

Social Enterprise UK — Written evidence (CHA0117)

Who are we?

1. Social Enterprise UK (SEUK) was established in 2002 as the national body for social enterprise in the UK. A social enterprise is a business that trades for a social or environmental purpose and reinvests its profits in that mission. Social enterprises are businesses driven by social or environmental objectives, whose surpluses are reinvested for that purpose in the business or in the community. They operate across a wide range of industries and sectors from health and social care, to renewable energy, recycling and fair trade and at all scales, from small businesses to large international companies. They take a range of organisational forms from co-operatives and mutuals, to employee owned structures, Community Interest Companies, and charitable models. SEUK's members come from across the social enterprise movement, from local grassroots organisations to multi-million pound businesses that operate across the UK.

2. SEUK is a membership organisation. We conduct research; develop policy; campaign; build networks; support individual social enterprises; share knowledge and understanding; support private business to become more socially enterprising; and raise awareness of social enterprise and what it can achieve.

3. How do charities seek to innovate, particularly in the digital arena? - What more could be done to promote innovation, and by whom? - What barriers are there to being innovative?

3. Over the last decade and more, the term 'social innovation' has become an increasingly popular term. Many influential policymakers, politicians, grant-making trusts and foundations have come to explicitly champion the idea of social innovation and have directed significant funds towards supporting practice in the field. Innovation has now become a key criteria for many grant-makers when they come to appraise the merits of social programmes. The UK Government has funded a rash of social innovation hubs, labs, accelerators, incubators and catapults. In the United States, President Obama established the Office of Social Innovation and Civic Participation within the White House. Social innovators' ability to disrupt old models and markets has been lauded by Ministers across the political spectrum.

4. In this way, social innovation has evolved from something which has been observed as a phenomenon to something which can be consciously pursued as an activity. At the same time, the term has become increasingly associated in practice with the kind of social ventures which share characteristics associated with businesses in the field of technological innovation, for example housed inside business incubators or accelerators inspired by Silicon Valley models; exploiting digital technology; and disproportionately led by relatively privileged, young graduates. This narrow, instrumentalized, tech-focused conceptions of social innovation and an associated thirst for scale are intertwined with, and inspired by the timescales and ROI requirements expected by the venture capital industry. If social innovations are unable to attract follow-on-funding, forecast exponential growth models and provide exits for investors within six or seven years, then they will be seen to have

failed. Yet this model can be particularly inappropriate for civil society organisations where sometimes, scale is not even desirable if an organisation's primary purpose is to render themselves unnecessary by resolving a social problem. On other occasions, the ambition for a social innovator (self-styled or otherwise) may be that their idea is adopted by the state, by the private sector or by other charities and social enterprises. In these circumstances, scaling the organisation that originally pioneered the social innovation (and enabling the delivery of returns to investors) is not the point. Much genuine and sometimes accidental social innovation takes time, and neither does it require investment from VCs or other investors.

5. Of course innovation is important. But we must also value and defend the critical *maintenance* work of charities, volunteers, community groups and social enterprises that deliver care and support for those who have been left behind. It is possible to cherish both social innovation and maintenance. The rise of this excitement and hype associated with a recent, self-styled, hip, urban, technological version of social innovation serves to distract policymakers and resource allocators from the critical *maintenance* work of civil society, charities and communities which hold our very economy together, the boring but essential work done by food banks, homeless shelters, furniture recycling projects, credit unions and citizens' advice bureaux across the country.

6. Caroline Mason from the Esmée Fairbairn Foundation has felt the need to point out what has been forgotten by many – that some grant-making foundations do not see themselves as agents of social change as, rather, they "provide the bread-and-butter funding that is currently about the only thing preserving the very survival of many communities around the country". Similarly, Julia Unwin in her seminal *Grantmaking Tango* points out how "Despite all the talk about innovation and change, a significant proportion of all funding is designed to maintain activity at current levels, in the same style or expand it." But Unwin and Mason are perhaps rare, independently minded, honest voices in the field, and rather less prone to be seduced by the rhetoric of social innovation than some others. We must remember the importance of maintaining our existing social infrastructure where it has value - not everything that is old should be left to wash away.

6. How can charities ensure that they are properly accountable to their beneficiaries, their donors, and the general public? - What, if any, changes might this mean for current arrangements? - How should charities assess their long term viability and/or sustainability?

