

Social Enterprise Briefing

Introduction

This briefing aims to unpick what is meant by the term social enterprise and also to highlight and discuss some of the main issues and concerns that surround social enterprises.

What is a Social Enterprise?

Social Enterprise is the amorphous term used to describe a large range of organisations.

However in general social enterprises can be described as **businesses with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community.**

The idea behind social enterprises is that they realise and achieve social aims through their business. The social aims are prioritised above the need to maximise profit and in many cases any profit that is made is ploughed back into the organisation or used to address social issues within the community.

This group constitutes a collection of organisations that exist between the traditionally private and public sectors and has a strong relationship with the Community & Non-profit sector.

Organisational structures that have often been described as Social Enterprises include:

1. Cooperatives
2. Mutual societies
3. Community interest companies
4. Development trusts
5. Community enterprises
6. Housing associations
7. Credit Unions
8. Charities

Most of these types of organisations have a long history with links to the Labour and cooperative movements and trade unionism.

The vast majority of social enterprises are small scale and local in their scope. However, there are a number of well known social enterprises already in existence including Café Direct, The Big Issue, the Co-operative Group, the Eden Project and Fifteen.

Community Interest Company's (CIC) are the most recent member of the Social Enterprise sector. They were created by the Labour Government as a new form of limited liability company to encourage more socially responsible businesses.

Key features of CICs include a statutory lock on the assets and profits, a 'community interest' test which companies must pass in order to be registered, an annual report outlining how their activities have benefited their community and how they are involving stakeholders and a CIC regulator responsible for ensuring that CICs comply with their legal requirements¹

Some facts about the Social Enterprises Sector:

- The Office of the Third Sector now claims there are 55,000 social enterprises in the UK.
- The sector has a £27 billion turnover and contributing more than £8 billion to GDP a year.
- Over 640 organisations have now registered as community interest companies (CIC).
- A survey of social enterprises across the UK (IFF 2005) showed that social enterprises in urban areas tend to be situated in areas of high deprivation, and a third of those are within the most deprived wards.

Recent developments:

The New Labour Government has put a lot of emphasis on the social enterprise sector and made available a significant amount of money to support the sector's growth and infrastructure.

Often under the banner of the "Third Sector" they have been pushing social enterprises as a vehicle for social regeneration and public service reform.

Some significant developments include the legal definition of CICs, the creation of the Office of the Third Sector and the subsequent Third Sector Review and Social Enterprise Action Plan.

The Social Enterprise Action Plan has committed government to support Social Enterprises in the following ways:

- Increase awareness of Social Enterprises.
- Set up infrastructure and incentives to help people create social enterprises e.g. template social clauses.
- Provide funding for the development of the sector.
- Encouraging increased market access for the sector – largely in the public sector commissioning process.

¹ An introduction to the Community Interest Company at www.socialenterprise.org.uk

Government Financial Support:

In practice all this has meant a significant amount of financial support from various government departments including:

Office of the Third Sector

- **£10 million** for investment in social enterprises
- **An initial pilot will be £0.5 million in 2007/8** to Regional Development Agencies (RDAs) to improve Business Link's capacity to broker business support for social enterprises. **This is set to rise by £1.8 million per year thereafter.**
- Strategic partners programme to provide **£0.8 million a year for three years** to support organisations representing social enterprises at a national level – e.g. the Social Enterprise Coalition.
- Two **£100,000 research projects** investigating ways to encourage private sector investment

HM Treasury

- The establishment of the **£125 million Futurebuilders fund** to build capacity of the third sector, including social enterprises, to help deliver public services.
- The pre-budget report (6 December 2006) announced a **Community Assets Fund** worth a total of **£30m in capital grants** to offer support to partnerships between community-led third sector organisations and local authorities. The aim of the fund is to refurbish local authority assets, to facilitate their transfer to community ownership and management”.
- Tax incentives are available including the **Enterprise Investment Scheme (EIS)** and **Community Investment Tax Relief (CITR)** incentives investment of up to **£250,000**

Department of Health

- **£73m fund to be spread over 4 years** and made available for supporting and encouraging the development of social enterprises in health and social care.
- **25 pathfinder projects** who can apply for a share of a **£1m start-up fund.**

Why are Social Enterprises being promoted?

