

FINAL DRAFT
EPOSE: Regional Report - UK

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This paper has been prepared as part of the research project undertaken by the European Network for Economic Self-Help and Local Development: *Employment Potential of Social Enterprises in six EU Member States: Identification, analysis and determination of potential including support structures* (known as EPOSE 6).

The paper seeks to define the nature and scope within the UK of what are increasingly referred to as “social enterprises” and briefly explains the historical context of their development. The paper identifies the key contributions which social enterprises can claim to make to local, community development and explains certain key factors which can help lead to success. A number of concluding recommendations are made.

1 Defining “Social Economy” and “Social Enterprise”

The term “*Social Economy*” is of relatively recent currency in the UK and its accepted meaning is still in the process of evolving. Other terms which are in common use to identify enterprises and organisations which may be considered to be part of the Social Economy include the following.

The Co-operative Movement: which traces its origins back to the Rochdale Pioneers (1844) and embraces the big co-operative retail and wholesale societies, the mutual assurance and building societies, the agricultural and fishing co-operatives, workers co-operatives and credit unions. The last two, which have been a focus for local growth and development over the past 20 years, are often referred to as the “*new*” *co-operative sector* to distinguish them from the “*traditional*” *co-operative sector*.

The Community Business or Community Enterprise sector is a more recent phenomenon, having developed since the mid 1970s, of neighbourhood based initiatives which combine community development with local economic development. Another popular form of this type of enterprise is the “*Local Development Trust*”. All such organisations will ensure in their constitutions that any profit is recycled into the enterprise or into the local community rather than distributed to members. This is the principle of non-profit distribution, which term is generally preferred in Britain as it both recognises the importance of making a profit and focuses attention on what is done with that profit. This contrasts, for example, with the North American convention of using the terms “not for profit” or “non-profit”.

Social Enterprise: has become a generic term used for those enterprises or organisations which have a clear **social purpose** and are non profit distributing in the same way as community enterprises. Implicitly, social enterprises will have a local rather than a regional or national focus.

The Third Sector: is confusingly used both to distinguish that part of the national economy which is neither the private sector nor the public sector and to define all “voluntary sector” or “voluntary organisation” activity. The “voluntary sector” term embraces all those organisations, large or small, which are not part of the state or part of the private profit sector and will include very small community groups, social and sports clubs, all types of leisure groups as well as the major national charities.

Recently a useful distinction has been drawn within the “third” or “voluntary” sector between “*non-governmental organisations*” (NGOs) and “*community organisations*”. The former will be large and, despite their designation, often in receipt of state funding or contracts, while the latter will usually be smaller and quite independent, operating only at local community level.

The ***Social Housing Sector*** (housing co-operatives and housing associations) is often also seen as a separate sector within the Social Economy although technically (ie: by legal structure) it forms part of the “co-operative movement”.

Within the “traditional” co-operative sector there has been in hand over recent years a process of demutualisation of many of the building and insurance societies which are now converting into banks and public limited companies and in future will operate primarily for the benefit of their shareholders rather than for their members. This shift from mutual, co-operative and people-centred activity to a profit centred focus is apparent also in some housing associations and retail societies. These are therefore organisations, which can no longer be counted as part of the Social Economy.

2 Core Values of Social Enterprises

In its paper Key Values and Structures of Social Enterprises in the European Union [1] the European Network defined eleven key value statements which represent a form of “charter” to which Social Economy organisations might be expected to subscribe. In reality of course some organisations may choose not to associate themselves with all eleven statements. In the box, which follows the eleven key values, are presented in alphabetical rather than priority order.

a. Common Good

It is a founding principle that the Social Economy operates for the common good rather than exclusively for individual gain. Assets are held and profits used for the benefit of society.

b. Community

The Social Economy seeks to promote and support the concept of community, whether this be focused on geographic communities or on communities of interest.

c. Co-operation

People involved in the Social Economy work together for mutual benefit.

d. Decentralised

Within the Social Economy, the power to determine the policies and practices of organisations will rest with people at the lowest possible level. This is subsidiarity in action and implies a preference for small organisations which are appropriate to local conditions and which can be controlled by local communities.

e. Democracy

Each person involved in the governance of organisations in the Social Economy shares equal rights to participate in decision-making, usually on the basis of one-person one vote.

f. Diversity

The Social Economy respects and seeks to safeguard human and ecological diversity to ensure the present and future well being of society and of the planet.

g. Good Work

Organisations in the Social Economy will seek to undertake work, which is seen to be socially useful and therefore enhances the quality of life and offers acceptable rewards and working conditions.

h. Holistic

The Social Economy adopts an integrated approach, which embraces and respects economic, social, cultural and environmental aspects of life.

i. Inclusive

Organisations within the Social Economy ensure that all persons in society have an equal right and equal opportunity to participate in affairs without discrimination as to race, gender, sexual orientation, ability, religion, political belief or social and economic disadvantage.

j. People-centred

Addressing the needs and wishes of people is the primary task of Social Economy organisations rather than serving the interests of capital. Performance will therefore be measured in terms of impact on people and society; the role of capital will be to serve the interests of people.

k. Sustainability

The Social Economy ensures that its work and practices will safeguard the resources of the planet for future generations.

The New Economics Foundation suggests that there are three “overlapping ways of understanding the social economy” and use a “Three ‘I’s” definition [2]:

Identity - covering those for whom there is a convergence of interest and sense of identity as a social economy sector distinct from other sectors in the economy.

Institutions - covering the three main institutional categories of co-operatives, mutuals and voluntary associations.

Intention - covering economic activities pursued with a social or ethical intention.

