



Social
Enterprise

The All-Party Parliamentary Group for Social Enterprise

Rising to the Challenge

An independent inquiry into
the impact of COVID-19 on the
social enterprise sector and HM
Government's response

March 2022

**Chaired by the Earl of Devon,
Charles Courtenay**

The All-Party Parliamentary Group for Social Enterprise

The All-Party Parliamentary Group (APPG) for Social Enterprise is a group of parliamentarians with an interest in social enterprise.

Founded in 2003 by Baroness Thornton, it is chaired by Alex Sobel MP, with officers from across the main political parties in Parliament.

The APPG showcases social enterprises and discusses issues important to the social enterprise movement. Regular events are held in Westminster and a range of different social enterprises invited to attend as guest speakers.

Social Enterprise UK runs the Secretariat for the APPG.

Current APPG Officers and Members

Officers

Chair: Alex Sobel MP (Labour)

(Hon Sec): Baroness Glenys Thornton (Labour)

Lord Victor Adebawale (Crossbencher)

Lord John Bird (Crossbencher)

Charles Courtenay, 19th Earl of Devon (Crossbencher)

Baroness Liz Barker (LibDem)

Harriet Baldwin MP (Conservative)

John Howell OBE MP (Conservative)

Sir Peter Bottomley MP (Conservative)

Alex Davies-Jones MP (Labour)

The Inquiry

The Officers selected the Earl of Devon, Charles Courtenay, to chair the inquiry on behalf of the APPG. The inquiry was launched on the 10th June 2021.

The APPG carried out four evidence sessions with a list of the sessions and attendees provided in Annex A.

The Officers would like to thank the Earl of Devon, Charles Courtenay for his tireless work in supporting this inquiry and the Secretariat for their work in arranging evidence sessions, liaising with stakeholders, and drafting the report.

The Officers would also like to thank all the social enterprises that contributed evidence to this report.

What is a social enterprise?

This inquiry is focused on the impact of COVID-19 on social enterprises.

Social enterprises come in a number of legal forms. The Social Investment Tax Relief (the only tax relief specifically for social enterprises) defines social enterprises as organisations that are registered charities, community benefit societies or community interest companies.

Social Enterprise UK, the national membership organisation for social enterprises, defines a social enterprise as a business which:

- a) Earns more than half of its income through trading - unlike a charity which primarily relies on grants or donations;
- b) Have a clear social or environmental mission(s) set out in its governing documents;
- c) Is independently governed to deliver its mission(s) - unlike a business which is governed to prioritise only shareholder value;
- d) Reinvests half of its profits or surpluses towards achieving its mission(s) - either delivering its mission(s) itself or giving that profit to another organisation to deliver its mission(s).
- e) Is transparent about the way it operates and the impact it has – this means publishing its accounts and impact reports publicly.

For the purposes of this inquiry we use the latter definition because it is a more accurate reflection of the social enterprise sector and includes a broader range of businesses.

For more information on what is a social enterprise visit the Social Enterprise UK website: www.socialenterprise.org.uk/what-is-it-all-about/

Summary

The COVID-19 pandemic has been one of the greatest peacetime challenges that the United Kingdom has faced in its history. Given the significant health, social and economic impacts of the pandemic, social enterprises have risen to the challenge and demonstrated their commitment to the values of using business to make a positive contribution to society.

The nation should be proud of our social enterprises, their commitment to communities, the efforts that their staff have made and the resilience they have shown.

Our inquiry has identified four key themes during the course of our work.

- 1. Lack of understanding of social enterprise across HM Government**
- 2. The importance of place-based working and local delivery**
- 3. The vital contribution of social enterprises to public services**
- 4. The substantial opportunity for social enterprises to contribute to the UK's recovery and levelling up after the pandemic**

The inquiry has also made a number of recommendations for HM Government. Some of these have come directly from the evidence presented to the inquiry. Others are ideas and solutions that have been developed by the Officers of the APPG over many years that the inquiry believes could tackle some of the challenges identified during the evidence gathering exercise.

Key social enterprise facts

- 100,000 social enterprises in the UK.
- £60bn contribution to the economy.
- 2m people employed.
- The number of Community Interest Companies (a form of social enterprise) grew thirteen times faster than other forms of business during the pandemic.
- Create over four times as many jobs per £100,000 of turnover compared to other forms of business.
- Providing two-thirds of community health services and one-third of out-of-hours services for the NHS worth over £1bn a year.

Lack of understanding of social enterprise within HM Government

There are over 100,000 social enterprises in the UK, employing 2m people and contributing £60bn to the UK economy. Yet despite this large number of organisations and significant economic and social contribution, understanding within HM Government was found to be lacking during the early stages of the COVID-19 pandemic. Basic information about the size, scale and business models of social enterprises did not appear to be available across government or by the responsible department, the Department for Digital, Culture, Media & Sport. There was also an unnecessary battle to preserve Social Investment Tax Relief during the pandemic, a tool to provide investment to social enterprises and community businesses, at a time when social enterprises were providing key emergency support to communities.

The emergency funding and furlough scheme provided by HM Government, as well as the grants provided to local authorities, were vital in helping the social enterprise sector get through the pandemic. The positive contribution of this support must not be ignored, and we appreciate the work that DCMS Ministers and officials did to permit Social Enterprises access to that emergency funding. However, on balance, we believe that even more could have been done to support the sector and speed up the recovery if there had been better understanding of social enterprise across the country. HM Government could learn from the examples of the Scottish and Welsh Governments which had long-term strategies and relationships in place before COVID. We do not believe it is sustainable to rely on one government department, DCMS, to keep all government departments informed about social enterprise. In Scotland, for example, the social enterprise sector has been embedded in several different departments and policy briefs. In particular, we believe that the Department for Business, Energy and Industrial Strategy needs to take greater ownership of social enterprise policy, given that these are essentially businesses and should be treated as such.

We also risk missing opportunities to grow the social enterprise sector. During the pandemic, the number of Community Interest Companies has grown significantly faster than the rest of the business population. Between April 2020 and March 2021, the CIC register grew by 26% compared to 2% growth of the Companies House register between May 2020 and January 2021. In Wales, the Wales Co-operative Centre has helped 200 new social enterprises to start in the past two years which it says is a sign that “social business is fast becoming the start-up model of choice.” Many people have decided to embrace social enterprise as a career change as they have reflected on their priorities in the wake of COVID. If we do not provide the right support to these businesses we risk wasting the talent and energy of these social entrepreneurs.

We recommend that social enterprise should be moved to the Department for Business, Energy and Industrial Strategy at the next reshuffle so that social enterprise is fully embedded in business policy across HM Government and to ensure that future support open to other businesses is made available equally to social enterprises.

In addition, we recommend that all relevant government departments, particularly HM Treasury, Department for Levelling Up, Housing and Communities and the Department for Health and Social Care and Cabinet Office, should have specific social

enterprise units working in partnership with BEIS to ensure that social enterprises are properly embedded in all government policies.

We recommend that the HM Government creates a “Social Enterprise Strategy”. A strategy would help to raise the profile of social enterprise across government and ensure that we maximize the opportunities for the sector to level up the country. This would build upon the best practice of Scotland and Wales, which was found to speed up their response to support social enterprises during COVID. Any strategy must be a truly cross-governmental piece of work and not solely the responsibility of one department. We recommend that a strategy is owned by a partnership between BEIS, DLUHC and DCMS but involves all government departments.

The importance of place-based working and specialist knowledge

During the pandemic, the flexible support of local authorities was regularly referenced and highlighted as an example of good practice. Local authorities recognise the significant contribution that social enterprises make to local communities and were an effective channel of emergency government support. Devolved administrations in Wales and Scotland were also better placed to support social enterprises because they had already developed social enterprise strategies. HM Government and the Northern Ireland Executive should consider the approach of local authorities and devolved administrations in Wales and Scotland. Much of this work would not have been possible without the emergency funding provided by HM Government, but there are lessons about the importance of channeling resources through local authorities and specialist organisations who understand the social enterprise sector.

We commend local authorities on their work to engage with social enterprises and provide them emergency support as well as specialist funders, such as the National Lottery Community Fund (NLCF) and charitable foundations.

Funding for social enterprises is better distributed when there are strong relationships between government, social enterprise representatives and specialist organisations. We recommend that HM Government delivers the “Social Enterprise Forum” to create a simple relationship between government departments and social enterprise, which was first promised in the Civil Society Strategy in 2018.

The vital contribution of social enterprises to public services

Social enterprises are vital to the delivery of public services in large parts of the country, particularly those that are less affluent. Overall, 51% deliver contracts and services on behalf of the state, with particularly strong clusters in health and care, education and transport. In health and care alone, it is estimated that social enterprises are delivering over £1bn in services on behalf of the NHS. We heard firsthand how social enterprises had gone above and beyond to support communities during the pandemic from seconding

staff to emergency services, running emergency foodbanks and pivoting to online delivery so that people could continue to get access to the support that they need. Unfortunately, at times, government took for granted this work and did not put in place mechanisms to support social enterprises. For example, we heard that in the health and care sectors particularly, despite delivering frontline care, getting access to PPE was challenging. There was also concern that the contribution of the sector was being overlooked in major reforms to the health and care system.

