

THE ROLE OF SOCIAL AND COMMUNITY ENTERPRISE IN SERVICE DELIVERY

INTRODUCTION

1. The service delivery paper considered the identifying characteristics of the VCS that underpin its contribution to service delivery. This paper specifically considers the role of social and community enterprise. The paper considers the contribution of social and community enterprises via case studies to illustrate the potential value added that social enterprises can bring to service delivery and seeks to explore:

- whether there are specific characteristics that are unique to social enterprises as compared with the wider voluntary sector;
- whether there are specific barriers to engaging in service delivery that this sector faces as compared with the wider voluntary sector;
- whether there are any additional policy changes that should be recommended above and beyond those flagged in other chapters of this report in order to overcome the obstacles that impact only on social enterprises.

DEFINING SOCIAL AND COMMUNITY ENTERPRISES

2. Social enterprises are businesses driven by their social objectives. The definition used by DTI's Social Enterprise Unit (SEU) 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."*¹

3. Social enterprises include local community enterprises, social firms, mutual organisations and large-scale organisations operating nationally or internationally.

4. Understanding social enterprise is therefore about identifying key characteristics common to such businesses rather than defining specific organisational forms. Attempts to define social enterprise by reference to a set of

¹ [Social Enterprise: A Strategy for Success](#), DTI, July 2002, p7.

institutional characteristics can be misleading. The label 'social enterprise', therefore, has more to do with what drives an organisation than how it is constituted. Like all VCOs, social enterprises may be found on a continuum, with organisations relying primarily on grants at one end, and 100% self-financing socially driven businesses at the other. Nonetheless, recent ESRC research shows that only 3% of UK social enterprises operate without grant funding.² The key defining characteristics of social enterprise are:

- a strong drive for financial autonomy;
- a flexible, non-bureaucratic way of working;
- a willingness to take risks and adapt to changing need;
- a close understanding of and commitment to their client groups;
- a commitment to staff development;
- re-investing profits in the social aims of the business or local community;
- the ability to deliver on social objectives while delivering services.

5. Thus social enterprises aspire to combine entrepreneurial leadership and innovation - characteristic of the best of private business - with the prioritisation of social and environmental objectives of the VCS. In a phrase, social enterprises are said to be, 'value-led, market-driven.'³ Of course, many of the characteristics that contribute to the success of social enterprises, are also the kinds of features exhibited by VCOs more generally and discussed in some depth in the service delivery paper.

6. While the nature of some charities' work makes it very difficult to become self-sustaining through earned income alone, increasing the element of earned income, and reducing reliance on grants, may yet be a realistic option for some.

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7. There is a sizeable body of data available on charities and even the 'social economy' in its widest sense. However, identifying the particular contribution made by social enterprise is difficult – not least because there is no easy, established definition of what constitutes a social enterprise.

8. The data mapping group established by the DTI's SEnU concluded that it was difficult to determine the number – or economic contribution – of social enterprises as there have not to date been any comprehensive studies. They concluded that further, more carefully defined, research is needed to map fully the social enterprise sector. It also recommended that guidance should be issued for use in future mapping exercises to help establish a reliable body of

² [ESRC Press Release: 16 November 2001](#)

³ 'Value-Led Market-Driven', Westall, IPPR, 2001

information. The absence of such information currently restricts the extent to which policy makers feel they have robust evidence about the impact of the sector, and may therefore place an undesirable constraint on the role of social enterprise in service delivery.

SOCIAL ENTREPRENEURS

9. Social entrepreneurs⁴ are individuals who organise, manage and assume the risks associated with a business enterprise to benefit others and address issues of social concern. They work primarily by bringing together streams of public funding and charitable donations, though they may also trade to earn income.

10. It follows from this that not all social entrepreneurs start or work in social enterprises. However, all social enterprises require entrepreneurial vision and leadership as in any business. The review has not therefore focussed on social entrepreneurs per se, but has considered social entrepreneurship as it relates to the leadership and workforce development needs of social enterprises and the wider voluntary sector.