Another definition offered by the University of Glasgow’s Training and Employment Research Unit in Valuing the Social Economy [3] emphasises targeting the disadvantaged sectors in society and the involvement of volunteers alongside paid workers:

- They are not motivated by profit - goods or services are not sold in response to demand on the free market but delivered to targeted groups of individuals whose needs remain unmet by the mainstream economy. Beneficiaries are not usually required to pay market prices for goods or services.
 - Provision of these services would ordinarily be considered uneconomical by the private sector and beyond the statutory duties of the state.
 - Employment is also more likely to be targeted on the more disadvantaged communities and groups.
 - Services are provided by paid employees, but voluntary activity in service delivery and management are also strong features.
 - They have a degree of reliance on charitable or public sector financial support and often deliver services on behalf of public sector bodies.
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- Individuals or community members benefiting from the activities of the organisations may have the opportunity to exert influence through representatives in their membership and board of management.

The recently formed regional development agency, Social Enterprise London, has neatly defined social enterprises as “self-help organisations which bring people and communities together for economic empowerment and social gain and operate in a variety of forms, including worker co-operatives, community businesses, ethical and social firms, housing co-operatives and credit unions”. [4]

In this paper we shall be using the term “social enterprise” to mean all those organisations within the social economy which:

- a. have a local rather than a regional or national focus;**
- b. have a clear social, ethical or environmental purpose; which**
- c. is achieved at least in some part by engaging in trading and income generation;**
- d. are generally non profit distributing; and**
- e. hold their assets “in trust” for community benefit;**
- f. seek to empower the local community by holding resources under local control; and**
- g. involve local people/their members in the governance of the organisation.**

Within the social enterprise sector in the UK there is in use a wide range of terms to describe social enterprises. This is both confusing and leads to frequent debate about which are the “right” terms. The list in the box below is probably not exhaustive as new terms appear regularly but it does offer a current list of names which social enterprises might use to describe themselves.

• co-operative society	• community development trust
• society for the benefit of the community	• community development association
• friendly society	• local development trust
• industrial and provident society	• community company
• mutual society	• community development corporation
• consumer retail society	• community benefit corporation
• workers co-operative	• social enterprise
• industrial productive co-operative	• social firm
• community co-operative	• voluntary enterprise
• community enterprise	• community trading organisation
• neighbourhood co-operative	• housing co-operative
• community business	• community housing association
• third sector enterprise	• community housing trust
• community trust	• credit union
• social business	• and so on.....

There is an unresolved discussion about whether worker co-operatives are or are not social enterprises on the grounds that they are essentially for the personal private gain of their working members. However it is a fact that many do subscribe to all the characteristics listed above with that one exception, and then they will usually have some restriction on the amount of profit to be distributed which makes it more a performance bonus than a shareholder’s dividend. The pragmatic resolution of the debate is probably the wisest and the most practical: there will be those that consider

themselves to be social enterprises and those that prefer to associate themselves with the private sector.

3 Historical Origins

It is possible to discern six development strands from which present-day social enterprises derive.

First, there is the co-operative movement, which grew from the Pioneer Society formed by a group of working men in Rochdale, England in 1844. The early co-operative movement, strongly influenced by the thinking and work of Robert Owen, envisaged the co-operative way as how all of a community's needs and wants might be organised and satisfied: consumption, production, agriculture, housing, education, social security and insurance, banking and financial services. The international co-operative principles, recently revised (see box), continue to underpin the world-wide co-operative movement and to act as the theoretical and idealistic basis of many of the organisations, which comprise the social economy.

Co-operative Principles:

Voluntary and Open Membership
Democratic Member Control
Member Economic Participation
Autonomy and Independence
Education, Training and Information
Co-operation among Co-operatives
Concern for Community

Second, the impact of swiftly rising unemployment in the 1970s, caused largely by the structural upheaval in the British (and world) economy, led to a new and growing interest in the co-operative concept and to the promotion of worker co-operatives in particular as a means of creating new jobs in areas of very high unemployment. This in turn led to the establishment of a nation-wide network of co-operative development agencies.

Third, government measures to combat the unprecedented levels of unemployment during the 1970s and 1980s - the successive "job creation" programmes - gave the opportunity, often for the first time, to many organisations and people in the "voluntary" sector to become involved in the creation of enterprises and engage in business activity by making goods and providing services.

Fourth, and closely related, community development practice in the UK which hitherto had focused mainly on social welfare and youth work, began to understand more clearly the key role played by the (local) economy in causing the social problems against which community organisations were battling. Thus community development came to engage first with economic issues and then with practical action measures to address these issues at local level.

Fifth, in the past decade the shift by central and local government away from the grant-funding of voluntary and community organisations towards contracting with them to provide various services has accelerated both the business-like behaviour of the organisations and strengthened their self-perception as community or social enterprises. This trend has been re-inforced by the continuing process of contracting-out services which were previously provided by the local state, thus increasing trading opportunities for voluntary and community organisations.

Sixth, the regeneration “industry” has incorporated a clear and growing role for a “community” dimension which usually manifests itself through community-based local development trusts or partnerships, one of the many forms of social enterprise. This role in regeneration has been driven to a degree by the EU insistence on community involvement in the design, management and implementation of local regeneration initiatives and is now a familiar part of most Single Regeneration Budget (SRB) programmes in England and Wales.

4 Legal Structures

In the UK there are two legal structures through which an enterprise or an organisation may become registered and incorporated: *co-operative law and company law*. By becoming incorporated an organisation achieves limited liability: that is, the organisation is recognised at law as a body which can make contracts and which is responsible as an organisation for its debts and other liabilities. Its individual members are not liable (unless it can be shown that they have acted without proper care or have continued to trade when knowingly insolvent).

An organisation in the UK is not required to become incorporated as a co-operative or a company and any individual or group may set up and start trading. Much small-scale, informal enterprise activity at local community level (including LETS systems)[5] is carried on by unincorporated groups and associations, technically trading therefore as “partnerships” with each individual member equally liable. However, most more established social enterprises will be constituted as either co-operatives or companies.

