



**Replicating Success: Social
Enterprises & the Waste Sector in
London**

Final Report

March 2007

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1 Introduction

1.1 Background & Context

There has been growing interest in social enterprise over the past few years. As Ed Miliband, the Minister of the Office for the Third Sector said:

*"In the private sector social enterprise is showing business doesn't have to be about shareholder value, it can be about social value. In the public sector you are showing how services can be delivered in a way that is focused around the user."*¹

This interest in the sector also arises from the perception that social enterprises contribute to a number of government's objectives including:

- The creation of socially inclusive wealth;
- The regeneration of local neighbourhoods; and
- The development of new ways to deliver public services;

A number of government departments, including the Department of Health, the DfES and the DTI have therefore been actively seeking to help the social enterprise sector realise its full potential.

Waste management is also a sector where policy-makers believe social enterprise could have a role to play. In 2004, Defra specifically earmarked £4million worth of funding and support for social enterprises and not-for-profit waste organisations operating in England to help them develop partnerships with local authorities, businesses or other groups. The objective was also to encourage greater coordination and support within the sector, and to raise the sector's skills base.

Defra's position vis-à-vis social enterprise was further clarified in a position statement² in 2005. It stated:

The objectives of social enterprise in achieving economic, social and often environmental benefit accord with Defra's overarching aim of sustainable development. Sustainable development involves integrating and balancing economic, environmental and social considerations. It means achieving a better quality life for everyone, now and for generations to come, including:

- *a better environment at home and internationally, and sustainable use of natural resources;*
- *economic prosperity through sustainable farming, fishing, food, water and other industries that meet consumers' requirements; and*
- *thriving economies and communities in rural areas and a countryside for all to enjoy.*

Defra has only just published the Waste Strategy for England 2007 where the potential future contribution of social enterprises to waste management is outlined.

The research is therefore timely both in terms of looking at what has been achieved so far within the sector and in terms of what can be the realistic expectations for social enterprises in waste management.

¹ Voice 07 Conference

² *Defra and Social Enterprise: A Position Statement*, Skills & Rural Enterprise Division March 2005

1.2 Aims and objectives

In September 2005, Brook Lyndhurst, London CRN and London Remade were commissioned by Defra and the London Development Agency (LDA) to undertake an 18-month programme of research into social enterprises in the waste management sector. The aims of the research were threefold:

- Firstly, social enterprises in waste management are affected positively and negatively by a number of factors. One aim of the research was to gain a greater understanding of how these factors interact with each other and of their likely impact on the future development of the social enterprise sector;
- Secondly, social enterprises are perceived as entities able to deliver a range of benefits and another aim of the research was to identify factors that make a *successful* social enterprise;
- Thirdly, the State generally recognises that it has to play a role in enabling the development of social enterprises and one aim of this research was to identify the type of support most needed by social enterprises in the waste sector.

The research was conducted through an intensive programme of case study investigation, centred on an innovative, LDA-funded support programme called ENHANCE.

The research was divided into a number of phases with the following objectives:

- To analyse the nature of potential social and economic benefits;
- To identify the critical success factors necessary for these benefits to be secured;
- To adjust expectations for the development of the social enterprise sector in line with the current contribution of the sector;
- To deduce the type of and scale of replication that can be realistically achieved by social enterprises in the various waste streams; and
- To identify the policy implications of pursuing this replication.

The research also provided direct benefits to the four organisations in which the researchers were seconded as one of the objectives of the secondments was to help these organisations implement support provided through the ENHANCE programme (see Section 1.4).

1.3 Scope of the research

The research was co-funded by two organisations, Defra and the LDA, with different overarching objectives. On the one hand, Defra's main objectives in terms of waste management are:

- To ensure capacity to deal with the collection, treatment and disposal of waste is adequate throughout the country;
- To ensure the targets fixed by the Landfill Directive are met.

On the other hand, the LDA's overarching objectives are mostly economic and their work is prioritised by four themes:

- Regenerating London
- Supporting People
- Encouraging Business

- Marketing London

As a result, the research originally 'cast the net wide' across a broad range of issues, rather than focus on a particular area. However, as the research progressed it became apparent that the scope of the research needed to be adjusted. This was because:

- It was felt that covering all the issues in the given period of time would not be possible;
- Initial findings showed that specific areas needed further investigation. These areas were:
 - the nature and effectiveness of the business support provided; and
 - the ability of social enterprises in the sector to seize opportunities and to respond to potential threats.
- Further research was being commissioned by Defra to specifically look at the social benefits provided by social enterprises. As a result, we were able to focus on the two areas mentioned above.

As a result, after discussions with our Defra and LDA project managers, the scope of the research changed from an original, all-encompassing study of the economic and social benefits delivered by social enterprises into an investigation of the potential for the social enterprise sector to expand and to deal with a greater proportion of waste taking into account:

- The current state of play among social enterprises in the waste sector; and
- The threats and opportunities faced by the sector.

Findings were then related to the type of support needed at the national, regional and local level to help achieve this potential. The research also looked at the infrastructure organisations (i.e. organisations providing business support to social enterprises in the waste sector) in terms of how they currently operate and how support could best be provided to ensure that success can be replicated.

We are very much aware that 'success' as defined by a social enterprise is not necessarily similar to success from the Defra or LDA point of view. This is because their objectives are different. The objectives of social enterprises are financial, social and environmental whereas Defra's objectives are mostly environmental and the LDA's, mostly economic. It is important to understand and bear in mind this difference in perception as it can be at the root of potential misunderstandings between social enterprises and public sector agencies.

As a result, this report presents the points of view of a range of stakeholders, including social enterprises, social enterprise and community waste networks, other organisations with the experience of working with social enterprises and policy-makers.

Indeed, we have endeavoured to look at success from all these points of view because understanding what makes social enterprises 'tick' ultimately explains why the sector may or may not achieve the government's expectations for the sector. Furthermore, from a policy point of view, this understanding is key should adjustments to these expectations need to be made.

1.4 Research methodology

The research was conducted from September 2005 to March 2007 and was divided into three phases:

- In **Phase 1** (September 05 - January 06), Brook Lyndhurst identified 8 social enterprises (6 were successful enterprises, 2 had failed to survive in their original format) in partnership with London Remade and LCRN. In-depth case studies of these social enterprises were undertaken with a view to identify factors of success/failure and wider socio-economic benefits in order to derive metrics to measure the level of success/failure of social enterprises in the waste sector. These case studies involved 2-3 site visits, conversations with project managers and staff and the systematic review of the organisation's own literature, annual reports and business plans. Findings from Phase 1 were presented in an Interim report published in January 06.
- In **Phase 2** (June 06 - January 07) the research team got to work closely with four social enterprises in London (Aardvark Recycling, Croydon ARC, Fareshare and Furniture Aid South Thames) that were receiving support from the ENHANCE programme. The objective was to understand how this support was helping them address weaknesses in the 4 areas identified as priority areas for success in Phase 1 (leadership, management and processes, commercial orientation and partnerships and community support).

A member of the research team was therefore seconded one day a week for 4 to 6 months in these social enterprises with a view to help them implement the business support given by LCRN. The research aims were to:

- Have a better understanding of social enterprises' internal processes;
- Understand the barriers faced by social enterprises to implement business support by themselves;
- Analyse how this support would impact on the performance of the social enterprise and on its ability to expand.

A confidential report describing the work undertaken by the secondee and the impact on the social enterprise was written for each of these social enterprises.

- **Phase 3** (January 07 – March 07) consisted of building a holistic picture of social enterprises in the waste sector, confronting expectations from policy-makers with the vision held by organisations representing social enterprises about the contribution the sector can make in terms of delivering public services.

This phase involved a programme of interviews with 12 key stakeholders from member networks and organisations working with or on behalf of social enterprises and from central government. A list of interviewees is provided in Appendix 2. Phase 3 was rounded up by a process of analysis and report writing facilitated by a brainstorming session involving Brook Lyndhurst, LCRN, the Defra project manager and by consultative discussions with the LDA team.

