



Social enterprise action plan

Scaling new heights



Foreword by the Prime Minister



With the publication of this action plan, government support for social enterprises enters a new phase – but it is built on deep foundations.

When, in 2003, I wrote the foreword to the launch document of the Social Enterprise Coalition,

There's More To Business Than You Think, I said that the key to increasing the role of the sector would be ensuring its value was better understood.

Now, after years of energetic campaigning by the sector and its umbrella bodies, after championing from the Social Enterprise Unit and amid a rising tide of ethical consumerism, social enterprise is breaking into the public consciousness. Increasing numbers are learning what the sector has to offer.

In its promotion of a fair society, we are seeing increasing innovation and confidence. In deprived areas, we are seeing its ability to increase employment and opportunities. In public services, we are seeing its ability to offer innovation.

In the years to come, I believe we will see more social enterprises, making greater strides towards social justice, working more easily with conventional businesses and the public sector. We will see social enterprises thrive.

A handwritten signature in black ink that reads "Tony Blair".

Tony Blair

Foreword by the Chancellor of the Exchequer



I have seen myself how social enterprises can mobilise talents and resources. Launching a directory of social enterprises in my constituency, and talking to people running them around the UK, it is clear they are centres of energy and optimism.

Nationally, they are an important part of our business future. There are an estimated 55,000 social enterprises across the country. Their addition to GDP is £8 billion. But their true contribution to business is greater than all these things: by bringing back into the economy people who were previously excluded, or by improving the environment or society, they are enhancing prosperity and social justice together.

And it is this ethos that distinguishes them. They embody the belief that a Britain of ambition and opportunity cannot afford to turn its back on talent. No individual can be locked out, no potential squandered.

Business dynamism and success with fairness and social justice: that is the core of our vision for the country, and this action plan will help enable social enterprises to achieve it.

A handwritten signature in black ink that reads "Gordon Brown". The signature is written in a cursive, slightly slanted style.

Gordon Brown

Foreword by the Minister for the Third Sector



In politics, the most rewarding moments come when you meet people who are at the forefront of social change, who believe that society can be better, fairer and more just and are making it happen.

Since I became the minister responsible for social enterprise in May 2006, I have had the privilege of seeing the extraordinary commitment and dynamism of the social enterprise movement, from the Edge Social Enterprise Award Winners, whom I met in my first week in office, to the people running the Fellrunner community transport service in Cumbria, to well-known entrepreneurs like those responsible for Fifteen or The Big Issue.

Uniting all I have met are two things: their values and their can-do spirit. They share in common a motivation to change the world using business. And they are united by a determination not to be diverted or defeated, however hard the issues they are taking on and whatever the obstacles in their way.

In doing their work, they challenge the private and public sectors. They are at the vanguard of change in both. To the private sector, the challenge is to put ethical values at the heart of their business and be a responsible member of the community. To the public sector, the challenge is to deliver public services in a different way, using the skills and expertise of users and frontline workers.

As I have met social entrepreneurs around Britain, I have tried to listen to their voices in shaping this plan. I hope it represents a further step in the right direction as we seek a genuine partnership between government and social enterprise.

We in government do not create the inspiration and dynamism of social enterprise. Equally, I know from my conversations that you need a supportive government, taking its responsibilities seriously and putting in place the right conditions for you to thrive.

As we seek to improve these conditions, the Minister for the Cabinet Office and Social Exclusion, Hilary Armstrong, and I want to hear from you. Because we see this plan as another step in the process of

improving the support for your work, not the end of that process.

Just as social enterprise is in the foothills of what it can achieve for our country, so we are learning all the time about what government needs to do to help you go from strength to strength. So please get in touch with me at socialenterprise@cabinet-office.x.gsi.gov.uk and let me know what you think of the plan and what we in government should be doing.

I am convinced that social enterprise has the power to change our country profoundly for the better in the years ahead. We want to help you to make this happen. In the meantime, I want to thank you for the privilege of having the chance to work with you.

Ed Miliband

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Executive summary

Britain's social enterprise sector is one of the most successful and vibrant in the world, championed by government and growing in scope and scale. There are currently more than 55,000 social enterprises in the UK, and we want to create the conditions for thousands more to thrive.

Our vision is of dynamic and sustainable social enterprises, contributing to a stronger economy and a fairer society.

Social enterprises as a force for change

Social enterprises are helping to change society for the better. They are businesses with primarily social or environmental objectives, principally reinvesting surpluses in the business or community. They are diverse, ranging from small, community-owned village shops to large companies winning multi-million pound contracts. They are generating more than £27 billion turnover and contributing more than £8 billion to GDP a year.

How do social enterprises contribute to society?

- They tackle some of society's most entrenched social and environmental challenges.
- They set new standards for ethical markets, raising the bar for corporate responsibility.

- They improve public services, shaping service design and pioneering new approaches.
- They increase levels of enterprise, attracting new people to business.

The enabling role of government

Government does not create social enterprises. Their leaders' driving passion and business acumen come from their determination. But government, working with social enterprises and the organisations that represent them, can create the conditions that enable social enterprises to thrive, and government can tackle the market failures that would otherwise frustrate them.

New research has estimated that at least 55,000 businesses with employees identify with the Government's definition of social enterprise. By helping more people to understand social enterprises, raising awareness among potential investors and customers, ensuring that social enterprises have access to business support and finance and are included in public service delivery, we aim to help create the conditions to enable them to succeed.

Specifically, we will do the following:

1 Foster a culture of social enterprise

Building the evidence and raising awareness of the impact of social enterprise and promotion of successful role models will attract new entrants, customers, financiers and support providers.

To make this happen:

- a. The Cabinet Office (Office of the Third Sector) will use the developing evidence base to raise awareness and understanding of social enterprise among a range of audiences, working in partnership with the Social Enterprise Coalition and others in the sector.
- b. The Office of the Third Sector will develop a programme to appoint 20 social enterprise ambassadors to raise awareness of social enterprise, working with the social enterprise sector.
- c. The Office of the Third Sector and the Department of Trade and Industry (DTI) will support a campaign to promote social enterprise to young people, Make Your Mark: Change Lives, delivered by Enterprise Insight working with the social enterprise sector.

- d. The Department for Education and Skills (DfES), supported by the Office of the Third Sector, will ensure that strengthened guidance material on social enterprise is provided to schools, and that good examples of how schools have used social enterprise are widely promoted.
- e. The Government believes that social enterprise business models should have a higher profile within GCSE, A level and other business studies courses. The Office of the Third Sector and DfES will work with the Qualifications and Curriculum Authority on how best to achieve the full integration of social enterprise business models into the GCSE business studies syllabus, and thereafter into A level and other business studies courses.
- f. DfES will explore new ways to provide and promote social enterprise learning within the tertiary education framework. The Office of the Third Sector will support DfES and the National Council for Graduate Entrepreneurship to promote social enterprise as a potential career to students in higher education.
- g. The Office of the Third Sector and the DTI's Small Business Service will develop a new research

programme to build further the evidence on the economic, social and environmental value of the sector, and the Office of the Third Sector will commission a review of research on social enterprises and ethical consumer markets and how they can affect social enterprises.

- h. To encourage links between social enterprise and the conventional private sector, the Office of the Third Sector will spread the messages from *Matchwinners* about delivering real business benefits from collaboration to a wider audience. This will include facilitating discussions with business leaders about the drivers for commercial activity with social enterprise.

2 Ensure that the right information and advice are available to those running social enterprises

Many of the challenges that face social enterprises are the same as those facing the wider business community, but those facing social enterprises can be more complex because social enterprises deliver both a financial and a social or environmental bottom line.

They therefore need access to appropriate support to maximise their business performance and, in turn, their social impact. The challenge is to ensure that social enterprises are able to access the support that they need, in the market or through government programmes, linking specialist expertise with mainstream support channels.

To make this happen:

- a. The Office of the Third Sector will provide additional funding from April 2007 to Regional Development Agencies (RDAs) to improve Business Link's capacity to broker business support for social enterprises, consistent with the cross-government business support simplification programme. From an initial pilot level of at least £0.5 million in 2007/08, the funding will rise to £1.8 million per year thereafter. The RDAs will work with stakeholders, including specialist support agencies, to use the money to meet the support needs of social enterprises in their region.

- b. The DTI will improve the social enterprise information and guidance on www.businesslink.gov.uk/socialenterprise, making it a successful single source of information for social enterprises.
- c. Capacitybuilders will fully integrate support for social enterprise infrastructure into its new strategic plan for delivering ChangeUp's objectives, and report on its impact on social enterprises in its annual evaluation.
- d. The Office of the Third Sector will work with partners to identify national, regional, sub-regional, local and sectoral social enterprise networks. Steps will then be taken to address any gaps in provision.
- e. The Office of the Third Sector, supported by the DTI and DfES, will commission a review to understand the specific skills needs of social enterprises and whether they are met by mainstream business education and training networks and organisations.

3 Enable social enterprises to access appropriate finance

Social enterprises need access to appropriate finance at different stages in their life cycle. Government needs to tackle barriers that might prevent investors from investing in social enterprises, or social enterprises from seeking appropriate finance.

To make this happen:

- a. The Office of the Third Sector will make available up to £10 million for investment in social enterprises, subject to consultation with the social enterprise and finance sectors on how best to use these resources.
- b. The Office of the Third Sector and the DTI's Small Business Service will roll out further financial awareness training for social enterprises, working with the regional development agencies and the social enterprise sector.
- c. The DTI's Small Business Service will include social enterprise within mainstream 'access to finance' interventions, such as making the next edition of the *No Nonsense Guide* to business finance more inclusive of social enterprise.
- d. HM Treasury and the Office of the Third Sector will jointly conduct a review, with the Small

Business Service and HM Revenue and Customs, of how the operation of the Community Investment Tax Relief and other incentives might be improved to the benefit of social enterprise, reporting progress in Budget 2007.

4 Enable social enterprises to work with government

Social enterprises operate across all sectors of the economy. Many operate in markets where the public sector is the main commissioner of services, such as health and social care, community transport or waste management. For them, it is important that government is an effective partner, with those commissioning public services aware of social enterprises as potential suppliers, and that blockages to best practice delivery are tackled effectively. For others, operating in commercial or consumer markets, but nevertheless generating substantial public benefits through the people they employ or the services they offer, it is important that policy makers are aware of the role that they can play.

To make this happen:

- a. The Government will implement a cross-departmental third sector public services action plan, to be published by the Office of the Third Sector later in the year.

- b. The Office of the Third Sector in collaboration with North East Regional Centre of Excellence will tackle barriers to the use of social clauses, for example through the development of a small number of template social clauses for key social outcomes as tools to enable and focus their use. The Office of the Third Sector will also work with those commissioners pioneering the use of social clauses to learn about their experiences and the costs of social clauses, and to draw together leading practice.
- c. Departments are working to overcome barriers to social enterprises delivering public services. For example, the Department for Environment, Food and Rural Affairs (Defra) will publish a revised waste strategy for England before the end of 2006, which will set out policy on social enterprise and steps being taken to help it play a greater role in sustainable waste management. The Department of Health is supporting entry of social enterprises into the health and social care services market in response to commissioner requirements.
- d. The Olympic Board is committed to ensuring that a diverse range of partners, including social enterprises, contribute to the delivery of the London 2012 Olympic Games, for example by a procurement policy which will seek to ensure open competition for contracts. The Office of the Third Sector has commissioned research to understand opportunities for social enterprise in the Olympics and the London Development Agency (LDA) is supporting a start-up programme, including social enterprise, to engage the workless in employment through enterprise.
- e. The Department for Communities and Local Government (DCLG) will work with the Office of the Third Sector, Defra and the DTI to promote ways in which mainstream regeneration funding can be used to develop sustainable social enterprise solutions, using case studies of successful practice.
- f. The Department for Communities and Local Government will publicise and promote 'clawback' guidance to local authorities, detailing the extent to which a funding body should retain an interest in a transferred asset.
- g. From April 2007, the Office of the Third Sector will extend its strategic partners programme to provide £0.8 million a year for three years to support organisations representing social enterprises at a national level, to enable the sector to raise its own profile and influence public policy.

Measuring success

The following will be measures of our success:

- if the numbers of social enterprises increase, as measured by the *Annual Small Business Survey*;
- if more people are aware of social enterprise, as measured by the *Small Business Service Household Survey*; and
- if social enterprises report fewer barriers to growth.

An ongoing process

This plan is the next chapter in the Government's continuing support for social enterprises. Since the publication of its strategy in 2002, the Government has created a new legal form, the community interest company; improved business support and advice and the availability of finance; and supported the establishment of the Social Enterprise Coalition to provide a unified voice for the sector to work with government in raising the profile of social enterprise.

The plan sets out the role of government in supporting social enterprises, and outlines actions that the Government will take in the next phase of its support.

The actions in this document are not the end of the process. As we learn more about social enterprise, some actions may need to be added, others modified. The Government and the sector need to acknowledge where gaps in our knowledge remain and how the evidence can be developed.

HM Treasury and the Office of the Third Sector are currently engaged in a review of the third sector in social and economic regeneration, to feed into the Comprehensive Spending Review 2007. This review is

being informed by the largest consultation the Government has ever conducted with the third sector, and this action plan forms an early response to some of the issues raised during the consultation. The Government intends to set out further details of the consultation and next steps around the time of the Pre-Budget Report.

Implementing the action plan will be a collaborative process, and feedback is welcome.

- You can email us at:
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- You can write to us at:
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Office of the Third Sector
Cabinet Office
35 Great Smith Street
London SW1P 3BQ
- Or visit our website at:
www.cabinetoffice.gov.uk/thirdsector

People running or looking to start up a social enterprise can find help at **www.businesslink.gov.uk/socialenterprise** which provides advice to all businesses and links to further sources of advice, including websites and materials developed by the sector.

Information on social enterprise in the UK can be found on the Social Enterprise Coalition website – **www.socialenterprise.org.uk**. A campaign to promote social enterprise to young people is also profiled at **www.starttalkingideas.org**

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1

Why social enterprise matters

Understanding social enterprise

- 1 The Government believes social enterprise has a key role to play in achieving many of its goals, including overcoming social injustice and exclusion. At the heart of social enterprise is a strong commitment to achieving a better society. The social enterprise sector is diverse, including development trusts, community enterprises, housing associations, football supporters' trusts, social firms, leisure trusts and co-operatives. Social enterprises therefore use a wide variety of legal forms; some incorporate as companies while others take the form of industrial and provident societies. The national umbrella body for social enterprises in the UK is the Social Enterprise Coalition (case study 1).
- 2 Social enterprises range from small, community-owned village shops, to large development trusts such as Coin Street Community Builders on London's South Bank. But large or small, they prove that it is possible to combine social responsibility with financial success. They set an ethical standard in the private sector, and challenge the public sector through their innovation in service delivery. What social enterprises all have in common is a commitment to delivering both financial and social or environmental objectives.

Definition 1: What is a social enterprise?

A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.

Case study 1

The **Social Enterprise Coalition (SEC)** is the national body for social enterprise in the UK. Its member networks span the social enterprise movement, and bring together over 10,000 businesses that trade for a social purpose, providing them with a collective voice. Established by the social enterprise movement in 2002, with backing from the DTI, SEC has developed into an effective champion for social enterprise. It is a valued partner and adviser to Government, raising the profile of social enterprise and building capacity and encouraging co-operation across this new and growing sector. www.socialenterprise.org.uk

- 3 Social enterprises are part of the 'third sector', which encompasses all organisations which are non-governmental, principally reinvest surpluses in the community or organisation and seek to deliver social or environmental benefits. The third sector embraces voluntary and community organisations, charities, social enterprises, mutuals and co-operatives.¹
- 4 The roots of social enterprise reach back to the co-operative movement and the Rochdale Pioneers of 1844, who established one of the earliest co-operative enterprises. Similarly, many charities have, historically, sought to increase their income by trading, either with retail consumers or by delivering contracts for government. However, the first government document to acknowledge social enterprises as a group of organisations concerned with delivering social or environmental objectives through trading was *Enterprise and Social Exclusion*,² published in 1999. This report covered the role, and potential contribution, of social enterprises in the regeneration of deprived areas.