“*Co-operative law*” (more correctly, the Industrial and Provident Societies Acts) is based on the principles and objectives of the traditional co-operative movement and in particular provides for one member one vote irrespective of share-holding and for a limited return on capital. They emphasise the concept of mutuality and exist to operate for the benefit of their members. Most of the co-operatives in the traditional co-operative sector are established using co-operative law.

Company law is primarily for private businesses which are capitalised by private share-holdings and which are operated ultimately in the interests of the shareholders. However, company law is more flexible than co-operative law in the UK and consequently it has been increasingly used to provide a form of legal structure which equates to that of a co-operative in all its essentials. The format is that of a company limited by a nominal guarantee (rather than by shares) and based on a membership of qualifying persons (or incorporated organisations) rather than on shareholders. The

company may define its own particular constituency for membership. Because this format is flexible it can be customised to suit a wide range of social economy circumstances and the particular wishes of any individual social enterprise.

In contrast to co-operative law, which sets down the principles to which all co-operatives must adhere and which provides for a process of regulation, company law structures reflect simply the wishes of each organisation within the given statutory framework. Consequently some sponsoring bodies have developed model company rules and written into them ways of entrenching certain key principles such as non-profit-distribution, the common-ownership of assets and local community dominance of the governance structure. The majority of worker co-operatives and community enterprises in recent years have been formed using such model rules under company law.

The *legal working party of the UK Co-operative Council* has produced draft proposals for a major revision of co-operative law in the UK and it is hoped that the British Government will in due course introduce new co-operative legislation based on these proposals. If co-operative law is to be seen and used in future as the usual format for all organisations in the Social Economy, there remain three significant omissions from the draft proposals, which require to be addressed. The omissions are a) recognition of and provision for the distinctive community enterprise model (including community businesses and development trusts and other variants); b) providing for the fiscal benefits of charitable status (see below) to be available to enterprises which operate exclusively for community or social benefit; and c) any mention of the social clubs and institutions which are an important part of the fabric in many working class communities and which are often successful business concerns and are currently registered under co-operative law.

A *charitable organisation* in the UK is one whose objectives are considered to comply with legislation, which derives from the early seventeenth century. These objectives are: a) the relief of poverty; b) the advancement of education; c) the promotion of religion and d) general benefit to the community. It has, however, generally been interpreted to exclude the creation of employment and the operating of business in order to relieve poverty. Recently the Charity Commission for England and Wales has been carrying out consultations about whether tackling unemployment and promoting urban and rural regeneration might in future be considered as charitable activities. It has hitherto been confusing that the law may be interpreted somewhat differently from time to time and from place to place, most notably between Scotland and England & Wales. The advantages conferred by charitable status include relief from corporation (company) tax, relief from local property tax (rates) and tax relief on donations received.

A charity is not itself a legal form - it is an organisation which has been recognised as a charity and which therefore qualifies for the fiscal benefits allowed to charities. Some social enterprises have been able to achieve charitable status for all or part of their activities, but only where their objectives are considered to fit within the prevailing interpretation of the seventeenth century legislation.

The *Industrial Common Ownership Act* (1977) established a legal definition for a workers co-operative in the UK, and especially for a common-ownership co-operative, and created a system of accreditation. While this accreditation lasted only for as long as a Government-financed small loan fund for worker co-operatives operated, the precedent was thereby established for defining at law a particular type of enterprise and creating a process for accreditation and regulation.

The *Credit Union Act* (1979) is the instrument which regulates credit union activity in the UK. All credit unions are established and regulated under co-operative law. It is hoped that the British Government may soon revise the legislation in particular to allow larger loans to be granted and to permit loans to be used for the purpose of setting up small firms, including worker co-operatives and community enterprises as well as private businesses.

Proposals have been made within the Social Economy sector that fiscal benefits similar to those granted to charities should be offered to all enterprises which operate exclusively for community benefit - ie: for "the common good". It has been suggested that a new type of "*Community Benefit Corporation*" be recognised at law with an appropriate regulatory body put in place to ensure compliance to criteria based broadly on the "charter" and the other definitions given above.

5 Networking and Support Structures

The *UK Co-operative Council* is a forum, which brings together the widest, but not exhaustive, cross-section of Social Economy organisations. Its membership includes the "traditional" co-operatives (including the housing sector) and the "new" co-operative movement (including credit unions and some community co-operatives). It does not include the community enterprise/development trust sector nor the "voluntary organisation" sector or LETS systems. In general the UKCC serves organisations using co-operative law rather than company law, with the main exception of those modern worker co-operatives which have been registered as companies limited by guarantee. The UKCC holds an annual forum, facilitates information exchange and services a legal working party, which has been the primary driver of the new draft co-operative legislation.

There are a number of other national networks which provide a more proactive service to sections of the Social Economy. These include the *Co-operative Union* which is the co-ordinating and advisory federation of the co-operative retail societies; *Industrial Common Ownership Movement Limited* (ICOM) which is the national federation for workers' co-operatives, now offering information, training, advisory and legal services to community enterprises and the voluntary sector as well as to worker co-operatives; the *National Network of Community Businesses*, run by Community Business Scotland, serves a membership throughout the UK offering information, advice, training, advice on legal structures and proactive networking. *Community Enterprise Wales* is a well-established network operating throughout Wales offering information, training, advice and consultancy services. The *Development Trusts Association* offers a similar service throughout England, Wales and Northern Ireland and has recently established six regional offices in England.

Also in Northern Ireland is *NICDA Social Economy Agency* with a remit to support all forms of social enterprise. The *Civic Trust Regeneration Unit* plays a development and support role for development trusts as part of its work in England and Wales.

ICOM and the National Network (CBS) together with Community Enterprise Wales jointly publish the New Sector magazine, which appears five times each year.

The *New Economics Foundation* increasingly provides information and promotes research into local community-based economic development as part of its alternative approach to sustainable economics. *COMMACT Europe* is the European chapter of the Commonwealth Association for Local Action and Economic Development and seeks to develop international networking of local development practitioners and projects.

