

Social Enterprise COVID-19 Sustainable Recovery Plan

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Executive Summary

The UK's 100,000 social enterprises employ 2m people, contribute £60bn to the UK economy (3% of GDP). They work in many of our most deprived communities and employ some of the most vulnerable and disadvantaged people in our society. These businesses generate huge value to the UK and if they disappear will not be easy to replace.

Our recommended package of support to social enterprises would only cost an additional £45m in debt interest relief each year to preserve the £60bn contribution of our sector. This is a huge return on investment and would safeguard over 1m jobs.

Recommendation 1: Small social enterprises with a turnover under £632,000 or under 1 year old should be given access to the £10k Small Business Rate Relief Grant.

Recommendation 2: Social enterprises working in the most deprived communities or with at least 25% staff that are vulnerable workers^[1] should have access to the £25k grant for hospitality, leisure and retail sector.

Recommendation 3: Government should provide a capital injection of £200-300m to the Social Investment Community^[2] to deploy into larger social enterprises.

Recommendation 4: Social enterprises delivering public services on behalf of state by contract or grant should receive access to the same emergency funding as statutory bodies.

Recommendation 5: Provide funding for business support to enable social enterprises to adapt and transition their businesses at an estimated cost of £20m over 18 months.

^[1] We define vulnerable workers as those that have some form of disadvantage i.e. disabled, long-term unemployed, drug or alcohol addiction etc.

^[2] We define this community as those organisations which have a mission to support the growth of the social enterprise sector such as Access Foundation, Big Society Capital, Social Investment Business.

Why does the government need to do more for social enterprise?

The UK's 100,000 social enterprises employ 2m people, contribute £60bn to the UK economy. They work in many of our most deprived communities and employ some of the most vulnerable people in our society. These businesses generate huge value to the UK and if they disappear will not be easy to replace.

Social enterprises are falling between different aspects of government support. Most social enterprises are not getting access to Small Business Grants – despite being some of our most deserving businesses. Most non-specialised commercial business loans are often not appropriate for our businesses which work in broken markets or where margins are small. Social enterprises are delivering critical services in areas such as health and social care but are not getting the same financial support as their counterparts in the NHS.

We are businesses, but we operate in places where most businesses cannot or will not operate. The government has traditionally recognised this. The Scottish and Welsh governments have taken action. We are also seeing local leadership in places such as Greater Manchester. Now, in the midst of unprecedented crisis, we need Westminster to listen and adapt its plans to support the economy.

Getting our fair share of support

Social enterprises contribute 3% to UK GDP and employ 5% of the UK workforce but we are not receiving anywhere near that level of support from government.

If the UK Government's strategy is to preserve our economy's productive capacity and reduce unemployment, then social enterprises should be receiving between £2-3bn in grants and funding.

The Chancellor has said that not every business can be saved. But surely those businesses that work for the good of society, in the poorest areas and employ the most vulnerable people should be at the front of the queue, not the back?

Invest to save

We want the government to look to see this package as an investment. We appreciate that the government is concerned about borrowing and debt. But our package to support social enterprises would only cost an additional £45m in debt interest each year to preserve the £60bn contribution of our sector. This is a huge return on investment.

We also estimate that this package would help to safeguard over 1m good, social value adding jobs. At a time when the UK faces unemployment over 2.5m due the economic shock of this crisis, this is a significant amount of jobs.

Social enterprises will be the "first responders" to local communities in recovering from the economic shock of COVID-19. If we lose them due to this crisis, our recovery will be more unequal and take longer than needs to be the case.

Time is of the essence

We need support quickly. We estimate that half of the sector could run out of money by June. This will put jobs and livelihood at risk unnecessarily. We need urgent action and the proposals we are putting forward are the simplest, quickest and most effective ways to support our movement.

1. Expanded Business Grants for small social enterprises, those working in deprived communities or with vulnerable workers

Too many social enterprises¹ are currently unable to access £10k or £25k business grants.

This is because eligibility has been linked to claiming Small Business Rate Relief or those working in certain sectors such as hospitality, leisure and retail sectors. The vast majority of social enterprises, over 70% are excluded from these grants because of how they operate (i.e. using shared offices), because of the sectors they work in and eligibility restrictions on the grants (i.e. need to claim a specific relief).