1.5 Overview of the report structure

The report considers the following issues:

- The policy background within which social enterprises operate. This includes both the Government's attitude towards social enterprise and the waste issues specifically affecting social enterprises in that sector (Section 2);
- The issues related to defining and identifying social enterprises in the waste sector, their current profile and key success factors (Section 3);
- The threats and opportunities facing the sector as well as the potential models for replication (Section 4);

- The government's role in enabling the sector to develop, at the national, regional and local levels (Section 5);
- The role of infrastructure organisations and how they could evolve to meet the needs of the sector (Section 6);
- Our concluding comments (Section 7).

1.6 Acknowledgements

We would like to thank Neil Carrett and Ged Petrie at LCRN for their valuable support and contribution to this project (particularly Section 6 of this report). We are also very grateful to all the social enterprises that contributed to this study for the time they gave us as well as for the openness with which they responded to our queries.

We would like to thank in particular:

- Aardvark Recycling;
- Brighton & Hove Wood Recycling Project;
- Create Liverpool;
- Create Tottenham;
- Croydon ARC
- ECT;
- Fareshare
- Furniture Aid South Thames
- Green-Works;
- Recycling Works Services;
- Respond Thamesmead; and
- Tower Hamlets Community Recycling Consortium.

2 Policy Background

This section provides the policy context within which social enterprises in the waste sector operate. It first looks at the reasons why social enterprises are particularly attractive to policy-makers before analysing how the Government's attitude towards social enterprise in general has evolved over the past few years. The section finishes with a review of policy issues in the waste sector that have a direct impact on social enterprises.

2.1 Bridging the gap between public and private sector

The profile of social enterprise within government circles has been increasing rapidly over the past few years. In 2001, the Social Enterprise Unit (SEnU) was launched as part of the DTI's Small Business Service. One of the main tasks of the Unit was to co-ordinate the implementation of the Social Enterprise Strategy, launched in 2002 (see Section 2.2). Its full remit was to:

- *"act as a focal point and co-ordinator for policy-making affecting social enterprise;*
- *promote and champion social enterprise;*
- *take action needed to address the barriers to the growth of social enterprises; and*
- *identify and spread good practice.*"³

In May 2006, the Prime Minister announced the creation of the Office of the Third Sector (OTS) in recognition of the increasingly important role the third sector plays in both society and the economy. The OTS brings the work of the former Active Communities Directorate (ACD), originally in the Home Office, and the SEnU together within the Cabinet Office.

Given this increased interest in the sector, it is legitimate to ask the following questions:

- What is social enterprise; and
- Why are policy-makers so enthusiastic about it?

The following definition of social enterprise is given by the Department of Trade & Industry:

A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.

Whereas firms in the private sector mostly focus on financial returns, social enterprises are also concerned with social and/or environmental impacts. In addition, social enterprises are autonomous organisations with governance and ownership structures often based on participation by stakeholder groups (users or clients, local community groups etc.) or by trustees. As a result, there is a perception that social enterprises are more innovative and dynamic than their counterparts in the public sector as they tend to offer more flexibility and tailored services to maximise client satisfaction.

The focus of social enterprises on social and environmental values and their particular understanding of community/client group issues mean that social enterprises are perceived as potential partners by the state to help deliver public services. This also fits

³ *Social Enterprise: A Strategy for Success*, Department of Trade and Industry, 2002

in with the government's agenda to externalize, where appropriate, public service provision.

Social enterprises also exhibit some characteristics similar to organisations in the private sector. In particular, they operate in specific markets, providing goods and services that enable them to be commercially-sustainable organisations to a greater or lesser extent. They also contribute to the development of new markets (e.g. ethical markets), responding to changing consumer trends.

Social enterprise therefore bridges the gap between public and private sectors being to some extent driven by market forces but also having regard for social and environmental issues.

The interest of the public sector in social enterprise also resides in the potential for social enterprise to play a significant role in delivering the following government objectives:

- Socially inclusive wealth creation;
- Helping individuals and communities work towards regenerating their local neighborhoods;
- Leading the way in delivering and reforming public services.

2.2 Policy & Social Enterprise

Increased interest in social enterprise in the UK has translated into a number of key policy documents. These are briefly reviewed below to provide the context within which our policy recommendations in Section 5 have been formulated.

2.2.1 The Social Enterprise Strategy⁴

As mentioned above, the Government launched *Social Enterprise: A Strategy for Success* in 2002. The Strategy identifies three key areas for action:

- Creating an enabling environment
- Making social enterprise better businesses
- Establishing the values of social enterprise

Creating an enabling environment

The key concerns here were to ensure that legal and regulatory issues did not act as barriers preventing social enterprise from being able to respond to market opportunities as they arose. The Strategy reviewed and outlined areas of action for each government department and regional development agency.

Another area of concern was the lack of understanding in the public sector of the particular characteristics and value social enterprise can offer, resulting in some social enterprises being shut out from public sector contracts. One objective of the Strategy was therefore to promote greater understanding of social enterprise among public sector procurers by highlighting areas in which the social enterprise model is particularly suited and by suggesting increased flexibility in the tendering process.

Making social enterprise better businesses

The Strategy identified two routes to improve social enterprise's performance:

⁴ *Social Enterprise: A Strategy for Success*, Department of Trade and Industry, 2002

- Through the provision of more appropriate types of business support: this included a review of existing advice, information and websites available to social enterprises and working with partners to fill gaps. The Strategy also pledged to develop the mainstream schemes offered by the Small Business Service and the DTI to ensure they are available to social enterprises.
- Through improved access to finance and funding: the main objectives of the Strategy were to explore ways to increase the capitalization of Community Development Finance Institutions (CDFIs) specialized in the social enterprise market to address the barriers to the transfer of assets in social enterprises and to develop a financial awareness programme for social enterprises.

Establishing the value of social enterprise

The Strategy identified an urgent need to establish a knowledge base through developing a case study database covering the range and diversity of the sector and establishing baseline data for the sector as a whole. It also called for research into social auditing methods and other methods to measure social and economic impact.

The final point raised was the need for raising the profile of social enterprises at all levels, either through national awards, through promoting the sector in schools and key target groups.

2.2.2 A Strategy for Success: Progress Report⁵

In 2003, GHK was commissioned to undertake a review of the Social Enterprise Strategy, highlighting areas where progress was made and areas where future work was needed.

Areas of development

The review found three key areas of development:

- A more enabling environment: this is being achieved through the introduction of the Community Interest Company, a legal form enabling social enterprises to use and protect their assets more effectively, the introduction of policies which recognise and support the sector by various government departments and Regional Development Agencies, and the opening up of public procurement opportunities to social enterprise (facilitated by the Public Procurement Toolkit and the National Procurement Strategy for Local Government).
- Increased availability of appropriate business support; through the work of pre-existing programmes (e.g. Phoenix Fund) and work by the Social Enterprise Partnership;
- Improvement in the quality of business activity in the sector: with social enterprise appearing to be moving towards greater financial independence and increased investment readiness activity by CDFIs.

However, the Review was unable to judge how much of this change was directly attributable to the Strategy, although it did mention the fact that increased profile of the sector among policy-makers had resulted in the leverage of additional funding and finance.

⁵ GHK review of the Social Enterprise Strategy – Summary Findings, 2003

Areas for future work

The Review listed a number of points relating to how the Strategy was being implemented. In particular, it found that:

- There was a need to continue building awareness of the sector across government;
- It was necessary to explore further the needs of social enterprise in relation to specialist versus mainstream business support;
- The needs of social enterprises emerging out of Voluntary and Community sector was not necessarily the same as the needs of the more commercially-minded social enterprises;
- Further investigation was needed to establish the value of social enterprise;
- Systems needed to be developed to monitor the process of the cross-government framework promoting social enterprise and its success needed to be measured.

