

GROWING THE NORTH EAST SOCIAL ECONOMY THROUGH INNOVATIVE FINANCE

A report of the consultation event on 13 June 2022

The North of Tyne Combined Authority (NTCA) and Power to Change have launched a new partnership with the objective of boosting the social economy in the North of Tyne, in collaboration with local stakeholders. In March the partnership launched a Call for Evidence to gather expert views on the opportunities and barriers to growth in the social economy and the sector's appetite for innovative financial products including loans and equity to support start-up, innovation, and scale-up.

There are estimated to be 5,400 social enterprises in the North East employing c29,000 people with an approximate total market size of £1.026m-£1198.8m and median employee numbers of 15-19 people.

This event was an opportunity to hear about the findings from the Call and to add to the evidence with further insights. Over 40 people joined the discussion, the majority from organisations in the regional social economy.

ABOUT THE EVENT

Hosted by Insights North East at the University of Newcastle, and chaired by **Jane Robinson, Pro-Vice Chancellor of Engagement and Place**, the event featured a panel of four speakers bringing different perspectives to the debate.

Jamie Driscoll, Metro Mayor of North of Tyne Combined Authority, stressed that supporting the social economy and making work pay more were key to reducing poverty and socio-economic inequality in the region. Central to the social economy and the new fund were the seven Rochdale principles at the heart of the Cooperative Movement. Supporting the social economy means reducing barriers to accessing finance, especially for start-ups, and creating financially viable and successful businesses.

Addressing the sector directly, the Mayor emphasised that the new fund is “your fund” co-designed with the sector and underpinned by these seven principles.

Michelle O'Dwyer, Director of Baytree Cookery Academy CIC and member of Black and Brown Social Traders Network (BlaST), Kindred LCR, explained how she started a CIC whilst volunteering in the community and running a commercial business. Reflecting on the difficulty of accessing finance and support to merge her CIC and commercial enterprise, she had nonetheless benefitted from encouragement and advice from peers.

Michelle benefited from the support of Kindred – a sector led and co-designed social investment vehicle in Liverpool City Region. It offered flexible finance (part grant, part loan)

which also meant that Michelle could make changes to her business plan as the work evolved.

Tim Davies-Pugh, CEO of Power to Change, underlined the importance of listening to views of the sector from the start. This provides the basis for a partnership of funders and social economy organisations that can codesign the right kind of support. He stressed the importance of funders taking a flexible and adaptable approach, led by the needs of the sector.

Danielle Cohen, Local Economies Manager, Power to Change reported that 48 individuals or organisations responded to the Call for Evidence. Almost half were organisations that are trading for social benefit (socially trading organisations, or STOs). The remainder were infrastructure organisations, social investors, funders, local authorities and business advisors.

Call to Evidence respondents broadly reflected the national picture in terms of average turnover of £190k-£222k and their growth and confidence in the future. A significant proportion (over 80%) having received a grant in the past.

RESPONSE TO THE CALL FOR EVIDENCE AND A SUMMARY OF KEY THEMES

The Call for Evidence highlighted a number of key themes for further exploration in the next stage of co-designing the new fund.

- **It's not clear what the appetite and scope is for STOs based in the North East to expand beyond the region.** In the North East, STO plans focused more on taking on buildings, scaling up trading activity, expanding geographically, and launching new services and production sites.
- **The sector appears somewhat polarized and fragmented, with many small organisations and few, much larger ones.** The North of Tyne social economy is growing, with opportunities in line with national trends. But there is also a perception that a few, larger organisations tend to benefit more, and that funding and support remain challenging.
- **The needs of STOs for finance and business support are very closely linked and need to be considered together.** There appear to be many sources of finance and business support available. However, STOs report a lack of appropriate, tailored support to scale-up, including peer support from other social enterprises, support for worker-owned cooperatives and guidance on the legal forms for start-ups.
- **Awareness of existing finance options was reportedly low and STOs desired more – and more easily accessible – information.** The social economy is often characterised as reliant on grant funding. Fifty percent in the area had used loans. Experience of exploring the full range of finance options seemed to vary.
- **Several STO respondents had successfully accessed finance from national organisations but reported a gap in local and regionally focused funds.** Gaps included patient and flexible finance as well as grant/loan blends. There was also a

view that the number of social investors needs to grow. But equally, it was acknowledged that social finance is not always competitive with bank loans.

- **The social economy should be seen as linked with the rest of the economy.** While STOs asked for money and support to be tailored to their needs, there was also a view that the social economy should not be considered entirely distinct from the rest of the economy.
- **Key priorities of STOs are still unclear.** Multiple barriers and opportunities were identified for new and established STOs but the key trends and needs remain uncertain. The results suggest a systemic response is needed to provide finance and support for both start-up and scale-up STOs.

ADDITIONAL POINTS RAISED IN DISCUSSION

It was noted that the sector's need for finance could be met in a variety of ways, such as through the provision of additional finance and improved infrastructure.

During the event, we heard further insights about how the model of Kindred worked in Liverpool City Region. Adele Myers, an audience member and part of BlaST, Kindred, emphasised that the 'ground up' approach of Kindred meant funding was designed by STOs to meet their needs. In this case, the terms offered to STOs are 0% interest, an initial 2-year repayment holiday and part-repayment of the loan in the form of social value. Michelle O'Dwyer added that Kindred enabled her business to get to where it needed to be to take on finance, through signposting and helping develop the business plan. Peer-to-peer support was an untapped resource that Kindred was also able bring together.

Tim Davies-Pugh responded to a question about the different ways in which funders **assess risk** by stressing the importance of establishing what the investment is trying to achieve. For example, Kindred minimised risk by working with organisations to ensure they were ready for funding and then providing mentoring once the investment was made.

Other comments expressed **concerns about access to finance** and where to go for appropriate finance and support. There were also concerns about the **accessibility of social finance** and how to get money to flow into the sector.

WHAT NEXT?

A full report of the Call for Evidence is being compiled. Together with contributions from this event, this report will inform the next stage of codesign of finance and business support for the social economy, which will take place with stakeholders and partners over the summer.

We are keen to continue the conversation with socially trading organisations and invite partners to let us know how they can support the next stage of engagement.

For further information see the [NTCA's Social Finance Fund](#) project page.

To stay informed, [complete our sign up form](#) to receive updates or email socialeconomy@northoftyne-ca.gov.uk.