It cannot be right, that social enterprises which are delivering significant social value are not being given access to limited grant funds but businesses without profit locks, asset locks and social or environmental missions are. Social enterprises would only be able to claim one grant.

Recommendations

Recommendation 1: Small social enterprises with a turnover under £632,000 – the government definition of a micro-business - or under 1 year old should be given access to the £10k Small Business Rate Relief Grant. This would reflect the social value created by social enterprises and the challenges that they face in getting access to finance and support available to other forms of business.

Recommendation 2: Social enterprises working in the most deprived communities (measured by IMD or where other evidence exists to demonstrate disadvantage or deprivation) or those that have at least 25% of their staff that are vulnerable workers² would have access to the £25k grant open to hospitality, leisure and retail sectors. This would reflect their higher costs and importance to the communities that they serve.

Scope and cost:

There are an estimated 75,000 social enterprises with a turnover under £632,000. A further 7,000 social enterprises are under 1-year old. There is likely to be significant crossover between these groups. There will also be other social enterprises that want to claim the larger grant below. We estimate that 50,000-60,000 social enterprises would be eligible and want to claim for the £10k grant.

Estimated cost of Small Business Rate Relief grant - £600m

For the larger business grant, we estimate that there are 22,000 social enterprises working in the 20% most deprived communities measured by IMD. 42,000 social enterprises employ vulnerable people. There are 10,000 social enterprises which identify as “social firms” which employ more than 25% of their workforce is drawn from disadvantaged communities. There will be crossover between those that work in the most deprived communities and that have a quarter of their workforce from vulnerable groups. We estimate a total population of around 30,000.

Estimated cost of £25k Business grant - £750m

¹ Defined here as any business which primarily trades for purpose, has a constitutionally binding social or environmental mission, reinvests at least 50% of its profits back into the business or gives it away to achieve its mission and is transparent in reporting the above.

² We define vulnerable workers as those that have some form of disadvantage i.e. disabled, long-term unemployed, drug or alcohol addiction etc.

2. Blended finance/zero-interest loans for larger social enterprises

Social enterprises are technically able to get access to the CBILS scheme at present but like mainstream businesses, they are struggling to get access to funds and for many social enterprises, the loans are not appropriate.

According to a survey of Social Enterprise UK members, 70% of social enterprises said that CBILS loans are either inappropriate for their business or they are not eligible for support (potentially due to size).

Many social enterprises are working in deprived communities or markets where repaying non-specialised commercial finance is not appropriate.

The government has spent over £1bn creating a “social investment market” in recognition that the social enterprise sector (and charities) require specialised finance because of their unique characteristics.

The government has set aside £330bn in loan guarantees for businesses yet social enterprises are struggling to get access to appropriate finance. We need to ensure that the finance is distributed in a fair way that enables social enterprises to get their share.

Recommendations:

Recommendation 3: Government should provide a capital injection to the Social Investment Community³ of £200-300m to enable the creation and distribution of blended finance (i.e. grant + loan) or zero interest loans.

Scope and cost:

There are 34,000 social enterprises that have a turnover over £632,000 and would not be eligible for grants above. According to our survey of SEUK members around 7% would consider some form of blended finance or loan.

According to the State of Social Enterprise the average finance sought by social enterprises over £632k ranges from £60,000 for those between £250,000-£1m to £15m for those with turnovers over £5m. As a consequence, it is hard to estimate exactly how much such a capacity would be needed.

Assuming an average of £100,000 loan per social enterprise and that around 7% (2,380 orgs) of the population would be interested in receiving this funding.

This would need to be in addition to the £100m already promised in emergency liquidity funding that has already been announced via Big Society Capital which is based on the CBILS scheme and is likely to be loaned at close to commercial rates.

Estimated cost of a “blended finance/zero interest loans” package for larger social enterprises: £200-300m

³ We define this community as those organisations which have a mission to support the growth of the social enterprise sector such as Access Foundation, Big Society Capital, Social Investment Business.

3. Access to additional statutory funding for additional costs in delivering public services

Social enterprises are delivering frontline services in many cases. There are 7,600 social enterprises that get 100% of their income by providing services to state, through contracts, to delivery of public services. We have hundreds of social enterprises working in health, social care, early years, social work and education. There are another 19,600 social enterprises that receive some funds from the state to deliver services or goods on behalf of the state.