2.2.3 The Social Enterprise Action Plan⁶

The Action Plan, published in November 2006 by the OTS, identified key actions under four specific themes, related to those developed in the Strategy:

- Foster a culture of social enterprise
- Ensure that the right information and advice are available to those running social enterprises
- Enable social enterprise to access appropriate finance
- Enable social enterprise to work with government

The Action Plan backs up these key action areas by allocating resources to various government programmes and initiatives. The main programmes are presented below:

- RDAs are to receive £0.5 million in 2007/08 and £1.8 million per year afterwards to work with stakeholders to meet the support needs of social enterprises in their region;
- The OTS will allocate £10 million for investment in social enterprise, subject to consultation with the social enterprise and finance sector on how best to use these resources;
- From April 2007, the OTS strategic partners programme will be extended to provide £0.8 million a year for three years to infrastructure organisations representing social enterprise at a national level. The objective is to enable the sector to continue to raise its own profile and to influence public policy.

The Social Enterprise Action Plan was complemented by the publication of the Third Sector Public Services Action Plan⁷, in December 2006. This Plan sets out, among other things, how the government plans to tackle barriers to the use of social clauses in public sector contracts, in part by creating template social clauses.

Other planned changes to procurement processes include:

- Measuring and reducing the administrative burdens of contracts with the third sector;

⁶ *Social Enterprise Action Plan: Scaling New Heights*, Office of the Third Sector, Cabinet Office, 2006

⁷ *Partnership in Public Services: An Action Plan for Third Sector Involvement*, Office of the Third Sector, Cabinet Office, 2006

- Creating a range of standard contracts to reduce barriers to entry for the third sector;
- Reforming funding arrangement to ensure that multi-year funding - at least three years - becomes the norm rather than the exception; and
- Reviewing sub-contracting arrangements to make it easier for smaller third sector organisations to bid for public contracts.

2.2.4 Other relevant policy developments

The 2007 Budget reiterated the government's commitment to the Third Sector. In particular, the Chancellor pledged £80 million in small grants for community organizations. The Office of the Third Sector will run this programme and the funding will be channelled through third sector partners at a local level, such as Community Foundations.

The Budget also announced that the Futurebuilders programme, which currently provides grants and loans to third sector organizations in only three sectors, will open to all sectors from April 2008.

A full review of the third sector is currently underway as part of the 2007 Comprehensive Spending Review. The process, which involved a 5 month consultation with the sector, will come to an end later this year.

2.3 Oligopolistic trends in the waste market

Since our investigation focuses on social enterprises in the waste management sector in particular, it is also necessary to build up a picture of this sector in order to have a full understanding of the context in which they operate.

Social enterprises in the waste management sector currently operate mostly in the municipal waste market, although household waste only constitutes 9% of the total waste production in the UK⁸. In their Literature Review on social enterprise and their contribution to waste management and recycling in the UK⁹, BRASS suggests that external policy drivers have played a key role in encouraging the development of social enterprises, especially in the waste management sector. These policy drivers include:

- The Landfill Directive;
- Local Authority Recycling Targets; and
- The Waste Electrical & Electronic Equipment Directive.

2.3.1 The Gershon Review

However, some policy drivers have also negatively affected social enterprises and contributed to the concentration of municipal waste contracts in the hands of a few waste management contractors. In particular, the Gershon Review¹⁰ played a major part in changing the landscape of municipal waste contracts. Gershon was commissioned to undertake a Review of Public Sector Efficiency as part of the 2004 Spending Review. The purpose of the Review was to identify activities that could be undertaken more efficiently in order to release major resources out into front line services. Part of the Review involved agreeing efficiency targets with each government department. Defra's

⁸ Defra website, <http://www.defra.gov.uk/environment/statistics/waste/kf/wrkf02.htm>

⁹ *Social Enterprise and Sustainable Waste and Resource Management: Evaluating Impacts, Capacities and Opportunities – Literature Review*, BRASS Cardiff University, WRT 162

¹⁰ *Releasing resources to the front line, Independent Review of Public Sector Efficiency*, Sir Peter Gershon, H.M. Treasury, 2004

target was to work with local authorities to deliver **£300 millions of efficiency gains in waste services**.

One (unintended) effect of the Review was to promote efficiency gains as an **end in itself** rather than as a **process**. Many local authorities appear to have focused their efforts purely on cutting costs. In the waste sector, this meant that a number of local authorities have been tempted to let integrated waste contracts (i.e. contracts that cover all waste management services - collection, treatment and disposal (landfill)). This approach has two advantages:

- it reduces the number of contracts a local authority has to deal with; and
- it transfers the risks of the 'interface' problems that can arise between different waste providers away from local government since one contractor is responsible for all aspects of waste management.

However, integrated waste management contracts have been shown to have a detrimental impact on market flexibility with social enterprises and Small and Medium-Sized Enterprises (SMEs) being effectively squeezed out of the market for the following reasons:

- these contracts necessitate a substantial outlay of capital. The treatment and disposal sides are particularly asset-intensive and require significant capital investment;
- the average length of these contracts is 17 years¹¹ reflecting the length of time necessary for contractors to recoup their investment. However, this means that local authorities are more likely to turn towards large, established waste contractors to minimize risks over such a long period of time.

2.3.2 Second Kelly Market Report

In response to concerns about the dwindling number of waste contractors bidding for municipal waste contracts and long-term capacity planning, the Office of Government Commerce undertook a detailed investigation of the municipal waste market as part of the Kelly Programme¹². The findings, underpinned by a survey of local authorities, were published last year in the Second Kelly Market (SKM) report and confirmed suspicions of a lack of competition and capacity in the municipal waste market¹³. These findings are summarized below:

- competition is limited in this market with 8 or 9 large waste contractors holding 78% of the municipal waste market by weight;
- new entrants face a number of difficulties due to regulatory changes that are driving the needs to develop new facilities. As a result, capacity for undertaking heavy investment is often a requisite in contracts. This is leading to further consolidation in the market;
- there is also a lack of market intelligence available. The existing market intelligence is inconsistent and not co-ordinated.
- In addition, it was found that many local authorities lack the skills to procure in this market, leading to lengthy and costly procurement processes.

¹¹ Second Kelly Market Survey of Local Authorities, 2005, (This survey had a response rate of 71 per cent of all municipal waste authorities in England.)

¹² The objective of the Kelly Programme is to stimulate and manage major public sector markets and to provide information on public sector demand to improve competition and long-term capacity

¹³ OGC Kelly Report to the Financial Secretary of the Treasury: Improving competition and capacity Planning in the Municipal Waste Market, OGC, 2006

The SKM also made three key recommendations to Government including:

- The need to develop, maintain and publish a co-ordinated picture of local authority waste procurement plans and progress, in partnership with local authorities;
- The provision of access to a greater pool of procurement and project expertise and advice for local authorities;
- The necessity to match the funding and procurement model to the nature of the service or facility being procured, with different models for collection contracts and for different sizes and types of facilities.

The SKM also states that the barriers to entry in the waste collection sector – which is more labour-intensive than the disposal sector - are noticeably lower than those in the treatment sector. The contracts require lower capital investment and tend therefore to be of shorter duration, lowering the risks attached to letting a contract to a social enterprise or an SME.

In the same vein, the Office of Fair Trading report, *'More competition, less waste'*¹⁴ highlights the need to re-think the so-called advantages derived from integrated contracts:

"We have seen no evidence to suggest that there are significant cost advantages from jointly providing collection and other waste management services. There is, however, evidence to suggest that integrated contracts may restrict participation."

The SKM recommendations are accompanied by an action plan with a timetable attached to each action. The SKM also recommends considering these findings in light of the other two major initiatives currently underway in the waste sector:

- The Defra Waste Strategy Review: which was due to be published in the Autumn 2006 and now scheduled for Spring 2007;
- The joint work being undertaken on Government spending on waste by HM Treasury, Defra and DCLG in the run-up to the 2007 Comprehensive Spending Review.