CASE STUDIES: SOCIAL ENTERPRISES AND PUBLIC SERVICE DELIVERY

11. This section uses case studies in specific areas to help highlight the role that social enterprise can play in helping to deliver public services - education (including vocational training), social care (including domiciliary and child care), transport and energy management.⁵

EDUCATION AND TRAINING

CASE STUDY 1 – COMMUNITY ACTION FURNACE

12. Community Action Furnace (CAF) has created a cohesive network of social enterprises united by shared workspaces, financial and administrative services, common social values and a joint strategy for fundraising to supplement their growing revenues. One of 20 projects is Project John, a scheme that brings together redundant skilled workers and young people in need of skills training and a home. In the past six years, it has refurbished dozens of houses, trained some 200 young people in practical skills and is expanding fast to include a maintenance team with contracts with the council, Age Concern and several other VCOs.

13. Together, the 20 enterprises have, over seven years, brought £4.2m into the local economy, created more than 150 jobs and trained at least 300 young people and another 50 or so volunteers. Three years ago, the main players in the

⁴ For a recent summary of definitions and characteristics of "social entrepreneur", see *'Unsung Entrepreneurs: Entrepreneurship for Social Gain'*; Shaw, Shaw and Wilson, University of Durham Business School 2002.

⁵ An internal literature review undertaken for this study suggested that social enterprises faced similar barriers to engaging in service delivery as the wider VCS.

town - the VCS, Local Authority (LA), and private sector (Furness Enterprise) - came together with CAF to create the Community Regeneration Company.

SOCIAL CARE

14. In the delivery of welfare services, social enterprises tend to operate in niche areas. In domiciliary care, for example, the UK Co-operative Council's study found 49 care co-operatives, most of which were founded in the 1990s, providing support to frail elderly people, young people, people with disabilities and respite care. When residential care for the elderly was deregulated in the early 1990s following the Griffiths report many charitable bodies, Church organisations and others entered the market. However, poor leadership and lack of business skills led many of these to fail. Many of those that succeeded and still exist have adopted a social enterprise model.

CASE STUDY 2 – WALSALL HOME CARE CO-OPERATIVE

15. Solihull was one of the earliest local authorities to put its care services out to tender. There were initially around 30 contracts awarded, the majority to small VCS groups. These community ventures could not sustain services and eventually private sector firms took over on a low price and high volume basis. However, social enterprises managed to continue to operate in particular niche markets such as services for disabled children, respite care, and services for those with special needs.

16. One pioneer was the Walsall Home Care Co-operative, started in 1989 on the initiative of a local authority care officer who initiated a visiting service for older people. The project began as an experiment with 12 local carers and quickly grew to 28. To control the business and co-ordinate work a co-operative was established with help from the Black Country Co-operative Development Agency and a small grant. Over three years Walsall Home Care Co-operative created over 250 jobs in three years.

17. The Walsall model has been replicated elsewhere in the country, beginning in nearby Telford with the Wrekin Home Care Co-operative that has created around 80 jobs.

TRANSPORT AND ENERGY MANAGEMENT

CASE STUDY 3: EALING COMMUNITY TRANSPORT

18. Ealing Community Transport (ECT) started in 1979 as a project of the local Council of Voluntary Service when Ealing Social Services provided an endowment of four buses to organise transport for clients. One of its first actions was to purchase an additional four buses. In 1996 it set up ECT recycling, which now offers a range of recycling services, including the first ever paint exchange scheme.

19. ECT has diversified into a group comprising four separate companies, employing over 200 staff and providing recycling and community transport services for 8 local authorities, 2 outside London. It is the national pioneer in kerbside recycling and provides direct services to over 425,000 households. Current group turnover is £13m per annum and increasing by 20% annually.

CASE STUDY 4: ENERGY ACTION GRANTS AGENCY

20. The Energy Action Grants Agency (EAGA) has a mission of serving low-income households suffering from fuel poverty. It has developed a range of innovative and effective services with beneficial social outcomes. EAGA was set up in 1990 to manage the delivery of the Home Energy Efficiency Scheme which provides insulation to low income households for lofts, cavity walls, pipes and boilers. In 1999 this work was put out to tender. Soon after EAGA restructured to become an employee-owned social enterprise. EAGA won the largest of the regional tenders and has increased turnover from £7m to more than £12m and staffing levels from 130 to 180 employees.