7. Social Enterprise UK expects our members to be accountable and transparent, and we have long campaigned for greater accountability and transparency as a matter of principle for the public, private and third sectors. In particular, we consider greater transparency crucial for organisations holding sizeable public sector contracts.

8. In our report, *The Shadow State*, we proposed:

- The extension of Freedom of Information rules to any organisation holding sizeable public sector contract.

- An independent contracting oversight body should be established to scrutinise contracting decisions and prevent unfair competition. It should be overseen by the National Audit Office but have sufficient weight and power to challenge and overturn departmental decisions. It should have the powers to issue penalties when organisations fail to deliver outcomes and these result in cost to the public purse.
- Performance under previous contracts should be explicitly weighed up as part of the decision-making process in procurement decisions.

9. Some progress has been made in respect of Freedom of Information and past performance but this has made little impact on the ground in practice. We have also argued that rule around gender pay gaps and pay ratios should be extended to any organisation holding large public contracts, not just FTSE-listed organisations.

10. For charities specifically, the Charity Commission, in their guidance on public benefit, explain how, for an organisation to be a charity, each of its purposes must be for the public benefit. The Charities Act 2011 calls this the ‘public benefit requirement’. The public benefit requirement has two aspects. To satisfy the ‘benefit aspect’ of this requirement, a purpose must be beneficial - this must be in a way that is identifiable and capable of being proved by evidence where necessary and which is not based on personal views. But furthermore, any detriment or harm that results from the purpose (to people, property or the environment) must not outweigh the benefit - this is also based on evidence and not on personal views.

11. Yet in the Charity Commission’s Public Benefit Assessment reports, such as one into The Manchester Grammar School Foundation¹, the Commission make no serious attempt to consider this harm or detriment. In this report, for example, they simply state that “we found no evidence or indication of detriment or harm in relation to this charity. Given the charity’s inevitable impact on the local educational environment, for example, we believe this assessment is surprising.

8. What is the potential of social investment and social impact bonds? - What are barriers to fulfilling their potential?

12. We recognise that government has already provided significant support to the development of social investment market, through the establishment of Big Society Capital (BSC) launched in 2012, the Access Foundation, developing the social impact bond market and funding capacity-building programmes such as the Investment and Contract Readiness Fund. In addition, the recent introduction of specific trustee powers to make social investments is a welcome development.

13. The Office for Civil Society’s 2016 strategy outlines how Government will:

- use social investment to transform public services;
- grow the social economy; and
- strengthen the social investment marketplace.

¹ <http://forms.charitycommission.gov.uk/media/93767/assessmgsf.pdf>

14. Social investment has considerable promise; but it needs to be seen in context, that it has yet to live up to its expectations. While Big Society has itself committed many millions of pounds alongside other investors, only a fraction has reached charities and social enterprises. Social investment and Social Impact Bonds may, with time, help to address some of the most pressing social challenges in society. They may help organisations to access new sources of finance and support in order to scale their impact, purchase assets, build new partnerships and develop innovative services. But they are not a panacea and not for everyone. Social investment is repayable finance and is not a replacement for grants or income from other sources. It is an additional tool that charities can use to deliver impact but may not be appropriate for organisations that are not able to generate revenue to repay an investment. It is worth noting that even for 'mainstream' SMEs, less than 1% ever access external equity finance.

15. The main challenge for the Government's social investment agenda, is matching supply and demand: The price of investment and the size of deals is a barrier to some charities. Blended finance, crowdfunding and Social Investment Tax Relief, despite its flaws, may help to address this gap. Other challenges for social investment include attitudes to risk, awareness and capacity in the sector, sustainability of services in the current public sector funding environment and the availability of appropriate accessible and affordable products. Solutions may emerge with time.

16. With regard to Social Impact Bonds, the UK has led the way in developing the Social Impact Bond market. This has helped a few dozen charities receive funding to test out innovative approaches to tackling a wide range of social issues including children on the edge of care, loneliness, wellbeing, homelessness and educational attainment. There have been around 30 Social Impact Bonds until recently. SIBs have received considerable criticism for being overly bureaucratic, time consuming and expensive to put together. Even the strongest advocates of SIBs admit that they will never be relevant to the vast majority of charities and social enterprises. There have been few, if any, meaningful comparisons between SIBs and other methods of funding or procurement. Meanwhile, the NAO examined Payments by Results mechanisms, of which SIBs are just one variant, and concluded that "PbR contracts are hard to get right, which makes them risky and costly for commissioners. If PbR can deliver the benefits its supporters claim - such as innovative solutions to intractable problems - then the increased cost and risk may be justified, but this requires credible evidence" and that as yet there that evidence is lacking.