¹⁴ *More competition, less waste, Public procurement and, competition in the municipal waste management sector*, OFT, 2006

3 Social Enterprise in the Waste Market: the current situation

Before looking at the state of play for social enterprise in the waste sector, it is important to define the boundaries of the sector. This presents several challenges in itself. Firstly, social enterprises come under a variety of legal forms. There are also issues related to identifying them within the economy as a whole. Lastly, the circumstances under which the social enterprise sector has developed mean that there is a wide range of social enterprises, some akin to community groups whilst others are more similar to private sector organisations underpinned by ethical values.

Once these issues have been clarified, we can set out the profile of social enterprise in the waste sector. The section then looks at what success means for social enterprises and, in that context, at the factors that are key in contributing to the success of some social enterprises in the waste sector.

3.1 Definition and Market Development Issues

3.1.1 Structure

The term '*social enterprise*' does not indicate a legal status but refers to how the generated surplus is used (see definition of a social enterprise in Section 2.1). A social enterprise can be a company limited by guarantee, an Industrial & Provident Society or a company limited by shares. Some social enterprises are unincorporated, some have charitable status.

A new legal form, the Community Interest Company (CIC) was created in 2005 specifically for enterprises conducting a business for community benefit. CICs need to pass a 'community interest test' and to be approved by the CIC Regulator. CICs also benefit from an 'asset lock' to ensure that the assets are dedicated to the community they serve.

These different structures and status available to social enterprise contribute to making it difficult to set boundaries around the sector.

3.1.2 Circumstances that triggered the development of social enterprises in the waste sector

Part of the difficulty to define social enterprises in the waste sector is related to the general context in which they developed:

- Firstly, social enterprises in the waste sector have generally been set up by enthusiasts responding to a gap in the market, including the absence of a recycling service or the willingness to have more information about a particular issue such as washable nappies for example. These activities may start under the guise of a community group manned by volunteers and then develop into a social enterprise model as and when commercial opportunities are identified.

However, unlike health and education issues which capture the interest of a large number of people, **waste issues have remained on the margin for many years.**

A corollary of this is that there appears to be no prejudice against social enterprises operating in the waste sector. Unlike social enterprises in health, say, which can be perceived as 'treading on the toes' of the medical profession, social enterprises in the waste sector do not have to compete with a well-established waste public sector – at least in England.

- Secondly, **the potential for market development for the different waste streams vary, with some being very limited in scope.** Until recently, many social enterprises seemed to focus on household waste streams as there was no real incentive for businesses to re-use and/or recycle waste. This is slowly changing with new regulatory requirements introducing producer responsibility not only for packaging but also for products. As a result, new markets are opening up for social enterprises in the waste sector. We will come back to this in Section 4.2.

As a result, the sector is somewhat underdeveloped, especially in comparison to social enterprises in sectors such as health and education.

3.1.3 Positioning waste social enterprises within the wider social enterprise sector

Social enterprises cover a wide range of industrial sectors; from education and health to real estate/renting and wholesale/retail. A study from the Small Business Service (SBS)¹⁵ carried out in 2005 estimated that there were around 15,000 social enterprises in the UK. A detailed breakdown of the industrial sectors social enterprises are engaged in is provided in Table 3.1, together with their social aims.

Main Trading Activity by SIC Code	All	Social Aim			
		Help People			Help the 'Green' Environment (at all)
		Provide employment only	Provide employment and goods and services	Provide goods and services only	
Health and Social Care	33	29	30	35	24
Other Community/Social/Personal Service	21	15	14	23	19
Real Estate / Renting	20	22	17	20	28
Education	15	20	26	12	14
Wholesale/Retail	3	6	3	3	4
Other ¹	9	7	10	7	11
TOTAL*	100	100	100	100	100

1 'Other' includes transport/ storage/communications (2%), manufacturing (2%), hotels/bars/restaurants (2%), financial intermediation (1%), agriculture, construction and general public service (all less than 1%)
 Base: weighted 13,804
 unweighted 1,391
 * Does not always add up to 100 due to rounding errors
 Source: A Survey of Social Enterprises across the UK, Small Business Service, 2005

It is interesting to note that the waste management sector does not even appear in the above table. Some social enterprises operating in that sector are probably classified in sectors such as the other community/social/personal service, wholesale/retail and 'other' sectors.

In addition to the inadequacy of the Standard Industrial Classifications (which do not identify waste management as a discrete industrial sector), this also reflects the way social enterprises perceive themselves. Some social enterprises using a waste stream as a resource do not perceive themselves as being part of the waste sector. This may be because their main objective is to train unemployed people or to alleviate poverty in their local area. For these social enterprises, waste is therefore seen as a means to an end and the environmental objective is secondary.

¹⁵ A Survey of Social Enterprises across the UK, Small Business Service, 2005

However, the view from some stakeholders, including Defra, is that all social enterprises using waste as a resource belong to the community waste sector (CWS). The CWS is broadly made up of community-based organisations concerned with waste reduction, re-use and recycling, either through the delivery of services and/or through educational and campaigning activities on waste issues. The sector includes a wide range of organisations, from larger social enterprises to small local projects run by volunteers. These small local projects are not social enterprises as they may be funded entirely by grants and may not seek to generate commercial income¹⁶. However, some of these projects do aspire to move towards the social enterprise model.

This problem of definition is being addressed in part by the BRASS (Cardiff University)¹⁷ research project also funded by the Defra Waste and Resources R&D programme. BRASS rightly argues that this lack of definition is a problem as different stakeholders use different definitions for the sector, which can have direct impacts on access to funding, influence from policy and strategy and inclusion in different types of contract work. Part of their research project therefore involved developing a typology of social enterprises in the waste sector¹⁸ to enable social enterprises to define themselves on a number of spectrums related to the following criteria:

- Income sources
- Completely Charitable versus Nearly Commercial
- Public sector/consumer interaction
- Size
- Mission versus market focus
- Social versus environmental focus
- Training versus education
- Employment versus volunteer focus
- Waste quantities versus number of waste streams dealt with

3.2 Profile of the Sector

Due to the definition issues raised above, this section will focus on the CWS, of which social enterprises are a subset. This is mostly because so little information is available on the **specific profile of social enterprises** in the waste sector. Another reason for looking at the CWS is that grant funding is declining, forcing many community groups to seek alternative income streams to survive. It is therefore possible that many of these groups will be moving towards the social enterprise model in the future.

There is generally little information available on size or characteristics of the waste CWS although two recent studies have tried to fill this gap. In 2003, '*Sustainable Development in Practice: Community Waste Projects in the UK*'¹⁹ (University of Bradford) estimated that there were over 850 organisations within the sector in the UK. More

¹⁶ Organisations that earn over half of their income are defined as social enterprises (Social Enterprise Coalition, 2003) although Small Business Service survey used 25% earned income as its criteria (Small Business Survey 2005).

¹⁷ WRT 162 - *Social enterprises and sustainable waste and resource management: evaluating impacts, capacities and opportunities*