We pay tribute to the work of social enterprises in the delivery of public services, particularly frontline health and care services, who worked tirelessly during the pandemic. We commend their efforts that social enterprises made to go above and beyond in their effort to make sure that everyone got access to the help that they needed.

We recommend that HM Government creates new guidance for all public bodies on commissioning and procuring for social enterprises. It should provide advice to public bodies on how they can work with social enterprises as well as the benefits of using social enterprise models to maximise social value and deliver high quality goods and services, using case studies and examples to highlight best practice.

At a time when we are looking to rebuild from COVID, we need our best organisations on the frontline. Rather than ramping down social enterprise in public services, we should be ramping up delivery. Unfortunately, HM Government interest in public service reform has diminished in recent years and the constant turnover of officials within departments means that knowledge of social enterprise is no longer widespread.

We are concerned about the Health and Care Bill's impact on the ability of social enterprises to continue to provide public services. We recommend that HM Government takes steps through the Health and Care Bill to ensure that social enterprises are not excluded from service delivery and are given a seat at the table in decisions around the provision of local health and care services.

We recommend that HM Government creates a new "Public Service Excellence Unit", using the model of the previous DCMS Public Service Mutuals Team, to champion social enterprises as a model for public service delivery. This Unit would look at the barriers to social enterprises in public service delivery, invest in the creation of new "mutuals" and social enterprise spin-outs from the public sector and champion social enterprise in public service delivery across central and local government as well as the NHS. We believe that this could inject new interest across government in social enterprises and public service delivery.

The substantial opportunity for social enterprises to contribute to the UK's recovery and levelling up after the pandemic

Social enterprises are working in some of the toughest places and have an excellent track record in creating jobs and investment. For example, social enterprises are creating over

four times as many jobs per pound of turnover than the rest of the private sector. At a time when HM Government is looking for ways to level up the country, social enterprises provide a model that is already working across the country and has the potential to do even more. A better understanding of social enterprise across government combined with targeted investment in growing the sector could unlock hundreds of thousands of new jobs and help communities get back on their feet in the wake of the pandemic.

The pandemic has shown the unique contribution of social enterprises and the value they generate for society and our economy. We hope that this report will remind HM Government of the potential of social enterprises to level up, deliver high quality public services and create jobs and opportunities for all parts of the country. We urge HM Government to redouble its efforts to work with the sector and invest in its growth over the coming years.

We recommend that the next phase of dormant accounts monies is channeled into the development of more social enterprises, particularly in deprived communities, through a range of flexible finance. We urge HM Government to keep its commitment to use these new dormant account monies to support the growth of social enterprise through the provision of a grants, blended finance, quasi-equity and equity investments to the sector. We encourage HM Government look at proposals such as Match Trading, Community Wealth Fund and the outcome of Lord Victor Adebowale's Commission on Social Investment for how to best support the social enterprise sector to level up the country.

1. The impact of COVID-19 on the social enterprise sector

1. Social enterprises were significantly impacted by the pandemic, like all parts of our society and our community. The impact of COVID-19 was particularly felt by social enterprises as many of them are on the frontline delivering public services and working in our most deprived communities which have suffered the most. The initial impact of COVID-19 was significant and there was concern that many social enterprises could be lost due to a lack of government support. However, emergency funding from national government and contributions from charitable foundations helped the sector to get through this challenging time. Social enterprises in public services were called upon to go above and beyond in the response to the pandemic, and they did so. However, in sourcing PPE and uncertainty about funding made this more challenging for social enterprises than it needed to.

Financial impact on social enterprises

2. Almost every social enterprise in the country had to change their operations due to COVID-19. Social Enterprise UK's No Going Back: State of Social Enterprise 2021, the largest survey of social enterprises in the UK, found that 91% had to take some action to change their business operations.¹ Over one-third (36%) of social enterprises had to draw on their reserves and 22% had to increase borrowing in order to get through the pandemic. Regionally, social enterprises in London and the North West, both regions that were badly hit by the initial waves of the pandemic, were more likely to have drawn on their reserves (41% compared to 36% nationally).² Social enterprises in the South East were more likely to have increased their borrowing (27% v 22% nationally).³

3. It is not possible to gauge the exact financial impact on the social enterprise sector due to the lack of investment in gathering data on social enterprises. HM Government should consider greater investment in gathering data on the financial size and impact of the social enterprise sector. However, 35% of social enterprises reported a decrease in turnover compared to a 56% decrease for the best of the business population. Interestingly, 44% of social enterprises saw their turnover increase compared to 18% for the rest of the business.⁴ One factor of this may have been the larger proportion of social enterprises delivering public services and contracting with the public sector, where income was more stable and demand often increased. On the other hand, nearly half of all social enterprises are under five years old (47%) compared to just 10% of SMEs⁵ and we know that there was little support for start-ups during the initial support during the pandemic.⁶

1 Social Enterprise UK, No Going Back: State of Social Enterprise 2021, October 2021 p.54

2 Ibid.

3 Ibid.

4 Ibid., p.7

5 Ibid., p. 16

6 Kevin Armstrong, Head of Policy, UnLtd, Witness Session Three, 09/09/2021

4. Despite this, the social enterprise sector appeared to get through the pandemic better than other forms of business. Social enterprises were less likely to close than other forms of business, with only around 1% of social enterprises closing their doors compared to 3% of other forms of business.⁷ Co-operative social enterprises also demonstrated a similar level of resilience.⁸

5. Social enterprises were also less likely to draw on their reserves, less likely to have borrowed and less likely to have postponed investment than other businesses.⁹ Social enterprises were also less likely to have furloughed their staff through the Coronavirus Job Retention Scheme, with only 36% applying for funds compared to 68% of other businesses. However, social enterprises in the most deprived areas were more likely to have applied for the Coronavirus Job Retention Scheme than the rest of the sector (44% v 36%). Even so, this was still less likely than other SMEs.¹⁰

6. The pandemic has also seen a large increase in the number of Community Interest Companies as more people have embraced social enterprise to do business. Between April 2020 and March 2021, the CIC register grew by 26% despite the pandemic. By August 2021, there were 25,000 registered CICs. In contrast, the Companies House register had grown by 2% between May 2020 and January 2021.¹¹ In Wales, the Wales Co-operative Centre has helped 200 new social enterprises to start in the past two years which it says is a sign that “social business is fast becoming the start-up model of choice.”¹² Many people have decided to embrace social enterprise as a career change as they have reflected on their priorities in the wake of COVID. This large number of start-up social enterprises must be nurtured and encouraged, and will need access to investment and well defined business support.

Minority ethnic social enterprises¹³

7. The death of George Floyd and the Black Lives Matter during the pandemic raised the profile of the structural inequalities which different communities face in the United Kingdom. Social enterprises are almost twice as likely to be led by people from racialised communities than other forms of business with 14% led by people from racialised communities compared to 8% of SMEs.¹⁴ The experience of social enterprises led by people from racialised communities has been different from the rest of the sector. These social enterprises were more likely to have seen their turnover decreased than the average

⁷ Peter Holbrook CBE, Chief Executive, Social Enterprise UK, Witness Session Two, 06/07/2021

⁸ James Wright, Co-operatives UK, Witness Session Three, 09/09/2021

⁹ Social Enterprise UK, No Going Back: State of Social Enterprise 2021, October 2021 p.54

¹⁰ Ibid., p.53

¹¹ Ibid., p.12

¹² Coop News, Wales Co-op Centre hails the creation of 200 social enterprises in two years, 14 December 2021

¹³ The Inquiry notes that there is currently no consensus currently on how to refer to social enterprises which are led by people from Black, Asian and other ethnic minority communities. Some organisations still use the acronym (BAME), other organisations have developed new terms such as “racialised communities”. The inquiry has decided upon the term minority ethnic social enterprises, as it is one that we believe is currently used in the public sector, but we appreciate that this is an imperfect term and open to debate. Debate about the term used to describe these businesses should not eclipse the immense contribution that they have made to the country during the pandemic.

¹⁴ Ibid., p.34

(43% v 35% nationally).¹⁵ Despite this, these social enterprises were slightly more likely to make a profit and avoid making a loss than their peers, showing their adaptability and entrepreneurial approach.¹⁶ They were also more likely to have grown their staff teams than the national average and more likely to have provided training to upskill their staff.

8. Concerns were regularly raised about whether funding mechanisms were open and inclusive enough to social enterprises led by people from racialised communities. A significant amount of the funding available during COVID was debt and loan based, which may have discriminated against businesses from disadvantaged backgrounds who may lack the capacity, capital and track record to attract repayable finance. For example, the Resilience and Recovery Loan Fund – a social investment fund based on Coronavirus Business Interruption Loans – saw a significant number of social enterprises from racialised communities denied funding as they did not meet the criteria.¹⁷ Other funders, such as UnLtd, sought to weight applications from racialised communities more highly.¹⁸ Better understanding of the sector could have led to government using more grant based funding for social enterprises from racialised communities.