The average social enterprise working with the public sector is larger (in terms of employees) than the rest of the sector. The average social enterprise working in the public sector has 40 employees, compared with around 20 employees for those not working with the public sector.

These social enterprises need access to emergency funding to maintain their services through continued payment of their contracts (in full or based on previous projection of visits based on previous months performance) and being able to claim back any additional costs including Statutory Sick Pay, PPE, hiring extra staff or purchasing extra equipment.

There should be parity between public, private and social enterprise sectors in funding to deliver public services during COVID-19. The public wants all the services it uses to be safe and effective.

We also do not want to create a situation where acute services are funded but community services which, will then be caring for people recovering from COVID-19 or supporting communities, are without capacity or at worst, collapse due to lack of funds.

Recommendation: Social enterprises delivering services on behalf of state by contract or grant should receive access to the same emergency funding as statutory bodies.

This funding should not be capped given the critical role of these services and the need to keep pressure off the NHS.

Estimated cost of giving social enterprises access to emergency funds: Unknown but likely to be in hundreds of millions of pounds.

4. COVID-19 Business Adaptation Support

Social enterprises are having to adapt to changing circumstances due to COVID-19. This can take a variety of forms, from developing, rapidly, new products or services to restructuring and downsizing due to a reduction in demand. The economic impact of COVID-19 is likely to last many months and social enterprises will need access to support during this time.

Social enterprises have repeatedly reported challenges in getting access to support through Growth Hubs and LEPs. Most LEPs do not have social enterprise or charitable representation on their board and lack the expertise to advise social enterprises.

Although some generic business support may be useful for social enterprises, the sector also encounters specific challenges due to its governance, binding social/environmental mission and lack of access to finance.

The government should work with social enterprise sector networks to ensure that there is a funded programme of advice and support for social enterprises to adapt to COVID-19. The

aim should be to help social adapt their products and business models, increase their productivity/efficacy and enhance their resilience.

This would need to come through a range of methods including:

- Access to business development experts, technology and systems experts, lawyers, accountants and other professionals;
- Guidance and webinars tailored for social enterprises;
- Learning workshops and group training;
- Peer-to-peer support;
- Signposting to useful tools and resources;
- Engagement with LEPs and Growth Hubs to improve access for social enterprises over the long term

This support is also necessary to ensure that existing public funds are spent well. If social enterprises and other businesses do not transition effectively during this crisis, then the tens of millions spent on grants, tax deferrals and furlough schemes may go to waste if those businesses later close due to pressures caused by COVID-19.

An effective programme of business support will enable social enterprises to be more resilient, to preserve jobs and adapt to a volatile economic climate.

Scope and cost:

Every social enterprise will be impacted by COVID-19, but at least 60% of the sector is working in sectors which are at significant risk of disruption due to COVID-19, either due to changing demand, falling income or having to manage vulnerable/high-risk groups.

This would mean around 60,000 social enterprises that may need access to some form of support whilst adapting and transitioning their business due to COVID-19.

It is hard to estimate exact costs. The “Big Assist” programme is an example of a scheme to provide charities and infrastructure bodies with access to specialised training and advice. This only reached 600 organisations but cost £4.5m to deliver over three years.

Given the significantly larger number of social enterprises that need support combined with the increased diversity of the sector and the range of challenges being faced, we estimate the sector programme would need to be far larger.

Depending on the severity of the financial impact of COVID-19 it may need to run over a long term period, but initial estimate is for 18 months.

Estimated cost specialised advice and support for social enterprises: £20m over 18 months

Social Enterprise COVID-19 Sustainable Recovery Plan

Estimated Costings

Policy	Lower estimated cost (£m)	Higher estimated cost (£m)
Expanding £10k Small Business Rate Relief grant	600	600
Expanding £25k Business grant	750	750
Creating a “blended finance/zero interest loans” package for larger social enterprises	200	300
Access to emergency funding for social enterprises delivering public services	Unknown	Unknown
COVID-19 Adaptation Fund	20	20
Total cost of support	1,570	1,670