The Social Economy in the UK

Roger Spear, CRU, Open University, UK.

Introduction

The social economy comprises: co-operatives, mutuals and voluntary organisations (associations) – this includes charities (and foundations) – and it thus fits with the EU definition of the social economy as 4 types of organisations: CMAF (co-ops, mutuals, associations, foundations).

This paper examines different conceptualisations of the social economy in the UK; it reviews the scope and diversity of the social economy in the UK. It goes onto to outline some of the current trends (markets for welfare services, and the growth of social enterprise) and challenges it faces. Each of the traditional social economy sectors is reviewed in turn, with reference made to new initiatives/sectors where relevant. Then the institutional framework for the social economy is reviewed by looking at legal frameworks and new trends of social enterprise.

1. The Social Economy in the UK

The following section reviews the main features of the social economy by considering the sectors in turn:

Co-operatives
Mutuals
Voluntary organisations and Foundations

1.1 Co-operative Sectors

The co-operative sector is still dominated by consumer co-operatives with their roots in last century’s initiatives of the Rochdale Pioneers. But there are many other sectors with substantial numbers of jobs.

There is verifiable evidence of over £33.2 billion turnover in the co-operative sector (As reported at Co-operative Congress in May 2011, by Co-operatives UK). Co-operatives UK is the major federal body for the sector; there are 12.8m. members’ 5450 co-operative businesses, and 236,000 jobs in the UK co-operative sector.

Agricultural Co-operatives – there are about 153,700 members in agricultural co-ops and farmers’ groups. There has been a gradual privatisation (or demutualisation) in the sector (as in many other western countries).

Nonetheless a large number of co-operatives have survived – and it is estimated that co-operatives have almost 13% of the market. Data is very difficult to find, as it is not now gathered regularly for the whole sector, but in 2001, the following indicates the market share:
In 1997 there were 531 agricultural co-operatives with a turnover of £6952m. (and there were 13 farmer controlled businesses in 1997 with a turnover of £376m.) Membership has fluctuated in recent years with 243,000 in 1996 (but note that farmers may be members of more than one co-op). Numbers of employees has declined steadily decline till 1995 (with 11,300 employees) when the conversion of a milk parastatal (MMB see below) to a co-operative led to an increase to 13,300 employees. This has now been restructured again, with two co-ops having about 36% of the market, and international co-ops also strongly in the market (Arla Foods).

UK agricultural co-operatives are formed under Industrial and Provident Society Law. In Ireland many such co-operatives have become PLCs and are referred to as "farmer controlled businesses". This trend has also been seen in UK, not to the same extent.

In '94/5 about 30 machinery ring co-operative businesses became established to facilitate the exchange of production facilities between farmers.

**Fishing Co-operatives** - There is a small fishing co-operative sector which includes a fish farming co-operative. Scotland also has fishing co-ops and mutual associations as members - its main function being supplies (chandlery) and some marketing.

**Housing**

There are 3 types of housing co-operatives:

- Tenant owner co-operatives (269 co-operatives providing 8000 homes – 1992)
- Tenant management co-operatives
- Shortlife co-operatives
It is generally considered that there has been a policy bias against housing co-operatives, certainly there has been a decline in housing co-operative development since 1992; this is partly a size bias for risk taking (in favour of large housing organisation e.g. Housing associations), partly due to exclusion from assured tenancy legislation (1998 Act), and partly due to their not being able to cross subsidise certain types of housing, especially older stock. In 2010 there were 677 housing co-ops with £300m turnover, and 73,000 members.

**Consumer**

There has been a general decline in the consumer sector from about 7% market share at the end of the 80s to about 4% at the start of the 90s, where it has remained until now. Since the end of the 80s there has been an increase in profitability and a stabilisation of market share. This decline has been largely in non-food and dairy, with food and funerals stable, but this general decline has masked a dynamic performance in travel and motor trade both of which increasing substantially. But for many years we have seen intense competition in the food sector dominated by 4/5 large retailers, with the advent of superstores and the invasion of continental discount stores. Mergers have increased leading to a concentration by a few large co-operative societies, but big national mergers have been resisted until 2000 (when a merger between the two largest societies CWS & CRS took place, after CRS was in severe difficulties, into The Co-operative Group), and there are still about 26 societies trading, including some large regional ones.

**Consumer Co-operative societies (2009)**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>£16,297 billion</td>
</tr>
<tr>
<td>Trading surplus</td>
<td>£682 million</td>
</tr>
<tr>
<td>Staff (69,000 in 1997)</td>
<td>N.A.</td>
</tr>
<tr>
<td>Number of societies</td>
<td>26</td>
</tr>
<tr>
<td>Share capital</td>
<td>£200 million</td>
</tr>
<tr>
<td>Number of members</td>
<td>9,547,000</td>
</tr>
</tbody>
</table>

**Banking and Finance**

Co-operative Financial Services is the result of a merger a few years ago between the Co-operative Bank and Co-operative Insurance Services. It is a wholly owned subsidiary of The Co-operative Group. The Co-operative Bank (125 years old) is a major force for co-operative values with its ethical policy. It is very successful, with the highest proportion of A/B occupational categories (high income/professional) as customers. It also has reputation for innovation, and was one of the first banks to move into telephone banking in a big way. The Insurance arm of CFS has less public visibility as an innovative value-based co-operative, but it nonetheless has an enviable reputation as a highly effective insurance company, and a good record for combating financial exclusion, has been a force for better governance in the companies it invests in (Hargreaves, 1998).
Unity Trust Bank (owned by co-operative and trade union organisations) provides banking services to a range of customers including charities, voluntary organisations, trades unions, credit unions, and the corporate sector.