17. There are a number of opportunities that the Government could consider to support charities and social enterprises beyond a narrow focus on social investment. Whilst the question is focused on social investment, Social Enterprise UK wishes to draw the Select Committee's attention below to more important forms of funding for charities and social enterprises. These include procurement, fair access to markets, monopolies and oligopolies, tax evasion by large corporates and other issues.

9. What should the role of Government be with the sector? - What should be the role of local Government? - What should be the role of the Charity Commission? - Have these relationships changed? If so, how? - How should Government (national or local) focus its resource to deliver its civil society agenda? - What is the likely impact of greater local

devolution on the charitable sector, or particular types of charity? - What are the opportunities and challenges associated with local devolution?

Social Enterprise UK believes the Government should strengthen extend the Public Service (Social Value) Act 2012. The Act was designed with number of aims in mind including making it easier for charities and social enterprises to win contracts from the public sector. The effect that realising the potential of the Act is set out in Lord Young's review – charities and social enterprises could create greater social impact if the state was wiser in how it purchases goods and services.

SEUK believes the Government could also:

- Further involve charities in shaping responses to major social issues: Charities are experts in understanding social issues and could be involved more in setting policy responses to addressing them. Many social issues cut across Government departments so a co-ordinated response is often needed to address them.
- Improve procurement practice: It can be a challenge for many charities to bid for public sector contracts so there is a need to level the playing field. There are particular issues in the health sector specifically which create a distorted playing field, around pension rules and VAT, for instance.
- Further capacity building and infrastructure support: The Government could provide further capacity support to charities to help them become more sustainable and to build the skills that they need to respond to the current environment, to market opportunities and not only to social investment.
- Promote charities role in devolution: There could be an opportunity for charities to play a greater role in service delivery as part of local public service reform but further clarity is needed about how charities should engage with these new structures

18. The constituent elements comprising the social economy – which includes charities, social enterprises, mutual and cooperatives – operate within different regulatory and tax regimes. Some organisations operate within multiple regulatory and tax regimes; the outcomes for something as basic as business rate relief can vary according to geography and time, and indeed can vary for different parts of the same organisation depending on the attitude of individual local authorities. Greater devolution is likely to result in further examples of differential treatment. There may be value in a review of the current state of affairs to see what extent such variations are unfair, skew the playing field, and produce perverse outcomes (such as the adoption of what might otherwise be inappropriate legal structure over others for regulatory/tax reasons).

19. Meanwhile the Charity Commission is currently reviewing its guidance towards charities funding of non-charities. We are concerned that this review may not sufficiently recognise issues pertaining to overseas charities, start-ups, social enterprises which are not charitable and the appropriate attribution of overhead costs.

10. What can the charitable sector in England and Wales learn from other sectors and/or approaches taken in other countries, including from Northern Ireland and Scotland?

20. The UK Government has much to be proud of. The legal system backing up charities, and charity and business-friendly regulation makes us the envy of much of the world. But there is much that the UK Government can learn from other countries and our own devolved Government in how they support the third sector.

21. In Scotland, the Deputy First Minister and Cabinet Secretary for Finance, Constitution and Economy John Swinney MSP has made clear his commitment to support for social enterprise, employee ownership and co-operatives. In particular, in developing Markets for Third Sector Providers, promoting and improving understanding of the delivery competence of the third sector and the added value it can offer; promoting understanding and adoption of the Public Social Partnership (PSP) model and more.

22. In Wales, the inclusion of Community Benefits (sometimes referred to as social clauses or social requirements) in public sector procurement is designed to ensure that wider social, economic and environmental issues are taken into account when tendering construction, service or supplies contracts.

23. In Europe more widely, the Council of Europe in December 2015, including the UK, made recommendations on what EU member states could do to further support the social sector. These recommendations went further than the current UK approach to cover awareness raising, access to finance, social innovation, regulation and more. In Italy, successive governments have provided a range of support, including spending and fiscal measure to support social cooperatives in the provision of a range of services. In France in 2014, The French National Assembly passed a new social economy law and has introduced laws to ensure that pensions can be more easily invested in more socially conscious investments.

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