21. EAGA now runs a national call centre to advise low income families on grants for home insulation, taking over 200 calls per week. And it has developed a range of new services to households with annual incomes of less than £10,000 such as 'Power to Low Income Families' providing free advice, a benefits health check and access to wholesale discount rates. Through its 'Watersmart' service EAGA has arranged for more than 10,000 households to reduce their annual bills by at least 46%. EAGA has also forged a partnership with the Royal College of Nursing to encourage health visitors and district nurses to arrange insulation advice and benefits checks for elderly and disabled people.

THE VALUE OF SOCIAL ENTERPRISE

22. These case studies illustrate specifically that social enterprises can:

- display entrepreneurial leadership in service delivery;
- act as efficient intermediary organisations delivering a range of services under contract from local authorities;⁶
- create training and employment opportunities for excluded groups;
- build social capital; and⁷
- lever in additional finance through having greater financial freedoms than Direct Service Organisations.⁸

⁶ For example, 81% of organisations in the Bristol Social Economy Audit provided more than 1 service, 53% more than 5 types of service or activity

⁷ See especially pp. 13-19, 'Welfare as Work. The potential of the UK Social Economy', Amin, Cameron, Hudson. University of Durham, 2000.

⁸ The Bristol Social Economy Audit found that public investment is often used to pump-prime local enterprise. 24% of income for the group as a whole came from the Local Authority; 31% was generated from the sale of goods and services; 44% of organisations in the sample attracted 'in-kind' voluntary donations of time, expertise and resources.

23. Social enterprise can also help to stimulate local economic renewal, particularly in disadvantaged areas. Eden Community Outdoors (ECO), for example, is a low cost, accessible arts and outdoor adventure and environmental programme for young people in the North East of Cumbria. Research by the New Economics Foundation has shown that for each £1 earned or raised by ECO, £2.80 is generated for the local economy. They suggest that this is because ECO, like many social enterprises, has a strong local sourcing policy. The last two decades have seen the growth of social enterprise waste management schemes, and neighbourhood nurseries,⁹ as well as leisure management.

BUSINESS SUPPORT

24. One of the key recommendations of Policy Action Team 3 (PAT 3) was that the Small Business Service (SBS) should extend its services to social enterprises. Social Enterprise London, with SBS support, has recently produced a series of pilot training models on social enterprise for personal business advisers. The Durham Business School Exchange pilot programme, supported by the SEnU and One North East development Agency, is also working with Business Links. In addition, Business Links (BLs) in several regions (some using Phoenix or EQUAL funding) are experimenting with different ways of identifying and supporting social enterprises in their areas.

25. A study by Middlesex University of the pre-April 2001 BLs advisers suggested that further training and incentivisation of SBS franchise holders might be necessary for them to provide adequate support to social enterprises¹⁰, there are signs that the new BLs are becoming increasingly aware. They were directed by SBS to include specific reference to their work with social enterprises in their Business Plans for 2002-03.

26. In addition to general business support offered by SBS, social enterprises also need to be able to access general and specialist support from a great range of national and local agencies¹¹ including LAs, independent enterprise agencies, specialist national agencies, such as Social Firms UK and local independent specialist social enterprise support agencies (such as Bristol Area Community Enterprise Network). Help might also be provided by the Co-operative Development Agencies and local Councils for Voluntary Service and Rural Community Councils.

⁹ See, 'To Our Mutual Advantage', Christie and Mulgan, Demos 1998 and 'Low Flying Heroes', New Economics Foundation 2001.

¹⁰ A survey of conducted pre-April 2001 by Middlesex University Business School for the Small Business Service and covering 53 of 61 (85%) of the old Business Links found that: only 25% of Business Links claimed to information on social enterprise in their catchment area, and that on closer inspection only 9% had a social enterprise database and that fewer than half considered that social enterprises had distinctive support needs.