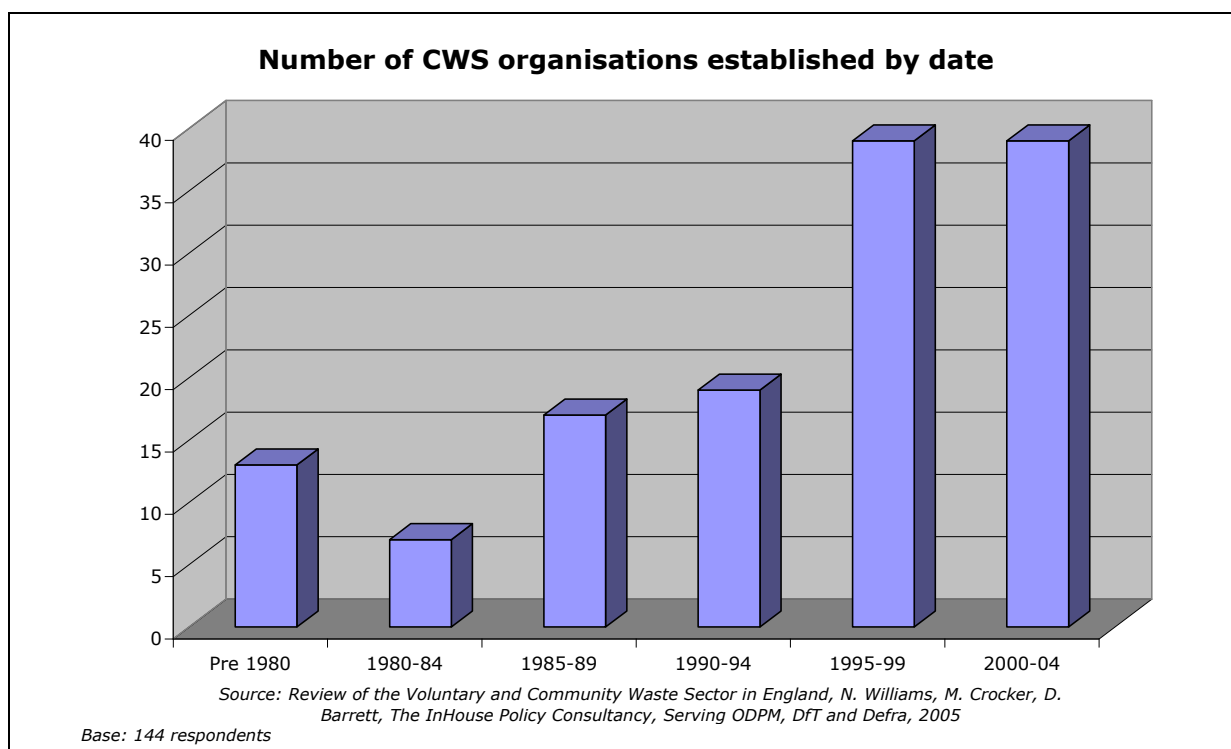
¹⁸ *A Model of Social Enterprise, Community Waste and Other Groups - Developing a Typology*, BRASS, Cardiff University, 2007

¹⁹ *Sustainable Development in Practice: Community Waste Projects in the UK*, D. Luckin & L. Sharp, University of Bradford, 2003

recently, the 'Review of the Voluntary and Community Waste Sector in England'²⁰ used membership databases as well as the Royal Society of Wildlife Trusts (RSWT) database²¹ to estimate that there were between 800 and 1,200 voluntary and community waste organisations in England.

The University of Bradford study found that the sector grew dramatically since 1995. This is probably related to the introduction of the National Lottery Charities Board first grants in late 1995. Since then, the sector continued to grow with more than 100 new community waste projects being established between 2000 and 2003. This trend was confirmed by the 2005 study. Chart 3.1 shows that the pace at which CWS organisations were set up indeed changed dramatically from 1995 onwards; perhaps reflecting increased concerns for waste-related issues.

Chart 3.1

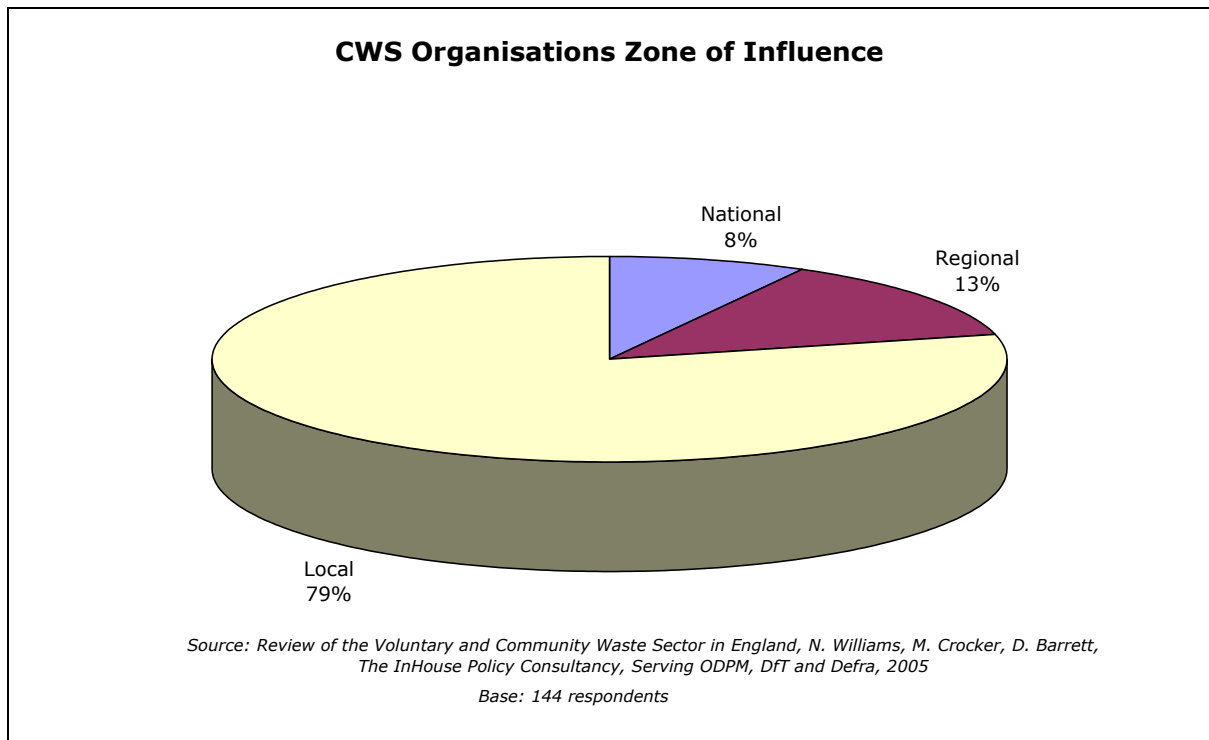


A great majority of CWS organisations operate at the local level. Only 20% of CWS report operating at the regional or national level. This may reflect the stage of development these organisations are at, with the majority having been established in the past 10 years. However, this may also reflect a certain lack of (commercial) ambition with some of these organisations being content to serve their local community.

²⁰ Review of the Voluntary and Community Waste Sector in England, N. Williams, M. Crocker, D. Barrett, The InHouse Policy Consultancy, Serving ODPM, DfT and Defra, 2005

²¹ The RSWT administers a number of grant schemes including the Social Economic and Environmental Development (SEED), Hanson Environmental Fund (HEF), Community Recycling and Economic Development (CRED), and Waste Partnership Fund (WPF) grant schemes.

Chart 3.2



Structure and size of the sector

The *Review of the Voluntary and Community Waste Sector*²² in England found that the sector comprised a diverse range of organisations:

- with differing purposes – for example, waste management, employment, training, community development and education;
- concerned with different waste streams;
- that have different business models and organisational status (half of them appear to be registered charities);
- varying considerably in scale;
- heavily reuse-based;
- belonging to different networks.

²² *Review of the Voluntary and Community Waste Sector in England*, N. Williams, M. Crocker, D. Barrett, The InHouse Policy Consultancy, Serving ODPM, DfT and Defra, 2005

Table 3.2: Activities carried out by projects		
Activities carried out by projects	Total number of projects carrying out the activity ¹	Number of projects for whom the activity best describes the project ²
Furniture/white goods refurbishment/re-use	62	44
Household kerbside scheme – dry recyclables	24	11
Waste awareness/minimisation/education	62	11
Scrapstore	16	10
Other	25	10
Composting	23	8
IT equipment refurbishment and re-use	25	6
Commercial/official waste collection	30	4
Recycling banks/bring sites	22	4
Support organisation	36	4
Wood recycling	21	3
Household kerbside scheme – garden waste	10	1
Waste auditing/analysis consultancy	15	1
Civic amenity site operation	10	0
Re>paint scheme	24	0
Events recycling	15	0
Waste exchange	12	0

Source: Review of the Voluntary and Community Waste Sector in England, N. Williams, M. Crocker, D. Barrett, The InHouse Policy Consultancy, Serving ODPM, DfT and Defra, 2005

¹ 144 projects replied to the survey. Many of these projects carried out more than one activity

² This column does not add up to 144 as some projects did not specify which activity best described their project.