In just three of its campaigns Unity has made a dramatic impact on the financial services sector by calling for a radical overhaul of the pensions system in the UK, helping to establish the country’s first ever trade union national credit union for the Bakers Food and Allied Workers Union (BFAWU) and launching a savings account for small and medium sized enterprises to encourage social regeneration in their own backyard. They support a “Social Economy Newsletter”; and it provides an important banking facility for many credit unions. And they launched a £50m Social Economy Fund in November 2007.

Credit Unions

These have developed much later than comparable movements (e.g. in Ireland). Growth has been steady, and it is estimated there are about 216,000 members in 1999, and 549,406 members in 2005; and 870,00 members in 465 credit unions in 2010, with £660m in savings. There are 2 federations WOCCU and ABCUL (which represents 70% of CUs). Almost all CUs are either employee based or community based (and there has been some criticism of community based CUs recently – essentially to do with the state’s role in developing them); One of the largest work-based credit union in Britain is Glasgow Council Credit Union for employees with over 10,000 members and over £11 million assets (1999). But there is also Trade union based CUs: (helped by Unity Trust) the national credit union for the Bakers Food and Allied Workers Union (BFAWU). There has been a campaign underway to improve the legislative framework for CUs, so that they can operate more flexibly, and changes to Financial Services has placed greater emphasis on standards of reporting and governance which will probably lead to mergers and larger societies. The Credit Union Act 1979 severely restricted the ability of credit unions to attract savings and make loans and limits the size, viability and scope of their common bonds. (Jones, 1999). However since July 2002, UK Credit unions have been regulated by the Financial Services Authority, and in the last few years there have been a number of measures to support their growth and development into a wider range of financial services.

Workers Co-operatives

While growth in this sector was high until the end of the 80s it has since declined substantially, and was negative in the 90s recession. 1993 estimates based on a survey by CRU (published in association with ICOM) indicated that co-operatives weathered the recession well with numbers roughly comparable to 1986 levels. There has also been considerable new activity in the area of social co-operatives (providing employment and/or care for people with disadvantages or disabilities); however the number of CDAs has been declining with declining unemployment levels, so overall numbers of worker co-operatives may have declined further.

An interesting development during the 90s has been the growth of employee ownership, partly as a general phenomenon in the work place, but also a steady number of substantially employee owned businesses have been set up particularly in the bus sector. These employee owned businesses have their origins in succession crises, philanthropic motives, and (for most cases) privatisations of public sector provision. Many of the latter are medium size (200-3000 workers), and some have a
symbolic significance e.g. the last coal mine in Wales is employee owned. The trades unions have played an important role in many such initiatives, together with co-operative support organizations (e.g. CDAs) and an increasing number of sympathetic and commercial professional organisations (accountancy and legal firms). Unfortunately almost all the employee owned bus firms have since sold out to aggressive predators, as a result of extreme competition and high levels of concentration in the sector (nonetheless most employees have benefited substantially financially in the process).

**Worker Co-operative (ref. Co-opsUk)**

<table>
<thead>
<tr>
<th></th>
<th>2004/5</th>
<th>2005/6</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coops</td>
<td>360</td>
<td>397</td>
<td>571 Coops and EO business</td>
</tr>
<tr>
<td>Turnover</td>
<td>£102m</td>
<td>£115</td>
<td>NA</td>
</tr>
<tr>
<td>Profit</td>
<td>£2.9m</td>
<td>£3.8m</td>
<td>NA</td>
</tr>
<tr>
<td>People</td>
<td>1100</td>
<td>1340</td>
<td>78,400</td>
</tr>
</tbody>
</table>

**1.2 Mutuals**

With financial deregulation during the last 10 years, there has been a wave of demutualisation – conversions to public limited companies, with “windfalls” (or “pillage”) of up to £2000 to members, and considerably more in share options to senior managers.

Thus many mutual building societies have converted to banks and are now quoted on the stock exchange. There were 71 building societies in the UK in 1998. The total assets were around £150 billion, and they had staff levels of 32,159 full-time and 9,756 part-time, however two of the largest building societies have since voted to demutualise, and several others are still under threat so these figures have declined somewhat and thus are rather unreliable given the current pressure to demutualise; though it must be noted that several societies have successfully rebuffed attempts from outsiders to join societies mainly for the purposes of gaining short term capital gains.

This demutualisation wave has resulted in a vigorous response in some quarters. This can be seen in greater returns to members, and gains in market share for the remaining mutuals. A survey (What Mortgage) over the ten years to Jan 1997 showed the cheapest 25 lenders were all committed mutuals. And in the savings market (for TESSAs), in the 5 years to Jan ‘97, committed building societies provided 8 of the top 10 variable rate schemes. By 2010 there are 48 building societies, with £320bn assets, and £220bn savings, with 50,000 employees.