The above list is by no means exhaustive. Housing associations have their own federations in England, Scotland and Wales and these include support for housing co-operatives. A body has been established in England (*People for Action 2000*) to promote the involvement of housing associations in local economy work. There are two federations for credit unions: the *National Federation of Credit Unions* and the *Association of British Credit Unions*. There is a national organisation for Local Exchange Trading Schemes - *LETSlink UK*. National bodies for the voluntary sector and community development, such as the *Community Development Foundation* and the *Neighbourhood Initiatives Foundation*, are increasingly active in promoting social enterprises and seeing their own activities as part of the Social Economy. Additionally there remains a (shrinking) network of independent co-operative and community enterprise support units and a significant number of local authority departments with a remit to support the formation of social enterprises, such as the CBED (Community-Based Economic Development) Unit of Liverpool City Council. Recently established is the *English Community Enterprise Partnerships*, a network of local authorities which have a commitment to the development of community enterprises. Regional contacts have been set up for the North, South and Midlands of England.

There are also a number of social investment organisations with a specific remit to support enterprises in the social economy. These include *Local Initiative Finance*, which grew out of an initiative taken by Business in the Community, *Investors in Society* established by the Charities Aid Foundation (CAF), special community funds created by English Partnerships and the Welsh Development Agency and *Industrial Common Ownership Finance* with funds both for worker co-operatives and community enterprises. The *Scottish Community Enterprise Investment Fund*, set up in 1989, will be merged in 1999 with a new *Scottish Community Fund* to be established by CAF. Within the banking community, the *Triodos Bank* concentrates on investing in social enterprise initiatives.

6 The Scope and Nature of Social Enterprises

Social enterprises in the UK make up a disparate body which may be characterised along a series of “continua” which are in no way mutually exclusive but more a series of “linked paths”. While this may seem “untidy” or confusing at first sight it can be

helpful to recognise where different social enterprises can be placed on each of the continua.

First, is the continuum, which goes from what might be termed a *voluntary enterprise* through to a *community business*. The former will be based primarily on volunteer labour and will operate at the very local community level while the latter is likely to be staffed entirely by paid employees. Along the continuum are those enterprises, which depend to a greater or lesser extent on the voluntary input of members, directors or volunteer staff. Examples of “voluntary enterprises” might include food co-operatives, thrift shops and community cafes. An early example of a voluntary enterprise of course was the store first opened by the Rochdale Pioneers in the evenings and weekends - and that just grew and grew!

Second, is the continuum which runs from the organisation, which receives substantial *grant-aid* or other subsidy and is totally *dependent on fund-raising* through to the business which is entirely *self-sustaining* and competes unaided in the market-place. Along this continuum are enterprises in receipt of different types and varying levels of support so that they can provide the service for which they were established. Such support might take the form of “peppercorn” rent for premises, donations, “soft” contracts as well as unpaid labour or “sweat equity”.

Third, is the continuum which runs from those enterprises which are primarily *people oriented* and *providing necessary services* through to those which put greater emphasis on the *generation of profit* - that is, however, profit which can be used or distributed for the benefit of the local community.

Fourth, is the continuum, which goes from *very small* to *large*. “Small” (or “micro-enterprise”) will include the smallest of informal enterprise endeavours in local communities which in some way generate income (or reduce the cost of living) and thereby contribute to the domestic economy of disadvantaged people. Some of these will be operating in what is sometimes termed the “shadow economy”.

Fifth, is the continuum which runs from the *informal* sector of LETS and barter through to the *formal* part of the economy based on the exchange of money for goods and services.

Social Economy organisations will be found at all locations along these continua, defying all attempts to neatly categorise them. Social enterprises are involved in a very wide range of activity: services and manufacturing, finance and insurance, wholesale and retail, housing and community care, property development, import and export, mining, agriculture and fishing. However, it is now possible to discern a pattern of activity to which social enterprises are perhaps especially suited and in which they are beginning to establish a strong track record.

The New Economics Foundation [7] identifies eight “growth sectors” in the UK Social Economy:

Care
Energy and Environment
Microfinance
Ethical retailing
Social housing
Contracted-out public services
Agriculture
New Technology

The Development Trusts Association [8] observes 24 different activities in which trusts engage:

- | | | |
|-------------------------|----------------|--------------------|
| • Business Development | • Environment | • Education |
| • Property Management | • Grant giving | • Child Care |
| • Property Development | • Campaigning | • Job Creation |
| • Managed Workspace | • Advice | • Publications |
| • Sports and Recreation | • Training | • Networking |
| • Community Development | • Housing | • Health Care |
| • Arts | • Research | • Youth Work |
| • Tourism | • Heritage | • Community Safety |

and reports that the five most common activities are: 1) Community Development; 2) Advice; 3) Training; 4) Networking and 5) Environment.

Another attempt to identify “What social enterprises are good at” [9] lists eleven specific activities:

1. **Creating infrastructure - facilitating enterprise** (eg: managed workspace; self-employment advice; secondary marketing initiatives such as an organic veggie box schemes; visitor centres which attract people to use other local facilities; multi-functional community centres)
2. **Care services** (eg: child care; domiciliary care; homes for the elderly)
3. **Commercial community services** (eg: neighbourhood shop; community café; thrift shop; community transport)
4. **Contracted community services** (eg: estate maintenance; security; cleaning; graffiti removal; managing swimming pools; managing leisure and recreation services; multi-functional community centres)
5. **Job creation for the disadvantaged** (eg: the disabled; the mentally ill; offenders; the long-term unemployed; using programmes such as “intermediate labour market” or “salaried training”, “New Deal” etc)
6. **Training programmes** (eg: self-employment; IT skills; life skills etc.)
7. **Environmental action** (eg: waste minimisation and management; recycling; composting; community gardens; city farms; energy efficiency)
8. **Area development/renewal** (including property management)
9. **Running community service schemes and managing community projects**
10. **Financial services** (eg: Credit Unions)
11. **Housing services** (eg: housing co-ops; community based housing associations; “foyer” projects)

