Comprehensive Spending Review 2020

SEPTEMBER 2020

A submission on behalf of social enterprises, cooperatives and community businesses

Introduction

The UK is facing a huge economic and social challenge in recovering from COVID-19. At the same time, the UK needs to level up the country to close the gap between parts of our nation. To do this, we are going to need a mixture of public investment, better public services and a strong economy.

Social enterprises, co-operatives and community businesses have a track record in all three areas. Their legal structures encourage reinvestment into the areas that they work in, boosting capital in places which need it most. They bring innovation to the public sector through empowering staff, communities and entrepreneurs. Finally, they have a track record of creating new businesses and jobs in the toughest markets – performing better than many of their peers in the private sector.

To give a sense of what can be achieved, doubling the size of social enterprises within the UK economy over the next decade would create:

- An additional 2 million jobs created in the UK economy;
- Over 500,000 jobs created in the most deprived parts of the country;
- Over 20,000 new businesses created in our most poorest communities;
- SEs contributing to work readiness, skills, apprenticeships
- 37,000 new businesses located in the North and Midlands, powering all our regions;
- 160,000 new low carbon economy jobs;
- £5bn additional investment in creating new economic opportunities, apprenticeships, tacking climate change and wider social value in the UK.

For a Government that is committed to backing business, supporting entrepreneurship, and levelling up, social enterprises are a natural partner.

The four proposals in the submission are proportionate and targeted at driving faster growth of social enterprises, co-operatives and community businesses to achieve the Government's ambitions. In total, they would cost just over £100m in 2020/21 but would create thousands of jobs and build a platform for thousands more to be created in the years to come as well as turning around places which have been neglected for far too long.

We are confident that this can be achieved because social enterprises have been delivering remarkable success for years. What they need is a Government which is prepared to back them and turbocharge their growth to deliver results faster.

Now is to the time to begin building back better and social enterprises are ready to go.

Summary

This paper contains four proposals for the Comprehensive Spending Review to help get the UK back on its feet after the shock of Coronavirus.

These proposals include:

- **Trade to Recovery** - a match trading scheme to support social enterprises through difficult COVID trading conditions;
- **Social Enterprise Fightback Fund"** - a programme to help a new wave of start ups which have emerged during the COVID crisis;
- **Project Restart** - a fund to support the communities take over failing businesses and turn them around as social enterprises, cooperatives and community businesses;
- **Community Entrepreneurship Zones (CEZs) -** a place-based initiative to help groups of social entrepreneurs within local communities.

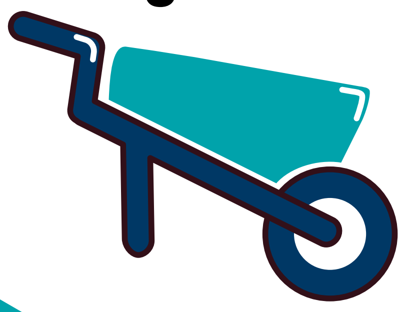
Impact

Social enterprises have the potential to help communities across the country through creating new opportunities, new jobs and building stronger places. Based on available data, we estimate that these proposals could create:

Over 20,000 jobs in the next ten years

£590m in economic activity stimulated within communities;

£33m in reinvestment back into society every year as supported social enterprises grow and thrive



Trade to Recovery

How could it be done?

A Match Trading scheme effectively provides a grant linked to a “baseline” of turnover in the social enterprise. For every pound of trading income generated over this baseline, one pound (or more) of grant is provided. This means that grant income is provided in line with the success of the social enterprise and an incentive is created to grow and diversify the business.

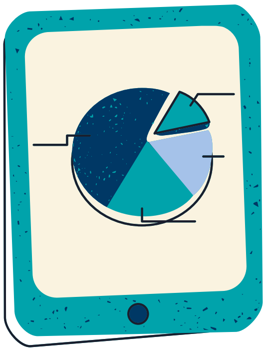
Alongside this grant, wrap-around support is provided to help the social enterprise to improve it’s business whether that is through marketing, digital skills or support related to COVID-19 recovery. If a social enterprise is not able to grow its income, grant is not provided and other sources of support may be required.

The School for Social Entrepreneurs has successfully piloted a scheme with the support of independent funders including Lloyds Bank and the National Lottery Community Fund. A similar scheme could be provided through partners such as the School for Social Entrepreneurs which is targeted at those places which have seen the biggest economic hit due to COVID-19. Unfortunately, given the scale of COVID challenge, it is unlikely that independent funders will be able to provide additional support on the scale required by communities. The role for Government to step in is clear.