There are also a number of large mutual insurance companies, some of which have been going through a similar process of demutualisation. Some mutual insurance are members of MICA (Mutual Insurance Companies Association) which is serviced by each member in turn and aims to discuss issues of concern to mutuals and represent their interest; Current members include Ecclesiastics Insurance (a limited company
wholly owned by a charity), Irontrades (recently bought by a company), NFU Mutual, Avon Mutual, Cornish Mutual, Pharmacy Mutual, Norman Insurance (owned by a French mutual), CIS (a co-op) and Royal London Mutual (subject to a recent bid); there are other mutuals which are not members such as Standard Life, Equitable Life, Friends Provident and Scottish Provident (the MD of which has said it would allow a vote on demutualisation). Some of the mutuals are members of the European federation AISAM, but MICA is not a member directly. In 2010 there were 57 mutual insurers, with £80bn in assets, and with 20m customers.

Finally there are also a large number of smaller Friendly Societies which provide health insurance for their members; many of these were linked to social movements e.g. trade unions, temperance, etc; they were a much more developed sector prior to the formation of the national health service just after the second world war. (Note that Eurostat study refers to “friendly societies” but these are building societies, and do not include the health insurance Friendly Societies).

1.3 Voluntary Organisations (incl. Charities)

The 90s saw an extremely high level of growth of the voluntary sector – from 4% in 1990 to 6.3% of employment in the economy by 1995. And despite recent falls in volunteering, there are still more full-time equivalent volunteers than paid employees. If one takes into account these f/t equivalent volunteers, the voluntary sector’s share of national employment rises to 12.3%.

During this period of dramatic growth, the funding base has changed significantly, with the state becoming, for the first time, the primary source of income. This increasing role of state finance can be seen across a wide range of voluntary sector activity.

Compared to other developed European countries, the UK voluntary sector is smaller than average, but it is above average when compared to countries around the world. Its size is roughly half that of the largest European voluntary sectors (in Netherlands, and Belgium). The UK sector combines features of both the corporatist model in Northern Europe and the commercial model in the US, but unlike the US it has not adopted private fees and charges to the same extent. The church (protestant or catholic) has played a much smaller role in its development and this possibly accounts for differences from the the corporatist model with its subsidiarity tradition (influencing the division of labour between public and voluntary sectors, and leading to a clearer separation between what the voluntary sector does and the state does). In the UK the voluntary sector and the state provision have been more interactive and possibly more competitive, for example if the voluntary sector innovates, the state may then take up such initiatives and make them part of their own provision.
**Table 1.3.1**
The overall economic contribution of the UK voluntary sector in 1995

<table>
<thead>
<tr>
<th>Economic indicator</th>
<th>BNS</th>
<th>NVS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volunteer headcount ('000s)</td>
<td>16,311</td>
<td>7,852</td>
</tr>
<tr>
<td>FTE volunteers ('000s)</td>
<td>1,664</td>
<td>774</td>
</tr>
<tr>
<td>FTE paid employment ('000s)</td>
<td>1,473</td>
<td>503</td>
</tr>
<tr>
<td>Per cent of economy-wide paid employment</td>
<td>6.3</td>
<td>2.2</td>
</tr>
<tr>
<td>Total FTE paid and unpaid employment ('000s)</td>
<td>3,137</td>
<td>1,277</td>
</tr>
<tr>
<td>Per cent of economy wide employment including volunteering (all formal sectors)</td>
<td>12.3</td>
<td>5.0</td>
</tr>
<tr>
<td>Total expenditure (TE)</td>
<td>£47.1 billion</td>
<td>£15.4 billion</td>
</tr>
<tr>
<td>TE as per cent of GDP</td>
<td>6.6</td>
<td>2.2</td>
</tr>
<tr>
<td>TE including volunteers(^a)</td>
<td>£67.6 billion</td>
<td>£24.9 billion</td>
</tr>
<tr>
<td>As per cent of volunteer-adjusted GDP(^a,b)</td>
<td>9.2</td>
<td>3.4</td>
</tr>
</tbody>
</table>

*Sources:* Kendal ‘98.

*Notes:*  
\(^a\) Assuming volunteer hours can be valued using mean non-agricultural private sector wage.  
\(^b\) Denominator includes value of volunteering in all sectors (including private, public, third and informal).

BNS, BVS (table 1.3.1-3) and NVS refer to different definitions of the voluntary sector; BNS (Broad Nonprofit Sector) is the broadest definition, BVS (Broad Voluntary Sector) excludes religious congregations and political parties; NVS (Narrow Voluntary Sector) also excludes these together with organisations not traditionally thought of as part of the voluntary sector because they are seen as part of the state (even though they may be formally independent) or not sufficiently oriented to public benefit – thus universities, schools, sports and social clubs, trade unions and business associations are excluded on this basis) (Kendal ‘98). The NVS category matches that of registered charities.

Full-time equivalent volunteers continue to be greater than paid staff levels.

The total % of employment shows how important it currently is now in the wider economy (6.3% BNS); Similarly its volunteer adjusted proportion of GDP is probably far higher than many imagine.
Table 1.3.2
Distribution of paid and unpaid employment by voluntary sector 'industry'
UK BNS, thousands, 1995