9. Before the pandemic, social enterprises led by people from racialised communities have faced multiple barriers to their growth and development. Genevieve Maitland Hudson, Deputy Chief Executive Officer of the Social Investment Business told the inquiry that these social enterprises faced barriers in terms of their governance and financial experience, the places they operate in being more deprived and lower levels of reserves and revenue.¹⁹ Unfortunately, these barriers have not been addressed in the wake of the pandemic and there is still a great deal of work to be done to tackle the inequalities facing social enterprises from racialised inequalities.

Social impact of social enterprises

10. Across the country social enterprises have stepped up to help local people. Some social enterprises set up emergency mutual aid groups, other social enterprises pivoted their whole business to deliver emergency equipment such as PPE or hand sanitiser. Many made financial and in-kind contributions to their local communities in partnership with other businesses or public sector bodies. In keeping their businesses open, social enterprises sought to preserve jobs, with many social enterprises employing people who have traditionally struggled in the labour market. As Michelle York, Commercial Director at Nuneaton Signs, a social enterprise manufacturing signage in Nuneaton, told us “we reopened for the health of our staff and our business.”²⁰~

¹⁵ Ibid., 14

¹⁶ Ibid., p. 27

¹⁷ Genevieve Maitland Hudson, Deputy Chief Executive Officer, Social Investment Business, Witness Session Three, 09/09/2021

¹⁸ Kevin Armstrong, Head of Policy, UnLtd, Witness Session Three, 09/09/2021

¹⁹ Genevieve Maitland Hudson, Deputy Chief Executive Officer, Social Investment Business, Witness Session Three, 09/09/2021

²⁰ Michelle York, Commercial Director, Nuneaton Signs, Witness Session One, 10/06/2021

11. A survey of social enterprises by Social Enterprise UK, through its Social Enterprise Advisory Panel, found that the sector was providing or planning to provide a comprehensive set of interventions to the challenges raised by COVID. For example, over half of social enterprises were planning to provide mental health support in their communities. Others were seeking to provide job opportunities to young people, boost employment, keep premises open or help children catch up with education.

Table 1 – Social enterprise and supporting communities

Which of these are you currently doing – or planning to do in the next 3–6 months?	
Support mental health needs in your community and for other stakeholders, clients etc.	52%
Support access for young people to employment (e.g. skills/training/work placements)	49%
Create new jobs	47%
Support access for people furthest from the labour market to employment (e.g. skills/training/work placements)	39%
Address health and social care issues in disadvantaged communities	38%
Provide support to schools and/or with homeschooling and educational needs, including SEN provision	24%
Support physical fitness needs in your community and for other stakeholders, clients etc.	23%
Help retain/repurpose local premises for the community (e.g. where a business has closed/a premise has been vacated due to COVID)	15%

Source: February 2021, Social Enterprise Advisory Panel

12. Social enterprise staff, compared to other businesses, were busier during the crisis. 20% of social enterprises increased staff hours (compared to 9% for business as a whole) and 33% decreased staff hours (compared to 49% for business as whole), with only 13% of social enterprises making staff redundant (compared to 20% for business as a whole).²¹ Social enterprises were also more likely to have recruited staff (39%, compared to 17% for business as a whole). Although the financial and social contribution of social enterprises is difficult to measure because of a lack of investment in gathering data on the sector, the efforts of social enterprise were a significant part of the national response to the pandemic.

21 <https://www.gov.uk/government/statistics/small-business-survey-2020-businesses-with-employees>

Public services and social enterprises

13. Social enterprises are heavily embedded in the delivery of public services. 51% of social enterprises trade with the public sector, providing goods, works and services on behalf of the state in some form. Around 1/5th of social enterprises trade with the public sector as their main source of income.²² Many others received grants from local authorities and public sector bodies to support communities.

Health and care services

14. Given the nature of the pandemic, health and care services have been put under immense pressure. Social enterprises are a critical part of the delivery of health and care services across the country. Social enterprises provide two thirds of community health services and deliver over £1bn in health and care services on behalf of the taxpayer.²³ Social enterprises have a very strong track record of delivery in health and care. A short piece of research in 2018 of Care Quality Commission (CQC)²⁴ inspections indicated that the average CQC rating of a social enterprise was 1.9 (on a scale of 1 – 4 where 1 is outstanding) as opposed to the NHS Trusts who had an average rating of 2.4.²⁵ Research by IPPR into social care found that mutuals (staff and/or community owned social enterprises) had higher ratings on average than public or private providers.²⁶

15. In response to the pandemic, social enterprises stepped up to deliver a vast range of support. We heard from Lance Gardener MBE, Chief Executive of Salford Primary Care Together, that their social enterprise had provided COVID emergency care so that GP surgeries could remain open for non-COVID cases. From April 2020, Salford Primary Care Trust was running three clinics across Salford.²⁷ Salford Primary Care Together was also a key partner in the delivery of the vaccination programme in the city. Simon Beeton, Chief Executive of NAViGO, a social enterprise providing mental health support to the NHS and others across North East Lincolnshire told us how NAViGO had set up a COVID mental health resilience line, providing 24/7 support for key workers in the NHS to help them keep going through the pandemic and reduce absence rates, keeping vital services open.²⁸ Claire Taylor National Director of Operations at Turning Point, a national social enterprise providing health and social care services across England, saw their mental health crisis service increase by 39% between April and May 2020.²⁹ Social enterprise staff had to go above and beyond to keep health and care services open during a period of immense difficulty.

²² Social Enterprise UK, No Going Back: State of Social Enterprise 2021, October 2021

²³ Simon Beeton, Chief Executive, NAViGO, Witness Session Four, 19/10/2021

²⁴ The Care Quality Commission is the regulator of organisations that deliver health and social care services in England

²⁵ Social Enterprise UK Consultation Response – Implementing the NHS Long Term Plan, April 2019

²⁶ Institute for Public Policy Research, Ethical Care: A Bold Reform Agenda for Adult Social Care, November 2019 p.18

²⁷ Lance Gardener MBE, Chief Executive, Salford Primary Care Together, Witness Session Four, 19/10/2021

²⁸ Simon Beeton, Chief Executive, NAViGO, Witness Session Four, 19/10/2021

²⁹ Claire Taylor, National Director of Operations, Turning Point, Witness Session Four, 19/10/2021

17. All our witnesses welcomed the flexibility that commissioners and local authorities and their willingness to use the rules to their maximum extent. Lance Gardener said that the pandemic had shifted towards “relationship-based commissioning” which necessitated a degree of trust between social enterprises and other parts of the system.³⁰ Simon Beeton told us that “we seek to understand the need in the community and respond very directly to that need as it is presents and that is a relatively unique facility of social enterprise”.³¹ This view that social enterprise was better rooted in the community than other organisations came up in evidence repeatedly. In many cases, social enterprises did not know whether the work that they were doing would be funded. Claire Taylor told us that there had been a “vague and inconsistent approach to recouping the money” that they had spent on the pandemic response.³² Lance Gardener estimated that on the vaccine programme alone, their social enterprise had given than £1m of support beyond the money that they had received.³³ Time and again, we heard that social enterprises had put more resource into delivering services or supporting communities than they had received from government or other sources, because they felt it was their social responsibility.

Key services during the pandemic

18. Although there was a significant focus on health and care during the pandemic, social enterprises provide a range of key services including housing, transport and early years. Lynn McClelland, Chief Executive of HCT Group, which provides transport and community transport services, told us that they had provided essential transport services for key workers so that they could continue their work. They had also delivered essential goods such as PPE, I.T equipment for vulnerable children and food vouchers.³⁴ Bronwen Rapley, Chief Executive of Onward Homes, a housing association in the North West of England, said that they had provided 70,000 welfare calls to their residents during the pandemic and provided direct help to 4,000 people.³⁵ June O’Sullivan, Chief Executive of the London Early Years Foundation, a social enterprise which delivers early years services provided care to the children of key workers so that they could continue to work. All of these social enterprises took a ‘can-do’ approach to delivering services and went above and beyond in their efforts to keep the country going through a challenging time.

19. It is important that social enterprises are not pigeon-holed as delivering a particular type of services. As Bronwen Rapley told us, their organisation is often not considered a social enterprise even though it is. Social enterprise is a model which lends itself to every type of public service delivery.

³⁰ Lance Gardener MBE, Chief Executive, Salford Primary Care Together, Witness Session Four, 19/10/2021

³¹ Simon Beeton, Chief Executive, NAViGO, Witness Session Four, 19/10/2021

³² Claire Taylor, National Director of Operations, Turning Point, Witness Session Four, 19/10/2021

³³ Lance Gardener MBE, Chief Executive, Salford Primary Care Together, Witness Session Four, 19/10/2021

³⁴ Lynn McClelland, Chief Executive, HCT Group, Witness Session Four, 19/10/2021

³⁵ Bronwen Rapley, Chief Executive, Onward Homes, Witness Session Four, 19/10/2021

20. We pay tribute to the work of social enterprises in the delivery of public services, particularly frontline health and care services, who worked tirelessly during the pandemic. We commend their efforts that social enterprises made to go above and beyond in their effort to make sure that everyone got access to the help that they needed. In many cases, social enterprises took action at risk to their own businesses with no guarantee of funding because they believed it was the right thing to do.