In 1996 the Forward Studies Unit of the EC/DGV identified seventeen “fields of employment creation” appropriate for local, community-based economic development initiatives. This list was expanded in 1998 to nineteen:

- i. home help
- ii. child care
- iii. new information and communication technologies
- iv. assistance to young people facing difficulties with integration
- v. better housing
- vi. security
- vii. local public transport services
- viii. redevelopment of urban public areas
- ix. local trade
- x. energy management
- xi. sport
- xii. tourism
- xiii. the audio-visual sector
- xiv. cultural heritage
- xv. local cultural development
- xvi. waste management
- xvii. water services
- xviii. the protection and maintenance of natural areas
- xix. regulation and control of pollution and the requisite installations

It is possible to draw some important trends from these lists, namely that social enterprises are likely to be engaged in activities which:

- provide infrastructure and services to make it easier for others to create small enterprises or establish income-generating projects;
- provide commercial and community services which meet important and immediate local needs;
- engage in trading activities from which the private sector may have withdrawn and which are often not highly profitable;
- undertake to provide some of the services which in the past have been part of public sector provision - “communitisation” rather than privatisation;
- are labour-intensive, creating work particularly for people with few skills or other disadvantages;
- use local people to do local work; and
- are likely often to be *multi-functional* - that is: to engage in a mix of activities, some more commercial than others.

7 Case Studies

Govan Workspace Limited

The Govan area of Glasgow was at the heart of the city’s flourishing shipbuilding and ship repair industry. Several large yards provided virtually all of the local employment with most of the population directly or indirectly dependent on the industry for a livelihood. The decline of shipbuilding on the river Clyde in the 1970s led to excessively high levels of unemployment and to large-scale migration from the area. The old housing stock was demolished and, with it, the small shops and commercial premises which had helped the local economy to survive. Govan became a blackspot for unemployment and, with a lack of suitable premises, was unattractive

to new businesses or to established businesses wishing to relocate. Poverty and disadvantage was rife and the morale of the community at an all-time low.

A grant of £40,000 from the European Community's first anti-poverty programme was used to set up an Area Resource Centre in 1979. An Employment Study group of local people was formed to explore ways in which the community could itself create jobs and help revive the local economy. The group decided to pioneer the managed workspace concept, then in its infancy, by converting a former primary school into a successful work-creating project. They were confident that the idea of creating small workshops, let on an easy-in easy-out lease basis, with common services provided and information and advice to hand, could play an important part in encouraging new businesses to set up in their part of the city.

The company was formed in 1981 as a company limited by guarantee with charitable status. As a community business, GWL has a small membership drawn from local residents and a Board of Directors partly elected by the members and partly appointed by other local community organisations. No members or directors may benefit financially from the company and all surplus is re-invested in the company or for the benefit of the local community.

In 1981 work started on converting the disused primary school into 37 small workshops occupying 19,000 square feet. The work was financed by grants from the Government's "urban programme", commercial loans and ERDF support. A second opportunity arose with the closure of a large bakery locally with the loss of 350 jobs. GWL led the campaign to prevent the demolition of the building and persuaded the Government-funded Scottish Development Agency to invest £1.2m in the development of a second workspace to be managed by GWL.

By 1992 the community business had acquired its third property, the former shipyard apprentice training school, and had taken mortgages to purchase all three properties totalling more than 120,000 square feet of small workshops.

The community business's role in managed workspace is to provide competitively priced accommodation, to take responsibility for the maintenance of the fabric and to provide office, administration, and meeting/conference services as part of the rent. Fax, reprographic and other services are provided by the small team of employees from a central point in the main building. Workspace staff also offer business advice, bookkeeping and payroll services where these are requested. The workspace seeks to be a sympathetic, supportive landlord whose aim is to try and ensure that businesses can survive as part of the local economy. The simplification of the process of getting started in business is an incentive to small traders and new businesses to locate within the workspace (and therefore in Govan) and helps them keep their operating costs to a minimum. It also makes it easier for home-based enterprises to move outside the home and become more commercial.

The business also runs a workspace café and outside catering business. This is a wholly-owned subsidiary of the workspace company.

In the past GWL has run a range of training programmes aimed at the long-term unemployed, focusing mainly on how to set up in business and on information technology. The company is not currently engaged in this type of work, as it is not happy with the current funding arrangements and emphasis of government and its agencies. Recently GWL has decided to devote itself to new property-related developments which will benefit the local economy and to re-invest its growing profit in this way.

By 1998 all three properties owned by GWL were virtually fully let on a constant basis to a wide range of 88 tenant businesses. In this way more than 600 jobs have either been created or brought into the Govan area. Many incoming businesses, once established, recruit new staff from the local labour market. GWL itself directly employs ten people full-time and five part-time in its workspace team. GWL's published accounts for 1997/98 show a turnover of £570k giving a net profit of £150k and fixed assets valued at £1.7m.

Edinburgh Community Trust

The Edinburgh Community Trust (ECT) describes itself as a social firm, which seeks to provide meaningful and productive work in viable and sustainable enterprises for people with mental health problems.

Based in Edinburgh, Scotland's capital city, ECT was originally a small grant-making organisation supporting community initiatives in the field of mental health. Research done by the Trust in 1986 confirmed the need for flexible and supported work opportunities for people with mental health problems and so the Trust decided to start establishing small businesses itself to offer work which would be sustained in the long-term through sales income.

The first businesses were established in the early 1990s. *Six Mary's Place* is an eight bed-roomed, vegetarian Guest House, a fine Georgian house in Edinburgh's New Town, nearby the city centre. The guesthouse which is open all through the year also has facilities for small conferences. *Rolls on Wheels* (RoW) makes daily deliveries of filled rolls and other snacks direct to offices and other workplaces in the city. RoW also offers an outside catering service for various functions and special events. *Gardening Services*, which was closed down during 1998, undertook contract garden maintenance for private customers, for the Council and for housing associations. One of the factors leading to the decision to close down this business was the increasing difficulty in competing with the growing number of very small garden businesses willing to offer a cut-price service and the difficulty of competing with firms without the overheads of supervising staff with mental health problems.