¹ Definition based on HM Treasury, DTI, Home Office (February 2005) *Exploring the Role of the Third Sector in Public Service Reform*.

² National Strategy for Neighbourhood Renewal: Policy Action Team 3 (1999) *Enterprise and Social Exclusion*. London: HM Treasury.

- 5 More is now known about social enterprises than ever before. In early 2006 the Government extended a mainstream business survey to include social enterprises. This provided new information about the full extent of social enterprise across the whole economy.³ It estimated that at least 55,000 businesses with employees fitted the Government's definition of social enterprise.⁴ This represented about 5 per cent of all businesses with employees, with a combined turnover of about £27 billion, or 1.3 per cent of the total turnover for all businesses with employees. Their contribution to GDP was estimated to be £8.4 billion.

³For further information see www.cabinetoffice.gov.uk/thirdsector

⁴Estimate derived from the data from Small Business Service (2006a) *2005 Annual Small Business Survey*. London: Department of Trade and Industry, combined with large company data from IFF Research (2005) *A Survey of Social Enterprise across the UK*. London: Small Business Service.

Definition 2: What is a co-operative?



Some of the oldest and largest social enterprises are co-operatives – and so are some of the most modern.

July 2006 saw the establishment of the first co-operative community interest company, Mobile Advice Co-operative in Darlington, providing free drop-in advice on housing, benefits, debt, domestic abuse and other issues. And there are around 8,000 industrial and provident societies, either co-operatives or community benefit societies, and many more formed as companies limited by shares or guarantee.

Unifying them are the 'co-operative values and principles' covering self-help, responsibility, democracy, equality, equity and solidarity. A co-operative is defined as an autonomous association of persons united voluntarily to meet their common economic, social and/or cultural needs and aspirations through a jointly owned and democratically controlled enterprise. It is estimated that there are 800 million members of co-operatives around the world.

Co-operatives today are thriving in agriculture and manufacturing as well as providing diverse services, from retail to housing, health and social care to education, finance to graphic design.

Co-operatives^{UK}, the central membership organisation for co-operatives in the UK, is a member of the Social Enterprise Coalition.

The co-operative and credit union sectors are operating using legislation that dates back many years.

HM Treasury, in partnership with representatives of the co-operative sector and other stakeholders, is to undertake a review of co-operatives legislation – the Industrial and Provident Societies Acts and the Credit Unions Act. The Government will identify the strengths and weaknesses of the current framework and produce recommendations for improvement and reform.

www.cooperatives-uk.coop

- 6 A previous survey, published in July 2005, provided more detailed analysis of part of the social enterprise sector. Focusing on companies limited by guarantee and industrial and provident societies, it found that most were small organisations: 23 per cent had an annual turnover of less than £100,000, and the median was £285,000, although almost one in five had a turnover of more than £1 million a year.⁵
- 7 This survey also confirmed that social enterprises were involved in a wide range of economic activity, in sectors such as training, social care, housing, leisure and childcare.
- 8 The diversity of social enterprises is reflected in their different histories. More evidence is needed on how different models perform in different circumstances,⁶ but the ways in which social enterprises start up can include the following:⁷ new start-ups, led by individuals or communities;

⁵ IFF Research (2005) *A Survey of Social Enterprise across the UK*. London: Small Business Service. The survey focused on two legal forms used by social enterprises – companies limited by guarantee, and industrial and provident societies. Although this meant that it underestimated the overall population, it provides important detail on the make-up of social enterprise.

Case study 2



Supporters Direct (SD) has secured a £1.8 million funding deal over three years from the Football Stadia Improvement Fund, starting in 2007/08. The funding deal will enable SD and many trusts to work in partnership to develop a fundamental change in approach to the running of some football clubs, by delivering a new community ownership structure enabling them to relocate and to deliver core local services from stadiums. www.supporters-direct.org

AFC Telford Utd Ltd was formed by the club's supporters, who promised themselves and the community that they would keep football alive in Telford. 'The club is like a co-operative, 100 per cent owned by the community', says Mark Donavon, Telford and Wrekin Council regeneration manager, explaining that the council has been active in forming a partnership with the club and helping to develop the stadium. Along with partners in private companies and voluntary and community groups, the club has been developing a range of new facilities and services for the community, including an ICT room, a vulnerable children project and a learning centre which will be the 'hub' of a project that aims to help thousands of schoolchildren each year use a dynamic sporting environment to develop numeracy, literacy and computer skills. www.telfordutd.co.uk, www.tust.org

⁶ Issues such as these relating to the evidence on the third sector are being examined in more depth in the HM Treasury/Cabinet Office review of the third sector in economic and social regeneration.

⁷ List adapted from Bates, Wells & Braithwaite and Social Enterprise London (2003) *Keeping it Legal: Legal Forms for Social Enterprises*. London: Social Enterprise London.

transformation of an existing voluntary or community organisation; spin-offs from voluntary or community organisations; employee or community buy-outs of private sector businesses which then adopt social aims (case study 2); and spin-offs from public sector bodies.

The impact of social enterprise

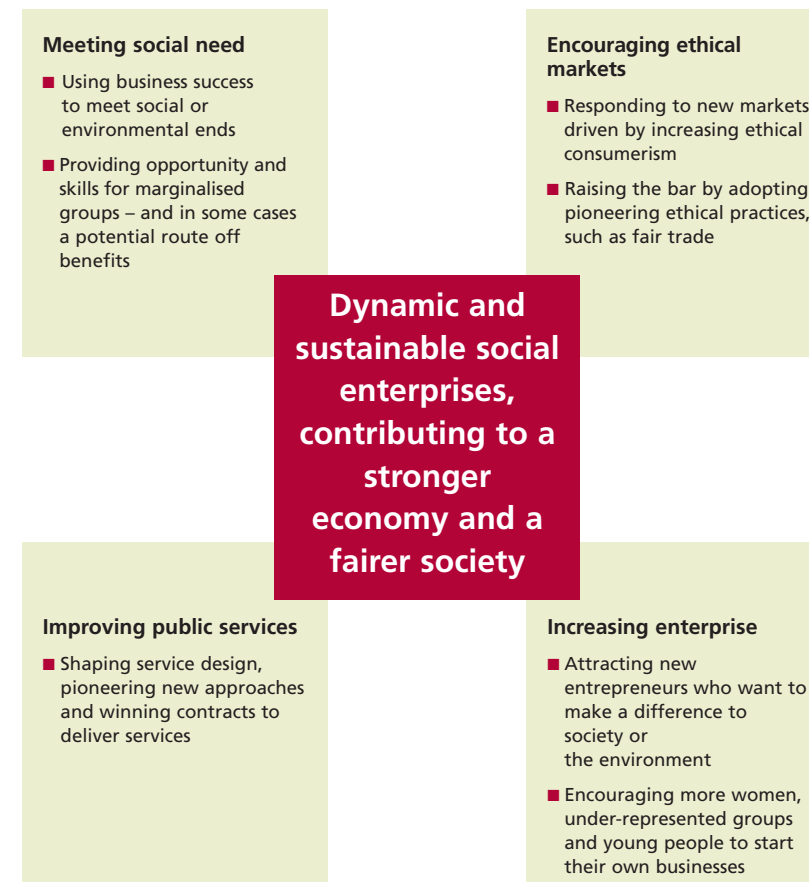
9 The Government recognises that social enterprises contribute to its vision of a fairer, more just society – and, so, to a number of its key targets.⁸

Contributions come through:

- meeting social needs, using business success to address social or environmental challenges such as regeneration and social inclusion;
- encouraging ethical markets, raising the bar for corporate responsibility;

⁸These include Objective I of the Department for Communities and Local Government (tackling disadvantage by reviving the most deprived neighbourhoods, reducing social exclusion and supporting society's most vulnerable groups); Objectives I, II and IV of the Department for Work and Pensions (on child poverty, employment, and disabled people, respectively); and the Department of Trade and Industry's Public Service Agreement 6 (on building an enterprise society); as well as contributing to specific public services.

Figure 1: The contribution of social enterprise



- improving public services, by shaping service design, pioneering new approaches and delivering services; and
- improving levels of enterprise, showing that ethical commitment and business success can be combined.

Social enterprises help meet social and environmental needs

- 10 Social entrepreneurs are driven by their desire to change society for the better. Social enterprises use the strength of a sustainable business to meet social need and regenerate deprived communities.



'We started 15 years ago to get people with the problem becoming a part of the solution. We gave people the chance of making their own money. We continue to create independent lives for the victims by getting them out of their victimhood.' **John Bird, Founder and Editor-in-Chief, *The Big Issue***

Case study 3



Newlife is a Leicester-based construction company providing employment and training to the long-term unemployed and school leavers who have not gone into further education. The Small Business Service has undertaken a cost/benefit analysis of a Newlife project renovating 204 houses in North Braunstone.

The Small Business Service estimates that the Exchequer could save around £3,500 per person per year in Jobseeker's Allowance payments and



Housing/Council Tax Benefits when this target group is helped into work.

For this project this represents a total saving to the Exchequer of approximately £77,000 a year.

As a result of training and employment by Newlife, the lifetime earnings potential of each worker will increase. The benefit for each worker is estimated to be about £20,000 on an annualised basis. The aggregated benefit of increased lifetime earnings potential is estimated at around £450,000 annualised.

The Small Business Service estimates that the total net benefit of the Newlife project, taking account of the reduction in Jobseeker's Allowance payments, the increase in lifetime earnings and other benefits (explained further at www.cabinetoffice.gov.uk/thirdsector), is around £610,000 a year. www.newlife-build.co.uk

11 This was confirmed by the 2005 survey of social enterprises, in which 17 per cent reported that their primary aim was to help the environment; 34 per cent aimed to help both the environment and people, by providing employment, goods or services; and 49 per cent aimed to help people alone.⁹ One quarter specifically helped people through providing or brokering employment opportunities, often for socially excluded groups (8 per cent of social enterprises). Case study 3 gives an example of a social enterprise, Newlife, that provides jobs and training to the long-term unemployed, resulting in considerable savings to the Exchequer.

12 Social enterprises can also contribute to neighbourhood regeneration. Over half of the social enterprises in the 2005 survey were in the 40 per cent most deprived areas.

Social enterprises encourage ethical markets

13 There is emerging evidence of a shift in public attitude, with consumers and employees increasingly expecting that companies show a high degree of social and environmental responsibility in their operations. Between 2003 and 2004, 'ethical consumption' (where choice has been informed by a particular ethical issue, such as human rights or the environment) grew by 15 per cent, to stand at £25.8 billion.¹⁰ Between 1999 and 2004, the percentage of the population that said they chose a product or service on the basis of a company's responsible reputation increased from 51 per cent to 62 per cent.¹¹

14 Social enterprises have been in the vanguard of new markets to meet the increase in ethical consumerism, and they are well placed to respond to future growth. The principles of fair trade in coffee, returning profits to farmers in developing countries, were pioneered by CaféDirect from 1991, and have now been adopted by some mainstream providers. Between 1999 and 2004, the sale of Fairtrade-marked food grew by more than 640 per cent.¹² Research with businesses in the North West found that corporate responsibility can be best improved by demonstrating what is possible – 'organisations are most inspired and encouraged by learning from each other'.¹³

⁹ IFF Research (2005) op. cit.

¹⁰ The Co-operative Bank, New Economics Foundation and The Future Foundation (2005) *The Ethical Consumerism Report 2005*.

London: The Co-operative Bank.

¹¹ Ibid.

¹² Ibid.

¹³ Sustainability Northwest (2005) *Responsibility Northwest: Businesses Working Together for a Better Northwest*. Manchester: Sustainability Northwest.

Social enterprises improve public services

- 15** Many of the markets in which social enterprises operate are ones in which the public sector is a major customer. Research by the Small Business Service on procurement from small businesses highlights how social enterprises are winning contracts and delivering successfully (case study 4).¹⁴
- 16** At their best, social enterprises can offer a high level of engagement with users and a capacity to build their trust.¹⁵ They are also a valuable source of innovation – including for services they do not deliver directly. Public services learn from the problem-solving spirit of social enterprises, which can help improve the quality of public services by shaping service design and by pioneering new approaches that can influence the way services are delivered by the public sector.

¹⁴ Small Business Service (2005) *A Study of the Benefits of Public Sector Procurement from Small Businesses*. London: Small Business Service.

¹⁵ HM Treasury (2005) *Exploring the Role of the Third Sector in Public Service Delivery and Reform*. London: HM Treasury.

Case study 4



Community Foster Care (CFC) is a social enterprise helping to diversify the market in social care – where there is an estimated shortfall of over 10,000 foster carers across the UK. CFC is an independent agency that fills a gap in the market for foster carers, providing foster carers for ‘looked after children’ placed by local authorities. CFC has provided employment for many local people, particularly in the socially and economically deprived areas of Gloucestershire. It recruits foster carers and provides them with ongoing training and support to ensure they meet the high standards required by the National Minimum Standards for Fostering Services, the Fostering Services Regulations 2002 and the Care Standards Act 2000. CFC takes the financial risk, as social services only approach independent agencies when their own in-house carers cannot take a child, and only pay while a child is in placement. CFC is considering replicating its business model. www.communityfostercare.co.uk

Case study 5



The Big Life group, formed in 2002, is a collection of social businesses and charities working together to provide support and opportunities to help people to change their lives. The group employs about 220 people and turnover in 2003/04 was

£8.3 million, with less than 5 per cent coming from grants. Income streams are primarily from activities such as contract delivery of primary healthcare services, Jobcentre Plus services, advertising and magazine sales revenue from *The Big Issue* in the North, and fees charged to parents for the provision of childcare services. Its childcare service also extends to providing accredited training to local people who wish to work in this area. The group also sees opportunities for expansion into primary healthcare and children’s centres.

www.thebiglifegroup.com

Social enterprises increase overall levels of enterprise

- 17** Enterprise is the lifeblood of the UK economy, creating prosperity and jobs. Encouraging enterprise contributes to economic success, improving productivity and competitiveness and contributing to efficiency and innovation. Although levels of enterprise are ahead of the other major European Union (EU) economies and Japan, the UK must attract new people into business if it is to close the productivity gap with countries such as the USA and Canada.
- 18** Social enterprises can make a valuable contribution to the level of business start-up. Those who may not be attracted by conventional business may be more interested in starting a social enterprise, and social enterprise may be an attractive way to fulfil the aspirations of young people for social change.



'I think social enterprise is an extremely exciting area. I wouldn't want to be doing anything else. It's stimulating, dynamic and I'm learning about every single aspect of the business from charity law to marketing and sales. But at the end of the day you don't have to be just driven by the bottom line. You have an extra drive and passion for what you're doing, because you're changing things in a very real way.'

Amy Carter, 26, co-founder, Bespoke Experience and Young Social Entrepreneur of the Year, Edge Upstarts Awards 2006

- 19** Findings from Global Entrepreneurship Monitor highlighted that women and certain ethnic minority groups were more likely to choose to be social entrepreneurs than conventional entrepreneurs (case study 6).¹⁶ In some regions, women are more likely than men to start up and run a social enterprise, in contrast to being less than half as likely to start up and run a conventional business.

¹⁶ Harding, R, Brooksbank, D, Hart, M, Jones-Evans, D, Levie, J, O'Reilly, M, Walker, J (2004) *Global Entrepreneurship Monitor: Focus on Social Entrepreneurs*. London: London Business School. See also Harding, R and Cowling, M (2004) *Social Entrepreneurship Monitor*. London: London Business School.

