared Prosperity Fund were also seen as enablers of positive change.

Further opportunities to scale activity would emerge from changes to health priorities, the growing interest in community wealth building, shopping locally, community energy and environmental initiatives, regional investment and tourism. Socially trading organisations were also ideally placed to contribute to the reimagining of the high street as a less retail-focused and more collaborative social and community-based space.

Adopting new technology and increasing digital provision could reduce cost and resource pressures, and developing clear bidding and procurement assets and processes would minimise time spent reworking bids as new opportunities emerge and further reduce costs.

Barriers to the growth and sustainability of established organisations were similar to those affecting new or emerging businesses – the uncertain timetable for a post-pandemic return to previous levels of trading was challenging enough without the prevailing economic environment characterised by rising prices and living costs, falling disposable income and minimal trading margins. While funding is often geared towards start-ups, it was clear that established organisations of whatever scale would also benefit from more support.

Financial barriers included:

- main funders being overstretched
- lack of local authority funding
- high interest rates for alternative sources of finance
- lack of loans and patient capital
- limited opportunities for social businesses to build reserves in the sectors in which they operated
- short-term service contracts
- donor fatigue affecting established organisations in particular.

The small and increasingly over-stretched local infrastructure was struggling to provide much-needed support and respondents called for additional resources, including for rural areas, to provide advice and guidance, partnerships between national providers and local partners, expert advice via a one-stop shop and more coaching and mentoring.

That short-term service contracts represented a regular barrier to long-term business confidence made efforts to embed social value in public sector contracting additionally urgent.

Place-based business models were difficult to expand and diversify when specific local needs were driving business development and demand for services. In this context capability was less a concern than capacity as staff shortages, finding and retaining people with the right skills, and accessing training were seen as persistent barriers.

Gaps in the provision of finance for established organisations were currently considered similar to those for emerging business – with shortfalls left by the absence of EU unlikely to matched by support from the UK Shared Prosperity Fund, smaller local authority budgets and increased competition for existing funds.

Respondent reported familiar themes, including:

- loans
- grants (e.g. more than £100,000 for scaling up)
- flexible repayment options
- patient capital
- funding for research and development
- gaps in information and support to develop business proposals
- access to mainstream overdrafts

One established organisation pointed to the lack of ‘strategic funding’, for example to support social businesses that are supporting and helping other enterprises with advice, mentoring and space. Solutions included funding advisers/consultants to work intensively with social enterprises, and an angel network for investors looking for impact investments.

Some suggested funding should be aimed at developing new approaches or products and services that might be high risk but could bring about significant impact, and that support should be provided to businesses addressing climate change.

# 7. What else did we learn?

Participants were offered the opportunity to contribute further thoughts they felt weren't covered elsewhere, and raised several additional observations:

- the need to help organisations to understand the benefits of alternative forms of finance to grants, even though grants are still needed
- a plea to raise the profile of the social economy sector, give organisations within it greater recognition and integrate the sector within planning processes.
- there is a willingness to work together and form partnerships and networks
- embed a greater local and neighbourhood approach and more risk and an entrepreneurial culture in the agenda.

# Annex – Summary of the state of the social economy in the North of Tyne

## Introduction

This sets out the key characteristics and trends of the social economy in the North East of England and, where possible, specifically in the North East Local Enterprise Partnership and North of Tyne geographies. It draws on data, research and sources of evidence referred to by respondents to the call for evidence.

**Table 12:** The size of the sector

| | North East LEP | North East Region |
|---|---|---|
| Number of organisations | 5,400 | 7,200 |
| Number of employees | 29,000 | 38,250 |
| Estimated GVA | £551 million[3] | £845 million–£1.1billion[4] |

- The majority are registered charitable incorporated organisations but the sector also includes community interest companies, cooperatives and companies limited by guarantee. Around two-thirds (60–70%) are charities.
- Employment in social enterprises accounts for approximately 3.1 per cent of all local employment. If social enterprise were to be its own sector, it would provide proportionately more employment than agriculture, energy and water industries.
- In the North East LEP area, the estimated average turnover of social enterprises is £190,000-222,000 giving an approximate market size of £1,026 million–£1,198.8 million.
- Analysis by the NTCA estimates a modest net increase to the North East LEP market (number of organisations) in 2021 of approximately 2–3 per cent.