¹¹ 79% of BLs respondents to the Middlesex University report stated that other organisations in their area delivered support to social enterprises.

27. Work by Andrea Westall in 2001 concluded that 'in the absence of a strategic framework, support structures are often weak, fragmented and variable in quality'.¹² This highlights the importance of ensuring that SBS, the Government's delivery mechanism for support to business, is able to fulfil its task, and that it works alongside other forms of social enterprise support. It may be for the Regional Development Agencies to ensure that, within each region, such a strong and complementary network of business support and training for social enterprises exists and is properly publicised.

ACCESS TO FINANCE

28. PAT 3 identified a lack of access to finance as a key inhibitor to the growth of social enterprise, and this is one of the growth inhibitors that social enterprises share with the wider VCS. Some social enterprises may depend on grant funding, especially in their start up phase, and require access to a full range of financial products to sustain and develop their services.

GRANT FUNDING

29. Current grant regimes are rarely designed to help community organisations develop into robust social enterprises. Few are intended to fund a package of organisational development. Nor do they specifically encourage the development of more entrepreneurial approaches, such as requiring organisations to lever in loan finance or improve business process. Opportunities may therefore be lost.

30. PAT 3 recommended that social enterprises be considered in national funding criteria for government programmes and much progress has been made. In some cases, however, social enterprises continue to be explicitly excluded from consideration for developmental financial support from charitable trusts and other grant funders.

DEBT AND EQUITY FUNDING

31. The Social Investment Taskforce was charged with assessing how to develop the capacity for creating wealth, economic growth, employment and an improved social fabric in the most under-invested communities. Budget 2002 introduced the Community Investment Tax Credit (CITC) to encourage greater flows of private capital into disadvantaged communities through Community Development Finance Institutions (CDFIs). These institutions are already leveraging resources into poorer areas, controlling funds totalling an estimated £100-400 million, and they also provide the technical assistance entrepreneurs need to be successful. The CITC will help the CDFI sector to develop and grow, and the Phoenix Fund is helping to build capacity in these important organisations. The Community Development Venture Fund will also add an extra dimension to deprived areas, bringing to them the growth enhancing benefits of the venture capital model.

¹² Westall 2001

32. Nonetheless, social enterprises can still experience difficulty accessing commercial finance – and may not always be able to carry relatively high borrowing costs even when money is available. This is not necessarily because they are more risky than private sector small and medium enterprises, though there may be a perception that even the best offer a lower rate of return on investment.

33. External participants in the review have discussed a lack of ‘cultural fit’ between commercial lenders and social enterprises and suggested the need for a wider understanding of what social enterprise is and a proper assessment of their “added social return” – sometimes called the “double or triple bottom line”. This requires the introduction of robust impact measurement such as social audit.

34. Social enterprises can also face legal restrictions on raising equity finance. If they are registered charities they are not able to raise equity finance at all. If they are companies limited by guarantee, they also cannot access equity finance (although some complex organisational structures may allow for this, e.g., a group structure which includes a company limited by shares). If they are Industrial and Provident Societies, they can issue equity but there is a £20,000 limit on shareholdings by any one individual.

OTHER ADDITIONAL INHIBITORS: AN APPROPRIATE COMMISSIONING FRAMEWORK

35. Some submissions to the review argued that social enterprises were not always able to compete for local contracts on an equal footing with other sectors because of bias within LAs towards the ‘tried and tested’, uncertainty about the performance of ‘social enterprise’ and a preference by some LAs, for administrative ease, to work with one large contract rather than a range of smaller ones. Raising awareness of the potential advantages that flow from using social enterprises may help.

FUTURE DEVELOPMENT OF SOCIAL ENTERPRISE

36. The SEnU in DTI, which began work in Autumn 2001, set up eight Working Groups, made up of social enterprise practitioners and experts. They looked at:

- research and mapping;
- impact and evaluation;
- promotion;
- finance and funding;
- legal forms and governance;
- business support and training;

- learning from experience; and
- public procurement.

37. The working groups reported in February and drawing on this and on other relevant work already underway in other government departments, the SEnU developed a strategy which was published in the summer of 2002.