

INFORMATION NOTE

Supplementary information on social enterprise policies of the United Kingdom and Spain

1. Background

1.1 The Subcommittee to Study the Subject of Combating Poverty, at its meeting on 11 December 2007, requested the Research and Library Services Division (RLSD) to provide the following information on social enterprises in the United Kingdom (UK) and Spain, which were touched upon in RLSD's research report entitled "Social enterprise policies of the United Kingdom, Spain and Hong Kong":

- (a) whether the objectives of social enterprises are confined to tackling unemployment and social exclusion;
- (b) whether the employment conditions for social enterprise employees are on a par with those for employees in private sector enterprises;
- (c) whether the government has funding specifically budgeted for social enterprises, and whether it has undertaken any cost-benefit analysis of its expenditures on social enterprises;
- (d) whether the government's support for social enterprises to bid public procurement contracts complies with the requirements of relevant international agreements; and
- (e) the common factors contributing to the development of social enterprises in both the UK and Spain.

1.2 This information note mainly covers the situation of social enterprises in the UK because, as of its publication, RLSD could only obtain limited information about social enterprises in Spain regarding the above aspects.

2. Objectives of social enterprises

2.1 The UK government has not published statistics on the objectives of all types of social enterprises across the UK. Nonetheless, its survey findings on particular subsections of the social enterprise sector indicate that social enterprises are not confined to tackling unemployment or social exclusion; nor do they operate in deprived areas only. According to a government-commissioned survey on social enterprises registered as Companies Limited by Guarantee (CLG) or Industrial and Provident Societies (IPS), the number of which accounted for more than 25% of all the 55 000 social enterprises in the UK in 2005,¹ about 95% of those enterprises surveyed described their mission as "helping people". Of these enterprises, 28% aimed at providing employment to people, while 23% aimed at helping the green environment, with activities focusing on recycling, improving urban environments, conservation and enhancing environmental awareness. The survey also found that while 51% of social enterprises surveyed operated in deprived areas, 49% operated in areas that were not considered deprived.²

3. Employment conditions for social enterprise employees

3.1 The UK government has not published any official statistics on the employment conditions for social enterprise employees. In the UK, all such employees are entitled to a statutory national minimum wage, as those of private sector enterprises. In addition, according to the social enterprise sector, the employment conditions of social enterprise employees should meet certain requirements.³ For instance, according to Social Firms UK representing 300 social firms (a type of social enterprises specifically providing integrated employment and training to the disabled or disadvantaged), all social firms should meet certain values relating to employment conditions, including:⁴

- (a) being acknowledged as a good employer by employees and stakeholders and through an external accreditation process;
- (b) complying with employer legislation, such as the Disability Discrimination Act;

¹ According to the survey, in 2005, social enterprises registered as CLG or IPS employed about 475 000 people, of whom two-thirds were employed full-time. A further 300 000 people worked for such enterprises on a volunteer basis. CLG is a corporate body owned by guarantors whose liability is limited to the amount they have agreed to contribute to such a company's assets if it is wound up. IPS is a corporate body with limited liability, and can be classified into two types, co-operatives and societies for the benefit of the community.

² Small Business Survey (2005a) pp.3-4.

³ Small Business Survey (2005a) pp.12-13.

⁴ Social Firms UK (2007).

- (c) setting the development of employees as a priority to maximize each employee's ability and potential, emphasizing training for employees, and providing equality and awareness training on disadvantage or disability to all employees as appropriate; and
- (d) having policies and procedures in place to ensure equal opportunities and health and safety, and making arrangements for maintaining employees' confidentiality.

3.2 According to a preliminary research published in 2007 by Social Enterprise London,⁵ social enterprise employees were more satisfied with their employment conditions than those of enterprises in the private, public and voluntary sectors. In particular, 64% of them strongly agreed that discrimination and harassment were not issues in their workplaces, compared to 50%, 22% and 23% of those in the private, public and voluntary sectors respectively.

3.3 In Spain, like those in the UK, social enterprises employees are entitled to a statutory national minimum wage, as those of private sector enterprises.

4. Participation of social enterprises in public procurement

4.1 According to the social enterprise sector and the UK government, under the European Union directives implemented by the UK since January 2006, although local authorities should not reserve contracts for a particular social enterprise or any social enterprises in general, they can develop a diverse and competitive supply market through general support to the social enterprise sector to facilitate its participation in public procurement. In particular, local authorities can:⁶

- (a) develop opportunities for social enterprises to be sub-contractors in the supply chain;
- (b) develop appropriate procurement processes, specifications and thresholds, given the size, nature and scale of social enterprises;
- (c) consult with the social enterprise sector on its capacity, the benefits it can bring, its ability to take part in the procurement process, and the packaging of contracts;

⁵ Social Enterprise London is a specialist agency supported by the government's London Development Agency to develop a network of social enterprises aiming at establishing London as one of the foremost social enterprise communities.

⁶ Co-operatives UK et al. (2004) pp.15-17.

- (d) incorporate in the procurement process community benefits, which social enterprises should be well placed to offer, given their character and unique position in the marketplace; and
- (e) encourage social enterprises to use collaborative and partnership approaches to bidding large-scale, individual contracts.⁷

4.2 These arrangements are supported by the UK government's National Procurement Strategy for Local Government issued in 2003, which indicated that when deciding on the procurement approach for a particular requirement, local authorities "should always take into account the added value" that social enterprises might bring, and "should develop diverse and competitive sources of supply", including procurement from social enterprises.⁸ The government considers that while social enterprises are not given preferential treatment, local authorities are encouraged to recognize the capacity of social enterprises to make significant contribution, and to include such enterprises on tender lists and encourage them to tender for public contracts.