Forty-four projects (representing 31% of respondents) indicated that their primary activity was the refurbishment and re-use of furniture and white goods, confirming the key role of this area in the sector. Other activities ranked as most important included kerbside collection of dry recyclables (11 organisations), waste awareness/minimisation/education (11 organisations) and scrapstore (10 organisations).

However, it is worth noting that many respondents appear to be carrying out several activities rather than focusing on just one or two. Whilst this is often related to the enthusiasm of individuals leading the organisation for recycling and waste minimization, it may also reflect a lack of focus, with organisations diversifying activities before they are ready to do so. This tendency to carry out a range of activities may have an impact on the potential development of the sector.

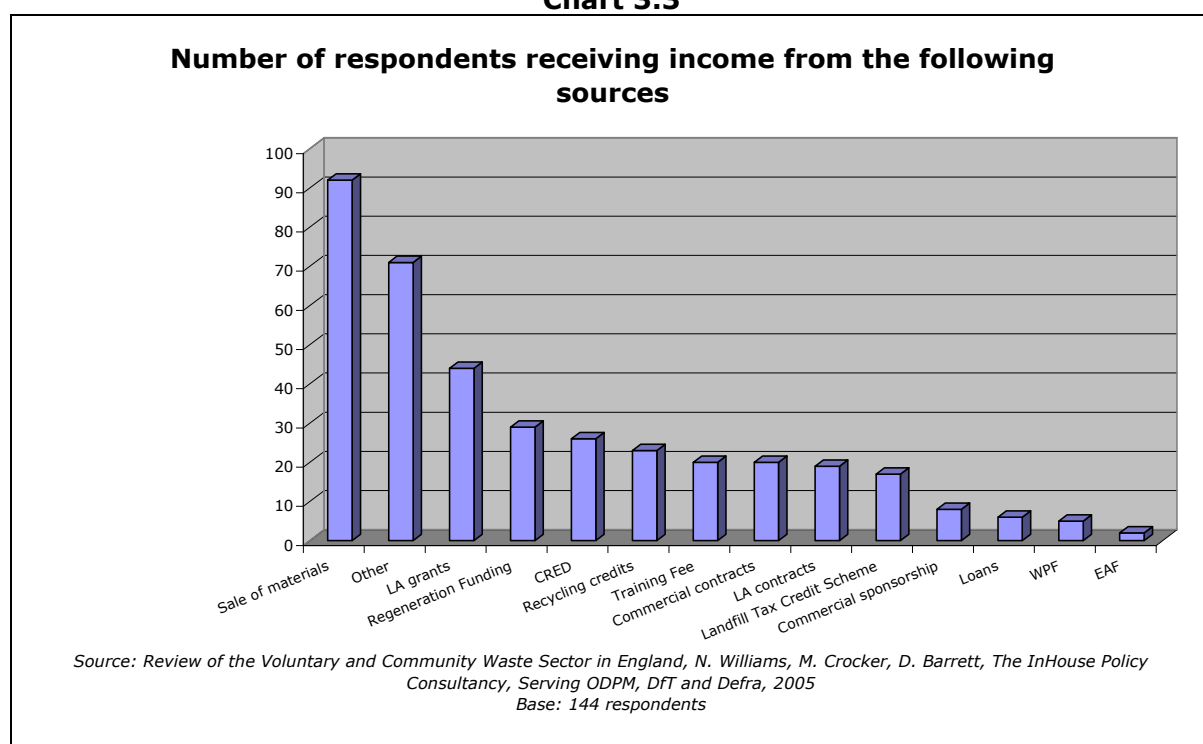
Income streams

The authors of the 'Review of the Voluntary and Community Waste Sector in England' compared their own survey results with those from the University of Bradford, whose survey was carried out in 2002. They found a significant shift in the type of material collected **away from paper and cardboard towards white goods and furniture**. This may point to a change in the role played by CWS organisations away from kerbside collection and towards the collection of white goods and furniture for re-use or towards niche markets such as wood and paint recycling. As noted in Section 2.3.1, social enterprises in the waste collection sub-sector have been slowly displaced by large waste management organisations.

This is confirmed by looking at the different income streams. In 2005, fewer organisations reported to be selling the materials collected commercially than in 2002 whilst a greater proportion of organisations provided the items collected to low-income households, either free or at discounted rates. There was also a marked reduction in the proportion of respondents receiving income from commercial contracts, local authority and commercial sponsorship.

Almost a third of the respondents reported to have 4 or more income streams in 2005. This is one of the key differences between social enterprises and SMEs. SMEs generally sell one key product or service. Social enterprises typically generate income in multiple ways: by training individuals, by selling materials or furniture, by receiving grant funding or through contracts with the local authority. Hence the complexity of business planning in social enterprises and the amount of resources that needs to be devoted to building relationships with the various clients.

Chart 3.3



Although a majority (64%) of respondents indicated that they received some income from the sale of materials, a significant proportion of respondents also received money from local authorities in the form of grants (31%) and from central government funded schemes. Over the past 12 months, 20% of respondents received regeneration funding whilst 18% reported receiving CRED funding. Around half of respondents also mentioned receiving some other income, including grants and donations from other bodies.

It would be interesting to follow-up this survey to see whether grant-funding becomes a less significant income stream, with organisations having to become more commercially-oriented. This would support the theory that the CWS is effectively moving towards the social enterprise model.

It is however interesting to use the survey results from the 'Review of the Voluntary and Community Waste Sector in England'²³ to try and estimate the proportion of organisations from the CWS that are effectively social enterprises. Using the Social Enterprise Coalition definition of a social enterprise – social enterprises earn over half of their income - we find that out of 144 respondents:

- 32 (22%) earned over half of their income through either the sale of materials, commercial contracts, local authority contracts, recycling credits or training fees;
- 27 (18%) organisations earn between 31 and 50% of their income through either the sale of materials, commercial contracts, local authority contracts, recycling credits or training fees;
- More than half of the income of 24 organisations (17%) came from local authority grants, the landfill tax credit scheme, regeneration funding or CRED;
- Income sources for the vast majority of the other organisations were a mix of all the sources quoted above.

The way the survey results are presented do not allow us to derive the exact number of social enterprises but, on the basis of the numbers quoted above, we estimate that social enterprises could make up between 40 and 60% of the CWS. If we gross up the numbers, this means that **there could be between 400 and 600 social enterprises in the waste sector**²⁴.

There is very little published information on the number or activities of social enterprises in London. A report by the London Assembly²⁵ found that in 2004, there were around 5,300 social enterprises in the capital. The LCRN membership list suggests that there could be between 40 to 60 social enterprises in the waste sector in London.

3.3 Contributions of social enterprises within the waste market

3.3.1 Scale of social enterprise activity

The *Review of the Voluntary and Community Waste Sector* used survey results²⁶ to gross up tonnage of waste diverted by these organisations and found that the CWS may deal with between 362,000 and 798,000 tonnes of waste per year²⁷, with a central estimate of around 500,000 tonnes. This is equivalent to around 11%²⁸ of total household waste recycled or composted in England in 2003/04.

Total income in the sector²⁹ was estimated to be over £100m. The authors stress the fact that the ratio of income to tonnage varies greatly between organisations, reflecting the diversity of objectives, activity, organisational arrangements and materials handled.

It is likely that although social enterprises may account for only 40 to 60% of the CWS, they generate a relatively greater proportion of this income and probably account for

²³ *Review of the Voluntary and Community Waste Sector in England*, N. Williams, M. Crocker, D. Barrett, The InHouse Policy Consultancy, Serving ODPM, DfT and Defra, 2005

²⁴ This uses the central number (1,000) from the *Review of the Voluntary and Community Waste Sector in England* that estimates that there is between 800 and 1,200 CWS organisations in England.

²⁵ Social enterprises in London, Report of the Economic and Social Development Committee, London Assembly, April 2004

²⁶ 767 organisations were sent a questionnaire. The response rate was 18.8%

²⁷ CWS organisations deal with municipal, industrial and commercial waste although no attempt has been made to estimate each type of waste.

