Rt Hon Phillip Hammond MP
Chancellor of the Exchequer
Her Majesty's Treasury
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19/01/2017

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Dear Chancellor

Social Enterprise UK Budget submission

I am delighted to submit Social Enterprise UK's Budget submission for 2017.

Social enterprise and Social Enterprise UK

A social enterprise is defined by:

- its social and/or environmental mission in its governing documents,
- its commitment to reinvesting 51% or more of its profits into its mission (or the business),
- that it is actively trading,
- its independence from government; and,
- its accountability and transparency.

Social enterprises tend to have a diversity of ownership forms and client engagement which cannot be easily characterised. This diversity is replicated in the senior management: social enterprises are significantly more likely to be run by women, BME groups and people with disabilities than traditional businesses. Social enterprises are therefore delivering the shared economy and the type of inclusive growth that the Prime Minister is committed to.
Social Enterprise UK is the membership and campaigning body for the social enterprise movement.

Modern Industrial Strategy and support for social enterprises start ups

There are over 70,000 social enterprises employing over one million people, contributing over £24bn (GVA) to the UK's economy[1]. The size of the sector compares very favourably to traditional sectors of the economy such as shipbuilding[2] or the aerospace, defence and security industry. Moreover, social enterprises work in the most deprived communities, with many providing training and work opportunities for members of disadvantaged communities – providing a vehicle for social mobility and the inclusive society the Prime Minister has indicated that she wants to see.

Yet there is currently no overarching strategic framework aimed at supporting the social enterprise movement in England. England lags behind Scotland, which has recently published a ten-year social enterprise strategy[3] and Wales, with its Cooperative and Mutuals Commission.[4]

Further supporting social enterprise in the modern industrial strategy and supporting the growth of the movement financially should be a priority for the Treasury.

The Conservative manifesto promised to "give more people the power and support to…start their own social enterprise…".[5] We are yet to see any substantive policy or funding stream which will fulfil this pledge. Whilst the Government's commitment to social investment is well established, this has not been matched by policy to support your commitment to social enterprise start-ups. Arguably, there is already a mismatch between the supply of social finance and the demand from social enterprises.

Likely effectiveness and value for money
The social enterprise movement continues to grow, notwithstanding the lack of support for social enterprise start-ups or the lack of strategic support for the sector. Dedicated support for social enterprise start-ups, support for social enterprises operating within particular sectors (e.g. education and training) could be ringfenced within existing budgets.
Revenue implications for the Exchequer
Varies
Wider macroeconomic implications (for economic stability and growth)
Social enterprise is a proven, sustainable and inclusive form of business; further diversifying the economy will support economic stability.

[1] http://socialenterprise.org.uk/public/uploads/editor/SEUK_StateofSocialEnterprise_FINAL_WEB.pdf

[2] Marine industries employ 90,000 people, contribute £3.5bn to the economy; *A strategy for growth for the UK Marine Industries*: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/31813/11-1310-strategy-for-growth-uk-marine-industries.pdf

[3] http://www.gov.scot/Publications/2016/12/4404

[4] http://gov.wales/topics/businessandeconomy/how-we-support-businesses/welsh-coop-mutuals-commission/?lang=en

[5] Conservative Party Manifesto 2015 page 45

Public Sector Mutuals

The remarkable productivity gains that mutuals have made is surely one answer to the vexing issue of the UK's productivity gap. We are therefore pleased to see that since our last submission to Treasury, there has been *some* progress in respect of the mutuals' agenda. We look forward to seeing a published strategy and hope that in your Budget you are prepared to back public sector mutuals with the financial support they need, given they are one of the few genuine success stories of public sector reform in recent years.

We also very much look forward to seeing a Conservative Government fulfil its manifesto pledge to guarantee a 'right to mutualise' within the public sector.

We urge the Prime Minister and the Treasury to be bold in the face of bureaucratic timidity. Your colleague George Freeman MP is right to call for consideration of mutually owned rail companies.[6] Where current models of service provision are clearly failing, consideration of public sector models should be high up on the Government's agenda.

Likely effectiveness and value for money
Previous initiatives, notably the Mutuals Taskforce, proved to be cost effective and successful with the creation of successful spin-outs across the public sector. Limited central support - £20-30m- to support the nascent public sector mutuals strategy would be money well spent.
Revenue implications for the Exchequer
Medium term the Exchequer should expect to see savings from lower costs.
Wider macroeconomic implications (for economic stability and growth)
Social enterprise is a proven, sustainable and inclusive form of business; further diversifying the economy will support economic stability. The creation of public sector mutual will reduce public sector spending.

CIC Regulator

The continued success of the Community Interest Company (CICs) as a form of business is one of the unheralded entrepreneurial successes of the decade. There are 11,922 CICs on public record[7]; there were over 2,700 CIC registered in 2015/16.