<table>
<thead>
<tr>
<th>Field of activity (ICNPO)a</th>
<th>FTE paid employment (%)</th>
<th>FTE volunteers (%)</th>
<th>Total employment (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Culture &amp; recreation</td>
<td>347 (23.8)</td>
<td>351 (21.1)</td>
<td>698 (22.2)</td>
</tr>
<tr>
<td>Education &amp; research</td>
<td>587 (44.3)</td>
<td>58 (3.5)</td>
<td>645 (20.6)</td>
</tr>
<tr>
<td>Health</td>
<td>60 (4.2)</td>
<td>143 (8.6)</td>
<td>203 (6.5)</td>
</tr>
<tr>
<td>Social services</td>
<td>185 (12.7)</td>
<td>221 (13.3)</td>
<td>406 (12.9)</td>
</tr>
<tr>
<td>Environment</td>
<td>18 (1.6)</td>
<td>44 (2.6)</td>
<td>62 (1.9)</td>
</tr>
<tr>
<td>Developing &amp; housing</td>
<td>108 (7.7)</td>
<td>210 (12.6)</td>
<td>318 (10.1)</td>
</tr>
<tr>
<td>Law, advocacy &amp; politics</td>
<td>10 (0.7)</td>
<td>35 (2.1)</td>
<td>45 (1.4)</td>
</tr>
<tr>
<td>Philanthropic intermediaries</td>
<td>10 (0.7)</td>
<td>22 (1.3)</td>
<td>32 (1.0)</td>
</tr>
<tr>
<td>International activities</td>
<td>54 (3.7)</td>
<td>7 (0.4)</td>
<td>61 (1.9)</td>
</tr>
<tr>
<td>Religious congregations</td>
<td>58 (4.0)</td>
<td>544 (32.7)</td>
<td>602 (19.2)</td>
</tr>
<tr>
<td>Professional associations, trade unions etc.</td>
<td>37 (2.6)</td>
<td>0 (0.0)</td>
<td>37 (1.2)</td>
</tr>
<tr>
<td>Not elsewhere classified</td>
<td>0 (0.0)</td>
<td>29 (1.8)</td>
<td>29 (0.9)</td>
</tr>
<tr>
<td>Total BNS</td>
<td>1,473 (100)</td>
<td>1,664 (100)</td>
<td>3,137 (100)</td>
</tr>
</tbody>
</table>

Sources: Kendal '98.

Note: a International Classifications of Nonprofit Organisations (ICNPO).

The largest sectors for paid staff are culture/recreation and education and research (which includes many schools and universities); social services comes next, giving a combined total for these sub-sectors of over 80% of the total. In terms of volunteers the largest sectors are somewhat different with religious congregations top, followed by culture/recreation, then social services closely followed by development and housing (giving a total of almost 80%).

Major changes have been apparent in recent years (data in 2006) due to changes in public sector and welfare provision. These are summarised below:

- 40% increase in new charities since 1995
- Doubling of large charities (>£1m.) in last decade
- Charitisation of public sector (including leisure trusts)
- Sector income up by £1bn 2003 to 2004
- Emergence of super-charities (brands >£100m.)
dominant income source: earned income (47%)
voluntary income 45%; investment income 8%
workforce increasing 10k p.a.

(As reported by NCVO on their website, 2006; see: http://www.ncvo-vol.org.uk/research/index.asp?id=2380&fID=158).

1.4 New Sectors: Social Enterprise
This section covers new activities/initiatives including new social enterprises.

In the UK there is strong government support for social enterprise. Social enterprise has different definitions, but probably the most influential was that of the Governments Social Enterprise Unit (now the Office for Civil Society supports the sector, with a major policy initiative of the “Big Society”):

_Social Enterprises are part of the growing 'social economy'. The social economy is a thriving and growing collection of organisations that exist between the traditional private sector on the one hand, and the public sector on the other. Sometimes referred to as the 'third sector', it includes voluntary and community organisations, foundations and associations of many types._

“A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or the community, rather than being driven by the need to maximise profit for shareholders and owners” _Social Enterprise: A Strategy for Success DTI_

However in general people in the UK have a vague notion that it is a business with a social purpose. And in practice social enterprise often have other identities, such as social or worker co-operatives, social firms, community business, intermediate labour market organisations, and trading voluntary organisations.

An early survey showed large numbers of social enterprise (new and existing ones):
- 15,000 social enterprises in the UK.
- Total turnover £18bn
- Workforce of 775,000 people including
- 300,000 volunteers.
  - Ref. Small Business Service Survey 2005

A later survey (2006) using a different database (business) revealed 55,000 social enterprises; and this was subsequently revised to over 60k.

_Social Co-operatives_

There are two types of social co-operatives – those that employ people disadvantaged in the labour market including people with disabilities, and those that provide social/welfare services (in some cases these categories may overlap). It is estimated there are about 30-40 social employment co-operatives, in manufacturing and retail sectors. Co-operatives have for many years played important roles as employers of people with disabilities; Some well known examples include: Daily Bread, a wholefood retailer and wholesaler which employs people recovering from mental illness; Adept Press is a printing business that employs people with hearing impairment.
Since 1993, when there were changes to legislation favouring the contracting out of social provision to independent suppliers, the numbers of homecare and nursery co-operatives has continued to increase, but figures are difficult to establish. ICOM (the worker co-operative federation) registered 8 care co-operatives in 1995, most of which were nurseries, but other homecare co-operatives were registered by CDAs; there has been considerable growth in the home care sector nationally; and an ICOM survey identified 49 care co-ops in 1998; there were a similar number of nurseries/creche co-ops in ’92, and a substantial proportion (25%+) of new co-operatives were social co-ops.