Two further businesses were set up in 1997. *Parkview Laundry* are specialists in duvet cleaning, service washes (eg: football strips) and ironing. *Rags to Riches* comprises two enterprises: "Planet Fun" is the label for children's clothing which the business manufactures and "Edinburgh Embroidery Services" provides industrial embroidery.

ECT also runs training courses. *Positive Choices* is a 12 week course designed to help people with mental health problems decide just what sort of work they may like to do and be able to do and to help prepare them for the reality of starting to work again. The *Certificate in Enterprise* is run in conjunction with the University of Stirling and is aimed at people considering setting up their own small business. A regular course in IT skills is also provided.

ECT employs 25 permanent staff in its four businesses and in its core team, of whom five are on supported placements following mental illness. A further 70 people are employed in the different enterprises, all persons with mental health problems. They are paid through therapeutic earnings or through benefits. Additionally, at any one time some 40 people will be involved in the training programmes.

Most ECT employees remain working fairly long-term with ECT as they need the supported employment which the Trust can offer. A small number each year, mainly from the guesthouse, are able to move on into the wider labour market. This progression is made difficult by the way the UK benefits system “traps” people into supported accommodation and, therefore, supported employment.

The annual turnover of ECT is £550k of which 13% is provided as core grant by Edinburgh City Council, 37% is raised from various sources (eg: the National Lottery, European Union, Trusts and Foundations) for specific projects and 49 % is earned through sales with 1% bank interest.

ECT is a company limited by guarantee with charitable status. It has a small group of nine unpaid trustees (directors) who are appointed because of their interest and relevant expertise in the work of ECT.

The Eldonians, Liverpool

The Eldonians are a close-knit community descended from Irish immigrants who took up residence in the Vauxhall area of Liverpool during the 1840s. The people of Vauxhall found work in the thriving port of Liverpool and in its surrounding industries. It was the decline of the port and the closure of industry, notably the Tate and Lyle sugar refinery, which led to the decimation and dereliction of the area from the 1970s.

The Eldonian story started in 1978 when the residents resisted Council plans to relocate them from their tenement blocks to peripheral housing estates. They formed the *Eldonian Community Trust* and fought to stay in the area, putting forward alternative plans to build new houses on the Tate and Lyle site and on the site of demolished tenements. In 1989 the “Eldonian Village” was opened by Prince Charles: houses designed by local people, for local people and managed by local people. The achievement of the village represents a magnificent testament to the Eldonians’ determination to control their own affairs.

By 1998 the *Eldonian Community-based Housing Association* (formed in 1983 as an Industrial and Provident Society and registered with the Housing Corporation and

with the National Federation of Housing Associations) had created 310 homes for rent on three sites in the Vauxhall area.

Although the starting point was housing, the Eldonians have involved themselves in all aspects of their community's regeneration such that the Eldonian "family" of organisations now addresses a whole range of social, economic and environmental issues.

Eldonian Leisure runs the *Village Hall* which serves both as the natural focus for the community and offers facilities for hire for social and business functions and for conferences. It is used by organisations throughout the city.

Eldon Woods Day Nursery is run as a partnership with Littlewoods, the retail store and football pools company. The nursery provides 50 full-time places for babies and pre-school children. Half of these are "bought" by Littlewoods for its own employees and five by the Inland Revenue. Fifteen places are available to the public and ten are specially subsidised to benefit local parents.

The *Eldonian House Residential Care Home* is a purpose-built home for the elderly with 30 bed-spaces. The Home allows local frail elderly people to remain in their own community, near their relatives and be cared for by local people.

Eldonian Sports is a new sports complex comprising a purpose-built sports hall and an outside all weather pitch and bowling green. The complex only opened during 1998 and aims to provide affordable sports and leisure facilities to local residents and to customers from throughout the city.

The *Eldonian Development Trust* (EDT) (a company limited by guarantee with charitable status) acts as the development body for various social and economic initiatives and projects. These include: an innovative therapeutic home care programme being run in conjunction with other disadvantaged neighbourhoods in Liverpool; business advice and job link services; business ideas courses and pre-vocational and vocational training for the unemployed; summer play-schemes for local children during the long holidays; a youth football coaching scheme. Longer-term, the EDT has plans to create managed workspace by renovating still derelict industrial property in the neighbourhood.

The Eldonian "family" employs 78 people in total and involves literally hundreds of local people in its various social, organisational and recreational activities. During 1998 the Eldonians completed their first social audit report as part of a Social Audit Initiative sponsored by Liverpool City Council. The four businesses run by the Eldonians (nursery, residential home, village hall and sports complex) are self-supporting and do not rely on grant assistance.

Barrowfield Community Business [10]

[Along with successes there have been failures. Indeed, one of the lessons bureaucracy finds hardest to learn is that in order to achieve success you must both risk and, inevitably, experience failure]

One of the best known social enterprises to have gone into liquidation (in 1990) was Barrowfield Community Business (BCB) in Glasgow's east end. BCB had pioneered neighbourhood security as a community enterprise. It was in Barrowfield that landscaping and environmental work done by local people transformed the appearance of the area and demonstrated that if local people do local work it is more likely to be valued and to last. It was in Barrowfield that a local authority tenement block was converted into an office/light industrial workspace to be managed by the community business. BCB ran a large Community Programme (CP) Managing Agency (Government-funded job creation scheme) which was able to get local long-term unemployed people back into work, often moving on from their CP work into the wider labour market. At its peak BCB employed circa 100 people in its commercial enterprises and over 150 in its CP and training projects.