21. We recommend that HM Government creates new guidance on social enterprises in public service delivery, making clear that social enterprises that are delivering services on behalf of the state should be treated equally with their statutory peers. It should also provide advice to public bodies on how they can work with social enterprises as well as the benefits of using social enterprise models for public service delivery.

Access and provision of Personal Protective Equipment (PPE)

22. The whole of the United Kingdom experienced shortages of PPE in the initial stages of the pandemic. Social enterprises were no exception to this, however, even social enterprises which were involved in the delivery of frontline delivery of services found that they were unable to access PPE. June O’Sullivan said that their business and the early years sector had been completely ignored, despite having to keep services open for key workers so that they could go to work.³⁶

23. We heard from social enterprise providers of health and care services that they struggled to access PPE despite the essential nature of their work. Lance Gardener told us that “as a social enterprise, we were not entitled to PPE even though we were providing frontline COVID services...we were aware that NHS England would not consider social enterprise as frontline and we made plans...we had to make arrangements with hoteliers and veterinary services. PPE was a problem from the beginning...even when we started to get PPE it was not in numbers necessary.”³⁷ Simon Beeton told us that NAViGO had to become an “anchor institution” for social enterprises, public bodies and voluntary organisations in their area.³⁸ At a national level, Peter Holbrook CBE, Chief Executive of Social Enterprise UK, told us that they had to negotiate directly with the Department for Health and Social Care to ensure that social enterprises could buy PPE alongside other public sector bodies.³⁹

24. At the heart of this issue seems to have been a lack of understanding of the important role that social enterprise play in public service delivery. The public relies on social enterprises to provide public services and they would expect that all providers of public services should be given access to PPE and other equipment essential to the provision of those services. The pandemic has put in sharp relief the significant contribution of social enterprises and the need for the public sector to better engage with the sector.

³⁶ June O’Sullivan, Chief Executive, London Early Years Foundation, Witness Session Four, 19/10/2021

³⁷ Lance Gardener MBE, Chief Executive, Salford Primary Care Together, Witness Session Four, 19/10/2021

³⁸ Simon Beeton, Chief Executive, NAViGO, Witness Session Four, 19/10/2021

³⁹ Peter Holbrook CBE, Chief Executive, Social Enterprise UK, Witness Session Two, 06/07/2021

25. Poor levels of access to PPE for social enterprises delivering frontline services to the public is an example of the lack of understanding of the sector more broadly. HM Government has a responsibility to ensure that social enterprises which are delivering services on behalf of the state or a critical nature to communities are given the same access to funding and equipment as their peers in the public sector. Ultimately, if this is not achieved it is only the public that suffers.

2. HM Government support for the social enterprise sector

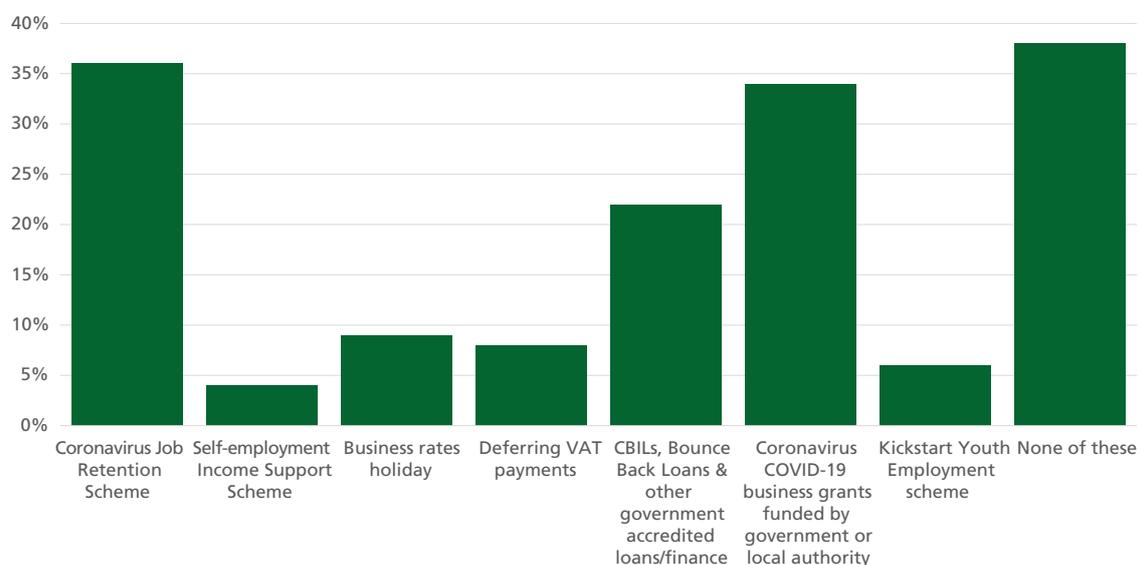
26. The COVID-19 pandemic has thrown up challenges about how to provide emergency support to business to governments across the world. We recognise that the HM Government has had to create new funding mechanisms to provide money to businesses, including social enterprises, rapidly and that it is inevitable that mistakes would be made or opportunities missed.

27. As we discuss in this section, HM Government did provide resources to social enterprises such as the Coronavirus Job Retention Scheme (also known as Furlough Scheme), discretionary grants through local authorities and giving some social enterprises access to £310m in emergency funding for smaller, local VCSEs.

28. However, we are concerned that a lack of understanding of social enterprise across key government departments led to schemes being designed in a way that was not suited to social enterprises. The lack of a clear strategy which would provide levers for government to support for the sector was also a significant factor. It is unacceptable that social enterprise is not fully embedded in the UK's business policy, given the significant contribution that social enterprises make to society and the economy, as well as their potential to help deliver levelling up. No sector of our economy which contributes over 2m jobs and £60bn to UK plc should be ignored[, particularly at a time of such growth in demand for services and so many new entrants].

29. We know that COVID will not go away, and at a time of writing, another wave of the virus is sweeping across the country. It is important, therefore, that we learn the lessons from the support provided during the initial stages of the pandemic.

Figure 1 – Social enterprises and HM Government COVID funds



HM Government emergency support for social enterprises

30. On 23rd March 2020, the Prime Minister announced the first national lockdown of the country in response to the emergency of COVID-19. This lockdown lasted to early July 2020. On 14th October 2020 a new “tier system” is introduced for COVID restrictions. On 31st October 2020, the Prime Minister announced a second national lockdown. This lockdown ended on the second national lockdown ended on 2nd December 2020. On the 6th January 2021, the Prime Minister announced a third national lockdown. A phased exit of the third national lockdown began on the 8th March 2021. At the time of writing in December 2021, further restrictions have been placed on some activities and uncertainty about whether another lockdown will be necessary.

31. During the period from the 23rd March 2020 social enterprises, like all other forms of businesses and organisations, faced significant disruption and many required emergency financial support in order to sustain their operations. Concerns were first raised by social enterprise representatives to the Civil Society COVID-19 Forum, convened by DCMS, about the financial situation facing the sector on 13th March 2020. This Forum included representatives from the charity sector and large charities such as the Red Cross, Scouts and funds such as the National Lottery Community Fund. Representations were made to DCMS about the lack of balance in the meeting, which only included one voice from social enterprise and focused more on voluntary organisations and volunteers than social enterprises, despite the size and scale of the sector being equal (and in employment terms greater than) the voluntary sector. Despite raising this issue, no changes were made to the balance of the meetings. Given the impact and contribution of social enterprises, this decision is puzzling.

32. Ahead of a second meeting of the Civil Society COVID-19 Forum on the 25th March 2020, a briefing was provided by Social Enterprise UK to DCMS on 18th March 2020, outlining the financial vulnerabilities of the sector and the need for bespoke emergency support. The briefing advised HM Government to:

- Ensure equal access for social enterprises to all business support, loan and tax relief programmes;
- Provide zero interest, cheap and blended loans to social enterprises that need support;
- Give equal access to social enterprises to any grant programme to help social sector organisations;
- Raise awareness of social enterprises to banks, government agencies and other distributors of support to businesses;
- Coordinate in-kind support from social enterprises, charities, private businesses and government agencies

33. Data collection was, as noted by one of our witnesses, “chaotic”.⁴⁰ Basic information on the size and scale of the social enterprise sector was not available to officials. The rush to understand the sector was typified by repeated requests for information with very short deadlines. One example, saw a request for detailed information from DCMS on social enterprises at 9.30am with a deadline of 1pm the same day. Another request for information was made at 3.45pm, with a deadline for 9.30am the next day including financial information on particular sectors, case studies, impact of previous announced measures and other detailed questions – some of this information had already been provided weeks earlier. Repeatedly, Ministers would say that not enough information had been provided to make decisions, despite all requests for information being responded to. Moreover, other policy announcements were made to support other parts of the economy with little or no information on their need and effectiveness (for example, takeaway businesses being given £25,000 grants despite the fact that they could stay open and many made larger profits due to household isolation). In a meeting on the 7th April 2020 with representatives from the social enterprise sector, a Minister said that the quality of the information that they had received was not enabling them to make a case to government. Yet only a few days before, on the 3rd April 2020, officials in that same department had thanked social enterprises for the information that had been provided in the previous weeks and stated that they were “aware of the value and impact of the social enterprise sector” with no further requests for information. Tony Armstrong, Chief Executive of Locality told the inquiry: “we were being asked constantly for information, often the same information in slightly different forms, but it was not clear what the purpose of those information requests were. It seemed like a little bit of ‘we need to do something, so that activity is the thing’ rather than leading to specific outcomes. There were often times that we were a ‘data agency’ and we were pointing officials in the direction of each other.”⁴¹

34. A number of significant issues emerged in the initial phase of the pandemic. No guarantees were made at the beginning of April that social enterprises would be given access to emergency grants because of the complexity of legal forms of social enterprise. Representatives from the social enterprise sector had to push for some forms of social enterprise to be given access to grants distributed through the National Lottery Community Fund and specialist funds. Social enterprises can come in a variety of legal forms from Community Interest Companies and Community Benefit Societies to conventional Companies Limited by Guarantee or Share as well as registered charities. Eventually, it was agreed that some social enterprises such as Community Interest Companies would be given access to emergency grants. However, a lack of understanding of the legal forms of social enterprise meant that policies were designed in a way that did not enable all social enterprises equal access to emergency funding. Many social enterprises that did not have CIC registration had to depend on local authorities or other ad-hoc financial support.