Social Firms - There has been considerable interest by local government (e.g. Birming City Council), hospital trusts and voluntary organisations in forming social firms to produce recognisable products/services whilst providing real jobs and pay, and with a market orientation. The spur for this has been ESF projects such as ECHO-Horizon. In 1997 there were 6 social firms, rising to 21 in 1998 (providing jobs for 230 people, 67% with disabilities, and a further 336 trainees who use the firms for work experience or training); in 2003/4 there were at least 40 social firms operating in the UK. And in 2005, 49 social firms which earned 65% of income from sales of goods/services; and 70 emerging social firms; they generated 1550 jobs, 55% for disabled people. However by 2010, the sector grew by about 30%, and there are now about 100 Social Firms and 80 emerging Social Firms. (N.B. there is some overlap between social firms and social co-operatives i.e. some enterprises are in both categories).

Community (Co-op) Enterprises

Community businesses were first initiated in rural areas – the best example being in the Highlands and Islands of Scotland. They proved highly effective in motivating and supporting local communities in providing services such as transport and shops. The general approach is that members of the community take a share in the community business in order to own and control it. The community business then develops various projects usually run as conventional businesses and these are owned and are accountable to the community business (through some kind of holding structure). This effective model was later successfully transferred from rural areas to inner city areas, most notably in Glasgow. It has since been taken up to a certain extent in the rest of the UK, and it has proved effective in addressing exclusion problems in the most severely disadvantaged inner city areas, since it generates a self-help approach to establishing and strengthening community structures and services. The model has also been used in initiatives that might benefit from (a sense of) community ownership such as City Farms. Community businesses enjoy co-operative principles since the community are member owners with democratic control rights; the projects have a degree of independence but are accountable as subsidiary companies; community businesses have gradually increased in number and have also been effective as structures for project initiatives in the welfare sector.

In 1995, it was estimated there were 400 community business providing 3500 jobs.

Table Community Businesses

<table>
<thead>
<tr>
<th></th>
<th>1989 Scotland</th>
<th>1995 UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading companies</td>
<td>160</td>
<td>400</td>
</tr>
</tbody>
</table>
Labour market integration enterprises are organisations that provide jobs and training simultaneously; they have a market orientation, with a substantial amount of their income from trading goods/services or contracts (which may be with the public sector); thus they provide considerable training while trading; they have become a model used effectively throughout the social economy. Important characteristics of the model include the following: developing recognisable skills, real wages and jobs (some element of trading), delivering social/community benefit with close community links (operating in the social economy). Although such initiatives may be regarded as expensive they are frequently more cost-effective than conventional alternatives (e.g. via benefits system), and they are particularly effective for more disadvantaged groups/communities; in other words their social efficiency is high.

The term Intermediate Labour Markets is currently used to describe the operation of such initiatives as the Wise Group and Glasgow Works, both of which originate in Glasgow, Scotland; (the model has also been adopted as national government policy). The Wise Group, was set up in 1983, and was extended into the UK through franchising arrangements for a few years. It was set up initially to provide work experience for the unemployed through insulating the homes of older and disadvantaged people. It expanded enormously and now provides training and carries out a much wider range of activities including environmental improvement, waste collection, building, security, office administration, etc. In 1995 it had 560 trainees, 230 staff, and a turnover of £14m. and in 1998 55% of ILM programme participants (i.e. 574 people) went onto jobs; in the process 3237 homes were made more secure, and 5022 homes were made warmer through energy services. It is funded through a variety of sources - local government, government departments, EC, and earns a proportion of its income through trading/contracts. It has been estimated that the gross cost of a participant's place with the Wise Group is £14,000, but taking account of benefit savings and tax receipts this reduces to £6,000 p.a.; Simmonds and Emmerich (1996) have argued that this compares favourably with a total cost of about £8,500 to keep someone unemployed. The Wise group have subsequently developed a much wider range of programmes (besides ILM); these include conventional skills training for call centres, acting as employer intermediaries in a variety of functions, and assistance with job search.

Policy changes that might assist all initiatives discussed in this section would be: making the benefit system more flexible and adaptable to such social enterprises; exploring ways of creating new endowed resources such as multi-purpose buildings which will provide a secure basis for longer term projects; examining ways of developing longer term funding arrangements (the short term nature of many current projects is problematic); reducing transaction costs of organising projects by for example simplifying funding contexts and bidding procedures to fund projects (especially to facilitate multi-funded projects); opening other government programmes (and simplifying them) to social enterprise initiatives e.g. small firm support; and opening public bodies more to contracting relations with such projects (e.g. in welfare sector, and for other "public" services). Finally a major intellectual
contribution at policy level may be made by informing and involving policy makers in debates about rethinking and restructuring work/employment/welfare relations in changing urban/rural contexts (cf. Laville, 1994).

In the last few years there has been a shift towards large contracts for work integration, which have been difficult for smaller social enterprise ILMOs to compete for, and they have had to rely on sub-contracting arrangements, which has created some tough financial pressures for them.