With a budget of £300,000, it is increasingly clear that the CIC Regulator is stretched. Whilst the analogy is not completely valid given the size of *some* charities and the legislative complexity of charity law (and we acknowledge that the Charities Commission is itself underfunded) a comparison between the CIC Regulator's budget and Charities Commission's budget is illuminating. The Charities Commission, covering 167,109 charities[8], has a budget of a little over £20m – which equates to £119 spent per charity compared with the CIC

[6] http://georgefreeman.co.uk/content/why-mutual-rail-companies-could-be-key-unlocking-rebalanced-economy

[7] CIC regulator Annual Report 2015/16 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/538040/cic-16-3-community-interest-companies-annual-report-2015-2016.pdf

[8] 31st Dec 2016 https://www.gov.uk/government/publications/charity-register-statistics/charity-register-statistics-for-previous-years-charity-commission

Regulator's £25 spent per CIC. Given the economies of scale that should come with being a large organisation, there is a startling disparity between the funding of the two regulators. Consideration of greater funding for the CIC Regulator in order that it can be an enabling and effective regulator of this growing and inclusive form of business is sorely needed.

Likely effectiveness and value for money
The CIC Regulator provides outstanding value for money; the issue is whether it can deliver effective and enabling regulation.
Revenue implications for the Exchequer
A modest increase in spend is necessary if it is to meet its obligations.
Wider macroeconomic implications (for economic stability and growth)
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Public sector procurement

We are glad that Government is beginning to appreciate the potential of public sector procurement. Procurement Policy Note 11/16 is a striking and welcome document, encouraging public sector commissioners to take into account the social, environmental and economic considerations (notably the non-financial value in purchasing British-made steel) in the procurement of steel and other materials in major projects. This very much builds on the principles of the Public Services (Social Value) Act 2012 which predominantly applies to services above a threshold.

However welcome PPN 11/16 is, it does mean we have a confusing picture for public sector commissioners. The duty to consider social value for services only applies above a threshold (which varies depending on the public body and the type of service). The Social Value Act was not designed to apply to goods and works, and yet PPN 11/16 indicates that public bodies should consider social value of steel and other materials in major projects at every level of expenditure. Time is ripe for reform, removing the statutory threshold in the Social Value Act and bringing services into line with goods and works. This reforming and simplifying measure would be the first step to designing a public sector commissioning framework fit for a post-Brexit Britain.

Likely effectiveness and value for money
It is difficult to attach an aggregate VFM figure. We know from surveys of local authorities that those who regularly consider social value in procurement see benefits rather than cost[9].
Revenue implications for the Exchequer
-
Wider macroeconomic implications (for economic stability and growth)
Social value gives commissioners more flexibility to consider the value of buying British and take into account the environmental cost of importing goods.

[9] http://www.socialenterprise.org.uk/uploads/files/2016/05/procuringforgood1.pdf

Equalise and rationalise charitable rate relief

Currently, charities (organisations which are either registered with the Charity Commission, or which otherwise qualify as charitable under English and Welsh law) and CASCs (clubs which are registered under as such under the Corporation Tax Act 2010), are eligible to receive two types of rate relief: mandatory relief, and discretionary relief.

We have a situation where increasing numbers of charities trade, businesses have charitable arms, and social enterprises reinvest their profits into their social and/or environmental mission. The test for mandatory charitable rate relief has the benefit of clarity, but it is increasingly distant from the reality of the shape of today's Third Sector. The principle behind mandatory charitable relief should surely be whether an organisation has a community or charitable purpose, not whether an organisation is a registered charity. Social Enterprise UK believes that the current test for mandatory relief should be the whether the organisation has a community or charitable purpose, an asset-lock and reinvest 51% or above of its profits/surplus into its community or charitable purpose.

Our second proposal would help solve the vexing situation where our members' operations are eligible for discretionary rate relief in some local authorities and not in others. We propose that discretionary rate relief policy should be aligned with the Government's approach to regulation and the Primary Authority Register be used: the notion that where an organisation has had to apply for discretionary relief by at least two local authorities it may form a primary authority partnership in relation to what discretionary relief it is entitled to.

Likely effectiveness and value for money
Repurposing mandatory rate relief would not easy, and there are likely to winners and losers from the exercise. It is less of a VFM measure than bringing up to date an increasingly archaic measure. Applying the principles of primary authority should be revenue neutral, saving local authorities duplication.
Revenue implications for the Exchequer
-
Wider macroeconomic implications (for economic stability and growth)
-

Strategic approach to voluntary sector funding

Since 2013, the government has committed some £550m of Libor fines to good causes – predominately, military charities, air ambulances and health charities. These funds have been a welcome income boost for the individual organisations that have been able to benefit from them. Indeed, a large part of the fun of Budgets and Autumn Statements in previous years has been individual announcements of support for charities and social enterprises – you were able to allocate £7.6m to refit the 300-room Wentworth Woodhouse in your Autumn Statement, the apparent inspiration for Pemberley in Jane Austin's Pride and Prejudice.

However, such initiatives are without reference to the strategic funding needs of the wider voluntary sector. Social Enterprise UK believes that establishment of a process to ensure funding for voluntary organisations outside of normal departmental spending is distributed on an impartial basis according to the sector's strategic needs and in line with the Cabinet Office's own recently published guidelines on grants standards[10]. Rather than fetter your discretion -and indeed fun- the adherence to process within a strategic framework would give greater confidence in the decisions.