37. Social enterprises also employ large numbers of vulnerable individuals many of whom had to shield during the pandemic. However, throughout the pandemic and despite representations from the social enterprise sector, HM Government continued to operate schemes such as the Coronavirus Job Retention Scheme in a one size fits all manner. In general, as Peter Holbrook told us for many social enterprise “furlough was the right intervention at the right time”, but it did not help all social enterprises.⁴² In summer 2020,

⁴⁰ Tony Armstrong, Chief Executive, Locality, Witness Session Two, 06/07/2021

⁴¹ Tony Armstrong, Chief Executive, Locality, Witness Session Two, 06/07/2021

⁴² Peter Holbrook CBE, Chief Executive, Social Enterprise UK, Witness Session Two, 06/07/2021

for example, there was a risk that the furlough scheme could be ended in October 2020 despite the pandemic still being prevalent and many employees of social enterprises self-isolating. Eventually, vaccinations, extensions of the scheme as well as the removal of specific guidance for “clinically vulnerable groups” meant that the vulnerable people could return to work before the furlough scheme ended, but this was not taken into consideration in the initial stages of the pandemic. A significant minority of social enterprises employ people with disabilities, people recovering from alcohol or drug addiction or with other clinical needs which prevented them from returning to work with the rest of the population. Moreover, Tony Armstrong told us that the furlough scheme was not helpful to many social enterprises who had to “ramp up activity” and could not put staff on furlough during the pandemic, but still needed financial support to keep their services running.⁴³

38. There were also challenges for social enterprises in accessing the Bounce Back Loans and Coronavirus Business Interruption Loans. Lucy Findlay MBE, Chief Executive of the Social Enterprise Mark CIC and James Wright, Policy Officer at Co-operatives UK, described the difficulties that social enterprises faced in getting bank accounts from high street banks to be able to access emergency loans.⁴⁴ Many social banks, which social enterprises have traditionally used, were not able to provide emergency loans and social enterprises had to scramble to open accounts elsewhere.⁴⁵ The rush of social enterprises, and other businesses, registering new accounts created long delays and a significant number of social enterprises were denied bank accounts because high streets were refusing to take on new customers. Confusion about whether social enterprises were businesses also meant that they struggled to get the right advice and support from banks, with many having to depend on pro-bono support from organisations such as Social Enterprise Mark CIC.⁴⁶

39. At the heart of all these issues were a lack of understanding and awareness of social enterprise or its contributions to society and the economy. HM Government had to learn about social enterprise as the pandemic developed and did not have the information to integrate social enterprise into policy measures as they were being developed. Key government departments such as HM Treasury and the Department for Business, Energy and Industrial Strategy did not have responsibility for social enterprise and did not initially take interest in the needs of social enterprises. This raises questions about the effectiveness of the current government’s approach of putting social enterprise into the Department for Digital, Culture, Media and Sport in the belief that DCMS will be able to “champion” social enterprise in various government departments.

40. Peter Holbrook told us that social enterprise “often fell through the policy cracks” and that securing access to programmes for social enterprise was “very hard fought for” and “not guaranteed”. Although emergency funding was provided, PPE was eventually accessed and discretionary business grants and loans were distributed to social enterprises, the overall impression is that social enterprises were not given the due care and attention that they deserved during the pandemic. This is particularly notable given how many key public services social enterprises were contracted to deliver.

43 Ibid.

44 Lucy Findlay MBE, Chief Executive, Social Enterprise Mark CIC, Witness Session Two, 06/07/2021 & James Wright, Policy Officer, Co-operatives UK, Witness Session Three, 06/07/2021

45 BBC News, Social businesses shut out of government support, 15 February 2021

46 Ibid.

Lessons from the devolved administrations

41. Social enterprises in the nations outside of England experienced COVID differently. In Scotland Duncan Thorp, Policy Manager at Social Enterprise Scotland, said that the sector was in a “good place with a social enterprise strategy at a national level”.⁴⁷ He went on to add that “we were fortunate that we have a long-term strategy and long-term thinking within the Scottish Government...long term staff members have helped us to build relationships”. Before the pandemic, the Scottish Government had put in place a ten-year social enterprise strategy and social enterprise sector was embedded across multiple parts of government.

42. This long-term planning meant that before lockdown, in contrast to England, there was already discussion in Scotland about emergency funding for social enterprises. This led to the creation of a £25m Third Sector Resilience Fund, which was launched on the 25th March 2020, two days after the first national lockdown and grants were distributed immediately to charities and social enterprises. By September 2020, £22.6m of grants had been distributed alongside £2.9m in loans at zero percent interest.⁴⁸ By contrast, the Coronavirus Community Support Fund (CCSF) which was funded by HM Government and distributed by the National Lottery Community Fund did not make awards until June 2020 due to ongoing negotiations with HM Government.⁴⁹ In Scotland followed in September 2020 with a £22m investment Community and Third Sector Recovery Programme aimed at social enterprises and charities providing business support and investment to help organisations through the pandemic. Finally in March 2021, the Scottish Government launched a Third Sector Growth Fund to support social enterprises and charities to access loans and social investment to grow following the easing of lockdown restrictions. The Scottish Government provided three times more financial support as a proportion of its economy to social enterprises and charities during the pandemic.

43. In Wales, there was a similar level of commitment to social enterprises. David Madge, Project Manager North and East Wales for Social Business Wales, said that the Welsh Government had been very supportive of the sector.⁵⁰ Social enterprises had been given access to and were referenced as part of the £500m Economic Resilience Fund developed by Welsh Government. 57 social enterprises received £2.9m in awards through that fund.⁵¹ In addition, on the 6th April, before the Chancellor’s announcement, the Welsh Government launched a Third Sector COVID-19 Response Fund worth £24m. Critical to the additional support was the long term funding for specialized business support and the long term nature of the relationships. The importance of this long-term support for social enterprise had been “actively recognised” by the devolved government in Wales.⁵²

47 Duncan Thorp, Policy Manager, Social Enterprise Scotland, Witness Session Three, 09/09/2021

48 Scottish Government, The Third Sector Resilience Fund (TSRF): Analysis of Applications and Awards (March – September 2020), November 2020 p. 3