1.5 Employment Trends in the Social Economy

**Overall employment: United Kingdom**

<table>
<thead>
<tr>
<th>Co-operatives</th>
<th>Mutals: building socs, mutual insurance etc</th>
<th>Associations et assimilés</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Consumer Co-operatives (104 000 employees)</td>
<td>- <em>Mutuals</em></td>
<td>- Voluntary Organisations - education and research (587,000 employees)</td>
</tr>
<tr>
<td>- Co-operatives Bank (3 928 employees)</td>
<td></td>
<td>- Voluntary Organisations - cultural (347,000 employees)</td>
</tr>
<tr>
<td>- Co-operative Insurance (11 800 employees)</td>
<td></td>
<td>- Voluntary Organisations - social services (185,000 employees)</td>
</tr>
<tr>
<td>- Agricultural Co-operatives (12 243 employees)</td>
<td></td>
<td>- Voluntary Organisations – local development and housing (108,000 employees)</td>
</tr>
<tr>
<td>- Housing Co-operatives</td>
<td></td>
<td>- Other voluntary organisations (246,000 employees)</td>
</tr>
<tr>
<td>- Worker Co-operatives (11,193 staff)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Other Co-operatives</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>131 971 employees</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>NB: total Eurostat (1990): 181 000 employees</em></td>
</tr>
<tr>
<td><em>ICA (1996) = 97 954 employees</em></td>
</tr>
</tbody>
</table>

| NB: total Eurostat (1990): 27,500 employees |
| *1,473,000 employees* |
| *(Johns Hopkins = 1,415,000 FTE)* |

Note that there is some discrepancy between statistics presented due to different data sources being used and different points in time (e.g. 1990 Eurostat vs Hopkins study); it has been argued (CAF, Researching the Voluntary Sector, 1993) that the European System of National Accounts (ESA) which leads to Eurostat data, merges institutional sector accounts for households with non-profit institutions serving households; and that only 4 EC countries (not including UK) report separately on non-profits serving households and that even these do so inconsistently.]

1.6 Visibility and Recognition:

In general there is not a high degree of recognition of the social economy, although certain forums like the Social Economy Forum have done much including organising (via Unity Trust Bank) an international conference for the social economy in 1998. But this is not really a fully representative body for all arms of the social economy. There currently is considerable support for the idea of “social enterprise” but this term is used more for new sector organisations with social and entrepreneurial
characteristics. But it already has policy documents referring to it, new legislation, and a government “Social Enterprise Unit”.

2. Social Economy Legal Structures in the UK

Almost all UK social economy structures are registered under Industrial and Provident Society (I&PS) legislation or Company Law (limited by guarantee). In either of these cases the shares are of nominal value (£1), limited liability applies, and the organisation is owned by member shareholders who may vary in number.

However, in general there is no legislation for specific types of social economy organisations ie now co-op law, no law specifically for voluntary organisations (though there is for charities). Nor is there any clear fiscal advantage for the various forms of legal structure for such organisations in the UK –charities are exempt from corporation tax, but have to pay value added tax.

Institutions play a role in giving similar identity to different parts of the social economy. The co-operative federations and sympathetic professionals have drafted model rules for a variety of types of co-operative under both these types of laws; and the same applies for voluntary organisations; though many small self-help type voluntary organisations would not be legally registered at all. They are referred to as sponsoring bodies, and can assist in the registration process. (The operational part of I&PS registration is about to be contracted out, but only to one contractor rather than to each of the major federal bodies). Thus the social economy (as represented by these federal bodies) has a role in shaping the different types of social economy organisation in response to entrepreneurial activity.

The organisations in the social economy are registered under a variety of legislation. Thus co-operatives may be registered under Industrial and Provident society law or under company law (usually company limited by guarantee, but sometimes company limited by shares); There has been an increase in use of ESOP type structures (Employee Share Ownership Plans) which allow substantial levels of employee ownership (this has been seen particularly in local state privatisations of bus services). Some mutuals such as building societies are registered under a specific legal act, while Friendly Societies (for mutual health insurance) are registered with the Registrar of Friendly Societies. Voluntary organisations may be registered under company law (limited by guarantee), Industrial and Provident society law; many voluntary organisations will also be registered as charities with the Charities Commission under the Charities Act 1992/3. Charitable status gives exemption from corporation tax, though this must be balanced against value added tax which cannot be reclaimed.

A company limited by guarantee (CLG) is registered under Company Law with nominal shares, limited liability, giving members democratic voting rights (1 person 1 vote). They are regulated by Company House. Many voluntary organisations and co-operatives currently use this form, since it is cheaper to register and make amendments than I&PS legislation.

An Industrial and Provident Society is an organisation that conducts a business or trade, either as a co-operative or for the benefit of the community. An Industrial and Provident Society is registered with the Registrar of Friendly Societies. Its actions and conduct will be regulated by the provisions of the Industrial and Provident Societies Acts, 1965 - 1978. A Friendly Society is a voluntary mutual organisation whose main
purpose is to assist members (usually financially) during sickness, unemployment or retirement, and to provide life assurance. ‘Benevolent Societies’ are another form of I&PS but for the benefit of the community rather than for their own members (a society ‘for the benefit of the community’ is commonly known as a “bencom”).

From the report of the chief registrar of Friendly Societies 2000/1:

“The organisations on our register range from internationally-known building societies and insurance companies to tiny village allotment societies. They include co-operative societies, housing associations, loan societies, scientific and literary societies, working men’s clubs, benevolent societies, cattle insurance societies, agricultural pest clearance societies, superannuation funds, and most recently credit unions.”

Thus they include the full spectrum of social economy forms of activity, from those which are club-like such as sports clubs, largely run by volunteers such as community associations, to much more commercial businesses like consumer co-operatives.

Being registered as an I&PS with the Registrar of Friendly Societies, means that there are certain requirements it has to meet, and some restrictions on its activities. The Registrar can help preserve the identity of the organisation, since he/she will not register any amendment to the Rules that are not in accord with the democratic and community benefit principles established in the constitution.