Case study 6



Sunderland Home Care Associates (SHCA), overall winner of the Enterprising Solution Awards 2006, is a social enterprise set up in 1994 to take advantage of opportunities from the deregulation of the delivery of local authority domiciliary care. Started with just 20 employees, mostly female, SHCA now employs over 175 people (85 per cent of whom are women), and has an annual turnover of £1.75 million.

SHCA is a major provider of personal care and domestic services on behalf of Sunderland City Council. Its particular focus is on enabling older and disabled people to stay in their homes for longer by offering them specially tailored care services. Its flexible working policies allow employees to balance work and family life, resulting in an exceptionally low staff turnover of 3.5 per cent annually.

Accepting the award, Margaret Elliot, SHCA's founder, said: 'I have worked in this field for over 30 years and have worked hard at what I truly believe in. I see, on a daily basis, how this way of working literally changes people's lives. A wise and humane man once said: "What we think or what we believe is, in the end, of little consequence. The only thing of consequence is what we do."'

SHCA's success has led to the setting-up of Care and Share Associates to replicate the business model, which has so far been copied in North Tyneside, Newcastle and Manchester. www.casaltd.com



The role of government

- 20** Social enterprises are businesses motivated by the pursuit of social and environmental objectives, which they must be commercially successful to achieve. The role of government is not to create social enterprises, but to create an environment that allows them to succeed.
- 21** The principal way in which government can achieve this is by identifying and helping to overcome market failures. In many cases, this involves overcoming the information deficit that exists: financiers and customers can be insufficiently aware of social enterprise to make an informed choice. Although individual social enterprises may have been in business for many years, the term 'social enterprise' and the concept of achieving social or environmental objectives through trading are still not widely understood. This can prevent possible entrepreneurs from realising their potential or their social goals. It can also prevent investors, customers and advisers from working effectively with social enterprises.
- 22** There are four areas where the role of government is most important, and which are the focus of this document:
- **Government can foster a culture where there is full information about the potential of social enterprise.** It can build the evidence base, promote role models, and work with others to disseminate the knowledge of the impact of social enterprise and to inspire new entrants to the sector. This will help to raise the profile of social enterprise among possible founders, customers, financiers and advisers.
 - **Government can ensure that the right information and advice are available to those running social enterprises.** There is evidence to show that business support improves business performance, but businesses may not be aware of the value it can bring and have difficulty finding the right advice. The Government is concerned with making sure that the business support landscape is well signposted, and that businesses including social enterprises are aware of where to go for the best advice. Our approach is to make sure that business support interventions are accessible and appropriate to social enterprises, and, where there is a clear need for specialist support tailored to social enterprises,
- this should be linked as much as possible into mainstream services. The Government is simplifying its business support environment by reducing the number of business products and services from about 3,000 today to no more than 100 by 2010. This will ensure that all publicly funded business support provides value for money and better access for all businesses.
- **Government can enable social enterprises to access appropriate finance.** Many forms of finance and funding are available in the market, ranging from charitable grants to loan finance. Government's role is to address any failures that exist in that market, to ensure that viable social enterprises are able to access the finance they need. There appear to be specific barriers to financing social enterprises, including a higher perception among social enterprises that they might be rejected by lenders, and the difficulty of raising equity capital in organisations that do not have a share structure. Government has a role in working with the finance and social enterprise sectors to find solutions.

■ **Government can ensure that social enterprises are able to do business with the public sector and to work with government to achieve shared objectives.**

Social enterprises operate across all sectors of the economy, serving individuals in the private, public and third sectors. For those social enterprises operating in markets where the public sector is the main customer, it is important that government is an effective partner. Structural barriers that prevent social enterprises being able to compete fairly for government contracts must be removed, and public policy makers must be aware of the role that social enterprise can play in delivering government objectives.

Progress in delivering the Government's social enterprise strategy

- 23** Government, working in close partnership with the social enterprise sector, has already achieved a great deal in its support for social enterprise. The first government strategy for social enterprise, launched in 2002, proposed ways to create an enabling environment, make social enterprises better businesses, and establish their value.¹⁷
- 24** An independent review has examined the impact of the Government's social enterprise strategy so far.¹⁸ They concluded that valuable progress has been made since the strategy was launched (table 1).
- 25** Overall, the review reported strong support for building on the social enterprise strategy. It concluded that the Government's strategy had galvanised interest and action among a range of stakeholders, and that the underpinning analysis – and its aim to help the sector grow – remained valid.

¹⁷ DTI (2002) *Social Enterprise: A Strategy for Success*

¹⁸ GHK (2005) *Review of the Social Enterprise Strategy: Summary of Findings*. London: Small Business Service.

Table 1: Progress made since the launch of the social enterprise strategy in 2002

Issue	Independent review findings
Size of the sector	Respondents reported growth of the sector.
Awareness of social enterprise	Increasing awareness of social enterprise, including high-profile examples of successful social enterprises.
Business improvement and development	Availability of appropriate support has increased, and new and better tools have been developed to support the sector.
Improving profile and credibility of social enterprises	Significant improvement, particularly in social enterprises' profile among policy makers.
Underpinning evidence	The volume and quality of data and information on the sector have increased – in particular through the Department of Trade and Industry's <i>Survey of Social Enterprise in the UK</i> .

Definition 3: What is a community interest company?



Community interest companies have a flexible company structure with a strong identity. They include a compulsory asset lock, and have the ability to raise share and loan capital. They can be a private company limited by shares or guarantee, or a public company. To apply, the applicant must make a community interest statement identifying who the company intends to benefit and in what way. The asset lock means the company's assets (including surplus profits) must be used for the benefit of the community it was set up to serve, or if transferred to a third party for another purpose then full market value must be attained. An annual report provides for transparency of operation, informing the Regulator of Community Interest Companies and the general public of what has been achieved by the money generated through the year. www.cicregulator.gov.uk

- 26 Some of the most important actions taken by the Government to help social enterprise include:
- creating a new legal form, the community interest company, to provide a clear, lightly regulated structure for social enterprises. It enables new or existing organisations to clearly signal their social or environmental credentials. Over 500 organisations have now registered as community interest companies. Definition 3 has more details and case study 7 gives an example of one of the early adopters of the new form;
 - increasing the amount of finance available to social enterprises, by supporting the establishment of the £125 million Futurebuilders fund, managed by Futurebuilders England, and, through the Small Business Service's Phoenix Fund, a range of community development finance institutions;
 - helping to raise the profile of social enterprise, funding the establishment of the Social Enterprise Coalition, and, together with Enterprise Insight and the Social Enterprise Coalition, organising Social Enterprise Day;

Case study 7



The **ECT Group**, the UK's largest community interest company, provides a range of high-quality, cost-effective public services. These include recycling and sustainable waste management, street cleaning, healthcare, public and community transport, community railways, and vehicle and railway engineering. With nearly £50 million of turnover and over 1,100 staff, it is one of the UK's leading social enterprises and the UK's largest community recycling organisation.

The ECT Group has a clear purpose: to provide outstanding, socially responsible, environmentally aware, and financially sustainable public services to local communities.

ECT's Chief Executive, Stephen Sears, believes that being a community interest company drives home the reality that ECT is a profitable enterprise, and hopes that the community interest company brand will help people identify ECT's social enterprise ethos and its approach to public service delivery. www.ectgroup.co.uk

- along with other key sponsors, developing Enterprising Solutions into prestigious national annual awards, delivered since 2004 by the Social Enterprise Coalition (case study 8);
- working with regional development agencies to support regional networks of social enterprises, and to improve the knowledge and expertise of business support providers;
- encouraging collaborations between social enterprises and conventional companies, with the publication of *Match Winners*, which profiles successful commercial relationships; and
- supporting social enterprises through local and regional government. The new Local Enterprise Growth Initiative has seen social enterprise included in all successful first-round bids, and social enterprise has received more emphasis in each of the English RDAs' new corporate plans (published in summer 2005). Similarly, the devolved administrations and the Northern Ireland Administration now all have their own strategies to support social enterprise. See annex 2 for more information.

27 The past few years have seen great steps forward by the social enterprise movement in working together and with government to support the growth of social enterprise. Specialist national umbrella bodies such as co-operatives^{UK}, the Development Trusts Association, Social Firms UK, SpoRTA and the Community Action Network have made progress in supporting the development of different types of social enterprise, working on issues such as business start-up, legal structures, quality and impact measurement and access to finance; and have encouraged learning and joint working across the sector. In addition, strategic social enterprise bodies have been established in many of the English regions, along with the Scottish Social Enterprise Coalition and networks in Wales and Northern Ireland, and these have been working with the RDAs, Government Offices, local authorities and the devolved administrations to bring a much more joined-up approach to support for social enterprises on the ground. At a national level social enterprises and their specialist networks are working together through the Social Enterprise Coalition to ensure this growing movement builds on its successes.

Case study 8



The **Enterprising Solutions Awards** are annual national social enterprise awards, started by RBS NatWest and endorsed by government, that aim to recognise and celebrate the best social enterprises – imaginative, entrepreneurial, sustainable businesses that are passionate about social change. Applications can be from enterprises regardless of size and legal structure (charitable, non-profit distributing, mutual, co-operative, community or socially directed). In their ninth year the Awards provide the sector with inspirational models and allow successful and innovative social enterprises to benefit from national and regional media coverage.

www.enterprisingsolutions.org

28 With many of the conditions for success in place, new challenges emerge. These were highlighted by the review of the strategy, and are the focus of part 2 of this plan. The actions and analysis have benefited from a working group drawn from across government and the sector (annex 1).

29 Over recent months, the Government has been conducting the largest-ever consultation with the third sector, in preparation for the Comprehensive Spending Review 2007. The consultation has reached every region of the country. This action plan forms the first response to this consultation process, setting out what the Government is going to do to support growth in social enterprise. The actions specified in this plan are primarily for government – national, regional and local – working in partnership with social enterprises and their representative organisations.

30 Where we have clearly identified a need for government action, the plan sets out how we propose to meet that need. Where the evidence is insufficient, or the solution unclear, we will invite

social enterprises and others with knowledge of the sector to help us build the analytical base and solve these issues.

31 To play its part the sector needs to raise its own profile, make use of available tools to 'prove' its social impact, develop its capacity to deliver quality products and services to market, and attract and retain dynamic new entrants.



The international dimension

International thinking on social entrepreneurship, social enterprise and the social economy is evolving rapidly. The Office of the Third Sector is contributing to and learning from this, through building on links with the EU and other international partners and events such as the annual Skoll World Forum on Social Entrepreneurship. This includes working with colleagues in other EU Member States to share the results of the social economy strand of the EU-wide Equal programme and to use the results to inform policy.

Equal is a European Social Fund initiative which tests and promotes new means of combating all forms of discrimination and inequality in the labour market through transnational co-operation. One of the thematic fields (Theme D) is the social economy. In the UK, Theme D projects have addressed the barriers to growth of the social enterprise sector. Over two rounds of Equal, UK projects worth approximately £40 million have been funded (half of the costs met by the Equal fund). Outputs include development of tools to measure quality and impact of social enterprises, production of National Occupational Standards for managers of and advisers to social enterprises, development of a database of consultants for social enterprises, and work with local authorities to increase procurement opportunities for social enterprises – see

www.equal.ecotec.co.uk/resources/gpg and www.equal-works.com. To ensure that this work has the maximum impact, the Office of the Third Sector is supporting the Social Enterprise Coalition in disseminating and mainstreaming the learning from Equal projects – see www.socialenterprise.org.uk/Page.aspx?SP=1937

Colleagues in a number of Member States are organising events to share lessons from Theme D projects across Europe and develop policy recommendations – see for example

http://europe.eu.int/comm/employment_social/equal/activities/200604-se-etg2_en.cfm

As part of the independent review of the social enterprise strategy, an analysis was conducted of research on social enterprise policy and practice at European and global scales. The study focused on developments in five countries: France, Germany, Italy, Poland and the United States. The review highlighted there are many models of social enterprise operating across these countries, often in ways that address specific market failures. It also found similarities between the priorities of policy makers, particularly in terms of creating enabling environments for social enterprise to grow. Overall, the review concluded that the UK can learn from international social enterprise experiences, as well as being well placed to inspire developments in other countries. www.cabinetoffice.gov.uk/thirdsector



2

An action plan for
growth

Fostering a culture of social enterprise

We want to raise awareness of social enterprise across many audiences, to show that financial success and social and environmental benefits can be achieved together.

- 32** The traditional and accepted representation of business has focused on generating a financial return, but in reality this is only one of the reasons that entrepreneurs may look to start up a company. What motivates an entrepreneur may be as much about tackling social or environmental concerns as it is about generating a return for shareholders. At the same time, both employees and customers are demanding more socially responsible behaviour from businesses.
- 33** Successful social enterprises such as ECT Group, Greenwich Leisure and the Eden Project show that it is possible to combine financial and social objectives. But the DTI's *Household Survey* found that only 26 per cent of people were familiar with the concept of social enterprise.¹⁹ This lack of knowledge is likely to restrict people's ability to make decisions about the type of business they set up, choose to work for, buy from, or invest in.

- 34** The lack of information may also restrict the ability of social enterprises to influence the wider business culture. Other businesses may be unaware of the tools and techniques needed to measure their social impact, or the possibility of meeting their corporate social responsibility obligations by making ethical purchases from social enterprises in their supply chains.
- 35** Sector representative bodies have a big role in raising awareness of what social enterprise can offer. Individual social enterprises could make better use of information about their social and environmental added value in the way that they market themselves to customers and policy makers. But government also has a role in helping to overcome the information failures.
- 36** Government can:
- build the evidence of the impact and role of social enterprises; and
 - use the evidence to raise awareness of social enterprise among young people, businesses and other potential founders and employees.

¹⁹ Small Business Service (2006b) *Household Survey*. London: Department of Trade and Industry.

²⁰ IFF Research (2005) *A Survey of Social Enterprise across the UK*. London: Small Business Service.

²¹ Small Business Service (2006a) *op. cit.*

Building the evidence

- 37** In 2002, the Government's social enterprise strategy acknowledged that there was a major evidence gap. Individual firms found it difficult to measure their impact on people and places. The sector as a whole was unaware of its size and characteristics.
- 38** Since then, the first national survey of social enterprise has provided an initial snapshot of the shape and size of the sector.²⁰ Emerging findings from mainstream business surveys are starting to improve intelligence about social enterprise within the broader economic context.²¹
- 39** At the level of the firm, tools for quantifying and using information on social impact have been developed, enabling individual social enterprises to develop a much better understanding of how they are able to deliver their social or environmental mission. For example, the Government supported the Social Enterprise Partnership in producing *Proving and Improving: a quality and impact toolkit for social enterprise* (case study 9). Many social enterprises are now using these tools to prove their value and improve their own marketing.

Case study 9

The DTI and Equal supported the Social Enterprise Partnership in producing *Proving and Improving: a quality and impact toolkit for social enterprise*. A range of tools and resources are featured, including an indicators bank, 10 steps to proving and improving quality and impact, and social return on investment (SROI). *The SROI Primer*, an introductory video, has also been produced. Social enterprises can use these new resources to demonstrate to customers and policy makers how their activities contribute to a double or triple bottom line – delivering social and environmental benefits as well as economic ones.

www.proveandimprove.org

Case study 10



Project Cosmic is a rural social enterprise providing a range of information and communication technology (ICT) services in Ottery St Mary, Devon. Set up in 1996 its

activities include a focus on overcoming the twin barriers faced by rural communities: distance and isolation, which can lead to exclusion and disadvantage. These activities include: delivering its services in innovative and fun ways, which has included a mobile 'Space Shuttle' with state-of-the-art equipment, visiting communities providing IT training to local people, and supplying other community organisations and businesses with their technology needs, such as websites and IT training. Chief Executive Julie Harris says: 'Being a social enterprise is like gold in the bank in credibility and marketing terms. The public trusts you and it has tremendous power to attract new business, particularly the growing number of businesses with a social conscience. It is a priceless, unique selling point.' www.cosmic.org.uk



- 40 Most social enterprises are one-off, stand-alone businesses, created to address a particular, and often local, need or issue. However, some business models and methodologies developed in one sector or geographic area may be able to be transferred and applied elsewhere. The Community Action Network, Social Firms UK, the North East Social Enterprise Partnership and partners, supported by the Phoenix Development Fund and the EU Equal programme, have investigated replication, using various approaches, ranging from franchising and licensing to less formal sharing of experience. There is scope for the learning from these projects to be disseminated more widely.