²⁸ This is somewhat an over-estimate as it includes 'waste' sent for re-use.

²⁹ This estimate was derived for organisations whose core activities are waste-related. It does not include the income of charities such as Oxfam whose prime purpose lies elsewhere.

slightly less than 10% of total household waste recycled and composted. Since household waste accounts for 9% of total waste in the UK³⁰, this may mean that **social enterprises in the waste sector may deal with around 1% of total waste.**

3.3.2 Current and forecast size of the waste market

To get an idea of the scale of social enterprise activity in the waste market, it is useful to relate this activity to the actual size of the waste market in the UK. Estimates of the size of the waste market in the UK somewhat vary. For example, a recent report for DTI and Defra³¹ found that industry spent £1.36bn on solid waste management in 2003³² whilst public expenditure on waste management was £3.3bn in 2003, rising to £3.5bn in 2004. By contrast, in a report for HM Treasury³³, Integrated Skills Ltd found that the annual turnover of the UK waste management industry stood at around £4.2 billion in 2003 while, in the same year, Defra/DTI suggested³⁴ that ONS returns for 2003 gave the waste sector a turnover figure of £14.6 billion.

These are wide variations, by any standard. Not surprisingly, there are corresponding variations in the projections of the future:

"The market for [Waste Management] is estimated at £8.1bn for 2005, growing to £11.4bn in 2010 and on to £15.9bn by 2015"³⁵

"Driven by Government policy and legislation at both UK and EU level, [the recycling] sector turnover is predicted to expand rapidly to £20-£30 billion within 15 years"³⁶

Nonetheless, this suggests that **the current contribution of social enterprises to the waste market is relatively small. However, it may be easier to help a small sector grow than a mature sector, especially in view of the expected growth in the total market.**

3.4 Key success factors

This section looks at the factors that make social enterprises in the waste recycling/re-processing sector successful. However, before looking at the different factors, we need to define what is meant by 'successful'.

3.4.1 Definition of 'Success'

Success is defined as '*an event that accomplished its intended purpose*'. This underlines the relativity of success. Measuring the success of social enterprise in waste management from Defra's point of view is different from measuring whether a social enterprise in this sector is successful from the organisation's point of view.

This is because the objective of Defra in encouraging the development of social enterprise in the waste sector is to work towards the UK's 2020 target of reducing biodegradable municipal waste landfilled to 35% of that produced in 1995. The intended

³⁰ <http://www.defra.gov.uk/environment/statistics/waste/kf/wrkf02.htm>

³¹ Emerging Markets in the Environmental Industries Sector, UK CEED for DTI & Defra, November 2006

³² These figures are for the extraction, manufacturing and energy and water supply industries only, i.e. they do not include construction or service industries or the domestic sector, all of which are significant generators of waste (URS, 2005).

³³ An Assessment of Options for Recycling Landfill Tax Revenue, Integrated Skills Ltd for HM Treasury, Feb 2004

³⁴ Mapping the UK Environmental Goods and Services Sector, EIU (Defra/DTI) 2004

³⁵ Emerging Markets In the Environmental Industries Sector, DTI/Defra November 2006

³⁶ http://www.wrap.org.uk/businesses/investors/why_invest_in.html

purpose of social enterprise from Defra's point of view is therefore '*diversion of waste from landfill*'.

In contrast, social enterprises in the waste sector pursue a number of objectives. These are environmental, social and financial. As a result, social enterprises measure their success in terms of whether they are meeting all these objectives. Some social enterprises may put a greater emphasis on social objectives whilst for others the primary objectives may be environmental. In all cases, success is underpinned by financial success.

The following section looks at key success factors from the social enterprise's perspective. We will come back to success as per the Defra definition in Section 4.3.

3.4.2 Key Success Factors

We identified key success factors in the first part of the research, when we undertook eight case studies, six of which were 'successful' social enterprises and two of which had encountered major problems (which had led, for one of them, to bankruptcy). These social enterprises were:

- Brighton & Hove Wood Recycling Project;
- Create Liverpool;
- Create Tottenham;
- ECT;
- Green-Works;
- Recycling Works Services;
- Respond Thamesmead; and
- Tower Hamlets Community Recycling Consortium.

We present below a summary of these key success factors. A full analysis can be found in the Interim Report³⁷.

Leadership

Strong leadership is a key aspect of successful businesses. Leadership involves having a personal vision for the organisation and the skills to move the organisation towards that vision. Social enterprises are no different from businesses in general even though that vision usually involves a strong ethical motivation.

However, leadership is not always present in social enterprises. Our experience has been that:

- Founders may not always have the leadership skills required to work towards the objectives they set out to achieve;
- Founders do not always plan for their succession and boards may not spend much time considering this either. A few of our case studies suffered from the (often sudden) departure of the project manager. This lack of forward thinking means that the succession has to happen quickly not to disrupt operations. As a result, the new project manager, usually an existing member of staff, may not necessarily have the required skills for the post.

³⁷ *Replicating Success: Social Enterprises & the Waste Sector in London, First Interim Report*, Brook Lyndhurst, January 2006

- There can be major differences of opinion between board members/trustees and the director, somewhat paralyzing the whole organisation. However, the role of the board can be important in helping an organisation move forward. Competent non-executive directors may have a more detached and objective view of the business' performance and they may be better able to have an impact in the re-structuring of a failing organisation than staff within the organisation.

Another key aspect of leadership in the social enterprises under study is the ability of these enterprises to make use of their status to lever additional resources. One of our case studies was able to have two individuals from an insurance company seconded to help them undertake a feasibility study. Blue chip companies are also showing growing interest in the sector and are willing to invest time and financial resources to help develop the sector. For example, the Community Action Network (CAN) is running the Breakthrough scheme with Permira, a leading private equity firm that "*provides strategic support and growth capital to a select group of established social enterprises with the ambition and the potential to scale up significantly their business and their social impact*"³⁸.

Sound Management and Processes

Successful social enterprises are also characterised by effective management systems that allow them to monitor their performance and to spot problems and opportunities as they arise. However, in general and not surprisingly, established social enterprises are more likely to have these systems in place than newly established ones.

Conversely, social enterprises which have failed suffered from poor management. One of our case studies did not have proper financial management procedures in place, and the Board did not exercise enough control over the organisation.

This is also a wider issue that may have an impact on the ability of Voluntary and Community Sector (VCS) to turn themselves into social enterprises. There is anecdotal evidence that VCS organisations generally lack the skills necessary to set up effective management systems. One possible way to address this issue is to help them install a competent board who would have the power to restructure and put in place a strong executive function.

Sound management processes are essential to any company wishing to secure a long-term future. It may be even more so to social enterprises graduating from being a small entity set up by a founder with a strong ethical motivation to being a full-blown enterprise providing both services to a wide range of stakeholders and employment to the local community.

Commercial Orientation

To be considered a social enterprise, an organisation has to generate at least 25% of their income³⁹. Our 'successful' case studies were all commercially sustainable organisations with grant/state funding accounting for a very small fraction, if any, of their income. They all provide a service – in recycling, retailing or training disadvantaged people – for which they receive remuneration.

³⁸ <http://www.can-online.org.uk/services/socialinvestment.asp#socialfranchising>

³⁹ *There's more to business than you think: A Guide to social enterprise*, Social Enterprise Coalition, 2003

However, margins in social enterprises in the waste market are relatively low, hovering between 3 and 5%. This may partly explain why there is relatively little competition from the private sector in the re-use sector.

One consequence of low margins, it is argued, is the subsequent inability of social enterprises to raise finance, hence the need for grant funding for expansion projects. Whilst this is a very real issue, identified in the 2002 Social Enterprise Strategy and underlined again in the OTS Action Plan for Social Enterprises (see Section 2.2), the inability of social enterprises to raise finance also reflects their attitude to risk. A number of social enterprises do not want to 'burden' themselves with loans when they can access finance through grants.