The I&PS is required to file annual reports to the Registrar. It must appoint qualified auditors, and audited accounts have to be presented to the Annual General Meeting (AGM) as well as to the Registrar. The Constitution is crucial as it guides everything that an I&PS can do. An I&PS Constitution is often based on the Model Rules which “sponsoring bodies” such as federal bodies and development agencies supply.

Finance may be raised through members’ subscription to share capital, member loans, bank loans and the issue of loan stock (and retained earnings in future years). Outside finance must be without voting rights, although often in established co-ops “old” members (who are no longer active) continue to hold shares.

An organisation with charitable objectives can apply to the Charity Commission to become a charity or have charitable status (in addition to I&PS or Company limited by Guarantee status). A charitable trust would be appropriate as a complement to any of the above structures, if there were charitable activities (such as education) to be undertaken for others i.e. not for members. It has the advantage that donations are tax free (so tax can be reclaimed thereby increasing the original sum donated); and its activities are non-profit so not subject to tax.

Although there is no specific co-operative law, there continues to be considerable interest and activity associated with the European Co-operative Statute; this has resulted in the formation of co-operative lawyers association which has drafted Co-operative legislation, supported by the UK’s supreme co-operative body, the UK Co-operative Council; but as yet there is no timetable for passing this legislation.

Experienced practitioners would generally accept that social economy legal structures (CLG and I&PS) are the most appropriate and commonly used structures for the growing social enterprise sector. But a new legal structure specifically for social enterprise was approved in 2005, and there are over 200 new organisations registered as “Community Interest Companies” – see below for more details.
3 New Trends in the Social Economy

The UK, partly because of the large experience of de-mutualisations of mutual societies and co-operative structures, there have been several important responses to these forms of privatisation, which mark a new trend regenerating the values of mutuality and mutual practices. This has been led, to a certain extent, by activists who have formed pro-mutual groups (“Save our building societies”, and Mutuo (a pressure group cum think tank).

There has been a recognition by many commentators in the press and in academic communications of the value of diversity in the market (this has been particularly effectively argued in the case of Building Societies – savings and loans mutuals). And indeed it seems to be recognised to a certain extent by recent Government measures to protect Building Societies from demutualisation that they have performed an important role in giving consumers good value for money and protecting consumer rights.

Several measures have been taken to give greater protection to mutuals firstly as a response by mutuals to insist on ‘charitable assignment’ - that is new members have to sign, giving up their rights to residual assets i.e. accepting they will not have a claim on the assets of the mutual in the event of privatisation or demutualisation; as a result the residual assets will be given to a charity or to another mutual. The second form of protection can be seen in new legislation: the Industrial and Provident Societies Acts 2002 which amends the procedure whereby such a society may convert itself into, or amalgamate with or transfer its engagements to, a company i.e. it is designed to make it more difficult to demutualise a society. The procedures have increased the percentage of people required to vote for constitutional change: 50% of members now need to vote and there needs to be a majority of 75% of the votes in favour of demutualisation. These measures have led to a refocusing by mutuals on members and membership. Another reaction or response that marks a resurgence of mutualisation can be seen in the rise of social enterprise as the embodiment or part of the embodiment of New Labour’s ‘third way’.

Finally, there has been some continental European influence where experience of new forms of co-operative (social co-ops) and social enterprise has seen a closer linking between the co-operative form and the voluntary organisation form and a re-assertion of the traditional social economy values.

Social enterprise and CICs

In the UK, the Department of Trade and Industry established a Social Enterprise Unit (NB, in May 2006 this moved to the Cabinet Office). Part of the motivation of promoting social enterprise is an interest in reforming public services delivery (incorporating co-operatives and non-profit structures into the spectrum of service providers); and partly an interest in involving community/civil society stakeholders combat social exclusion. The activities of this Social Enterprise Unit, along with the Social Enterprise Coalition have played a role in promoting a huge interest in social enterprise in the UK – this can be seen in outcomes such as the development of strategies for social enterprise and new legislation to facilitate the creation of new locally based social enterprise through the community interest company (CIC).

The target is community level social enterprise:
“…The Government will seek to develop further the Community Interest Company (CIC), an entirely new legal form designed for socially responsible enterprises. The Government does not intend that CICs should deliver essential public services such as schools or hospitals. However CICs have a clear role to play in complementing government services at the community level in areas such as childcare provision, community transport or leisure.” HM Treasury Budget Report 2003.

The Community Interest Company was launched in 2005 as a new legal form in the UK, and it has become an important model of social enterprise (over 200 formed/converted in less than a year). The context for this development is a resurgence in interest in mutuality after declines in the co-operative/mutual sectors due to demutualisations and poor performance – developments that parallel similar isomorphic tendencies in other countries.

The CIC is designed to be a flexible structure facilitating entrepreneurial activity. It has 3 main characteristics:

- Non-profit
- Benefiting the community
- Asset lock

The CIC can be used by non-profit-distributing enterprises providing benefit to a community. Such enterprises are currently operating in areas such as childcare, social housing, leisure and community transport. Many of them already incorporate as companies, either as a company limited by guarantee (CLG) or a company limited by shares (CLS). The defining characteristics of the CIC aim to make it particularly suitable for some types of community-based social enterprise - those that wish to work for community benefit within the relative freedom of the non-charitable company form, but with a clear commitment to a non-profit-distribution status. CICs are subject to the general framework of company law. Thus the CIC is a new variant of existing forms of company. It can either take the form of a CLG or CLS.