- 41** A deeper understanding of where and how social enterprises can be most successful is now required. What factors make social enterprises successful? How can their direct and indirect impact be maximised?
- 42** **The Office of the Third Sector and the DTI's Small Business Service will develop a new research programme to build further evidence on the economic, social and environmental value of the sector.** The programme will, for example, look at the development of social enterprise in the UK over time (through the *Annual Small Business Survey*) and the range of outcomes that social enterprises can potentially bring to people and places (through targeted research and 'think' pieces). This work will bring together those people who are best placed to contribute to the development of the overall evidence base.
- 43** Publicly available data on the demand for ethical consumption also needs to be improved. Some information on ethical consumerism is already available. But more needs to be known about how it relates to social enterprise – not just about how ethical markets are developing, but about how social enterprises can have a role in creating or serving these markets.
- 44** **The Office of the Third Sector will commission a review of research on ethical consumer markets and how they can affect social enterprises.**
- 45** Building the evidence base provides the collateral to enable government and the sector to promote social enterprise more effectively to a range of audiences which might include potential entrepreneurs, financiers and customers in public and commercial markets.
- 46** **The Office of the Third Sector will use the developing evidence base to raise awareness and understanding of social enterprise among a range of audiences, working in partnership with the Social Enterprise Coalition and others in the sector.**
- Raising awareness: attracting new entrants**
- 47** Social enterprise has become an increasingly important part of this overall enterprise agenda. There is a chance to tap into the passion for ethical business by stimulating interest and engagement in social enterprise – for example among young people, those looking for career or life changes, and among under-represented groups.
- 48** Feedback from organisations such as the National Council for Graduate Entrepreneurship emphasises the need for peer role models: people are most inspired by people just like them who are making a success of running a social enterprise, such as Tom Savage of Blue Ventures (case study 11).

Case study 11



Tom Savage. One would not automatically associate the discovery of new species of fish and the protection of octopuses in Madagascar with social enterprise. But that's what Tom Savage and his business partners have

achieved with their ecotourism organisation **Blue Ventures**, which generates revenue for marine conservation projects in the Indian Ocean.

A business studies graduate, Tom's career began in finance, working at UBS Investment Bank and Edinburgh Fund Managers. It didn't take him long to realise that, despite the financial incentives, this line of career left little room for his passions – development, entrepreneurship, environmental conservation and travel. Since starting Blue Ventures, Tom – a finalist in the 2005 *Daily Express* Young Entrepreneur of the Year awards – says he has rediscovered the joys of working on something he cares about that makes a difference. He has also been working as the 'social enterprise campaigner' for Enterprise Insight on the plans for Social Enterprise Day. www.blueventures.org

Case study 12



Enterprise Insight runs campaigns which aim to attract young people aged 14–30 into enterprise. It was founded by the UK's main business organisations and is primarily funded by the DTI. It aims to encourage a more enterprising culture, and in particular inspire more young people to have ideas and make them happen – whether through starting a business or a social enterprise, or through pursuing an idea at work. It has a four-part strategy:

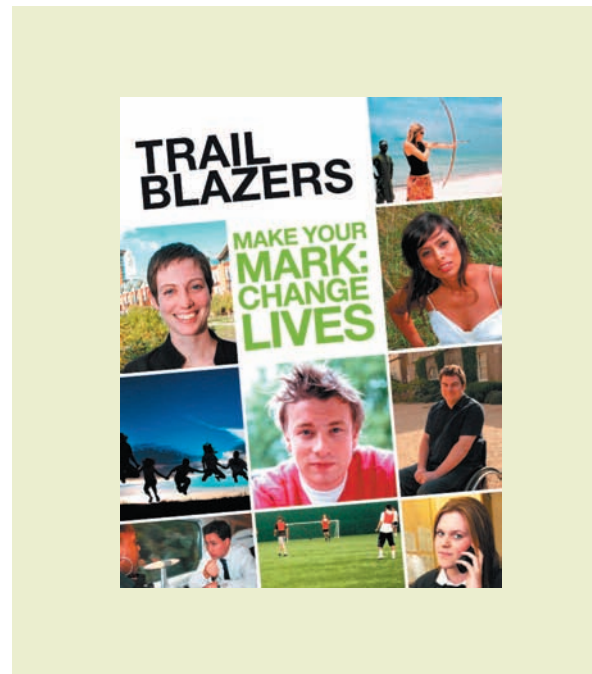
- to inspire young people to make their ideas happen;
- to inform them of next steps and opportunities;
- to connect them through networks to support each other; and
- to influence policy and practice.

Social Enterprise Day now forms a key element of Enterprise Week. Working in partnership, the Office of the Third Sector, the Social Enterprise Coalition and Enterprise Insight have developed the **Make Your Mark: Change Lives** campaign to help inspire more young people to get involved with social enterprise. It aims to bring the benefits of social enterprise to life through the stories of young people who are using their enterprising ideas for social and environmental change. New material on social enterprise has been developed under the 'Change Lives' banner. A magazine, *Trailblazers*, highlights the stories of young social entrepreneurs, and a companion DVD gives a lively explanation of social enterprise.

www.starttalkingideas.org

- 49** The Office of the Third Sector will therefore work with the social enterprise sector to develop a programme to appoint 20 social enterprise ambassadors to raise awareness of social enterprise and work with government on the development of policy.
- 50** A specific campaign to attract young people to social enterprise has been developed, based around feedback from focus groups showing that many young people are looking for a dual benefit from their careers: the chance to 'make a difference' combined with the ability to earn a living and develop their own potential. The campaign Make Your Mark: Change Lives is an integral part of Enterprise Week 2006 and provides a focus for Social Enterprise Day (case study 12). **The Office of the Third Sector and the DTI will support a campaign to promote social enterprise, Make Your Mark: Change Lives, delivered by Enterprise Insight working in partnership with the social enterprise sector.**

- 51** Social Enterprise Day is an opportunity for social enterprises right across the country to showcase their achievements. It includes high-profile events designed to highlight the breadth of achievement of the sector.



Raising awareness through the education system

- 52** The Government also wants to ensure that social enterprise is properly reflected within the education system. Young people should be aware of the opportunities of social enterprise as they move through school and further or higher education, and as they make choices about employment.
- 53** Social enterprise is now a common feature of enterprise education in schools (case study 13). In 2003–05 the Department for Education and Skills (DfES) conducted pathfinders in 700 schools to find the best way to encourage 'enterprise capability' in young people. Enterprise capability is about developing creativity, innovation, risk taking, and a can-do attitude, and fostering the drive to make things happen. The enterprise education strategy, based on this pathfinder work, encompasses enterprise capability, supported by better financial capability and economic and business understanding.

Case study 13



Enterprise Education covers enterprise capability, supported by better financial capability and economic and business understanding. 'Enterprise capability' means innovation, creativity, risk management and risk taking, a can-do attitude and the drive to make ideas happen. This concept of enterprise embraces future employees, not just future entrepreneurs.

All schools with Key Stage 4 pupils receive Standards Fund money for a new focus on enterprise education. Funds total £60 million for each of the three academic years 2005–08.

The Schools' Enterprise Education Network, managed by the Specialist Schools Trust and launched in 2006, is based on 50 'hub' and 'spoke' schools. All enterprise specialist schools will get support too, and the network will embrace all secondary schools.

www.teachernet.gov.uk/teachingandlearning/14to19/ks4/enterpriseeducation/

- 54** Funding is now available to help schools deliver enterprise education to Key Stage 4 pupils. This enables them to seek outside help to deliver their own enterprise agenda. In addition, a new Schools' Enterprise Education Network has been established, based on a network of 50 'hub' and 'spoke' schools, which are involved with helping all schools in England deliver enterprise education. The guidance to schools highlights good examples of social enterprise, and often provides schools with valuable input to their enterprise activity.
- 55** The Government wants schools to have the opportunity to deliver good-quality social enterprise activity to children (case study 14). **The Department for Education and Skills, supported by the Office of the Third Sector, will ensure that strengthened guidance material on social enterprise is provided to schools, so that it features more prominently, and ensure that good examples of how schools have used social enterprise are widely promoted.**
- 56** Social enterprise should be better integrated into business studies curricula, so that children learn that it is possible to combine their ideals of achieving social justice with running a successful business. This is already starting to happen. The Qualifications and Curriculum Authority (QCA) is currently reviewing the subject criteria for all GCSEs. For business studies they will discuss with stakeholders how best to include enterprise and social enterprise as a standard feature of the specifications. The outcomes of that consultation will be available in spring 2007. First teaching of a revised qualification would be in September 2009, and reviews of the A level and other business studies qualifications will follow.

Case study 14



Fyndoune Community College

When the Year 9 students at Fyndoune Community College, County Durham, discovered that their counterparts in Ghana, West Africa, had to walk miles to fetch filthy water before going to class, they decided to take action. What began as a desire to make a difference saw the pupils creating their very own social enterprise.

'Selling water for water' was the simple but effective idea of 'Water Works'. They did a deal with Abbey Well to buy water for 30p a bottle, and negotiated a loan from the school (now repaid) to buy their stock, selling it for 50p a bottle.

'Water Works' has to date made a profit of £2,500 and linked up with a school in Ghana, Adum Bansa Primary, which will soon have its very own borehole.

'Seeing them picking up a phone and talking to big businesses, working to tight deadlines and learning communication skills has been impressive', says teacher Lynda Dixon. 'The difference between social enterprise and conventional business to me is the passion – it's not just a case of making money for its own sake, but for achieving something more tangible.'

www.durhamweb.org.uk/fyndoune

- 57** The Government believes that social enterprise business models should have a higher profile within GCSE and A level and other business studies courses. The Office of the Third Sector and DfES will work with QCA on how best to achieve the full integration of social enterprise business models into the GCSE business studies syllabus, and thereafter into A level and other business studies courses.
- 58** As young people move into further and higher education, they have an increasing number of courses relating to social enterprise to choose from. In addition, it will be important to explore how best to embed social enterprise into the overall vocational degree framework. There is a growing interest from universities about how they can incorporate social enterprise preparation and awareness into their curricula, particularly into vocational courses. Other avenues, such as virtual courses and e-learning, could also be explored.



'At Leeds Met social enterprise is key to building further entrepreneurial capacity within staff and students. The exciting dynamic provided by engaging with social businesses, charities and not-for-profit ventures is enhancing our curriculum, as well as developing entrepreneurial spirit and attitude in our students.'

Alison Price, Leeds Metropolitan University

Case study 15



The **National Council for Graduate Entrepreneurship (NCGE)** was launched in 2004 to raise the profile of entrepreneurship in higher education and as a result increase the number of students and graduates seriously considering and engaging in business start-up in all its forms. Social enterprise is an integral part of NCGE's activities.

These include:

- working with higher education institutions to help embed an entrepreneurial culture and entrepreneurship support across institutions and building their capability and capacity;
- developing online communities for researchers, educationalists and careers advisers;
- the Flying Start scheme which aims to inspire, inform and support students and graduates across the UK who are interested in starting new ventures. It consist of three parts – regional rallies which include workshops on social enterprise, investment readiness programmes including developing ones aimed at graduates wanting to set up social enterprises, and an online support system; and
- including social enterprise, where appropriate, in any research being commissioned by NCGE.

www.ncge.org.uk

- 59 **The Department for Education and Skills will explore new ways to provide and promote social enterprise learning within the tertiary education framework.**
- 60 Careers advice, too, should include social enterprise options. Publications such as the *Ethical Careers Guide* are available, but careers services should be better informed about social enterprise.²² Appropriate guidance material should be available to people thinking about their futures.
- 61 **The Office of the Third Sector will support the DfES and the National Council for Graduate Entrepreneurship to promote social enterprise as a potential career to students in higher education.**

Raising awareness among other businesses

- 62 Some social enterprises, especially those at the more commercial end of the spectrum, are building commercial collaborations with conventional businesses. Many see working with the conventional private sector as an important strategy for their business growth.
- 63 In 2005, the DTI's Small Business Service commissioned research and a guide to collaboration, *Match Winners* (case studies 16 and 17).²³ This identified examples of partnerships such as business-to-business trading, supply chain relationships, franchising through a social enterprise model, and strategic alliances between social enterprises and corporate partners to win public contracts.
- 64 Now more companies need to understand the opportunities that social enterprise can offer. Corporate social responsibility programmes tend to focus on opportunities such as volunteering, donations or mentoring the third sector, but social responsibility can also be embedded in business relationships.



'I believe that social entrepreneurs have a role in evolving the business world. It is about the fusion of business sense with social responsibility, leading to profit with principles.'

Carmel McConnell, Founder, Magic Breakfast.
www.magicbreakfast.co.uk

- 65 **To encourage links between social enterprise and the conventional private sector, the Office of the Third Sector will spread the messages from *Match Winners* about delivering real business benefits from collaboration to a wider audience. This will include facilitating discussions with business leaders about the drivers for commercial activity with social enterprise.**

²² NGO.media (2006) *The Ethical Careers Guide 2006/07*.

²³ Small Business Service and Community Action Network (2005) *Match Winners: A Guide to Commercial Collaborations between Social Enterprise and Private Sector Business*. London: Small Business Service.

Case study 16



Match Winners is a guide to commercial collaborations between social enterprise and private sector business. It showcases some real-life business partnerships between social enterprise and the corporate sector, highlighting the real business opportunities on both sides. The benefits for social enterprise include opportunities to open up new, sustainable revenue streams, access to management expertise and an opportunity to sharpen up business skills. For the corporate sector, business partnership with social enterprise can offer value across multiple business objectives such as improving efficiency through supply chains, managing business operations, developing new markets or achieving corporate social responsibility. To order a free copy, email matchwinners@pack-it.com or telephone 029 2048 6000.

Case study 17



Green-Works is a social enterprise that removes surplus or unwanted office furniture for big companies and government departments, and redistributes it at a reasonable cost to schools, charities, community groups and start-up businesses. It was itself a relatively new business when it entered into a working collaboration with HSBC to handle the furniture recycling requirements for the bank's move to Canary Wharf.

For Green-Works, the deal proved to be hugely significant in terms of developing a track record to help them grow and gain future business, and impart their core values about promoting environmentally friendly business practices into the commercial decisions of a major corporate business. www.green-works.co.uk

Ensuring that the right information and advice are available to those running social enterprises

We want to enable social enterprises to be successful businesses, by ensuring that entrepreneurs have access to good advice and information.

Government's role in providing business support

- 66 There is a market for business support, and many social enterprises, like other businesses, will make use of consultants, accountants and lawyers when they need technical advice or to help to get their ideas off the ground. But small and young businesses, facing tight capital constraints and a complex advice market, can benefit from help in accessing appropriate support. There is evidence, for instance, that businesses that use support are more successful than those that do not.²⁴ Similarly, evaluation of support for social enterprises funded through the Phoenix Development Fund found many social enterprises that said they would not have existed if support had not been available.²⁵

- 67 Government primarily provides a signposting role, ensuring that businesses are able to find the best and most appropriate support available to them in the market. It provides a gateway through Business Link, the government advice service for small businesses that is managed by the RDAs. Business Link provides information, and, if appropriate, diagnoses of individual needs, and brokers support from the most appropriate provider of specialist help (commonly known as the information, diagnostic and brokerage (IDB) model). To ensure that advice is widely accessible, there is also a Business Link website – www.businesslink.gov.uk – which was used by 5.6 million different visitors in 2005/06.