49 Ipsos Mori, Process Evaluation of the Coronavirus Community Support Fund (CCSF) Final Report, July 2021 p. 5-6

50 David Madge, Project Manager North and East Wales for Social Business Wales, Witness Session Three, 09/09/2021

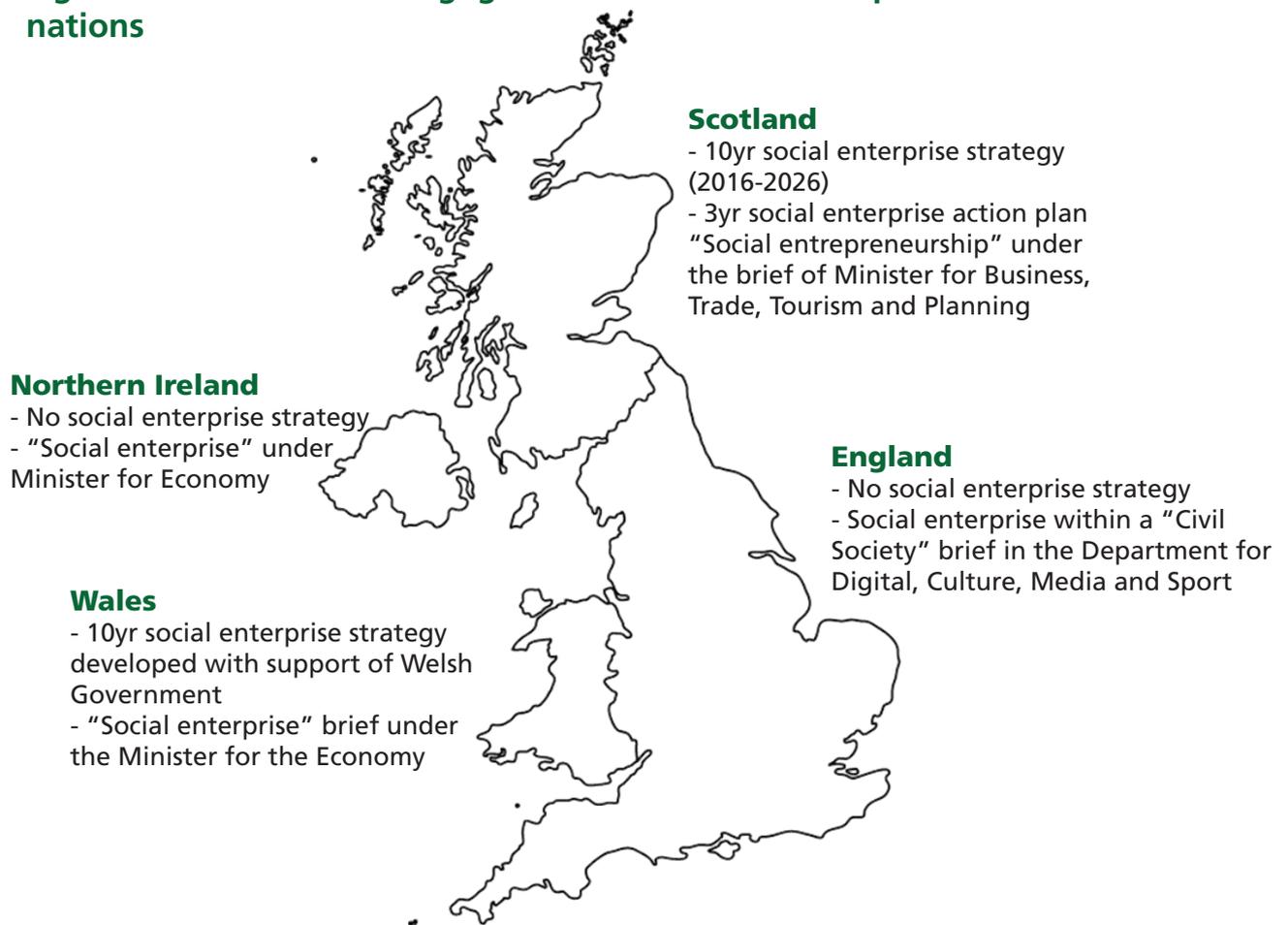
51 Coalfields Regeneration Trust et al, COVID-19 and the Impact on Social Enterprise in Wales, May 2020

52 David Madge, Project Manager North and East Wales for Social Business Wales, Witness Session

Again, in proportion of the size of the Welsh economy compared to England, the Welsh Government provided twice as much financial support for social enterprises and charities during the pandemic.

44. The picture in Northern Ireland was more complex particularly given the lack of a continually sitting government in Northern Ireland during the past decade. Colin Jess, Chief Executive, Social Enterprise Northern Ireland, said that in the beginning social enterprises in Northern Ireland were “envious” of the support that had been provided to social enterprises in Scotland and Wales.⁵³ The lack of long-term planning in Northern Ireland over the previous years led to a seven-month gap in support. However, following lobbying by Social Enterprise Northern Ireland and engagement from the Northern Ireland Executive, a specialist social enterprise and charity fund was created which was noted as an “exemplar” for specialist sector funding by the Northern Ireland Executive.⁵⁴ The COVID Social Enterprise Fund was launched on the 28th September 2020 and closed on the 23rd October 2020. In total £9.1m in grants were distributed through the fund to 315 organisations.⁵⁵ Recognising the gaps in the support during the pandemic, Social Enterprise Northern Ireland is working with the Department for the Economy to build up a “social enterprise database” so that the executive is better aware of the scale and distribution of social enterprises in the Northern Ireland.⁵⁶

Figure 2 – Government engagement with social enterprise across the nations



Three, 09/09/2021

⁵³ Colin Jess, Chief Executive, Social Enterprise Northern Ireland, Witness Session Three, 09/09/2021

⁵⁴ Ibid.

⁵⁵ Department for Communities, The Covid Social Enterprise Recipients, February 2021

⁵⁶ Colin Jess, Chief Executive, Social Enterprise Northern Ireland, Witness Session Three, 09/09/2021

Performance of local government

45. The inquiry was given consistent evidence that local authorities had stepped in to fill the cracks that emerged in national programmes, particularly in England. As social enterprises were often not considered at a national level, the help of local authorities became vital to many social enterprises. Tony Armstrong told us that local authorities had been “much more dynamic” than national government during the early stages of the crisis as they had a better understanding of “place-based social enterprises.”⁵⁷ James Alcock, Chief Executive Officer, Plunkett Foundation said it had been “good all round” from local councils and that many had encouraged his social enterprise members to apply for discretionary grants to enhance their resilience.⁵⁸ Lindsey Hall, Chief Executive, Real Ideas Organisation based in Plymouth and Cornwall said that their local authorities had “been brilliant and made sure that social enterprises were part of the mix...making sure money got to the places that need it.”⁵⁹

46. One quarter (24%) of respondents to the Social Enterprise Advisory Panel survey in February 2020 said that they had received funding or income from their local authority in the previous twelve months – a period mostly covered by the pandemic.⁶⁰ Five percent of respondents said that they had received funding or income from their metro-mayor or combined authority and five percent also received funding or income from their Local Enterprise Partnership during the same period.

47. A similar willingness to engage by local authorities was also found by social enterprises delivering public services. Lance Gardener commented that local councillors had been “incredible” and “always supportive”, as well as the local Members of Parliament, noting that they would not have been able to deliver emergency support without them.⁶¹ Bronwen Rapley, said that “people who did well were those that were grounded in their communities to start with”.⁶² Commissioners had also shown flexibility in procurement rules during the pandemic, which helped to keep services such as local transport going through an unstable period.⁶³ Nina Parnell, Head of Volunteering and Community Support, Westbank Community Health and Care, noted that their local authority had provided them community support grants to enable their social enterprise to keep providing help to vulnerable people, including those with dementia and diabetes during the pandemic. Timely financial support helped Westbank to support 400 people a week and the volunteers delivered 25,000 acts of kindness during the pandemic. Although one of the challenges was the short time from that money had to be spent and giving more flexibility to organisations would have been useful.⁶⁴

⁵⁷ Tony Armstrong, Chief Executive, Locality, Witness Session Two, 06/07/2021

⁵⁸ James Alcock, Chief Executive Officer, Plunkett Foundation, Witness Session Two, 06/07/2021

⁵⁹ Lindsey Hall, Chief Executive, Real Ideas Organisation, Witness Session One, 10/06/2021

⁶⁰ Social Enterprise UK, Social Enterprise Advisory Panel, February 2020

⁶¹ Lance Gardener MBE, Chief Executive, Salford Primary Care Together, Witness Session Four, 19/10/2021

⁶² Bronwen Rapley, Chief Executive, Onward Homes, Witness Session Four, 19/10/2021

⁶³ Lynn McClelland, Chief Executive, HCT Group, Witness Session Four, 19/10/2021

⁶⁴ Nina Parnell, Head of Volunteering and Community Support, Westbank Community Health and Care, Witness Session One, 10/06/2021

48. Not all local authorities acted in the same way. Anwar Ali OBE, Chief Executive of Upturn Enterprise based in Oldham told the inquiry that there was “lots of rhetoric about support but when you driven down it wasn’t there.”⁶⁵ In some cases, social enterprises were being relied upon to deliver services without funding despite statutory organisations being given money to deliver these services. He further added that “if we are serious about these issues, we need to change and we need a different approach for social enterprises, there are opportunities out there.”⁶⁶ Tony Armstrong also noted that there was a danger that local authorities became “complacent” about place-based social enterprises in their areas and came to rely on them without giving them the support that they needed.⁶⁷

The role of foundations and specialist funders

49. Foundations and specialist funders place a critical role in supporting social enterprises during the pandemic not only through their own funding but also as delivery partners for government schemes. The Association of Charitable Foundations latest Giving Trends research found that between 2019/19 and 2019/20, grant giving increased by nearly 8%.⁶⁸ Half of the top 300 foundations in the country made general grants to combat COVID-19 and a further 39% made emergency grants during the pandemic.⁶⁹ This research found a £200m in grant making during 2019/20, on par with the £310m provided by HM Government.⁷⁰ Alastair Wilson, Chief Executive of the School for Social Entrepreneurs, commended the work of charitable foundations and their swiftness in providing resources to the social enterprise sector.⁷¹ 360Giving, which provides data on grant making organisations, found over 3,800 Community Interest Companies had received UK COVID relief grants.⁷² However, these social enterprises only received 3% of the total value of grants distributed through organisations using 360Giving.⁷³ Other social enterprises may have received emergency grant funds, but the lack of a consistent approach to identifying social enterprises across funders can make it hard to track the exact level of support provided to the sector. It is important, therefore, that HM Government does not assume that foundations can step in to help social enterprises at scale in the same way that they do for traditional charities.

50. Specialist organisations, such as the School for Social Entrepreneurs, Social Investment Business, The Ubele Foundation, UnLtd played an important role in advising and delivering funds that went to the social enterprise sector. Without their knowledge and networks, it would have been very difficult to provide emergency support to the social enterprise sector.

