

The Rt Hon Francis Maude MP,
Minister for the Cabinet Office and
Paymaster General, and
Nick Hurd MP,
Minister for Civil Society,
The Cabinet Office
70 Whitehall
London SW1A 2AS

Suite 2, Victoria House
10 Brighton Road
Redhill
Surrey RH1 6QZ
Tel: +44 (0)1737 231360
Fax: +44 (0)1737 826658
info@socialfirmsuk.co.uk
www.socialfirmsuk.co.uk

9 September 2010

Dear Francis and Nick

Thank you for your letter of 29 July, asking for our views, concerns, suggestions and examples of best practice that you will take into account in your decisions about managing the budget deficit.

Social Firms UK is a strategic partner of the Office for Civil Society. We work with our sister organisations Social Firms Scotland and Social Firms Wales and with the Social Economy Network in Northern Ireland to support a type of social enterprise that is in business to employ people at greatest disadvantage in the labour market. This might be because of a learning disability, mental health problem, prison record or because they're homeless. They are people that mainstream employers are least likely to employ. At least 25% of each Social Firm's employees face major labour market barriers, meanwhile every Social Firm generates at least 50% of its income through trade, reinvesting any profit to help create more jobs. The Social Firm sector employs over 2000 people throughout the UK and is growing steadily. It already saves the Government some £30m in welfare benefits, and £8.5m in health care costs.

We all realise the challenges involved in reducing the national debt, and the difficult decisions on priorities that they involve. A key point that underpins all our suggestions is that, in making its decisions about reducing costs and making savings, we consider it vital that the Government always takes into account the long term cost implications that arise from making spending cuts to achieve short term savings.

Our suggestions below are about doing things differently. They focus on greater efficiency and maintaining and improving social outcomes in the medium to long term (i.e. the life of this administration) so that limited finances do not themselves generate additional costs.

Patron: Ben Way

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Moving from Big Government to Big Society

If it is to work, making the shift to a Big Society will take time and new innovative social ventures will not survive in a financial vacuum. For example, our Social Firms Wales colleagues are currently working closely with several Welsh public authorities on the potential to convert day centres for people with learning disabilities and mental health problems into independent, self-sustaining Social Firms. Achieving this transition successfully will not happen overnight and experience has shown that a viable business plan for such a venture usually spans at least 5 years. But the outcome will be more efficient services and sustainable employment for people in most need. Genuine and sustained partnership working between the public sector and civil society is essential if the Coalition Government's vision of Big Society is to become reality.

Get greater value for public money

The arguments about best value v lowest cost are not new, but the environment in which they take place has never been so harsh. To achieve more with less means that it is now essential to take social as well as financial value into account in public procurement. It is the impact of the spend that is important so increasing the opportunities to increase social impact, for example, through the use of social clauses, should be the rule rather than the exception. Procurement staff need clear guidance on how to work with the grain of the EU procurement rules, rather than concentrating on what can't be done. There are experts in this field such as Mark Cook, of Anthony Collins Solicitors who has contributed much in this area, who could advise.

Added social value should be an objective of all public sector commissioning strategies. Again, this is an essential step towards realising the Big Society vision, with public funds being used in a way that enables civil society organisations to make their full contribution. We would like to see:

- the Government promoting the **co-design and delivery of public services**. Government direction here is vital because it will help to ensure that public authorities consider new models of delivery such as public-social partnerships, where civil society organisations are working with public sector purchasers to design public services with measurable social return on investment and better outcomes for service users. This approach is being piloted in Scotland with support from the Scottish Government and is producing some very positive results.
- The **size of individual procurement packages** set in a way that makes them **accessible to social enterprises and other SMEs**, as it is they who generate the growth in jobs, and who are at the heart of economic development and sustainability.

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- Government at both national and local level, taking the necessary steps to create the circumstances in which practical partnerships between the public, private and social enterprise sectors can really work. For example, **extending the length of public sector contracts**(eg to a minimum of 5 years) would provide the level of security that external finance organisations would expect to see before making their investment **and** give Social Firms and other civil society organisations the room to invest in the development of innovative services. It also avoids the costs associated with expensive tendering processes. Taking this sort of business approach is more likely to achieve the radical change in financing and delivery of public services that the Coalition Government is seeking.

Measure social as well as financial impact

The practical steps we're highlighting will help to realise the additional value that is linked to each and every social enterprise's specific social and environmental missions. They will contribute to outcomes such as maintained or improved services for disabled people or reduction in land fill use or the cost of recidivism or welfare payments.

But it is only right that this additional social value can be demonstrated. There is a small but increasing number of social enterprises and civil society organisations who measure their social impact. Allocating some resource to develop capacity and mainstream social impact measurement will help inform tough decisions in the future, whether it be made at neighbourhood, community, local, regional or national level.

Modernise outdated and wasteful approaches

Social Firms exist because insufficient mainstream employers are prepared to recruit and offer the necessary in-work support to disabled people or others facing major barriers to work. They have integrated workforces, where everyone is paid the rate for the job and encouraged to fulfil their potential and contribute to the running of the business. We have estimated that the Social Firm sector saves the exchequer at least £30m a year in benefits and adult care and health costs. In contrast, it has long been clear that the model of "sheltered workshops" as a way of employing disabled people is outdated, requires large subsidies and effectively "ghetto-ises" people with disabilities in institutions, often without meaningful work or the means to progress. Remploy, the national organisation, is undertaking pilots to try and develop some of their factories into social enterprises. We would suggest that the Government subsidy for the remainder of the factories that are not financially self-sufficient should be re-directed and used to support more social enterprise and Social Firm start-ups. The current spend on these factories is in the region of £75m so the re-allocation of at least part of this spend could bring long term benefit to those excluded from the labour market by setting up Social Firms instead as well as bring a saving to government.

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Remove or reduce barriers that prevent innovation

We are in the process of developing guidance to help supportive businesses convert to Social Firms. This should be available in early 2011. Meanwhile, as Local Government starts to implement its own cuts we are being alerted to increasing numbers of local authority supportive businesses employing disabled people that are being threatened with, or given notice of closure. One of the main barriers that needs to be overcome by a supportive business, or indeed any operation that is planning to externalise from the public sector, is how to meet the TUPE requirements, particularly in relation to potential redundancy and pension liabilities. It would be most helpful if the Government could review the requirements to see what easements could be possible without unnecessarily diluting employees' rights.

Please do not hesitate to contact us if you would like to discuss any of these points.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sally Reynolds', written in a cursive style.

Sally Reynolds
Chief Executive

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