- 68 The challenge is to ensure that the diverse range of social enterprises are able to access the support that they need, in the market or through government programmes.

²⁴Roper, S, Hart, M, Bramley, G, Dale, I and Anderson, C (2001) 'Paradise Gained? The Business Link Tracker Study in Conference Proceedings (Vol 2) of 24th ISBA National Small Firms Conference, Leicester, November 2001.

²⁵Ramsden, P (2005) *Evaluation of the Phoenix Development Fund*. London: Small Business Service.

²⁶GHK (2005) *Review of the Social Enterprise Strategy: Summary of Findings*, section 6(ii). London: Small Business Service.

Ensuring that support is appropriate for social enterprises

- 69 In many instances, social enterprises need very similar advice and support to mainstream businesses. However, in some cases more specialist help may be needed. This is particularly true in the start-up phase, when social enterprises have to choose between different legal forms and need to account for social as well as financial bottom lines. Other key areas where social enterprises may need specialist advice and support include access to finance, marketing and governance. Because social enterprises are diverse and operate in a large number of sectors, they often also need sector- or trade-specific support.
- 70 Understanding of the support social enterprises need and how they access that support has grown, and the *Review of the Social Enterprise Strategy* noted that, over the period of the strategy, 'there has been an increase in the availability of appropriate business support for social enterprises'.²⁶ However, in response to the HM Treasury/Cabinet Office review of the role of the third sector in economic and social regeneration, some issues have been raised as requiring further action.

- 71** First, despite significant progress in many areas, responses to the consultation cited uneven provision of appropriate support services for social enterprises, from region to region. Second, the complexity of the support landscape, including links between mainstream and specialist support providers, can make it difficult to identify the support that is available. Third, some organisations in the sector are not accessing the full range of services that are available to them because they do not consider themselves to be within the remit of Business Link.²⁷ Fourth, there is a continuing need to make sure that mainstream business advisers are able to meet the needs of social enterprises.
- 72** Some steps have been taken to address these issues. National Occupational Standards for advisers to social enterprises have been developed by the Small Firm Enterprise Development Initiative (SFEDI) and the Social Enterprise Partnership (SEP) to clarify the knowledge required by advisers and so improve quality of support – www.sep.co.uk. In addition, training materials have been developed to help advisers to meet these standards.
- 73** RDAs are supporting delivery of the overall social enterprise strategy in their regions. In particular, through the Business Link service, they will implement, market and monitor the supply of appropriate business support accessible to social enterprises – taking account of customer feedback. The DTI and RDAs have conducted a joint review of business support for social enterprise across all nine English regions. This review will collate good practice, including approaches to ‘mainstream’ and ‘specialist’ business advice requirements and provision. The information gained from this review will be used to develop a plan, to be in place by March 2007, for improving standards across all RDAs. The Office of the Third Sector will support RDAs to implement the plan.
- 74** **The Office of the Third Sector will provide funding from April 2007 to RDAs to improve Business Link’s capacity to broker business support for social enterprises consistent with the cross-Government business support simplification programme. From an initial pilot level of at least £0.5 million in 2007/08, the funding will rise to £1.8 million per year from April 2008 to March 2011, subject to the outcome of the 2007 Spending Review.** The RDAs will work with stakeholders, including specialist support agencies, to use the money to meet the support needs of social enterprises in their region. The Office of the Third Sector will work with RDAs to develop baseline measures and evaluate impact over the lifetime of this intervention.
- 75** **To reach as wide a range of social enterprises as possible, the DTI will improve the social enterprise information and guidance on www.businesslink.gov.uk/socialenterprise, making it a successful single source of information for social enterprises.** Some improvement to the content has already been made, including extra links to additional sources of advice, many of which have been developed by the sector.
- 76** As described in part 1 of this document, social enterprises emerge from different backgrounds. Some will mirror the start-up route of many businesses, led by an individual or a group of people with a business idea. Others may grow from voluntary and community sector organisations looking to diversify their income by developing a trading activity.
- 77** The Government’s ChangeUp programme was set up to strengthen the support and assistance available to voluntary and community organisations, which include social enterprises. ChangeUp is now being implemented through Capacitybuilders, an arm’s-length implementation body, which aims to

²⁷ BRASS (2004) *Turning Big Ideas into Viable Social Enterprise*, p.4. Bristol: Triodos Bank.

secure a high-quality, sustainably funded infrastructure for frontline voluntary and community organisations. This includes providing grants to infrastructure bodies. Together, Business Link and Capacitybuilders should ensure that the full range of third sector organisations, from voluntary groups relying on donations and volunteers to social enterprises operating as businesses, can access the support they need to help them achieve their potential.

- 78 Capacitybuilders will fully integrate support for social enterprise infrastructure into its new strategic plan for delivering ChangeUp's objectives, and will report on its impact on social enterprises in its annual evaluation.** Capacitybuilders will consult on the content of its plan from December 2006 to March 2007.
- 79** Peer group support from businesses operating in a similar environment can be an effective way of supporting social enterprises. All the English regions now have social enterprise networks, many of which

have been supported by the RDAs. They are well placed to work with mainstream agencies both to provide specialist expertise and actively to encourage their members to access the full range of business support by working in partnership with Business Links. Case study 18 shows how one of the regional organisations, Social Enterprise East Midlands, has worked with an RDA to pilot new business support arrangements.

- 80 The Office of the Third Sector will work with partners to identify national, regional, sub-regional, local and sectoral social enterprise networks. Steps will then be taken to address any gaps in provision.**

Case study 18



Social Enterprise East Midlands (SEEM) piloted a specialist IDB service across the East Midlands in partnership with East Midlands Development Agency (emda) and regional Business Link operators (BLOs). It looked at how IDB services could best meet the needs of social enterprises. Social enterprises approaching BLOs, SEEM and specialist Business Link advisers were offered a tailored information and diagnostic service and referral onwards to appropriate business support. The Business Services Directorate at emda are now working with SEEM to embed the findings of the pilot into the mainstream provision of IDB services, which is being delivered through the Business Link brand. emda is keen to ensure that social enterprises are deriving tangible benefit from the provision of mainstream IDB services in the region. www.seem.uk.net

Case study 19



Heather Wilkinson is the founder of **Striding Out**, a social enterprise that coaches and supports young social entrepreneurs. Heather's passion for social entrepreneurship stemmed from a Master's degree in

Economic Development and Community Enterprise, followed by a series of six-month work placements in the public and private sectors. As a research consultant, Heather learnt how to plan and run projects to support people into enterprise, employment and training. But she began to see a role for a new style of business support service which would bring together entrepreneurs under the age of 30 to coach, train and support each other. In particular, she wanted to educate and inspire them about social enterprise and sustainable business practices. Striding Out was launched in November 2005. Through its training, coaching and consultancy services, it has already supported more than 300 young entrepreneurs. Heather was recognised in the 2006 Edge Upstarts Awards as 'Social Enterprise Mentor of the Year'. www.stridingout.co.uk

Improving skills in social enterprises

- 81** Like other businesses, social enterprises can benefit from training and mentoring that helps them to improve the skills of their workforce and their leaders. In many cases, mainstream skills provision will be relevant to social enterprises and it is important that social enterprises are able to access this alongside conventional businesses.
- 82** As well as technical business support and mainstream skills provision, there are some areas where tailored training of the managers and staff of social enterprises can increase the effectiveness of the organisation. To clarify the knowledge that is needed by managers of social enterprises, National Occupational Standards have been developed by SFEDI and SEP. Information on training that is available to develop skills in social enterprises is now available via the social enterprise training and support website, www.setas.co.uk. Train to Gain, the new national employer training programme, is now in operation across the whole of England and is inclusive of social enterprises. Their low-skilled employees, without a first full Level 2 qualification or with skills for life needs, are eligible for free training through Train to Gain.
- 83** The Government wants to improve the overall skills provision in the UK. In 2004, it commissioned Sandy Leitch to lead an independent review of skills. He was asked to identify the optimal skills mix for the UK in 2020 in order to maximise economic growth, productivity and social justice. An interim report was published in 2005, and the final report is due to be published shortly.²⁸ More recently, responses to the HM Treasury/Cabinet Office review of the third sector's role in economic and social regeneration have identified skills as a barrier to growth across the third sector. This reveals a need to understand what, if any, the particular skills gaps are in social enterprises.
- 84** **The Office of the Third Sector, supported by the DTI and DfES, will commission a review to understand the specific skills needs of social enterprises and whether they are met by mainstream business education and training networks and organisations. This will feed into the Comprehensive Spending Review 2007.**

²⁸ Leitch Review of Skills (2005) *Skills in the UK: The Long-term Challenge*. Interim report.

Enabling social enterprises to access appropriate finance

We want to ensure that social enterprises are able to access finance in the market.

- 85** Social enterprises, like all businesses, need adequate access to capital to grow and to operate efficiently. It is therefore of concern that social enterprises are more likely than conventional small and medium-sized enterprises (SMEs) to cite access to finance as their most significant barrier to growth.²⁹
- 86** The UK's financial markets are seen by many to be among the most efficient in the world. The fact that some enterprises report difficulties in accessing finance is not in itself an indication of a market failure. However, there can be failures in finance markets which mean the 'right' amount of finance is not always provided by the market for reasons that are unconnected with the viability of the proposal. These often stem from information asymmetries between the borrower and the lender, which mean that the lender does not have enough information on which to base an accurate assessment of risk. If viable businesses fail to access the capital they need, the nation as a whole loses the potential economic benefits, in terms of employment and output growth and productivity improvements from new business formation and growth. This is the rationale behind the range of government interventions to

help small and particularly high-growth businesses to access finance in the market.

- 87** The challenge is to try to understand whether the difficulties faced by social enterprises are a result of market failures, or the product of an efficient market that tends to value financial over social return. Work to establish ways of quantifying the value of an organisation's 'social' mission is an important contribution to creating a market in social investment, which takes account of social as well as financial impact.
- 88** Social enterprises make use of a range of finance, from grants to equity investments, reflecting the diversity of models in the sector and the stage of development. Government's main concern is to ensure that viable social enterprises are able to access the finance they need in the debt and equity markets.
- 89** Below, we look at the evidence base, access to debt and equity finance, and tax incentives for investment in social enterprises.

Evidence

- 90** In 2002, when the Government's social enterprise strategy was published, evidence relating to the financing of social enterprises was largely anecdotal.

To address this, the DTI commissioned the Bank of England to investigate the issues affecting social enterprises in accessing finance.³⁰

- 91** Building on the Bank of England's report, the DTI's Small Business Service has conducted a major survey of the experiences of social enterprises in accessing finance, to be published early in 2007.³¹ It provides the most robust and far-reaching evidence base to date, and shows that in many ways the situation for social enterprises appears to have improved since the Bank of England's 2003 report was published. The early findings from the DTI survey are detailed in this section.

²⁹ DTI (forthcoming) *Finance for Small and Medium-Sized Enterprises: Comparisons of Social Enterprises and Mainstream Businesses*.

³⁰ Bank of England (2003) *The Financing of Social Enterprises*. London.

³¹ DTI (forthcoming) *op. cit.* Due to methodological constraints, the survey only covered established social enterprises registered as companies limited by guarantee or industrial and provident society, which means that by definition it did not include many social enterprises that would be able to attract equity investment.

92 While our evidence base is improving, some gaps still remain. In particular, there is a lack of evidence of the way in which social enterprises are financed at start-up. Some grants are available to new entrepreneurs, including the Millennium Awards run by UnLtd (case study 20). Acquiring more evidence on the start-up needs of new social enterprises is an issue that the Office of the Third Sector will be looking to address, in consultation with the sector.

Case study 20



UnLtd is a charitable organisation set up in 2000 to promote social entrepreneurship. In 2002 it was granted a £100 million legacy by the Millennium Commission which it has carefully invested to fund its Millennium Awards scheme in perpetuity. UnLtd is also the lead delivery partner of The Big Boost programme, funded by The Big Lottery

Fund, which gives awards to young people to set up community projects. UnLtd's awards programme gives both practical and financial support to social entrepreneurs and is available at two levels:

- Level 1 Awards are designed to help make new ideas become real projects. UnLtd gives out 1,000 of these each year across the UK. They help individuals or informal groups of people who want to set up new projects in their spare time. The money is to help with the running costs of the project.

- Level 2 Awards support projects that are already developed or pay for the living expenses of award winners to help them devote more time to their projects. www.unltd.org.uk

Nathalie McDermott, a recipient of two separate UnLtd awards, went on to set up On Road Media, a social enterprise that trains and employs reporters who are at the centre of the stories they are covering. It makes radio documentaries for the BBC and works with the third sector to promote their issues through 'citizen media' or podcasting.

'UnLtd gave me the kick-start I needed to see if my idea could work; I received a Level 1 award in 2005 which enabled me to buy equipment, train our first reporter and produce our first documentary. In 2006 I secured a Level 2 award which, crucially, allowed me to devote all of my time to developing a sustainable social enterprise.

'In November this year, UnLtd is sending me and nine other social entrepreneurs to India to meet our counterparts and share learning. UnLtd does not just give grants; it gives practical and moral support to develop organisations and the individuals, like me, behind them.'

Access to debt finance

- 93 The Bank of England study (2003) found that demand for debt finance among social enterprises was often limited by the availability of grants and a cultural aversion to borrowing. More established social enterprises had used a range of external finance instruments supplied by banks, foundations and community development finance institutions (CDFIs), although social enterprises were more likely to have been rejected for bank finance than other SMEs.
- 94 The Government's approach to addressing problems in the supply of debt finance to social enterprises has been both to increase knowledge and awareness among lenders about social enterprises³² and also to intervene to extend the supply of finance to organisations that commercial lenders might (perhaps mistakenly) consider too risky. For example, the Government has, through the Phoenix Fund, supported the creation and growth of CDFIs, which are themselves mostly social enterprises, to increase finance to businesses and social enterprises in deprived communities. Recent research by the Community Development Finance Association suggests that about half the loans (by value) made by CDFIs are to social enterprises (about 25 per cent by number). Support for the CDFI sector has now

been devolved from the DTI to RDAs and further funding has been allocated to RDA budgets to support social enterprises. As set out in annex 2, **RDAs will review existing investment in social enterprise via CDFIs and consider dissemination of good practice models.**

- 95 The Government has also established the multi-million pound Futurebuilders fund and the Adventure Capital Fund, which offer longer-term finance arrangements and development support to social enterprises and voluntary and community sector organisations involved, respectively, in public service delivery or community enterprise. This money is intended to build organisational capacity and, in the longer term, to build demand for conventional debt finance in organisations that are currently unable to access finance in the market.
- 96 The forthcoming DTI finance survey indicates that, in many ways, the ability of social enterprises to access finance in the market has improved since the time of the Bank of England report in 2003. The survey found that 66 per cent of established social enterprises used commercial finance, although this remains lower than usage by SMEs, at 80 per cent. The difference may in part be explained by a much higher use of grant finance by social enterprises. Grants can play a useful role in the start-up or early

expansion phases of a social enterprise, or any business. However, grants are often used to 'buy' particular outcomes, rather than to enable the entrepreneur to grow the organisation in the way that they would like. Evidence shows that increased use of commercial finance correlates to a reduced dependency on grants, which may allow the entrepreneur more freedom.³³

- 97 In contrast to the Bank of England research, the new DTI survey found that rejection rates for commercial debt finance for established social enterprises and SMEs did not differ significantly (around 10 per cent), and the cost of borrowing appeared to be broadly the same. There may be several reasons for this improvement. Social enterprises may be putting forward better proposals to lenders, but also lenders may be becoming more adept at assessing the credit risks attached to lending to social enterprises. The survey validates lenders' interest in the sector; just 14 per cent of social enterprises exceeded their overdraft limit in the previous year against 26 per cent of SMEs.