3 Data comes from a collection of sources analysed by NTCA including Charity Commission, Companies House, Beauhurst and the Mutuals Public Register.

4 Chapman, T. (2020) Third Sector Trends in North East England. The Community Foundation (Tyne & Wear and Northumberland) https://www.communityfoundation.org.uk/knowledge-and-leadership/third-sector-trends-research/. Based on a survey conducted in 2019. 'Third sector organisations' is a broader definition than 'socially trading organisations' and includes: general charities, social enterprises and community businesses, mutuals and cooperatives.

## Characteristics of enterprises

### Age, size distribution, activities[5]

- Social enterprises in the North East tend to be newer and smaller and responding to the very local social needs in the region. The fewer older/larger social enterprises are often well-established voluntary and community sector organisations that are restructuring their business models for increased sustainability or are long-standing cooperatives.
- The average turnover for a social enterprise in the North East was £222,000 (compared with £2.2 million UK-wide), and a far higher proportion of social enterprises in the region have turnovers under £30,000 compared with the national picture.
- Social enterprises in the North East had been trading for an average of 11 years, with 13 per cent trading for over 20 years. There was a high proportion of start-ups in the region; 53 per cent of enterprises had been trading for less than three years.
- Organisations in the region operate in many sectors including health and social care, education and other arts and cultural activities and are more concentrated in the retail sector – 16 per cent compared with 10 per cent average in the UK.
- Volunteers make a sizable contribution to the broader social economy. One estimate puts this at 154,400 volunteers who deliver 11 million hours of work across the North East region, the replacement value of which is between £91 million (at National Minimum Wage) and £148 million (at 80% of average wages).[6]

### Finance/investment

- Just over half of social economy organisations in the North East region mainly relied on 'third sector finance', e.g. grants from charitable trusts and foundations. Almost 30 per cent relied on the public sector, e.g. contracts from local authorities/NHS/government departments with the remainder relying on the private sector.[7]
- The same study found that reliance on public sector finance becomes much stronger as third sector organisations grow in size whilst grants from charitable trusts and foundations tend to be more important for micro and small third sector organisations. These findings align with analysis from the NTCA which estimates that £200 million is received in government contracts per year by only 2–3 per cent of organisations which are those which tend to have at least 100 employees.
- A third of social enterprises in the North East region applied for external finance in the year preceding the 2021 survey, with a further third considering it but not applying and another third not considering it. This marks a significant increase in finance applications and consideration of finance from 2019 and puts the region in line with national averages.[8]

5 The first four bullet points are sourced from Social Enterprise UK (2021) North East: diversifying into new markets and geographies, State of the Sector Report 2021. https://www.socialenterprise.org.uk/seuk-report/state-of-social-enterprise-2021-north-east/ This survey includes social enterprises where at least 25 per cent of their income is derived from trading.

6 Source see footnote 3

7 Source see footnote 3

8 Source see footnote 5

- In terms of who they sought finance from, just under a third of social enterprises in the North East region went to a bank – slightly more than the national average. They were slightly less likely to go to social investors or government funds, but slightly more likely to apply to their local authority and to grant making trusts and foundations.[9]
- 42 per cent of social enterprises in the region thought that there was insufficient finance available to their organisation, 45 per cent thought that the finance available wasn't suitable to their organisation and 12 per cent think that they didn't have the financial, marketing and business skills required to obtain external finance and investment. These figures are broadly in line with national averages.[10]

9 Source see footnote 5

10 Source see footnote 3

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