5. Public expenditures on social enterprises

5.1 The UK government does not have funding budgeted for social enterprises solely. Nevertheless, in recent years, it has introduced in its annual budgets various financial measures to demonstrate its long-term commitment to promote the development of enterprises, including social enterprises, in deprived areas. In particular, in its 2005 budget, the government introduced the Local Enterprise Growth Initiative, worth £ 50 million (HK\$760 million) in 2006-2007 and rising to £150 million (HK\$2.3 billion) by 2008-2009, to support locally developed proposals that would promote economic activities and growth through enterprise development in the most deprived areas of England. In addition, the £125 million (HK\$1.8 billion) Futurebuilders Investment Fund launched by the government in 2004 has helped voluntary and community organizations, including social enterprises, build premises or refurbish buildings for the delivery of social, health and education services. Since 2007, the government has also created a £10 million (HK\$113 million) "Pathfinder Fund" to address the equity gap faced by social enterprises when trying to expand their businesses.

⁷ Small Business Service (2005b) p.22.

⁸ Office of the Deputy Prime Minister (2003) p.18 and p.49.

5.2 The government has not compiled cost-benefit statistics on its expenditures on social enterprises. It has undertaken cost-benefit analyses of certain particular social enterprise projects only. An example highlighted by the government is a Newlife project of renovating 204 houses in North Braunstone. Newlife is a Leicester-based regeneration and construction company, which provides employment and training to the long-term unemployed and school leavers who have not received further education. The government's Small Business Service estimates that the renovating project could help the Exchequer save about £3,500 (HK\$53,000) per person per year in the government's Jobseeker's Allowance payments and Housing or Council Tax Benefits, for which the unemployed may apply. The total saving to the Exchequer is about £77,000 (HK\$1,170,000) a year. In addition, since Newlife provides training and employment to its workers, the lifetime earning potential of each worker is expected to increase, with the benefit for each worker being estimated at about £20,000 (HK\$300,000) on an annual basis. Overall, the Small Business Service estimates that the project's total net benefit is about £610,000 (HK\$9.2 million) a year.⁹

5.3 In its 2006 budget, the government earmarked £422,000 (HK\$6.4 million) over three years for a local authority, the Camden Council, to launch a pilot project called the "Invest to Save" scheme for evaluating the social and economic returns of the Council's expenditure on the promotion of social enterprises and other third sector organizations. In 2006, the Council was estimated to have 13% of its goods and services, worth £312 million (HK\$47 billion), brought from social enterprises and other third sector organizations. The government is utilizing the results of the pilot project to evaluate, among others, the amount of public expenditure that can be saved by the Council if it buys services from a social enterprise that provides employment and training for people who would otherwise be out of work and claiming Jobseeker's Allowance payments and Housing or Council Tax Benefits.

6. Common factors contributing to the growth of social enterprises in the UK and Spain

6.1 Based on RLSD's research report entitled "Social enterprise policies of the United Kingdom, Spain and Hong Kong" and the "Report on the duty visit to study the experience of the development of social enterprise in Spain and the United Kingdom" issued by the delegation of the Subcommittee to Study the Subject of Combating Poverty, certain common factors contributing to the growth of social enterprises in the UK and Spain can be identified. In particular, the governments of both places:

⁹ Cabinet Office (2006a) p.14.

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- (a) have high-level authorities (i.e. the Office of the Third Sector under the Cabinet Office in the UK and the Secretariat-General for Employment under the Ministry of Labor and Social Affairs in Spain) responsible for formulating long-term strategies for the development of social enterprises;
 - (b) provide financial support to the social enterprise sector to establish a national platform (i.e. the Social Enterprise Coalition in the UK and the Confederation of Spanish Social Economy Businesses in Spain) to facilitate dialogue and co-operation between the sector and the government, showcase the benefits of social enterprises and enhance public awareness of them;
 - (c) promote self-employment, which is beneficial to the growth of social enterprises, through various financial measures, such as the Local Enterprise Growth Initiative in the UK and the Self-Employment Promotion Programme and the "One-off Payment" scheme in Spain;¹⁰
 - (d) put in place concrete measures to enhance social enterprises' business management skills and market sensitivity;
 - (e) provide tax incentives (such as the Enterprise Investment Scheme and the Community Investment Tax Relief in the UK)¹¹ or subsidies (such as subsidies for unemployed workers to join social enterprises as full-time partners in Spain)¹² to encourage investment in small businesses, including social enterprises; and
 - (f) emphasize the importance of fostering a culture of social enterprises through secondary and tertiary education and publicity campaigns.

¹⁰ The Self-Employment Promotion Programme provides start-up grants and technical assistance to at-risk groups (such as the unemployed with disabilities and women who are victims of sex violence) to become self-employed workers, while the One-off Payment scheme allows an unemployed person to apply for a one-off, lump-sum payment of unemployment benefits and use the payment to form a social enterprise or invest in such an enterprise as a partner.

¹¹ The Enterprise Investment Scheme provides 20% income tax relief and a range of capital gains tax exemptions to encourage investments in small businesses, while the Community Investment Tax Relief provides tax relief of up to 25% of the value of the investment made by an investor in a Community Development Finance Institution, which provides loans and business support to individuals and organizations to create wealth in deprived areas.

¹² In Spain, an unemployed male worker who joins a co-operative society or workers society as a full-time partner may apply for a subsidy of up to €5,500 (HK\$62,000). For a female worker and a disabled person, the amounts of the subsidy are up to €7,000 (HK\$79,000) and €10,000 (HK\$113,000) respectively.

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