To be successful a match trading scheme will need to be long term to give social enterprises the opportunity to sustainably grow their business. Based the pilot, we recommend that any scheme is distributed over four years, to enable communities to get the maximum opportunity to take advantage of the scheme and look at long term reform.

It is recommended that the scheme focus on 20 priority places, supporting 40 organisations in each place, per annum.

What would the impact be?



Evaluation of a pilot of Match Trading found that the scheme had generated an additional £5.5m of income from trading for 143 social enterprises which took part in the programme.

Based on job creation data for the rest of the social enterprise sector, we can estimate that these 143 social enterprises scheme would have generated over 90 jobs through that additional income. A Match Trading programme in Plymouth demonstrated the benefits of the approach ‘in-place’ with enterprises increasing their turnover by 71% in one year and creating 2.5 jobs per organisation.

Moreover, 44% of social enterprises have used the Government’s Coronavirus Job Retention Scheme, demonstrating the focus on employment and retaining jobs within the sector.

Trade to Recovery

A larger scheme as outlined in this proposal is likely to see £110m of additional economic activity generated in the most deprived communities, with over 2,000 additional jobs created.

The What Works Centre for local economic growth has found that every job created in the tradeable sector creates 0.9 in the wider economy. On this basis, we estimate that the scheme will create an additional 1,800 jobs in the wider economy. This would provide a significant stimulus to the communities where the social enterprises are based.

Analysis of the Social Enterprise UK "Buy Social Corporation Challenge" has also found an average 8% profit reinvestment for social enterprises taking part in the scheme. Given the challenging operating environment that these organisations would be in, assuming half this level of profit reinvestment would see an additional £4m put into communities above and beyond the support provided by the scheme.

Cost				
2020/21 -£20m	**2021/22 -£20m**	**2022/23 -£20m**	**2023/24 -£20m**	**2024/25 -£20m**

Social Enterprise "Fightback" Fund

A programme for start-up social enterprises set up to rebuild communities and help the recovery in the wake of COVID-19

Why is it needed?

Since 2nd March 2020 over 3,000 new Community Interest Companies have been registered with the CIC Regulator despite COVID. Given that CICs represent only 1/4th of the social enterprise sector, it is likely that this spike in registrations is just the tip of the iceberg. There are likely be thousands of new cooperatives, community businesses and social enterprises being registered which are not CICs. Thousands of newly registering businesses may also be social enterprises and existing businesses may be converting from traditional business models to become social enterprises.

UnLtd polling in December 2019 found that one in ten members of the public had an idea for a social enterprise idea but had not set it up. This indicates the scale of the untapped potential of social enterprise within the country. We know that COVID-19 has also had a significant impact on start-up businesses which were unable to access finance in many cases due to a lack of trading but were also not eligible for some government schemes.

This follows a wider trend of thousands of Mutual Aid Groups being created in immediate response to the crisis and tens of thousands of businesses which have donated goods and services to help local communities. There is a "social moment" and people want to do what they can to help the country rebuild better from COVID-19. In the wake of this crisis, people are re-evaluating their own careers and how they want to use their skills. The wave of registrations of social enterprises is part of this wider trend and there is an opportunity for the government to send a signal that to the country and the market that it supports these social businesses.

Many of these co-operatives, community businesses and social enterprises will struggle to get access to new finance due to the uncertainty of COVID-19. Even before COVID-19, over 40% of social enterprises reported challenges in getting access to finance. Grants have also been a challenge for social enterprises to get access to as most independent funders focus their funds on traditional charities which have been their traditional target for support.

As a consequence, there is a real risk that this wave of social enterprise startups will fail to take off because of a lack of finance and that this social moment will pass without leaving behind a solid legacy.

A targeted "social enterprise starts up" fund, prioritising social enterprises that are less than 1 year old or were set up after March 2020, when the first national lockdown took place would help to ensure that the UK takes advantage of this social movement.

> **Since 2nd March 2020 over 3,000 new Community Interest Companies have been registered with the CIC Regulator despite COVID.**

Social Enterprise “Fightback” Fund

The aim of this fund would be to support social entrepreneurs that want to help rebuild their communities after COVID-19, particularly with a focus on employment and supporting young people into the labour market which will be particular challenges for the country.

How could it be done?