The distinguishing features of the CIC will be:

- the need to satisfy a community interest test, confirming that the enterprise will pursue purposes beneficial to the community and will not serve an unduly restricted group of beneficiaries. The test is that of a reasonable person judging if the CIC’s activities to benefit the community;
- exclusions from CIC status: political parties, companies controlled by political parties, and political campaigning organisations;
- charitable status: CICs will not be able to have charitable status, but charities can establish CICs as subsidiaries;
- annual reporting: CICs must produce company report containing key information relevant to CIC status, lodged with the public register of companies;
- an asset lock - CICs will be prohibited from distributing profits they make to their members;
- CICs limited by shares can pay dividends to “investor shares”, subject to a cap regulated by the Regulator; but a CIC limited by guarantee, will not be to make such distributions; limits on conventional interest payments on fixed term debt will not be applied;
• a CIC’s residual assets, when it is wound up, will not be distributed to its members, rather they will pass to another similar organisation with restrictions on profits distribution like another CIC or a charity;

• the Regulator approves applications for CIC status, receives copies of the community interest company reports and polices the requirements of CIC status, including compliance with the asset lock. The CIC Regulator will have close links with the Registrar of Companies.

• CICs are required to provide an additional annual community interest company report to the registrar of companies; this covers: what the CIC has done during the year to benefit the community; the steps, if any, that the company has taken to involve in its activities its stakeholders; information about payments related to its financial instruments, and the remuneration of its directors.

Conclusions

The UK, where the market system and deregulation are possibly more developed into more areas of society, provides one of the extremes for examining the condition of the social economy in a relatively unprotected market context. Perhaps the most important factors in such a context, relate to the institutional environment and the extent to which the social economy is visible, and on an equal footing with private/public players.

In established third sector mutual/co-operative enterprises, the major factors influencing the sector are: globalisation and the need to strengthen productivity and competitiveness (this includes increasing size to improve economies of scale). Some successful adjustments have been made in response to competition and demutualisation. In the UK voluntary sector the situation has been rather different with major changes to state welfare policy (contracting out) and the nature of quasi-markets for the independent sector (this has tended to favour larger organisations (private or social economy). These factors and a shift in state financing of the voluntary sector (towards service agreements rather than grants) has led to large growth in the voluntary sector, in sharp contrast with established co-operative and mutual sectors.

The fact that the UK does not have the clearly delineated social economy sector as seen in some continental European corporatist models, means there is a much more fluid interaction between the its sectors – through competition, displacement of activities, and transfers of innovations between the social economy sector and the state. (Although in recent years this has been to the advantage of the voluntary sector due to public sector transfers i.e. increases due to educational transfers and contracting out of welfare services).

The changing role of volunteers is also worthy of critical reflection particularly within the UK where the market is encroaching on more and more areas of society, including welfare services where volunteers have had a strong presence. In such situations volunteers may give competitive advantage to social enterprises, but there are issues about contracting using volunteers which may diminish their use. Nonetheless volunteering is still highly prominent in many social economy organisations; its nature is changing for example expenses are paid in some cases.

The work of CDAs, development trusts and community businesses, social firms and ILM type initiatives have been focusing more on reducing social exclusion.
(employment nationally is rather low: 6%). And in this context there is concern how to ameliorate the adverse effects of the UK’s “flexible model” in the short and long term (e.g. reduced holidays, sickness and pension provision, etc.) The social economy continues to play an important role to play in overcoming new market failures of the socially excluded - ensuring communities and individuals are more resilient to a system where multiple disadvantage combines with unemployment, and transitions in and out of employment are becoming more frequent.

In the last 20 years or so there has been a resurgence of social economy values particularly in new market sectors associated with welfare services. And new forms of social enterprise have been developed in many European countries. This raises the prospect of a resurgence of social economy values reversing the isomorphic trends seen in traditional sectors.

In the UK, new legislation for a Community Interest Company appears to fit within a similar regenerative tendency. However, despite an apparent orientation towards mutualism linked to New Labour’s Third Way, it is difficult to argue that the new CIC legislation represents a resurgence of interest by policy makers in the traditional values of the social economy. Instead, it seems like a very British pragmatic approach to community development focusing on outcomes, but the risk is its neglect of process values will undermine the brand, and miss the opportunity of increasing the capabilities of communities to take part in their own development. Its flexible structure may bring new benefits to disadvantaged communities, but in this strength is its weakness – diversity and lack of identity. Time will tell which proves more important.
References


Charity Aid Foundation (CAF) - Pharoah C and Smerdon M (eds), 1998, Dimensions of the Voluntary Sector.


CRU, 1996, Strategic Management in the Social Economy - Learning and Training Pack, Open University, Milton Keynes, MK7 6AA.


Defourny and Borzaga, The Emergence of Social Enterprise, Routledge. UK


Grove R and Durie S (no date) Interim Report and Briefing Paper on Social Firms UK, Social Firms Resource Centre, Redhill, UK.

Hargreaves, I (1999) In from the Cold: Co-operatives and Social Exclusion, UKCC, Manchester.

Hutton, W. 1995; The State We're In, Jonathon Cape, London.


Spear, Laville, Favreau and Defourny (eds.) 2001, Combating Social Exclusion in Europe Ashgate Hants

\footnote{Note that data on the social economy is not regularly gathered, thus there are various dates relating to the data quoted.}