51. The National Lottery Community Fund (NLCF) also played a central role to supporting social enterprises as the delivery agency for the HM Government £310m fund for small

⁶⁵ Anwar Ali OBE, Chief Executive, Upturn Enterprise, Witness Session One, 10/06/2021

⁶⁶ Ibid.

⁶⁷ Tony Armstrong, Chief Executive, Locality, Witness Session Two, 06/07/2021

⁶⁸ Association of Charitable Foundations, Giving Trends 2021, December 2021

⁶⁹ Ibid.

⁷⁰ Ibid.

⁷¹ Alastair Wilson, Chief Executive, School for Social Entrepreneurs, Witness Session Two, 06/07/2021

⁷² 360Giving, UK Covid Relief and Recovery Grants: data analysis, December 2021

⁷³ Ibid.

charities and social enterprises. Over £100m of grants through the National Lottery went to not-for-profit companies and Community Interest Companies.⁷⁴ NLCF reached out to several specialist providers to ensure it built mechanisms for social enterprises that were eligible for funding to get access to them. The lack of pre-existing arrangements meant that NLCF had to deliver a sizeable grant programme at pace in a rapidly evolving situation. In addition, NLCF was subject to additional oversight from HM Government which added further complications.⁷⁵

52. The difference in experience between social enterprises across the UK is closely related to historic levels of interest and engagement with social enterprise. In recent years, HM Government has not engaged sufficiently with social enterprises, despite their significant contribution to the UK economy. This left HM Government scrambling for information and schemes designed which did not fully consider the challenges facing social enterprises. Although support was provided and the efforts of Ministers and officials to design programmes at speed must be recognised, social enterprises could have been better supported.

53. We recommend that the HM Government creates a “Social Enterprise Strategy”. A strategy would help to raise the profile of social enterprise across government and ensure that we maximize the opportunities for the sector to level up the country. This would build upon the best practice of Scotland and Wales, which was found to speed up their response to support social enterprises during COVID. Any strategy must be a truly cross-governmental piece of work and not solely the responsibility of one department. We recommend that a strategy is owned by a partnership between BEIS, DLUHC and DCMS but involves all government departments.

54. We commend local authorities and the devolved administrations on their work to engage with social enterprises and provide them emergency support as well as specialist funders, such as the National Lottery Community Fund (NLCF) and charitable foundations.

55. Funding for social enterprises is better distributed when there are strong relationships between government, social enterprise representatives and specialist organisations. We recommend that HM Government delivers the “Social Enterprise Forum” to create a simple relationship between government departments and social enterprise, which was first promised in the Civil Society Strategy in 2018.

⁷⁴ Ipsos Mori, Process Evaluation of the Coronavirus Community Support Fund (CCSF) Final Report, July 2021 p. 15 360Giving, UK Covid Relief Grants,

⁷⁵ Public Accounts Committee, Fifth Report of Session 2021-22, COVID 19: Government Support for Charities, 9 June 2021

3. Opportunities for social enterprise to help the recovery and level up the country

56. In our first evidence session, the then Minister for Civil Society, Baroness Diana Barran MBE told the inquiry that she wanted to focus on the “opportunity that is there for the sector.”⁷⁶ She told us that the “positive culture” of social enterprise was “all about solutions” which was “refreshing.”⁷⁷ In his letter to Danny Kruger MP in June 2020, the Prime Minister recognised the “tremendous examples of innovation, flexibility and can-do spirit from charities and social enterprises”. He stated that government “has a role to play in supporting the voluntary effort and social entrepreneurialism that have proved so valuable so far, and will be even more vital in the years ahead.”⁷⁸ We agree that there are significant opportunities for social enterprises to help the United Kingdom recover from the pandemic and to help level up the country in the years ahead.

57. There are over 100,000 social enterprises in the UK. These businesses employ 2m people and contribute £60bn to the UK economy. Over a fifth work in our most deprived communities, more likely to hire people from disadvantaged backgrounds and more evenly spread across the country. These businesses are also more likely to be taking action to tackle Net Zero and social enterprises are exporting overseas in greater numbers than other SMEs.⁷⁹ They are an ideal partner for HM Government’s policy agenda, particularly their commitment to tackling climate change and tackle regional inequality through “levelling up” the country.

57. Although this may seem like a matter of process, it is clear to the inquiry that unless there is better understanding of social enterprise within government opportunities for partnership and collaboration will be missed. In 2020, 27 Parliamentarians, including Officers of the APPG for Social Enterprise, called on the Prime Minister to move social enterprise to the Department for Business, Energy and Industrial Strategy to better integrate social enterprise into government policy making. Social enterprises themselves have repeatedly called for change, with 130 social enterprises writing to the Prime Minister in 2018 to call for social enterprise to be moved. In 2019, 116 women-led social enterprises wrote to the Prime Minister to call for a move because they were concerned that social enterprises which are more likely to be led by women were being discriminated against in not being placed with other forms of business. Peter Holbrook said that “social enterprises see themselves as businesses and want a seat at the BEIS table.”⁸⁰ This view that social enterprises are businesses and want to be at the table of other businesses was repeated throughout the evidence sessions. The challenges that social enterprises faced in getting access to government support during the pandemic has only compounded the issues raised by social enterprises before the pandemic.

⁷⁶ Baroness Diana Barran MBE, Witness Session One, 10/06/2021

⁷⁷ Ibid.

⁷⁸ Letter from the Prime Minister to Danny Kruger MP, 23 June 2020

⁷⁹ Social Enterprise UK, No Going Back: State of Social Enterprise 2021, October 2021

⁸⁰ Peter Holbrook CBE, Chief Executive, Social Enterprise UK, Witness Session Two, 06/07/2021

58. We recommend that social enterprise should be moved to the Department for Business, Energy and Industrial Strategy at the next reshuffle so that social enterprise is fully embedded in business policy across HM Government and to ensure that future support open to businesses is made available to social enterprises.

59. In addition, we recommend that all relevant government departments, particularly HM Treasury, Department for Levelling Up, Housing and Communities and the Department for Health and Social Care and Cabinet Office, should have specific social enterprise units working in partnership with BEIS to ensure that social enterprises are properly embedded in all government policies.

60. These changes, in combination with a new Social Enterprise Strategy, would give HM Government a strong platform to work with the social enterprise sector and ensure that the UK achieves the maximum benefit from having a strong and growing movement of social enterprises.

Levelling up the country

61. Social enterprises have shown their resilience and their adaptability as entrepreneurs working through one of the most challenging periods in our history. Not only have they managed to survive, but the latest data from Social Enterprise UK indicates that many parts of the sector are thriving. Nearly half of social enterprises grew their turnover last year (44%) and 74% made a profit or broke even last year.⁸¹

62. At the time of writing, the reformed Department for Housing, Levelling Up and Communities is drafting a White Paper on “levelling up”. We know that social enterprises have been engaging in this White Paper and we hope that it will reference the contribution the sector can make and support to grow the sector. An independent Commission on Social Investment, chaired by Lord Victor Adebawale CBE, is also due to be published in early 2022 to make recommendations on how the social investment market can be reformed to support social enterprises. We urge HM Government to listen to the recommendations made by the independent commission.

63. The evidence that we have received indicates that growing the number and scale of social enterprises within places are critical to the success of levelling up. To start and grow, social enterprises need access to capital – just like any other form of business. This capital needs to come in a number of forms. Grants, blended finance, debt finance “quasi-equity” and equity all need to be made available to social enterprises so that there a range of funding to suit the needs of social enterprises. A recent paper on levelling up and social investment published by the Local Trust stated that “to make a difference for ‘left behind’ areas, social investment needs to harness appetites and structure products which are long term, patient and recognise risk.”⁸² Alastair Wilson told us about the innovative work that has taken place through ‘Match Trading’ to provide flexible grants which encourage

⁸¹ Social Enterprise UK, No Going Back: State of Social Enterprise 2021, October 2021

⁸² Dan Gregory, Levelling the land: Social investment and ‘left behind’ places, November 2021 p.24

social enterprises to expand and develop new business.⁸³ There have also been calls for a Community Wealth Fund to support the social enterprise and charity sector in local places. All of these initiatives point to the need for flexible capital to grow the social enterprise sector.

64. The House of Commons is currently considering a Dormant Accounts Bill which could unlock £1.7bn in new funding for social enterprises and charities. The then Minister for Civil Society, Baroness Barran, in her comments during the debate of the Bill stated that it was “had to imagine that charities and social enterprises will not continue to be key partners” in the maximizing the impact of new funding unlocked through the Bill.⁸⁴ There was support across the House of Lords and across the House of Commons so far for the investment to be channeled through social enterprises and charities which can be trusted to use these funds wisely to improve communities that need it. We believe that these new funds could be used effectively to help level up the country and provide more resource to social enterprises. Learning the lessons from the pandemic, we would recommend that HM Government works in close partnership with specialist organisations and representatives of the social enterprise sector in the design of any funding, to ensure that it is properly designed.

65. We recommend that the next phase of dormant accounts monies is channeled into the development of more social enterprises, particularly in deprived communities, through a range of flexible finance. We urge HM Government to keep its commitment to use these new dormant account monies to support the growth of social enterprise through the provision of a grants, blended finance, quasi-equity and equity investments to the sector. We encourage HM Government look at proposals such as Match Trading, Community Wealth Fund and the outcome of Lord Victor Adebawale’s Commission on Social Investment for how to best support the social enterprise sector to level up the country.