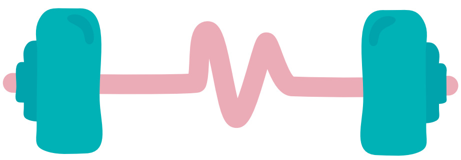
A targeted grant fund of around £50m would enable 1,000 small grants of £50,000 to social entrepreneurs that fit the criteria of being a social enterprise created in the past year. We assume that not all funding can or should be distributed immediately and that there will be three waves of delivery, with the final tranche distributed in 2022/23.

There are a number of independent funders and social enterprises which have a track record of supporting social enterprise start-ups and funding should be distributed through these organisations to ensure a fair coverage of geographies, sectors and communities.

Preference for delivery partners should be given to funders or organisations which are able to commit to providing startups with “funder plus” or wrap-around support on top of the grants that are distributed. This could either be directly or through existing partnerships they have with infrastructure bodies or business support groups. Quality assurance and standards would need to be provided for business support for the social enterprise to ensure value for money.

The Government should also the development of these new social enterprises by ensuring that providers of the New Enterprise Allowance (NEA) are required to refer programme participants to social enterprises support from “Link-up, Start-up” through to programme mentoring. Doing so would level up opportunities for the British public to become social entrepreneurs, and better utilise the start-up support that is already available from organisations like UnLtd – currently under-utilised by people receiving benefits - and the School for Social Entrepreneurs.

This proposal could fit into a wider “Neighbourhood Recovery Fund” as proposed by Locality, Power to Change, Plunkett Foundation and Local Trust. This is a £300m fund which would help the most disadvantaged communities to rebuild after COVID-19.



What would the impact be?

The impact of supporting start-ups is inherentl unpredictable and long term. Some start-ups with not succeed, others will flourish, some many even move on to become household name businesses or potentially global entities. Evidence suggests that social enterprises are as resilient as other forms of business. According to the Association of Business Executives, 20% of startups fail within the first year. UnLtd – the Foundation for Social Entrepreneurs – found that only 12% of the social entrepreneurs it supported closed within the first year.

Social Enterprise "Fightback" Fund

Assuming that 25% of the social enterprises that receive these funds fail to survive the first five years, we can estimate that these businesses will create over 4,500 directly and support another 2,250 jobs indirectly. If 75% of those social enterprises then survive to their tenth birthday, we can expect to create a further 4,500 jobs, with the total investment generating over 9000 jobs worth over £160m to the taxpayer.

Over 40% of social enterprises employ people furthest from the labour market and support vulnerable people back into work, further adding to the social impact of these jobs. This means that a significant additional benefit to communities and the taxpayer are likely to be created through backing social enterprise start ups compared to traditional SMEs which do not employ those groups.

Overall, at least £300m of economic activity will be generated by these start-ups with a further £24m of direct reinvestment into places and social causes across the UK, rising to £600m of economic activity and £50m of direct reinvestment by 2030 in line with the reasonable assumptions made above.

> **...we can estimate that these businesses will create over 4,500 directly and support another 2,250 jobs indirectly.**

Cost				
2020/21 -£20m	2021/22 -£20m	2022/23 -£10m	2023/24 -£0m	2024/25 -£0m

Project Restart

An investment fund to enable local communities to take over businesses that have closed or at risk of closure due to COVID-19 and running them as social businesses

Why is it needed?

The UK has suffered one of the steepest recessions in recorded history and many businesses have either shuttered indefinitely or have closed due to adverse trading conditions. According to the latest data, one in ten high street shops now stand closed and this is only likely to increase. The Federation of Small Businesses Small Business Index 2020 Q1 found that 9% of small businesses said that they were likely to close due to COVID-19. This would mean the loss of over 500,000 businesses across the UK – a significant blow to many communities. Many of these will be lost in sectors such as hospitality and retail.

Although some of these businesses may be unsustainable, many will be closed because owners or shareholders are not prepared to continue operating businesses with low margins and profitability. The rewards for investment are simply too low. The average SME with a turnover under £25m made just £9k in profit according to data BVA BRDC SME Finance Monitor 2019. COVID will have encouraged many owners to close rather than continuing operating on low margins.

Co-operatives, community businesses and social enterprises have a track record of taking businesses which under purely profit driven models have failed, but which have found sustainability within a social model of ownership. Pubs, for example, were closing at the rate of three a day before COVID-19. Co-operative and social enterprise models of ownership have seen communities take over 95 pubs, none of which before the COVID crisis had closed according to research by the Plunkett Foundation. Despite challenging trading conditions and trying to make a social impact over recent years, 73% of social enterprises working in retail markets reported either making a profit or have breaking even in 2019. Moreover, 60% expected to increase their turnover during the next 12 months.