Public service reform

Social enterprises are being promoted as the vanguard of public service reform. Many social enterprises operate in markets where the public sector is the main commissioner of services, such as health and social care, community transport or waste management. The Office of the Third Sector is working on a third sector public services action plan to be published later in 2007. This will set out a strategy to help departments “*to overcome barriers to social enterprises delivering public services.*” (Social Enterprise Action Plan)

Areas of particular focus are Defra commissioning waste management schemes and the Department of Health promoting the entry of social

enterprises into the health and social care services market. Also the Olympics are being used as a major piloting opportunity.

Businesses and Community regeneration

Social enterprises are seen as a good model for self-help community regeneration. The aim is to encourage people to find enterprising solutions to their own community issues and problems. This can include a huge variety of activities from creating training and employment opportunities for vulnerable or excluded groups – such as people with disabilities, ex-offenders and early school leavers – credit unions providing access to community loans through to local community centres, leisure areas and events.

The message is that people should not rely on a paternalistic government to provide everything but rather government should help people help themselves.

Ethical business model

Social enterprises are being promoted as a way to get more ethically minded people to set up businesses and also challenge by example the culture of the profit driven private sector.

Government cites examples such as the Café Direct and the Body Shop as examples of financially viable social enterprises.

Unite Amicus Section and Social Enterprises:

The new emphasis on the social enterprise sector presents both opportunities and challenges to Unite Amicus Section.

It is important to state that, as broadly defined above, Unite Amicus Section is in favour of social enterprises as an ethical model for business and as a tool for social regeneration. Trade unions have a long history of support for such organisations that aim to achieve social benefit for their community and the wider world.

Some of the positive aspects of the Social Enterprise Model are:

- Any/all profit is ploughed back into the organisation or used to address social issues within the community
- Reinvested profit can be used to provide training and development opportunities for staff
- The social enterprise model could create new forms of entrepreneurship and employment within a community
- The model is ideally placed to meet new needs within a community, if supported sufficiently at start up
- Social Enterprises can offer goods and services to poor and disenfranchised communities
- The potential of a profits and revenue stream could liberate organisations from the tyranny of fundraising and grant applications
- Organisations could flourish effectively and creatively under this model

- Citizenship participation and volunteering are encouraged within the local community
- Government is committed to making the model work and supporting the initiative, and has begun implementing a new social enterprise action plan.

Union Concerns

Unite Amicus Section does however have some serious concerns about the policies that are driving government interest in Social Enterprises and the impact that this new emphasis is having on other sectors and their employees.

Public service reform

The union's most serious concern is around public service reform.

It is clear that social enterprises are being used as a tool to privatise significant parts of UK public services. Contestable markets are being opened up that promote the wholesale transfer of services to social enterprises, such as in NHS trusts, waste management and housing.

The union is clear that there is a significant difference between an organically created social enterprise set up to fill a social need in a community or a gap in public services and social enterprises created with the sole purpose of taking on provision of outsourced public service work.

The experience of health sector members who have been outsourced to Surrey Central Health, one of the Department of Health's trailblazing Pathfinder projects is far from positive. Particular concerns are around the erosion of terms and conditions and national agreements, questions over the evidence for value for money and the resulting fragmentation of NHS services. [See the Unite Amicus section briefing on Social enterprises in the NHS by clicking here.](#)

Also of concern is the fact that these organisations are not selling products so it is difficult to see how sufficient profits will be made to reinvest within the organisation to enable the organisations to grow. This implies the very real possibility that these organisations could be bought out by private sector organisations.

Funding

Another important concern about the social enterprise model is that it does not alleviate the twin problems that have always beset the Community & Non-profit sector – those of undercapitalisation and the struggle to access long term strategic funding, especially in relation to start up costs. This is most significantly true for servicing enterprises that rely on contracts and grants.

The model also still carries a high level of risk, which could lead to the loss of social enterprises offering services/products to the community if they fail to become financially viable or do not win contracts.

Without addressing the funding concerns already afflicting the Community and Non-Profit sector involved in service delivery it is hard to see how social enterprises will be any more successful and stable.

Charitable status

Government support and increased funding pressures for contracts are forcing more and more charities to become social enterprises and adopt business models.

Many Unite Amicus Section representatives report that this is damaging the ethos of many organisations in the sector as they are being forced to become more business minded and divert resources from their other work.

The challenges faced by Community & Non-profit sector organisations competing in an open market could lead to the closure of many key organisations within the community.

Conclusion

The social enterprise model offers many opportunities and challenges to the union movement. Government's support for the sector is in some senses welcome but has also meant that the sector has been used as a tool for other policy aims. Unite will continue to participate in the debate and monitor the sector, supporting what is good and opposing what is not.