³²The Small Business Service published a report targeted at lenders presenting case studies of a number of successful examples of social enterprises accessing commercial finance. SBS (2004) *Lending to the Social Enterprise Sector*. London: Small Business Service.

³³DTI (forthcoming) op. cit.

- 98** It appears therefore that, in many respects, the ability of established social enterprises to access debt finance has improved. Where the 2006 survey results were less positive, however, was in the finding that established social enterprises (particularly small ones) were more likely to feel discouraged from applying for finance than SMEs, which implies that they believe they will be rejected, despite the fact that the evidence suggests that they are no more likely to be. Government and the sector can play a role in trying to overcome this perceived barrier. In the first phase of the social enterprise strategy, the Small Business Service supported Project North East (PNE) to develop and pilot financial awareness training materials for social enterprises. PNE worked with the Social Enterprise Coalition and the Community Development Finance Association to make the materials available to trainers. The materials were well received, and now need to be made available to a wider audience.
- 99** **The Office of the Third Sector and the DTI's Small Business Service will roll out financial awareness training for social enterprises, working with the RDAs and the social enterprise sector.**
- 100** In addition the information and advice provided by government to help businesses understand the options available to them in financing their activity needs to be made relevant and accessible to social enterprises.
- 101** **The DTI's Small Business Service will include social enterprise within mainstream 'access to finance' interventions, such as making the next edition of the *No Nonsense Guide* to business finance more inclusive of social enterprise.**
- 102** In order to help viable businesses that lack security to access loan finance, the Government offers a guarantee to lenders to take the place of the security provided by the business itself. Participating lenders can make use of the Small Firms Loan Guarantee partially to underwrite lending to social enterprises, providing the conditions of the scheme are met.³⁴
- 103** The Department for Communities and Local Government (DCLG) and the Office of the Third Sector have been leading work to consider ways in which to facilitate an increase in community management and ownership of assets. The development of an asset base can help an organisation earn income and secure future borrowing. This issue is covered in more depth later in this plan.
- Access to equity finance**
- 104** While the supply of debt finance, particularly secured debt finance, appears to be increasing, social enterprises still report difficulties in accessing more high-risk investment. This lack of equity is often perceived to be a barrier to high-growth social enterprises, and the Bank of England report identified a need for some form of 'patient' capital.

³⁴ The question of whether to lend using the SFLG is a commercial decision for the lender to take.

The forthcoming DTI survey found that larger social enterprises received significantly less finance than similar-sized SMEs in absolute terms, although the amounts obtained were a similar proportion of that sought in both cases. It may be that larger social enterprises, with a smaller capital base than equivalent SMEs, are discouraged from seeking more debt finance because it would require a higher gearing than they or the banks are willing to tolerate.

105 The Bank of England summarised the reasons for the lack of equity in social enterprises as:

- the difficulty of providing a commercial financial return, as social enterprises tend to want to reinvest most of their profits into their social mission;

- ownership issues, which mean that social enterprises are often unwilling to cede control to outside investors, for fear of mission-drift, and indeed may be unable to do so, because of their legal structure; and
- the lack of a secondary market for investments in social enterprises.

106 However, there are investors in the market, ranging from trusts and foundations to ethical investors, that are prepared to take a blend of financial and social return, and may be willing to invest in an organisation in a way that does not take a share in the ownership of the enterprise.

107 In order to increase private investment, and to raise awareness of the possibilities among new investors, the Office of the Third Sector is supporting a research project by the Saïd Business School in Oxford into the feasibility of a 'social' capital market, in which investors interested in a blended social and financial return might be able to make and trade investments.

Case study 21



The **SETsquared Partnership** brings together the enterprise activities of the Universities of Bath, Bristol, Southampton and Surrey. Since its establishment in 2002, it has supported more than 200 ventures, with three Alternative Investment Market (AIM) flotations of a combined market capitalisation of over £150 million. The support programme, entitled 'Social IP', aims to create new social enterprises that have global potential. Social IP will be a vehicle to convert intellectual property, software, know-how, and other technology generated by the universities' research and development activities, into successful, financially self-sustaining technology companies which have significant impact on society and the environment. As well as providing professional support, the SETsquared Partnership is working with private investors, foundations and funds to encourage investment into these new social enterprises.

Examples of current Social IP businesses include: landslide prevention, care-alert systems for severely disabled people, water purification in disaster relief, and screening for learning difficulties in pre-school children. www.setsquared.co.uk

108 The Office of the Third Sector has also commissioned two projects to investigate methods to encourage private investment in social enterprises. They will test the assumption that there is both the demand for investment among suitable social enterprises, and the supply from investors willing to take a blended financial and social return. They will establish whether the lack of a network, or other infrastructure that can bring together investors and firms, is the major barrier to the growth in social investment. One project will research methods for attracting new investors to provide appropriate debt and loan or 'quasi-equity' products for social enterprises. The second project will research methods for matching business 'angel' investors with suitable social enterprises.

109 Outside the social enterprise sector, the Government has sought to address the market failures that arise in the equity market, not merely because of information asymmetries, but also because of the costs of applying the process of due diligence to relatively small investment decisions. The Government has worked with the market to establish a range of interventions, including Early Growth Funds and Enterprise Capital Funds.

110 It is unlikely that many social enterprises will benefit from these interventions, because of the level of return required and because many social enterprises do not issue shares that funds can buy. The Office of the Third Sector would therefore like to scope the feasibility of improving the Government's current interventions to reach social enterprises by attracting investors that are interested in a blended financial and social return and by testing different ways of structuring investment. Co-investment by the public sector may act as an incentive for the private sector to invest in this market, and may help to demonstrate the viability of investments in social enterprise. The first phase will be to develop the proposal in consultation with the social enterprise and finance sectors, to assess demand, and to determine the most appropriate model. Subject to the consultation, the Office of the Third Sector will then make available up to £10 million for investment.

111 **The Office of the Third Sector will consult on how best to use these resources to improve the market for finance for social enterprises.**

Tax incentives for investment in social enterprises

112 Government uses the tax system to encourage investment in businesses, particularly where there is sub-optimal supply. For example, the Enterprise Investment Scheme (EIS) and Venture Capital Trusts (VCTs) have been successful in encouraging equity investment in small, unquoted companies (operated on a commercial basis, for profit), that might otherwise fail to attract funding because of the proportionally higher costs involved in investing in smaller businesses.

113 The EIS provides 20 per cent income tax relief and a range of capital gains tax exemptions to encourage direct investments in small businesses. Investments in VCTs attract 30 per cent income tax relief and capital gains tax exemptions, with the VCTs then onward-investing the money into a portfolio of small unquoted companies. These reliefs can be used by social enterprises that have the appropriate structures.

- 114** Enterprises in disadvantaged communities (including social enterprises) can also benefit from Community Investment Tax Relief (CITR) which incentivises investments of up to £250,000 via CDFIs. Individual and corporate investors in CDFIs receive five per cent tax relief each year for five years. As of September 2005 over £27 million had been raised through CITR.
- 115** In the responses to the HM Treasury and Office of the Third Sector review of the third sector in economic and social regeneration, Government has received representations about the incentives available to social enterprises. We are aware of suggestions about how, for example, the operation and delivery of CITR might be strengthened to the benefit of social enterprise. **HM Treasury and the Office of the Third Sector are therefore jointly conducting a review of the operation of CITR, along with the Small Business Service and HM Revenue and Customs.** Building on the constructive dialogue already under way with the Community Development Finance Association and its members, the Government invites evidence from all interested parties on how the operation of CITR and other incentives might be improved. We will report progress with the review in Budget 2007.

Enabling social enterprises to work with government

We want to ensure that social enterprises are able to influence public policy in their areas of expertise, including shaping and delivering public services.

- 116** Social enterprises often share the concerns faced by public policy makers, and are equally engaged in finding solutions to tackle social inequalities or environmental problems. As a result, many of them trade in markets where the public sector is the major customer, such as community transport, waste management, children's services, or health and social care. In such circumstances, social enterprises act as a delivery partner with government, providing services on contract to central or local government, primary care trusts or local authorities. At their best, social enterprises can bring valuable engagement with service users and are often motivated to pioneer new approaches to meet the needs of their clients. So, where government is procuring services and social enterprises and other third sector organisations meet the required standards of quality and value for money, the Government will positively encourage their involvement in design and delivery of public services.

Case study 22



Hackney Community Transport (HCT), set up in 1982 initially to provide community transport services in Hackney, has expanded into a large, successful social enterprise.

Among HCT Group's portfolio of services are mainstream bus routes operated under contract from Transport for London; transport for people with special educational needs, learning difficulties or daycare needs, operated for a number of London boroughs; a significant fleet of 'MyBus' yellow school buses in West Yorkshire; and the Leeds AccessBus Service.

These services have been won by HCT in open tender. HCT only competes for contracts that have high levels of accessibility and quality in the specification. HCT has challenged both public and private sectors in the delivery of services, but will work with all sectors to provide high-quality public services.

Surpluses generated from commercial activity are invested in community transport. HCT sees the provision of high-quality public services as a goal in itself, but the investment in responsive community transport services is made possible by running the commercial activity well. HCT acts as an advocate for people unable to use mainstream transport and actively seeks user input into the design and delivery of all its services. www.hackneyct.org



117 The Government's interest in social enterprise is not limited to the delivery of services, however. Other social enterprises, such as social firms, retail co-operatives or development trusts, may operate in commercial or consumer markets, but generate wider public benefits through, for example, employment or training of disadvantaged people or the regeneration of a deprived area (case study 23). In such cases they are offering a market-based, business solution to a social problem.

118 There are many individual examples of social enterprises doing business with government at central or local level to improve society or to help the environment. However, there are also barriers to effective engagement that may be preventing social enterprises from achieving their potential contribution, whether they are operating in public or private sector markets. Some of these may relate to scale and capacity, which the Government is working with the sector to address, as set out in the previous two sections on advice and finance.

In addition:

- where social enterprises would like to deliver statutory services, barriers in the commissioning and procurement processes may prevent them from doing so;

Case study 23



Recycling Unlimited started life as a mental health charity in 2002, after its founding manager Eddie Brooks had himself experienced mental ill-health. It now pitches itself as a socially inclusive social enterprise that provides training and job experience opportunities in vocational skills such as joinery and carpentry, retailing, gardening and horticulture to people from diverse backgrounds. It also delivers English for Speakers of Other Languages (ESOL) and basic skills training and job search advice and guidance.

The business earns a major portion of its income from trading activity. It recycles wood from old pallets into garden fencing, trellises and other everyday garden furniture, which it sells to the public and a few local shops.

Eddie's plans for growing the business include expanding the five gardens it currently owns, and securing a local pub with land to grow organic food for use in the pub.

Eddie's past experience in commercial business is reflected in his passion for social enterprise. In October 2006 he won the Yorkshire and Humber Social Entrepreneur of the Year Award. He says: 'We don't just recycle things, we recycle people too.'

- more could be done to address information barriers to help policy makers assess whether social enterprise is the most effective way of delivering public policy objectives, and to tackle practical barriers to social enterprise playing a greater role; and
- social enterprises need to raise their profile and credibility with policy makers, to enable their potential to deliver services in new ways to be recognised, and to increase opportunities for growth of the sector.

119 The Government is putting in place steps to address these three issues. The rest of this section looks at each in turn.

Improving the way in which public services are delivered

120 First, the Government has focused on addressing barriers to social enterprises delivering public services on contract. Departments initially concentrated on providing guidance and training for social enterprises, commissioners and procurement professionals, where this was limited, and spreading good practice through case studies of successful social enterprise contracts. Other work has included:

- a toolkit to help social enterprises win public sector contracts;³⁵
- Office of Government Commerce training for purchasers on diversifying suppliers;
- EU-funded projects, delivered by the sector, to understand the impact of procuring public services through social enterprise;
- the creation of the £125 million Futurebuilders fund to build the capacity of the third sector, including social enterprises, to help deliver public services (case study 24);
- updating HM Treasury *Guidance to Funders and Purchasers: Improving Financial Relationships with the Third Sector* (2006); and
- capturing social enterprise experience through, for example, Small Business Service research into the value of SMEs in public sector markets in 2005³⁶ and the Local Area Pathfinders joint project in 2006 between HM Treasury and the Office of the Third Sector.

³⁵ Department of Trade and Industry (2003) *Public Procurement: A Toolkit for Social Enterprise*. London: Department of Trade and Industry.

³⁶ Small Business Service (2005) *A Study on the Benefits of Public Sector Procurement from Small Businesses*. www.sbs.gov.uk

Case study 24

 **Futurebuilders England** helping voluntary and community organisations deliver better public services

Futurebuilders England is an innovative £125 million investment fund to assist frontline voluntary and community organisations and social enterprises in building their capacity to increase the scale and scope of their public service delivery in England. www.futurebuilders-england.org.uk

 **BUILDING
BLOCKS
= SOLUTIONS**

One example of a social enterprise that has benefited from a Futurebuilders loan is **Building Blocks**

Solutions, a small social enterprise based in Mansfield, Nottinghamshire. Set up four years ago by a husband and wife team – Gill and Graham Gardiner – it provides a range of innovative and high-quality services to adults with mental health needs across Nottinghamshire. It has now grown into a successful business with a turnover of £700,000, employing 28 staff. Giving frontline help

to people in the community, Building Blocks runs a series of programmes to help people with mental health problems lead fulfilling and sustainable lives. This includes support, advice and guidance with housing, benefits, pensions and employment and training needs.

With financial support and investment from Futurebuilders England, Building Blocks has recently expanded First Steps, a scheme designed to support GPs by offering non-medical assistance to patients with low-level mental health and emotional difficulties, who don't need prescriptions, counselling or intensive psychiatric services. Building Blocks developed First Steps when local GPs asked what it could provide for these patients. By freeing up GP time and providing effective signposting for patients, the service is helping to reduce the impact on health and social care services, as well as offering more choice to patients. www.buildingblocks.org.uk

- 121** As a result of this work, the external review of the Government's strategy concluded that there had been significant improvement in social enterprises' profile among policy makers. There are now some high-profile examples of social enterprises winning contracts with central and local government, and also, as a result, influencing the way commissioning is done to ensure a better service to the user.
- 122** In certain sectors, there are successful examples of services that were previously delivered by the public sector now being delivered by social enterprise models, for example in the leisure sector where there are now more than 100 leisure trusts running local services.
- 123** However, we know that too often social enterprises cannot compete fairly on a level playing field with other potential providers.³⁷ **In order to address the continuing barriers in the delivery of public services by the third sector, the Government will implement a cross-departmental third sector public services action plan**, to be published later in 2006. The public services action plan covers the whole third sector, which faces many shared problems. The action plan will seek to build the capacity of social enterprises and the wider third sector to design services, deliver them, and help services to become more accountable.
- 124** The objective of the public services action plan is to ensure that government and the sector can work together in equal partnership to improve services. It will identify the areas of opportunity for the sector, and include action to improve commissioning and contracting practice, building on the social exclusion action plan³⁸ and the Local Government White Paper.³⁹
- 125** The Local Government White Paper sets out a range of measures to improve local government services, including through contestability and open and fair competition. These include increasing the role of competition where services are underperforming and a code of practice on competition. The Department for Communities and Local Government (DCLG) will also be working with the Audit Commission to clarify and if necessary strengthen the role of the appointed auditor in responding to complaints from service providers about unfair and unlawful procurement.
- 126** The Local Government White Paper is encouraging local authorities to move away from a narrowly defined approach to service delivery towards a commissioning role through a framework set out in statutory guidance. To complement this, DCLG with other government departments, commissioners and providers will be exploring opportunities to develop and shape the local government services market.
- 127** To accompany the White Paper, DCLG has published a report, setting out a framework for improving services, including through the growth of a diverse and competitive market, in which social enterprises will expect to play a growing role.⁴⁰ In particular, it identifies a number of potential growth areas for the sector, including mainstream and specialist bus services, municipal waste collection and recycling, community sport and youth services. The report also encourages the sector to improve the quality of services by challenging existing service delivery patterns. A discussion paper to be published by DCLG at the end of the year will explore the potential in some of these areas in more detail.