Likely effectiveness and value for money
Better targeting finite resources is VFM.
Revenue implications for the Exchequer
-
Wider macroeconomic implications (for economic stability and growth)
-

Community energy: re-instatement of pre-registration for Feed-in Tariffs

The reintroduction of the tariff guarantee element of pre-registration (for community energy groups and schools - as defined in the Feed in Tariffs Order) would provide much needed certainty for organisations.

This should:
a) be cost-neutral and would be financed within existing FiT budgets
b) fit with "we intend to reintroduce the pre-registration tariff guarantee if we can devise an implementable system which delivers robust cost control and avoids gaming. We will issue an update early next year."[11]

Community energy enterprises are collaborative and democratic in the way that they operate. Community projects often largely, if not totally, rely on volunteer time and skills. This means that projects typically take longer to deliver than those in the commercial sector; while the outcome is often better because of the involvement of local communities in the design, planning and implementation of the project. Because of the longer project implementation times, it can be difficult to develop a robust project plan that gives

[10] https://www.gov.uk/government/news/new-standards-announced-for-government-grants

[11] P17 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/487300/FITs_Review_Govt__response_Final.pdf

community investors an adequate level of confidence without the added security that mechanisms like pre-registration brings.

Likely effectiveness and value for money
This is one of the main asks of the community energy sector and is likely to be extremely effective in providing much needed support for smaller community based schemes and schools.
Revenue implications for the Exchequer
-
Wider macroeconomic implications (for economic stability and growth)
Community energy schemes need certainty, which will lead to stability.

Review of SITR announcements in the Autumn Statement

Enlarging Social Investment Tax Relief, announced in the Autumn Statement, is welcome. There are some unwelcome and unforeseen consequences to the restrictions on SITR however. The first is that the Autumn Statement sought to take asset-leasing - currently excluded under EIS and SEIS regimes - and make this also something excluded for SITR. The rationale for this seems to be to exclude renting assets for which HMRC deems low risk/reasonably high reward. This is not the case for smaller community-based organisations which have come to rely it.

The likely impact of removing asset leasing means providing social housing through Community Land Trusts will be ruled out, and it will negatively impact around 50% of community pubs.

Likely effectiveness and value for money
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Revenue implications for the Exchequer
-
Wider macroeconomic implications (for economic stability and growth)
Not reviewing the proposed restrictions will prejudice delivery and affordable housing and the further growth of community pubs.

Employee ownership

We want to see Government further support employee ownership by better targeted use of tax reliefs. CSOP and EMI cost £220m a year and benefit high earners. We want tax reliefs which help make Britain a country that works for everyone – use the money saved from scrapping tax reliefs on shares to establish an Employee Buyout Investment Fund and support more inclusive forms of business support in low and medium income communities.

Likely effectiveness and value for money
There is an appetite for employee ownership. The new fund is likely to be extremely effective.
Revenue implications for the Exchequer
Cost neutral – we are
Wider macroeconomic implications (for economic stability and growth)

A more diverse ownership base contributes to economic stability.

International development and social enterprise

Economic development is a necessary but insufficient ingredient to the eradication of poverty in developing countries. Our belief is that social enterprise is one of the missing parts of the UK's international development work which can help DFID deliver the Global Goals. What is needed is a three pillared approach which complements DFID's existing work:

- supporting social enterprise ecosystems
- supporting the development of UK-based social enterprises working in international development
- practical support for diversifying corporate supply chains

DFID's new fund UK Aid Connect may be one way that these priorities can be delivered; alternatively, in-country programmes could take account of the growing interest in, and development of, social enterprise as a form of sustainable business in developing countries. For once, departmental budgets should not be a barrier to work given the Government's commitment to DFID's budget. What is required is a social enterprise strategy within DFID to meet the appetite for social enterprise in developing countries.

Likely effectiveness and value for money
If press reports of profligacy are to be believed, the development and support for social enterprise solutions in developing countries will be significantly more cost effective and provide more VFM than some current initiatives.
Revenue implications for the Exchequer
Cost neutral – a strategy can be developed within currently DFID budgets.
Wider macroeconomic implications (for economic stability and growth)
Supporting sustainable economic development in developing countries has considerable benefits for the UK.

Social investment

The Life Chances Fund and Fair Chances Fund have use of social impact bonds as a condition of funding. Relaxing this condition would allow charities, Housing Associations and social enterprise to invest their own money at risk (without the need for third party investors) if they want to. For charities, this is very much in line with the thinking behind the Charities (Social Investment and Protection Act) 2016. It would widen the interest in both schemes and be revenue neutral.

Likely effectiveness and value for money
Tweaking the criteria is likely to have a limited effect, but we anticipate a slightly wider interest in the schemes.
Revenue implications for the Exchequer
Cost neutral
Wider macroeconomic implications (for economic stability and growth)
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Thank you for your time and consideration.

Yours sincerely

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