The economic hit to local communities through the loss of these businesses is clear, but there will also be a significant cost to the taxpayer too. Research by Altus Group in 2019 found that insolvency costs to taxpayers had risen by 31% during 2018. A total of £196.36 million was paid out in redundancy pay and £59.85 million for money that would have been earned working a notice period This rose again in 2019 to a £346m bill for insolvency payouts to former staff. The collapse of Thomas Cook will cost taxpayers at least £156m. If we can intervene before some businesses fail, driven to the edge by investors, this will save the state the immense costs of mopping up afterwards.

> **“Co-operatives, community businesses and social enterprises have a track record of taking businesses which under purely profit driven models have failed, but which have found sustainability within a social model of ownership”**

Project Restart

Social enterprises, co-operatives and community businesses have a proven track record of supporting businesses which otherwise would close. A new “Community Restart” Scheme would provide investment for local communities and social enterprises to take over businesses that have closed, are at risk of closure or that are in administration within a local area converting them into viable social enterprises.

As returns will be low private investors are unlikely to take the risk in supporting these community takeovers. However, in many cases local people will contribute patient capital via Community Shares and workers may be able to contribute capital as well.

This will help provide long term returns to taxpayers and communities from successful restarts would be high over the long term.

How could it be done?

The focus of this scheme would be distressed but potentially viable businesses in communities hardest hit by COVID-19. Given the economic impact of COVID has been particularly hard on retail and hospitality businesses, it seems sensible to focus any investment fund there.

A dedicated “Community Restart” investment fund targeted at these sectors and communities could bring considerable returns. Some businesses can be taken over for practically no cost, as merely taking on the liabilities of the business may be sufficient for some owners. Others may need to be purchased, however, as the targets will be distressed it is unlikely that costs will be high. The most significant costs for takeover will be legal fees, repair and overhaul of premises, marketing and rebranding as well as staff costs.

Assuming a cost of £150,000 for takeover, we estimate that 650 businesses could be saved within some of the communities worst hit by COVID-19. Investments and support could be provided through existing providers with a track record of experience in supporting social enterprise takeovers such as Plunkett Foundation and School for Social Entrepreneurs supported through social investors such as the Access Foundation and Social Investment Business.

Where workers are also being offered an ownership stake, the new Ownership Hub programme delivered by the Employee Ownership Association and Co-operatives UK would also be a source of expert technical support.

Project Restart

Some of the Community Restart Fund could be used to make match equity investments alongside communities using the Community Shares model. The Fund could also help workers' invest in their business on a co-operative basis, potentially operating as an extension of the New Enterprise Allowance.

Investment would be distributed in the form of revenue participation agreements, linked to the turnover of businesses and their profitability. This would mean that over time HM Government could recoup some of the costs of investment. This model has been successful in the past. The Future Builders scheme which gave loans and grants to social enterprises and charities has seen over half of loans repaid, returning £98m to the taxpayer which has been reinvested into the Access Foundation. Ensuring long term flexible finance is essential to the success of this kind of scheme.

This proposals is in line Danny Kruger's Review into levelling up communities, commissioned by the Prime Minister, which has called for a "Community Recovery Fund" to support places to get back on their feet following COVID. This proposal could be part of a suite of measures under that proposal.

What would the impact be?

Assuming a 25% failure rate for these social enterprises, we can estimate that around 3000 jobs will be created or sustained, based on social enterprise employment data. A further 2700 indirectly supported in the community – a higher level than would otherwise be the case in the private sector as social enterprises have a higher level of employment than traditional firms.

Moreover, a further £181m of economic activity will be generated through sustaining these businesses on average, a significant benefit to those communities which have been hardest hit by COVID-19.

Assuming a low-steady rate of profit reinvestment by these social enterprises into the local community, a further £5m of reinvestment could be generated through this scheme – slowing growing over time if these businesses are able to expand in better economic conditions. Reinvestment rates could be linked as a condition of the investments, in lieu of repayment to speed up the potential deployment of capital.

The savings for taxpayers would be considerable. By sustaining 3000 jobs that otherwise would be lost, the savings to the Exchequer would be at least £50m per year due to spending forgone on job seekers allowance. This is not quantifying the social value that will be created through the natural operations of social enterpirses.

Cost				
2020/21 -£50m	**2021/22 -£30m**	**2022/23 -£20m**	**2023/24 -£10m**	**2024/25 +£2m**

Community Entrepreneurship Zones (CEZs)

A place-based approach to stimulating the growth of social enterprises within communities

Why is it needed?