Public procurement and social value

66. The then Minister for Civil Society, Baroness Barran, told the inquiry that one of the areas that she wanted to focus on was how social enterprises could be helped through public sector procurement and maximizing social value.⁸⁵ Sado Jirde, Director at the Black South West Network which supports social enterprises and charities in the South West of England also referenced the “huge potential” for procurement to support the growth of social enterprises in her region.⁸⁶ The inquiry heard repeatedly that during COVID, commissioners were able to take a more flexible approach to working with social enterprises which helped the sector to maintain services and their financial sustainability. This is a spirit of cooperation and collaboration which needs to be maintained beyond the short-term pressure of the pandemic.

⁸³ Alastair Wilson, Chief Executive, School for Social Entrepreneurs, Witness Session Two, 06/07/2021

⁸⁴ Hansard, Dormant Accounts Bill, Committee Stage, House of Lords, 23rd June 2021

⁸⁵ Baroness Diana Barran MBE, Witness Session One, 10/06/2021

⁸⁶ Sado Jirde, Director, Black South West Network, Witness Session Two, 06/07/2021

67. This year marks the 10th anniversary of the passage of the Social Value Act which has done enormous good for social enterprises and has helped the taxpayer to achieve greater value from over £300bn of public procurement spend. However, the Act depends on an ecosystem of organisations, particularly social enterprises, which are able to innovate and create value for the public sector.

68. As Genevieve Maitland Hudson told the inquiry, many of the barriers facing social enterprises in getting access to public sector contracts remain in place. We need to see a redoubling of the efforts within government to provide more opportunities for social enterprises to bid for and deliver public sector contracts. We have seen throughout the pandemic that social enterprises can be depended upon, even in the toughest of circumstances, to deliver for the taxpayer. Unlike other forms of business, social enterprises will not abandon their posts when times are hard.

69. We are likely to see this year a new Procurement Bill to put into effect the new regulations for the public sector procurement regime following our departure from the European Union. In its response to a Green Paper published last year, HM Government has said that the “overarching goals of [the procurement proposals] are to speed up and simplify our procurement processes, place value for money at their heart, generate social value and unleash opportunities for small businesses, charities and social enterprises to innovate in public service delivery.”⁸⁷ We welcome this commitment to working with social enterprises. Our recommendation to use dormant accounts monies to support the growth of the social enterprises which are able to partner with the public sector, however, more guidance needs to be given to the public sector to better understand the role and value of social enterprises if we are going to make the most of this once-in-a-decade opportunity to reform public procurement.

70. We recommend that HM Government creates new guidance for all public bodies on commissioning and procuring for social enterprises. It should provide advice to public bodies on how they can work with social enterprises as well as the benefits of using social enterprise models to maximise social value and deliver high quality goods and services, using case studies and examples to highlight best practice.

Social enterprises delivering public services

71. Throughout this inquiry we have inspiring heard from social enterprises delivering services on behalf of the state or to communities who have gone above and beyond during the pandemic. Even before the pandemic, there has been growing evidence that social enterprises are delivering high quality public services. A King’s Fund report in August 2020 described social enterprises in health and care as “engines of innovation.”⁸⁸ DCMS commissioned research into public service mutuals, a form of social enterprise, and found that these social enterprises were delivering higher levels of productivity and better

⁸⁷ HM Government, Transforming Public Procurement: Government response to consultation, December 2021

⁸⁸ King’s Fund, Social Enterprises in Health and Care, August 2020

outcomes than their peers in the public and private sectors.⁸⁹ Given the pressures created by an aging society and with ever more complex needs as well as the new challenges presented by COVID, we need our public services to be better and stronger than ever.

72. Despite the excellent track record of social enterprises in public service delivery, social enterprises told us that they are concerned about being taken for granted and frozen out of future reforms. Simon Beeton told us that the new Health and Care Bill had created a “vacuum” and uncertainty around the future of social enterprise delivery in health and care.⁹⁰ Lance Gardener said that new Integrated Care Systems could be “detrimental to social enterprise” because they were being excluded from the top table of decision making.⁹¹ We know that this is a concern shared by a number of social enterprises and that representations by the sector have been made to the Department for Health and Social Care during the bill process.

73. In other sectors, we heard that there is still an untapped potential for social enterprise. Lynn McClelland, told us that in transport, social enterprises could be “good incubators” for developing ways to deliver net zero in transport emissions.⁹² Across a range of services, social enterprises combined of entrepreneurship with a commitment to people, place and planet could help the UK to achieve its ambitions faster.

74. At a time when we are looking to rebuild from COVID, we need our best organisations on the frontline. Rather than ramping down social enterprise in public services, we should be ramping up delivery. Unfortunately, HM Government interest in public service reform has diminished in recent years and the constant turnover of officials within departments means that knowledge of social enterprise is no longer widespread.

75. We are concerned about the Health and Care Bill’s impact on the ability of social enterprises to continue to provide public services. We recommend that HM Government takes steps through the Health and Care Bill to ensure that social enterprises are not excluded from service delivery and are given a seat at the table in decisions around the provision of local health and care services.

76. We recommend that HM Government creates a new “Public Service Excellence Unit”, using the model of the previous DCMS Public Service Mutuals Team, to champion social enterprises as a model for public service delivery. This Unit would look at the barriers to social enterprises in public service delivery, invest in the creation of new “mutuals” and social enterprise spin-outs from the public sector and champion social enterprise in public service delivery across central and local government as well as the NHS. We believe that this could inject new interest across government in social enterprises and public service delivery.

⁸⁹ Social Enterprise UK, Public Service Mutuals: The State of the Sector, April 2019

⁹⁰ Simon Beeton, Chief Executive, NAViGO, Witness Session Four, 19/10/2021

⁹¹ Lance Gardener MBE, Chief Executive, Salford Primary Care Together, Witness Session Four, 19/10/2021

⁹² Lynn McClelland, Chief Executive, HCT Group, Witness Session Four, 19/10/2021

4. Conclusion

Social enterprises played a vital role in our country's response to the pandemic and they continue to play an important part in our economy and society. The secret to the success of social enterprise is the combination of business dynamism with an ethos of public duty. It is no surprise, therefore, that they have an excellent track record of delivery and are one of the fastest growing forms of business in the country.

We have learnt from the pandemic that social enterprises can be counted on when the going gets tough. We have also learnt that there are plenty of quick wins for government if it is prepared to engage with the social enterprise sector and put in place a long-term plan for growing it.

Overall, social enterprises are optimistic about the future but are frustrated that their contribution is often ignored in the corridors of power. All they want is the chance to grow their businesses so that they can improve society and protect the planet.

We hope that through this inquiry and the recommendations that we have made, we can play a small part in helping to raise the profile of social enterprises and help HM Government to make the most of the social enterprise sector.

It is now over to HM Government to take this report forward and we look forward to engaging with ministers and officials over the coming months to discuss our work.

ANNEX A: List of witness sessions

Launch & Witness Session One: 10th June 2021

Theme (Part One): HM Government & HM Loyal Opposition

Baroness Diana Barran MBE - Minister for Civil Society

Rachael Maskell - Shadow Minister for Civil Society

Theme (Part Two): The experience of social enterprises on the frontline

Lindsey Hall - CEO, Real Ideas Organisation

Anwar Ali OBE - Managing Director, Upturn Enterprise Ltd

Michelle York - Commercial Director, Nuneaton Signs Ltd

Nina Parnell - Head of Volunteering & Community Support, Westbank Community Health and Care

Witness Session Two: 6th July 2021

Theme: The experience of social enterprise representatives engaging with national and local government

Peter Holbrook CBE - CEO, Social Enterprise UK

Lucy Findlay MBE – CEO, Social Enterprise Mark

Alastair Wilson – CEO, School for Social Entrepreneurs

James Alcock – CEO, Plunkett Foundation

Sado Jirde - Director, Black South West Network

Tony Armstrong – CEO, Locality

Witness Session Three: 9th September 2021

Theme (Part One): The experience of social enterprise representatives in the nations of the UK

Colin Jess - Director, Social Enterprise Northern Ireland

Duncan Thorp - Policy & Public Affairs Manager, Social Enterprise Scotland

David Madge - Project Manager, Social Business Wales

Theme (Part Two): The research on social enterprise during the COVID-19 pandemic

Emily Darko - Director of Research, SEUK

Genevieve Maitland Hudson - Deputy CEO, Social Investment Business

Kevin Armstrong - Policy Lead, UnLtd

James Wright - Policy Officer, Co-operatives UK

Witness Session Four: 19th October 2021

Theme: The experience of social enterprises delivering public services during the pandemic

Simon Beeton - CEO, NAViGO Care, Grimsby

Clare Taylor - Nat Dir Operations, Turning Point, London

Lance Gardner - CEO, Salford Primary Care Together

Lynn McClelland - CEO, HCT Group

Bronwen Rapley - CEO, Onward Homes, Manchester

June O'Sullivan - CEO, London Early Year's Foundation