³⁷ National Audit Office (2005) *Working with the Third Sector*.

³⁸ Cabinet Office (2006) *Reaching Out: An Action Plan on Social Exclusion*.

³⁹ DCLG (2006) *Strong and Prosperous Communities – the Local Government White Paper*.

⁴⁰ DCLG (2006) *Developing the Local Government Services Market to Support a Long-term Strategy for Local Government*.

- 128** The North East Regional Centre of Excellence (RCE) has been appointed the lead centre to co-ordinate and promote the RCEs' activity on social enterprises and other third sector bodies. It will develop, over time, a national programme of capacity building work to drive efforts to improve commissioning and procurement practices in relation to the third sector, including: standard contracts and contract solutions; awareness and skills training for elected members and senior officers; access to specialist guidance and support; and to encourage more effective dialogue between commissioners and providers in the third sector.
- 129** One issue often raised by third sector organisations is the fact that they may bring additional benefits to public services that are not accounted for in the price of the contract. There is a range of ways in which organisations' broader social benefits can be factored into funding relationships, in order to encourage the growth of effective services. These approaches include subsidies for organisations engaged in particular activities, separate commissioning for social outcomes, and the inclusion of 'social clauses' within contracts. The Office of the Third Sector is committed to exploring the use of social clauses and seeking to lower the barriers to their use.
- 130** Across national and local settings, commissioners are best placed to decide how to factor broader social benefits into funding arrangements. However, in doing so, they face a number of barriers. The complexity of social clauses and related approaches makes them difficult for commissioners to tackle in isolation.
- 131** **The Office of the Third Sector, in collaboration with the North East RCE, will consult partners on how to tackle barriers to the use of social clauses, for example through the development of a small number of template social clauses for key social outcomes as tools to enable and focus their use. The Office of the Third Sector will also work with those commissioners pioneering the use of social clauses to learn about their experiences and the costs of social clauses, and to draw together leading practice.**
- 132** In a number of sectors, examples exist where social enterprises are now being considered as part of the range of partners in public service delivery. In the recycling sector, for example, where community organisations were often the early pioneers, social enterprises are competing with other businesses for contracts that in many cases enable them to deliver employment outcomes alongside the recycling targets.
- 133** **The Department for Environment, Food and Rural Affairs (Defra) will publish a revised waste strategy for England before the end of 2006, which will set out policy on social enterprise and steps being taken to help it play a greater role in sustainable waste management.**
- 134** In the health and social care sectors, social enterprises are already established operators, delivering, for example, primary care, promotion of healthy living, care for the elderly, and support for those with mental health problems or those living with long-term conditions. Following publication of the White Paper *Your Health, Your Care, Your Say*, in January 2006, a Social Enterprise Unit was set up by the Department of Health to support the development of social enterprises in this area.
- 135** In particular, the Department of Health, working with the Office of the Third Sector, is:
- supporting entry of social enterprises to provide health and social care services in response to commissioner requirements; and, in particular, stimulating the development of new forms of provision organised around patients' and users' needs;

- leading a programme of pathfinder projects in 2006/07 and 2007/08 to support a number of those wishing to set up social enterprise models from within the NHS and local authorities; and from within existing social enterprises and other third sector organisations who want to enter the health and social care market;
- setting up a social enterprise investment fund to provide start-up support and investment for social enterprises in health and social care, and developing a resource pack; and
- implementing with partners the recommendations of the Third Sector Commissioning Task Force in health and social care.

136 The Government will also take steps to make it easier for social enterprises as well as other businesses to find out about new contracting opportunities. Smaller enterprises have more problems than larger businesses in finding the resources to search for opportunities and getting on preferred supplier lists. The government portal **supply2.gov.uk** (case study 25) has been developed to consolidate access to opportunities from across the whole of the public sector.

Case study 25



Supply2.gov.uk is 'the first portal of call' for all lower-value public sector contracts across the whole spectrum of government. By enabling government bodies to publicise their lower-value contracts, typically under £100,000, in one place, it provides all types of businesses, including social enterprises, with access to information on central and local government opportunities. This, in turn, will give public sector buyers more supplier choice and access to potentially more innovative and better-value products and services.

The portal opened for business in March 2006 and, to reach the business community, it is also associated (co-branded) with Business Link. So far over 13,000 tender opportunities have been advertised, with 26,000 suppliers and 2,800 buyers registered on the portal. **www.supply2.gov.uk**, **www.business.link.gov.uk**

137 The Office of the Third Sector will work with partners, including the Small Business Service, the Office of Government Commerce and the RDAs, to market the **supply2.gov.uk** portal to social enterprises.

Working in partnership – promoting opportunities

138 In several areas of public policy, the Government has begun to consider how social enterprises can work in partnership to achieve social and economic objectives. In many cases this involves research into the contribution different social enterprise models can make in different circumstances (case study 26).

Case study 26



Improving rural livelihoods through co-operative and social enterprise

The role of social enterprise in enhancing the sustainability of rural transport

The Community Transport

Association (CTA) estimates that there are around 700 community transport schemes serving rural areas, and an increasing number of these are enterprise-based, meaning that over half of their income is derived from charges for services and contracts, as opposed to grants and donations.

The Department for Transport (DfT) believes that there is considerable potential for community transport schemes to increase their financial stability, and thereby better achieve their social goals, by adopting a stronger enterprise-based focus.

DfT has undertaken research (with the CTA and the Plunkett Foundation) into the use of social enterprise to enhance the sustainability of rural transport. The research shows that there is considerable potential for community transport schemes to increase their financial stability by adopting a stronger enterprise-based focus, and has identified best practice models to do this. The findings of this research were published on National Social Enterprise Day on 16 November 2006.

www.plunkett.co.uk

www.communitytransport.com

- 139 The London 2012 Olympic and Paralympic Games present a unique opportunity for social enterprise to work with Olympic partners to deliver the Games' key objectives. **The Olympic Board is committed to ensuring that a diverse range of partners across business and the community contribute to the delivery of the London 2012 Olympic Games. This includes recognition of the role social enterprise could play in maximising the economic, social, health and environmental benefits of the Olympic Programme. To do this:**
- **The Office of the Third Sector has commissioned Social Enterprise London to research the opportunities for social enterprises to contribute to the Olympic legacy. Some of the opportunities will come through the procurement of services; others may arise through the regeneration of areas and community engagement (case study 27).**

- **The Olympic Delivery Authority is developing a procurement policy which will seek to ensure that competition for all public contracts is open and fair and provides the best possible value for money, in terms not only of cost, but also of the sustainability requirements of the legacy.**
- **The London Development Agency, through a London Employment and Skills Taskforce for 2012, will from April 2007 support a micro-business and social enterprise start-up programme as a means of using the Olympics to engage with the workless about employment through enterprise and entrepreneurship.**

Case study 27



Water City is a unique opportunity to reconnect east Londoners with the docks, rivers and canals in the Lower Lea Valley; to build bridges, both physical and human, across this fragmented area and to create together a new place defined by enterprise rather than dependence.

The Water City proposals have grown out of the pioneering work in social enterprise of the Bromley by Bow Centre and its partners (the Bromley by Bow Centre is 200 yards from the new Olympic Park).

Water City is an important opportunity for public sector bodies to build upon the work of a considerable network of business and social entrepreneurs who have been building projects and creating businesses and social enterprises over many years in the Lower Lea Valley.

The 2012 Olympics are a catalyst which can stimulate opportunity to deliver a lasting legacy for the communities of east London.

www.watercity.org.uk

- 140 Elsewhere, research into the contribution of social enterprise has resulted in practical innovation. The DTI has explored using social enterprise models to help deliver its objectives on affordable energy (case study 28) and the DTI and the Home Office have been working together to identify and review enterprise provision aimed at both serving and former offenders (case study 29).
- 141 Another area where the Government has explored the role of social enterprise is in the regeneration of deprived communities. Social enterprises can play a role by:
- raising the profile and awareness of enterprise, especially in disadvantaged areas and under-represented groups;
 - creating business and employment opportunities in areas where traditional for-profit business models may not operate or be viable;
 - providing accessible learning and training opportunities for local people;
 - leveraging in funding from other sources; and
 - helping to build social networks and contributing to wider community cohesion.

Case study 28

The DTI has used a social enterprise route in developing policy to address **fuel poverty**. As part of its work in support of the Energy White Paper objectives, the DTI, with RDAs, established a not-for-profit parent company. This company will deliver affordable energy solutions to 2,000 homes in deprived communities in the North East and Yorkshire and the Humber RDA areas. Once initial arrangements governing the two programmes were finalised, the not-for-profit status of the parent company converted to a community interest company and two regional subsidiary community interest companies were established. Defra's Warm Front Scheme Manager, the Eaga Partnership, a high-profile social enterprise, is also active in this area being responsible for delivery of assistance to vulnerable households. www.eagagroup.com

Case study 29

Askham Grange is a women's open prison. It offers work experience, both within and outside the prison, to prepare offenders for life after prison. Two specific areas are conferencing and hospitality, using facilities within the prison. During 2005, a feasibility study established that these services have the potential to evolve into a thriving, self-sustaining business within the prison. The study concluded that social enterprise offered an appropriate business model. A business plan was produced, and a replicable model developed that lays down the key principles for a market-led enterprise. The business plan is now being implemented.

- 142** Research has shown that social enterprises in urban areas tend to be situated in areas of high deprivation, and a third of those are within the 20 per cent most deprived wards.⁴¹ Defra's Enterprise4Inclusion action research programme illustrated the considerable interest from rural communities in the use of social enterprise approaches as a way of meeting multiple community goals, including that of tackling social exclusion.⁴² The social enterprise approach can be effective in improving access to services, and can also help to tackle income and social deprivation.
- 143** Social enterprises that have developed out of Single Regeneration Budget programmes show the possibilities of using public funding to create organisations that subsequently can become sustainable and independent, generating income from a variety of sources (case studies 30 and 31). The DCLG is keen to extend the potential of social enterprises to contribute to sustainable communities.

⁴¹ IFF Research (2005) *A Survey of Social Enterprises across the UK*. London: Small Business Service.

⁴² Part of Defra's Rural Voluntary and Community Sector and Social Inclusion Programme 2005/06 examining the role social enterprise can play in tackling social exclusion in a rural context.

Case study 30

SHOREDITCH TRUST
CHANGING SHOREDITCH FOR GOOD

Shoreditch Trust uses a social enterprise model to ensure its succession strategy. The aim is to deliver revenue streams to support ongoing services beyond the New Deal for Communities' 10-year funding programme. By forming partnerships with market leaders, it combines public and private sector expertise. One such venture is the award-winning Digital Bridge – teaming up with



partners including ITN and Homechoice to deliver the UK's largest ICT-literate broadband community.

Plans are in place to roll out the service across the UK. Another venture is the Shoreditch Property Company. This social enterprise will leverage its existing property portfolio to grow its asset base and income streams for the Trust beyond 2010.

www.shoreditchtrust.org.uk

www.digitalbridge.co.uk

www.shoreditchpropertycompany.co.uk

Case study 31



Community Ventures Limited (CVL) started life in the 1980s as City Challenge-funded East Middlesbrough Community Ventures. It is now a successful social enterprise, with an annual turnover of £1.3 million, employing 60 local people as well as operating nationally. Its main business is delivering security

services commercially, and providing monitoring and supply services for alarms and CCTV for the public sector (Middlesbrough was the first local authority in the UK to introduce public realm audio warning), domestic and retail locations; and lone worker protection monitoring for vulnerable workers in the social sector. It runs a community safety alarms initiative. CVL also provides a systems and sustainability consultancy service to not-for-profit organisations and operates a UK Online computer centre for local people to learn ICT skills and develop social skills learning. Its main board includes community and business representation, and day-to-day operations are directed by a professional management board. Annual surpluses, currently around £150,000, are reinvested for community benefit. Email [cvi@cvi.org](mailto:cvl@cvi.org)

- 144** One opportunity for promoting social enterprise in regeneration is through the Local Enterprise Growth Initiative (LEGI), a joint HM Treasury, DCLG and DTI programme, which aims to boost local incomes, employment opportunities and business growth through enterprise and investment.⁴³ Each of the 10 successful bids in the first round of LEGI, announced in February 2006, demonstrated the contribution of social enterprise within its programmes. They supported the growth of the sector, and included targets for formation of new or established social enterprises to deliver wider LEGI objectives.
- 145** Drawing on experience of the first round, specific guidance was drawn up and distributed to all round two bidders, suggesting how social enterprise could be actively promoted through LEGI proposals. Local authorities, working with their partners in Local Strategic Partnerships, are being encouraged to include action to promote social enterprise as part of the Local Area Agreements currently being agreed with Government Offices.
- 146** **The DCLG will work with the Office of the Third Sector, Defra and the DTI to promote ways in which mainstream regeneration funding can be used to develop sustainable social enterprise solutions, using case studies of successful practice.**
- 147** In addition to raising the levels of economic activity in deprived areas, the Government has an interest in helping local groups to have more control over their own communities and services. As a result, the Government has relaxed 'clawback' rules (definition 4) which deterred community groups from making best use of their assets. The DCLG has subsequently published guidance on how the revised rules apply to the programmes it sponsors. More widely, there is an ongoing need to make sure that these changes to the rules are fully understood and implemented.
- 148** **The DCLG will publicise and promote 'clawback' guidance to local authorities, detailing the extent to which a funding body should retain an interest in a transferred asset.**
- 149** In some situations taking ownership of assets that were previously owned by the public sector has enabled community-based social enterprises to make a greater contribution to the regeneration of local areas. The DCLG and the Office of the Third Sector have been considering ways in which to facilitate an increase in community management and ownership of assets, particularly where they are in public ownership, while having appropriate regard for the potential risks and costs that may be involved.⁴⁴

Definition 4: What is clawback?

Clawback is a common way of ensuring that monies paid as grant are used with regularity and propriety. A condition is set on the grant that gives the funding body a charge over the asset. Such conditions can include the funder receiving a percentage of proceeds from the commercial use of the asset, or a full refund should the asset be sold.

⁴³ www.neighbourhoodrenewal.gov.uk/page.asp?id=1696

⁴⁴This builds on DCLG (2005) *Citizen Engagement and Public Services: Why Neighbourhoods Matter*.