BCB played a key role in a web of local community activities and initiatives, which made a very visible impact on the appearance of the estate and on the quality of life for residents. This was especially apparent to those who had known the area previously as one of the city's most difficult, deprived and depressed localities. Barrowfield probably received more visitors from all over the world than any other Scottish community enterprise.

BCB ran into a number of problems. There were continuing management problems; it proved virtually impossible to find the "right" person to manage the complex organisation. The enterprise overstretched itself - often encouraged by public and private sector agencies equally caught up in the exciting momentum of action - in terms of the number of projects and businesses it became involved in. Financial controls did not show soon enough that landscaping contracts were making losses. Local political resistance to a new generation of Central Government job creation and training schemes forced BCB to give up its CP Managing Agency and so lose an important annual profit contribution towards general costs. Confusion over a matching public sector grant for a training scheme led to demands for the immediate repayment of a loan. All these factors combined to bring BCB to the point of insolvency.

The insolvency practitioner who investigated recommended that circa £100k be injected into the community business to keep it going because of the social value of its work and the social dis-benefit which closure would occasion. This course of action was also advocated by the regional community business support agency whose staff believed that the necessary management improvements could be brought about and that the past energy and commitment of the people of Barrowfield deserved continuing support. This was not to condone poor management and financial practices but to recognise the complex nature of the problems facing the business, not all of which were of their own making.

It turned out that the two local Councils, who were the only possible lifelines for BCB, decided they could only judge the matter on business support criteria. On these criteria alone the business was deemed to have failed. New investment was refused and BCB, including all its subsidiaries, was forced to go into liquidation.

The closure of BCB has had considerable repercussions throughout the world of community and social enterprise and it brought into sharp focus key questions about which criteria should be used to judge success and failure - questions, which still await resolution.

8 Scale of Social Enterprises

The scale of the Social Economy in the UK is unknown. Comprehensive data for some of the regulated parts (eg: housing associations and co-operatives, credit unions and the traditional retail sector) may be identified but for the most part there is no comprehensive data for social enterprises. Nevertheless the scale is substantial;

- by value in £s and therefore as a part of GDP,
- by numbers of people involved,
- by numbers of people employed,
- by numbers of people in receipt of services and assistance,
- by impact on personal and local economies throughout the country.

In Spring 1997 the New Economics Foundation reported that “more than one and a half million people are actively involved locally in new economics” [11] They quoted as evidence: 400 LETS schemes, 500 credit unions, 191 telecottages and 2,500 community transport schemes. NEF’s pamphlet Community Works reports that “275 community enterprises operate in England and Wales, with most activity in the north-east and midlands. In Scotland there are 170 community enterprises, supporting some 3,300 jobs and training places with a collective turnover of approximately £18m”. [12] NEF also reported that two hundred thousand people benefit from the services of 585 credit unions in Great Britain, with a further 152 unions serving another 200,000 members in Northern Ireland. [13]

A discussion paper put out by the British Government’s Department of Transport and the Regions in May 1998 [14] estimates that: “there are some 450 community enterprises in Great Britain having a collective annual turnover of around £18m”.

Research carried out by the University of Glasgow and published in 1997 [15] estimates the Social Economy in lowland Scotland to comprise 3,700 organisations employing 42,000 people and engaging 60,000 volunteers in their activities. The aggregate social economy income is calculated to be one billion pounds. Unpublished research carried out for Highlands and Islands Enterprise in 1997 reports identifying 220 community enterprises in the Scottish Highlands and Islands of which 101 returned a survey form. These 101 enterprises have a combined turnover of £4.4m, employ 120 people full-time and 157 part-time. Additionally they employ 36 outworkers and engage 1100 people on a voluntary, unpaid basis. [16]

The preliminary analysis of a survey of Scottish community enterprise units and agencies, local authorities and local enterprise companies carried out by Community Business Scotland in October 1998 suggests that there might be more than 250 recognised community enterprises operating throughout lowland Scotland and employing more than 1500 people. [17]

No comprehensive listing of worker co-operatives has been done in the UK since 1993 [18] when the existence of 1169 was reported employing some 11,193 people. The Industrial Common Ownership Movement estimates the 1998 figure to be circa 1,500 with an average employment of ten people per co-operative. ICOM's 1998 survey of co-operative support organisations reveals the creation of 310 new social enterprises (all forms, not only worker co-operatives) by the nineteen agencies responding to the survey. [19]

The Development Trusts Association reported to its 1998 AGM that 139 trusts were in membership at that time and that the 63 which had responded to their annual survey employ some 1840 people and engage a further 1,100 people as regular volunteers. [20]

Research carried out for the English Community Enterprise Partnerships [21] identified 889 community enterprises being supported in the 74 local authorities in England and Wales responding to the survey. This represents 26% of English and Welsh councils. The research reported that 1,566 paid jobs were estimated as having been created and 2,962 volunteer or unpaid posts.

A "mapping exercise" conducted by Community Enterprise Wales during 1998 revealed more than 500 social enterprises in Wales with a combined 97/98 turnover of £100m. It is calculated that more than 5000 people are employed full or part-time within the sector and that over 6000 volunteers are involved on a regular basis.[22]

It is clear from the above that we simply do not know the true extent of the social enterprise sector in the British economy. Different networks and support organisations have some information about the enterprises with which they are in touch and some ad hoc research has been carried out. The reports and findings vary - and sometimes even are contradictory! However it does seem clear that the scale of the social enterprise sector is substantial and probably under-reported to a considerable degree. Moreover there will be many enterprises in the community behaving like social enterprises but not necessarily recognising themselves as such or identifying with or benefiting from any of the support or network organisations.