Across the country there are clusters of social enterprises which are working together to improve the communities that they work in. These communities of people and entrepreneurs have recognized that no one business or organization can turn a place around, but by working together they can achieve change. Cohorts of social entrepreneurs working together have a greater chance of success than working individually.

The need for a more community-based approach has been a consistent feature of HM Government's strategic thinking. The Civil Society Strategy called for greater strategic focus on place. In Danny Kruger's review into the contribution that civil society could make to the post-COVID recovery, commissioned by the Prime Minister, a significant recommendation was the call for a more place-based approach.

Initiatives such as the Towns Fund and Coastal Communities Fund have been welcomed and have given local communities a chance to take an assets-based approach to community development. Social enterprises have been engaged in many of these programmes including Oldham, Cornwall and Yarmouth. However, many of these funds around the country have not been inclusive to other forms of business or have focused more on property redevelopment rather than creating an entrepreneurial culture within to regenerate their communities.

This is a missed opportunity as social enterprises have a fantastic track record of supporting disadvantaged communities. Plymouth was declared a Social Enterprise City in 2015 bringing together the local community, social enterprises and local council. Since then and working together on a city-wide basis, the sector has grown 33% and seen the workforce expand by over 2000 jobs in just four years. Many of these organisations are working in the Stonehouse, one of the most deprived parts of the city and one of the most deprived areas in the entire country. The jobs created are well paid with over 60% paying the Living Wage Foundation's Living Wage and 56% of the social enterprises in the city are led by women – far higher than the average in the private sector.

Social Enterprise UK has identified 28 places across the country where there are clusters of social enterprise activity. These range from small villages to cities like Salford, Birmingham and Sunderland. These places have emerged organically without support but to kick on and grow into the future these clusters will require additional support. Moreover, there will be other clusters around the country which are currently nascent which could become more effective with the right support.

Community Entrepreneurship Zones (CEZs)

How could it be done?

Community Entrepreneurship Zones would provide central government funding for local places to bid for extra support for their social entrepreneurs. This would come in a variety of ways, based on Social Enterprise UK's evidence from social enterprise places there are gaps in a number of areas including:

- Business support and advice services for start-ups;
- Marketing and digital advertising;
- Measurement of social value within local community;
- Support in accessing external investment and social investment;
- Legal fees and advice in acquiring new property and commercial opportunities;

These bids would require support from local authorities and local enterprise partnerships, with local councils encouraged to "match" the funding through the use of discretionary business rate relief, advertising and communications support.

Alongside this, there would be a drive to identify more "clusters" of social and community entrepreneurship with a view to better mapping and supporting the development of more places in the future.

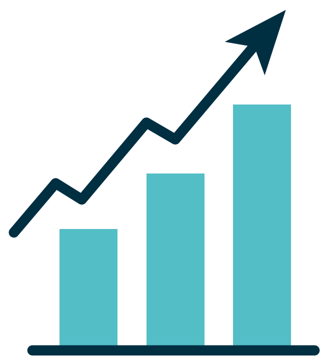
Zones would be developed with a view to attracting other sources of capital whether philanthropic or from social investors through mechanisms such as the Social Investment Tax Relief and social investment funds such as Resonance.

What could the impact be?

Every Zone will be encouraged to develop its own metrics for success.

Different localities will require different sizes of funding. For example, a major city such as Sunderland may require more funding than a small town. Alternatively, a deprived rural area may require more funding than less deprived urban area as there will be added costs to delivery due to the dispersed nature of the community.

We assume that on average each Zone will be given between £500,000 to £1m per year over five years to invest in a variety of measures to grow social enterprises in their community, with a focus on job creation, reducing inequality (particularly for BAME and women-led businesses) and supporting the most deprived areas.



Community Entrepreneurship Zones (CEZs)

On this basis, around 25 places will be supported around the country with an opportunity to expand the programme should it generate successful results.

Based on the results from places like Plymouth, we can conservatively expect to see the expansion of social enterprises within these communities to generate thousands of jobs and economic opportunities as well as added social value over the next five to ten years.

If successful, further investment may be leveraged into these Zones through the use of social investment and philanthropic capital which would further expand their potential impact. Government support for Zones would send a powerful signal to these players and would likely attract additional investment above and beyond the Government's own commitments.

This proposal would be a "social mirror" to the Government's own "Enterprise Zones" which have focused on traditional private businesses.

"This proposal would be a "social mirror" to the Government's own "Enterprise Zones" which have focused on traditional private businesses."

Cost				
2020/21 -£25m	2021/22 -£25m	2022/23 -£25m	2023/24 -£25m	2024/25 -£25m