- 150** In order to build on the work already undertaken, the DCLG has commissioned an independent review, chaired by Barry Quirk, Chief Executive of Lewisham Borough Council. Reporting in spring 2007, it will look further at the barriers to community management and ownership of public assets. The review will examine existing powers and policies and consider how these powers can be better used, what unnecessary barriers remain, and where further powers and policy changes may be required to overcome them. The review will produce an action plan setting out workable proposals for early implementation. In the meantime, the Government will continue to provide support for third sector organisations wanting to take on the ownership of local assets. As announced in the Local Government White Paper, the Office of the Third Sector will establish a fund to help provide capital support to refurbish buildings that local authorities wish to transfer to community organisations.
- 151** More broadly, more needs to be done to assess the role social enterprises might play in helping to meet big challenges such as climate change, globalisation and the aging population. These themes are the subject of the 2007 Comprehensive Spending Review, and consultations are under way to establish how best to maximise the third sector's ability to work with the Government to address these issues.
- Enabling the sector to make its voice clear**
- 152** In 2002, to address the lack of a coherent, representative voice for social enterprises, the Government supported the establishment of the Social Enterprise Coalition by providing funding for its first three years. This brought together the range of existing umbrella bodies operating in the sector.
- 153** Since it was set up, the Social Enterprise Coalition has developed its membership base, and, through publications and events, has increased the amount of money it earns in fees and contract income. The role of the Social Enterprise Coalition and its members in contributing to policy development is of benefit not only to its members, who contribute to the cost, but also to government.
- 154** In summer 2005 the Government invited applications from organisations and partnerships that wished to represent the voluntary and community sector at national level. Since then the Office of the Third Sector has entered into strategic funding arrangements with those that most effectively demonstrated the ability to fill this role. Existing strategic partners include some of the members of the Social Enterprise Coalition, including the Development Trusts Association and the Community Action Network.
- 155** Responsibility for this strategic funding programme now lies within the Office of the Third Sector. **The Office of the Third Sector will now extend this programme to provide three-year strategic support to a wider range of organisations that represent social enterprises at a national level. The Office of the Third Sector will invite organisations to bid for an additional £0.8 million per year for three years, in order to help them to work with government to raise the profile of social enterprise and influence policy.** This will give the sector the opportunity to reaffirm its high-level representative structure through the Social Enterprise Coalition, as well as providing opportunity for a limited number of other, national partners, where the need can be demonstrated.

156 This funding will increase the ability of social enterprises to make their voices heard through the organisations that represent them. It puts the onus on these organisations to collect and present evidence about their members' experiences and to suggest how public policy objectives could be better met through social enterprise, or how changes to regulation or policy frameworks might affect the ability of social enterprise to deliver social outcomes.

157 In turn, the Government will ensure that organisations representing social enterprise have full access to policy makers. The Office of the Third Sector, established in May 2006, is well placed, through its central positioning in the Cabinet Office, to raise awareness of social enterprise among other departments.

Ensuring delivery

This action plan is part of an ongoing process in a rapidly evolving sector. We welcome the input and suggestions of any interested parties, by email at socialenterprise@cabinet-office.x.gsi.gov.uk, or by post at Social Enterprise Unit, Office of the Third Sector, Cabinet Office, 35 Great Smith Street, London SW1P 3BQ.

158 The strategy spans government. The Office of the Third Sector in the Cabinet Office is responsible for policy relating to social enterprise, but often individual actions fall to other parts of government at central, regional or local levels.

159 The Office of the Third Sector will ensure that it works with other parts of government, its strategic social enterprise partners, social enterprise ambassadors and others in the sector, both to deliver the actions outlined here and to ensure that there is regular sharing of information between government and the sector.

160 The four themes outlined in this document contain strands of work to move forward towards the vision of dynamic and sustainable social enterprises, contributing to a stronger economy and a fairer society. Each has a performance indicator (figure 2).

Figure 2: Performance indicators



- 161** The performance indicators are drawn, where possible, from mainstream business surveys, making use of new social enterprise questions added for the first time in 2005 fieldwork. For example, the *Annual Small Business Survey* will provide an ongoing national estimate of the scale of social enterprise, and the biennial *Household Survey* will provide ongoing information about the motivation of potential entrepreneurs and awareness of social enterprise.
- 162** Regular progress reports on the activities outlined in this action plan will be made available on the Cabinet Office website:
www.cabinetoffice.gov.uk/thirdsector

Annex 1: Working group membership

The action plan has been produced with help and input from a working group drawn from government departments, regional development agencies, the Social Enterprise Coalition and others in the sector or with a strong interest in social enterprise. Other bodies, including the devolved administrations and the Northern Ireland Administration, have also contributed.

Name	Organisation	Name	Organisation
Hilary Norman	Office of the Third Sector, Social Enterprise Unit	Rowena Young	Saïd Business School
Adele Blakebrough	Community Action Network	Richard Moreton	Plunkett Foundation
Andrew Robinson	RBS NatWest	Rosa Wilkinson	Small Business Service
Claire Glossop	National Council for Voluntary Organisations	Kathryn Packer/ Holly Yates	Department for Environment, Food and Rural Affairs
Helen Seymour	Co-operatives UK	Sally Collier	Office of Government Commerce
Jonathan Bland	Social Enterprise Coalition	Colin Jones/ Sarfraz Shafiq	Department for Communities and Local Government
Sally Reynolds	Social Firms UK	Janet Moore	Department for Education and Skills
Steve Wyler	Development Trusts Association	Alice Galvin	HM Treasury
Lucy Findlay	RISE	Richard Clarke	Office of the Third Sector
Stephen Sears	ECT Group	Kate Annison	South East England Development Agency
Mark Sesnan	Greenwich Leisure Ltd (representing the Sport and Leisure Trusts Association)		

Annex 2: English regional development agencies and devolved administrations

All regions and nations of the UK have developed clear approaches to social enterprise over the past few years. The following pages provide an overview of the approach taken in the English regions and in Northern Ireland, Scotland and Wales.

English regional development agencies

England's regional development agencies (RDAs) were established in 1999 to drive forward sustainable economic growth across the nine English regions. They have a strategic leadership role in supporting regional economic development via catalytic interventions and investment.

Each RDA receives proportionate funding from central government based on the Single Programme (also known as the Single Pot) funding formula. The Single Programme formula is based on a mix of weighted factors relating to relative deprivation and economic activity within each region.

Each RDA is responsible for leading the development of a Regional Economic Strategy (RES) which is specific to the economic needs of that region. The RES is the strategic document which outlines the focus of intervention to promote

economic development for a range of public, private and third sector partners. Each RDA also prepares a Corporate Plan in line with the RDA National Tasking Framework. RDA Corporate Plans set out how the RDA's regional, economic and strategic priorities for investment and support will contribute to the delivery of the RES.

The RDAs are also responsible for the management of a number of distinct programmes devolved from the national to the regional level. In April 2005, the RDAs were given the responsibility for the regional management of the Business Link Network. Business Link is the primary publicly funded gateway to business support in the UK. Business Link, under the oversight of the RDAs, operates an information, diagnosis and brokerage approach to accessing business support for SMEs in the UK. The RDAs are committed to make business support through the information, diagnostic and brokerage model appropriate to all SMEs in England, including social enterprises.

RDA social enterprise policy

The principle of devolution of funding to the RDAs is based on the rationale that regions are best placed to determine the interventions required at the local level to support the principles of sustainable economic growth.

Strategically, RDAs recognise the potential that social enterprise has for the delivery of a number of key objectives of regional sustainable economic development, including:

- increased productivity through innovation and economic inclusion;
- maximising the impact of the public pound through public service delivery models that support added economic, social and environmental value; and
- modelling sustainable economic growth.

The RDAs recognise that social enterprise is at heart a business model and that, as with all businesses, intervention is best targeted at releasing social enterprises to compete in the market through two key approaches:

- identifying markets; and
- removing barriers to operation.

Over the last three years the nine RDAs in England have supported social enterprise across the regions to achieve these two aims through a range of activities including:

- support for specialist infrastructure;
- demonstration projects of regional and national significance to key models and markets;
- understanding and awareness raising programmes;
- development of specialist advice and financial products where appropriate;
- policy intervention within public sector markets; and
- developing professional development training and education.

While each RDA has specific priorities, nationally the continued investment in and support to social enterprise across England via RDAs will be based on the following key policy principles:

- removing barriers to competing on a level playing field with other businesses;
- prioritising support where historical or potential economic impact can be evidenced;
- working within sustainable markets;

- prioritising efficient infrastructure and support mechanisms that have sustainable business models, based, where appropriate, on economies of scale; and
- mainstreaming access to business support.

If you would like further information about the work of the RDAs nationally or individually please visit the RDA National Secretariat website: www.englishsrdas.com/home.aspx.

RDA actions

Fostering a culture where there is full information about the potential of social enterprise

RDAs will:

- promote commercial collaboration between social enterprises and the private sector by a range of mechanisms including procurement;
- encourage large firms and SMEs to deliver corporate social responsibility objectives through partnership with social enterprises; and
- include social enterprises in new and existing networks to encourage interconnections with other business models in relevant sectors and clusters.

RDAs will encourage new entrants through greater focus on social enterprise by the following:

- embedding social enterprise in existing entrepreneurship and leadership programmes;
- influencing key partners and stakeholders (for example higher education institutions, careers advisers, Jobcentre Plus, Learning and Skills Councils, Sector Skills Councils and economic development organisations) to ensure that they are able to offer appropriate advice to potential social enterprises in pre-start or start-up stages; and
- promoting sustainable models of infrastructure and intermediary support for potential new entrants to social enterprise.

RDAs will work with sector bodies to:

- help disseminate potential transferable social enterprise models and good practice;
- promote opportunities to replicate/adapt existing business models, including through events, workshops etc; and
- promote the idea that the sector should do more to market and publicise its own achievements.

Ensuring that the right information and advice are available to those running social enterprises

Following the joint project to review current business support arrangements for social enterprise across all regions, and capture good practice, a plan for implementation of good practice across all RDAs will be in place by March 2007.

RDAs will support delivery of the overall social enterprise strategy in their regions. In particular, through the Business Link service, they will implement, market and monitor the supply of appropriate business support accessible to social enterprises – taking account of customer feedback.

RDAs will ensure that Business Link is aware of specialist business support available for social enterprise in their region, by:

- ensuring that lessons learnt from the review of current practice are built on in implementing the Business Link model of support; and
- reflecting feedback from social enterprises that have used the Business Link service.

By 2008 RDAs should be able to report increased satisfaction with business support in their regions.

RDAs will support skills development by encouraging the inclusion of social enterprises in regional skills development networks and activities and by ensuring social enterprise is included in Train to Gain (formerly the National Employer Training Programme).

Enabling social enterprises to access appropriate finance

RDAs will:

- consider the accessibility of existing investment mechanisms already administered by them;
- encourage better investment readiness and access to mainstream finance through embedding social enterprise into existing and future 'access to finance' programmes; and
- review existing investment in social enterprise via Community Development Finance Institutions and consider dissemination of good practice models.

Enabling social enterprises to work with government

The DTI and RDAs will work to promote fair access to public sector markets for SMEs, ensuring that social enterprises are eligible for procurement

capability support targeted at more traditional small and medium-sized businesses.

They will do this in particular by:

- marketing the Small Business Service's 'Supplier Route to Government' to social enterprise;
- building on DTI research on the costs and benefits of using social clauses in public procurement; and
- providing access for social enterprise to RDAs' wider support for SMEs on procurement as part of their supply chain development programmes.

Northern Ireland

In 2002, the Department of Enterprise, Trade and Investment (DETI) took the lead in integrating and co-ordinating the social economy sector's development across government departments. DETI also led on the preparation and publication in 2004 of the three-year cross-departmental strategy 2004–07, *Developing a Successful Social Economy*, with annual action plans. The sector continues to be a priority and has been identified as an area for action within DETI's 2005–08 corporate plan.

The overall aim of the strategy is to support the development of a strong and sustainable social economy, through the following three key objectives:

- increase awareness of the sector and establish its value and contribution to the local economy;
- develop the sector and increase its business strengths; and
- create a supportive and enabling environment.

The focus in the final year of the current strategy (2006/07) includes actions in the following areas:

- Social Economy Network: the transition of the Social Economy Network to an incorporated entity with its own strategy. DETI will be working

closely with the new board of the Social Economy Network to support and facilitate the move towards a more independent and sustainable network with a focus on advocacy and leadership, membership development and professionally managed services to members.

- Mapping the size and scale of the sector: the first biennial survey of the sector in Northern Ireland will be undertaken by DETI – questionnaires issued in September 2006 and results available in early 2007.
- Awareness raising: as part of the communications strategy, a further set of eight case studies have been developed and distributed to showcase the range of activities and strengths of the sector and as learning tools for the sector (for further information on the case studies, see the DETI website www.detini.gov.uk).
- Procurement: the development of a pilot programme to build the capacity and capability of the sector to identify possible procurement opportunities and to tender and compete more successfully for public sector contracts.
- Review of the Northern Ireland strategy: the current three-year strategy is being reviewed to

assess its impact and to identify further opportunities to work both across government departments and with the Social Economy Network, to ensure that the social economy continues to make a significant contribution to social and economic development in Northern Ireland.

Scotland

The Scottish Executive strategy for the social economy is being implemented through the Futurebuilders Scotland Programme, which is providing £17 million of direct investment into social economy organisations supplemented by a £1 million support programme. In May 2005 the Scottish Executive committed itself to developing a strategy specifically for social enterprise, and production of this is now under way. The strategy will link to Scottish Executive commitments to deliver better public services and grow Scotland's economy, and build on the work already begun through Futurebuilders Scotland.

Currently, the support programme for Futurebuilders Scotland is providing assistance to the sector in four main areas:

- producing a series of guides aimed at levelling the playing field for social economy organisations in the public procurement process;
- investigating the development of new financial products for the sector;
- ensuring access to development support for the sector, including through the establishment of Local Social Economy Partnerships; and
- undertaking research to gain more intelligence on the sector.

Other support for the sector includes:

- The Exchange, which provides three levels of assistance to social economy organisations: a web-based database of available support, a personal (telephone) response service, and active accounts matching specialist support direct to organisations;
- Social Equity Scotland, which is being developed and piloted to provide equity-type and patient capital-type financial products for social enterprises; and

- the Scottish Social Enterprise Academy, which has been established through funding from the Futurebuilders Scotland Learning Fund to provide training courses tailored for social enterprises, focusing mainly on strategic development and business planning.

Additionally, there are three Futurebuilders Scotland funds providing direct financial assistance to the sector:

- a £12 million Investment Fund making grants of up to £500,000 to established social economy organisations with a track record of successful service delivery;
- a £4 million Seedcorn Fund making grants of up to £50,000 to smaller, growing organisations that want to develop a new trading idea or expand into new areas; and
- a £1 million Learning Fund awarding grants of up to £20,000 per organisation and developing new training opportunities.

All grants made from these funds must meet Scottish Executive Closing the Opportunity Gap objectives while also contributing to the recipient organisations' financial sustainability.

Wales

The Welsh Assembly Government's vision is of dynamic and sustainable social enterprises strengthening an inclusive and growing economy. This is consistent with the vision in the Welsh Assembly Government's main strategic document, *Wales, A Better Country*, of a 'sustainable future for Wales where actions for social, economic and environmental improvement work together to create positive change'.

A consultation document on the social enterprise action plan was issued in July 2003. The Welsh Assembly Government's response to the consultation was produced in March 2004. The first social enterprise strategy for Wales, launched in June 2005, builds on this earlier work and has been developed in partnership with the Social Enterprise Joint Working Group which includes social enterprise practitioners, members of representative bodies, officials from the Welsh Assembly Government and representatives from the voluntary sector.

Following the format of the social enterprise action plan, the strategy focuses on the four main objectives of:

- creating an enabling environment;
- making social enterprises better businesses;
- establishing the value of social enterprises; and
- encouraging the development of new opportunities.

The strategy provides details on the barriers to achieving each of these objectives, information on some of the measures that will be put in place to overcome these barriers, and a synopsis of work that is already under way.

The strategy also incorporates a number of key actions and targets, and information on how these will be monitored and evaluated. In connection with these key actions, sub-groups of the Social Enterprise Joint Working Group are undertaking work during 2006 in the areas of access to finance, procurement and asset development.

Annual reviews will be carried out over the life of the strategy.

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