Findings:

- There is a lack of accurate information about the social enterprise sector in the British economy. All existing data does point to it being substantial and crucially important at the local level, but that data is ad hoc, incomplete and not capable of comparisons.
- The scale and the importance of the sector need greater recognition throughout European society. This has implications for generating greater public awareness and political understanding.
- When considering the social enterprise sector, it is important to recognise the smallest of enterprise endeavours at community level as being worthy of support and encouragement, not least because it is from those small beginnings that

something more substantial can grow. This is amply demonstrated by LETS systems and the evidence that some individuals develop business ideas and learn business skills through LETS before entering the mainstream economy. Historically of course the worldwide co-operative movement has demonstrated how the small-scale voluntary enterprise of the Rochdale Pioneers in 1844 grew from its spare-time food co-operative beginnings.

- It is also important to understand the relevance of focusing on income generation rather than just the creation of (full-time) employment. The reality for many people in future will be to earn a living from working at more than one job. Social enterprises are well placed to encourage and foster such “portfolio working”, but it requires recognition as legitimate and valuable. Business support agencies should be able to work with and support an individual person’s “business plan” (or “personal income plan”) which shows that s/he will earn their living from a variety of activities none of which, taken alone, would be “viable” in the traditional sense.
- A number of support networks already exist and they are crucially important in offering services both to people who want to try and develop some form of social enterprise and to those enterprises already operating. It is not always easy to combine these two sets of services. There is always the need to improve the contact and information flow *between* networks. In this regard the role of magazines such as New Sector and inter-network gatherings as promoted by the European Network for Economic Self Help and Local Development are important.
- The sector is now able to be more certain about stating “what social enterprises are good at” - and, therefore, what types of business activity are perhaps best left to other forms of organisation. In particular, social enterprises concentrate on the delivery of important services and the creation of local infrastructure. In much of this work local communities recognise that it is preferable that it be managed as a community service rather than run solely for private profit.
- British social enterprises have pioneered local, workspace provision and there is powerful evidence to show that the local jobs indirectly created by workspaces are both significant in number and long-lasting.
- Where a social enterprise has been able to build up a significant asset base, it is able to achieve both financial and political independence.
- Important research carried out in Scotland by the University of Glasgow and Simon Clark Associates in 1997 [23] demonstrated that community businesses had been successful, and cost-effective, in creating real work opportunities for long-term unemployed people (especially males) and in enabling the long-term unemployed to return successfully to the wider labour market after working for the community business. The research pointed up the importance of evaluating such businesses not only in terms of their business results but also in terms of their social value.
- Social enterprises have a strong focus on creating work opportunities for people who are in some way disadvantaged in the labour market. This clearly has

considerable impact on their ability to compete in the market place, which needs to be “adjusted” to take into account the social value achieved.

- Social enterprises are not just about creating jobs and businesses. In many communities, “development” needs to be about service provision at affordable prices; about quality infrastructure; about making scarce resources go farther; about encouraging people to experiment with enterprise. Social enterprises can be seen at the cutting edge of this type of economic activity and development.
- The values which underpin social enterprises are important for it is they which define a sector quite distinct from private or public enterprise. It is the values which matter and not the myriad of names by which social enterprises call themselves, nor the detail of the legal structures.

9 Recommendations: for Increasing the Effectiveness of Social Enterprises

1. It is important that the “mapping” research referred to above be carried out in all member states of the EU in order to understand the true scale and importance of social enterprises at local level throughout Europe. This could be piloted perhaps in two or three regions and would seek to systematically track all social enterprises and thus map the true extent and nature of the sector in those areas. An action research approach would be required to get out into the communities to identify and contact the “hidden” social enterprises rather than rely solely on responses to surveys. Such an approach and its results would not only give a full picture of the social enterprise sector but should also serve to strengthen the identity of the sector and an awareness of the important role it plays in local economic survival. In the box below is a schema of the minimum data that such action-research would seek to obtain.

- | |
|--|
| <ol style="list-style-type: none">1. Type of enterprise by activity/activities2. Number of workers: full-time paid3. part-time paid4. casual paid5. outworkers6. unpaid7. Size of turnover8. Percentage of income earned through trading9. Nature of remainder of income (eg: raised, grants etc.)10. Legal structure |
| <ol style="list-style-type: none">11. Whether a Charity |
| <ol style="list-style-type: none">12. Community served (eg: area of benefit or target group) |
| <ol style="list-style-type: none">13. Name of enterprise, project, organisation14. Address and contact details15. Date formed16. Date started functioning17. Source(s) of external support |

2. Social enterprises which adhere to the core values and which therefore operate exclusively for community benefit (for “the common good”) should be able to qualify for certain fiscal benefits which give them certain advantages which are not available to enterprises which seek primarily to obtain private financial reward from their operations. These benefits might include: preferential rates of taxation; exemption from some employment taxes; special quotas of public works offered through a special tendering process for social enterprises which takes into consideration social value as well as price competitiveness.
3. If fiscal benefits are to be offered to social enterprises, then there must be some form of regulatory body which both accepts an enterprise as a bona fide social enterprise and monitors its operation to ensure that it works for the common good and not for private gain. In this regard it may be appropriate to develop a European legal form for social enterprises as a standard model which will be accepted by a regulatory body.
4. Social enterprises which are recognised as bona fide and which therefore qualify for agreed fiscal benefits should be required to report regularly on their performance in a way which demonstrates their social or community “added-value”. This means that social enterprises should adopt some form of social accounting and submit their social accounts to some form of external verification audit.
5. The European Union and Member States should be required to develop practical policies which recognise both the important role of social enterprises at community level and the business areas which social enterprises are most competent to organise, such that the development of the social enterprise sector can be properly encouraged. This could include “positive discrimination” in favour of social enterprises by reserving to them the provision of (a section of) certain services within local communities on the principle that local people should do local work.

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for Community Business Scotland
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4. Article in New Sector Issue no.33; October 1998.
5. Local Exchange Trading Systems (or schemes) are multi-lateral barter organisations which allow their members to exchange goods and services using a local currency which is valid only within the local LETS. LETS are currently exploring which type of more formalised legal structure might suit their operation.
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