The community-finance initiative, 'Futurebuilders' is addressing these cultural issues by providing both grant-funding (usually to build capacity within an organisation) and loan-funding. Business support is also provided to help the organisations benefiting from funding to achieve their objective.

Partnership & Community Support

Support from the community and partnerships with other organisations are instrumental to the success of social enterprises. Support from the community can come from a number of sources including:

- The council;
- Members of the public;
- The local media;

Partnerships can also be formed with:

- Local businesses, especially outside the municipal waste stream;
- Other social enterprises.

3.5 Findings from Phase 2 Secondments

In Phase 2 of the research, researchers from Brook Lyndhurst were seconded for one day per week for 4 to 6 months in four social enterprises in London. These social enterprises were: Aardvark Recycling, Croydon ARC, Fareshare and Furniture Aid South Thames. At the time, these social enterprises were receiving support from the ENHANCE programme and needed help to implement this support.

From the researchers' point of view, the objective was to understand how this support was helping them address weaknesses in the four areas identified as priority areas for success in Phase 1 (i.e. leadership, management and processes, commercial orientation and partnerships and community support) and to help them implement the support received.

3.5.1 Enhance support

The table shows how the Enhance support given to the four social enterprises relates to the key success factors presented in the previous section. To preserve potentially commercially-sensitive information, we will refer to these social enterprises in an anonymous way.

Table 3.3: Support provided and links with key success factors					
	Type of support provided by Enhance	Leadership	Management and processes	Commercial orientation	Partnerships and community support
SE 1	Business plan		✓	✓	
SE 2	Feasibility study to develop new services			✓	✓
SE 3	Assistance with processes, governance structure and business development	✓	✓	✓	
SE 4	Assistance with governance structure and management standards	✓	✓		

3.5.2 Lessons learnt

In this section, we give a brief summary of our analysis of the impact of the Enhance support upon these four social enterprises.

SE1

SE1 had been suffering from a marked fall in revenue due to the end of the CRED funding and was facing an immediate threat, having been asked to vacate their premises within 3 months. Therefore, LCRN was enlisted to help them develop a business plan that would identify options to increase their income. Whilst the business plan fulfilled the brief and offered a number of avenues for the social enterprise to consider, SE1 was not able to implement the business plan whilst we were working with them.

Several factors contributed to this:

- Firstly, the lease for the premises was renewed for one year, removing the immediate threat faced by the social enterprise;
- Secondly, weaknesses in governance meant that this social enterprise did not seize the opportunity offered by the business plan to develop a medium term strategy.
- SE1 also lacked internal processes and the secondee was actively involved in helping them set up such processes.

Working with this social enterprise showed that capacity building needs to happen before business support is provided. This social enterprise, which had roots in the Voluntary and Community Sector, was not at a stage where it could benefit from business support as such.

SE2

This social enterprise was busy establishing new services at the time of the secondment and on behalf of SE2, LCRN used the Enhance programme to carry out:

- a feasibility study for providing services to a specific sector, as well as;
- a cost model to extend current services.

In addition, the secondee's brief was to help SE2 engage with key stakeholders to ensure buy-in at the local level.

The business support provided by LCRN did help the social enterprise to develop activities. However, the secondee was not able to do as much community engagement as originally expected. This was partly because community engagement was scheduled to happen through the director attending local housing forums but local housing forum boundaries were in the process of changing. As a result, dates at which these meetings were supposed to happen were unclear. This was also because community engagement was relatively low on SE2's agenda. This perhaps reflects the fact that this social enterprise was relatively commercially-oriented and more intent on developing the business side of the enterprise than its social/community side.

SE3

Support provided to SE3 through the Enhance programme covered a wide range of areas, from assistance with changes to the membership structure to research into potential new markets and assistance with setting up internal processes.

The support provided was appropriate for this social enterprise and helped them sort out some of their more pressing problems. However, current weaknesses in governance as well as the legacy left by several years of poor management meant that the very future of SE3 was uncertain at the time our researcher completed her secondment. It would have perhaps been judicious for LCRN to undertake an assessment of the situation before providing business support to ensure the benefits of the support provided would not evaporate due to events outside their control.

SE4

SE4 also benefited from a range of business support services including legal advice on SE4's status, a feasibility study on starting a commercial venture and advice on how to move forward to comply with the environmental management standards ISO 14001. The secondee continued the work started through Enhance. This work focused on helping the social enterprise formalise internal processes needed as the organisation's new business venture expands, as well as to prepare the organisation for the standards needed for ISO certification.

The support from Enhance has been instrumental in allowing this organisation develop commercial activities. However, it was felt that more could have been done to help the organisation prioritise future areas of activities. At the moment, different avenues are being explored but there is no sense of which area should take priority. One risk is that this may lead to management being overstretched.

3.5.4 Other issues

Another issue that arose in two of the social enterprises mentioned above is conflict of interest. LCRN was instrumental in setting up these two organisations and some of its staff were key members of the governance structure in these social enterprises. The same people were also involved in the decision to grant these organisations business support through the Enhance programme.

LCRN also recognized that business support was given to almost all the social enterprises asking for assistance in accordance with the Enhance criteria. There was no strategy aiming at prioritising support according to the *actual* need for support – as opposed to the *perceived* need – and the likely impact of the support.

3.6 Concluding Remarks

Defining the boundaries of social enterprises in the waste sector proves challenging. This is because social enterprises in the waste sector:

- Include community-based, local organisations with limited enterprising aspirations, as well as larger, commercially-oriented organisations;
- Have perhaps not developed as rapidly as social enterprises in other sectors due to a number of factors including lack of markets and relatively low interest from the general public; and
- Do not always identify with being part of the 'waste sector'.

We estimate that there are around 400 to 600 social enterprises dealing with less than 10% of the municipal waste stream (or 1% of the total waste market). The sector is therefore relatively small. However, the waste market is expected to grow rapidly over the next 10 years and it may be easier for a small and dynamic sector to grow more rapidly than the sector as a whole.

Our experience with the secondments in four social enterprises showed that there is potential for dynamic growth in this sector provided:

- Adequate support is available. Some social enterprises need capacity building before being able to 'consume' business support. Yet, social enterprises are either not aware that this is the type of support they require or do not know how to access this type of support;
- Social enterprises need to start taking a more strategic vision when considering their potential for development. Too often, social enterprises are trying to develop several types of activities at the same time, without giving due consideration to the impact on resources. Very few appear to prioritise potential areas of development.

4 What Future for Social Enterprise in the Waste Sector?

Having looked at the current profile of the sector, we move on to its future, looking at both threats and opportunities. This section also reflects on how to 'grow' the sector and looks at potential models for up-scaling social enterprises in the waste sector.

4.1 Threats

Demand Side

Conclusions from the Gershon Review

As mentioned in Section 2.3, the Gershon Review has contributed to the concentration of municipal waste contracts in the hands of a few private waste management contractors in a bid to cut local authority spending. By fixing a £300 million target for efficiency gains in waste services with Defra, the Review has been interpreted by many local authorities as a need to rationalize waste contracts above all else.

However, there is a need to consider the impact of social enterprises beyond the service they are contracted to deliver in order to assess the true value of that service. For example, there is anecdotal evidence that social enterprises are better than commercial organisations at engaging with the communities they serve. Some social enterprises operating recycling services on high-rise estates have reported falling crime levels due to the presence of operatives and community outreach workers on the estates.

Another example is that a number of social enterprises engaged in recycling collection activities use source-separated⁴⁰ methods. These methods are more labour-intensive but the materials do not need to be further sorted at a Materials Recycling Facilities (MRFs). Whilst costs associated with source-separated methods of collection may appear to be higher at first, local authorities using source-separated methods of collection do not need to invest resources in building MRFs and save money on the gate fee charged by contractors using commingled methods of collection.

The two examples given above show the role social enterprise can play in helping local authorities become more efficient. In the first scenario, local authority spending on safety and order may eventually decline due to the impact of the social enterprise. In the second scenario, the local authority may actually save money in the long term as it will not need to help finance the building of a MRF and to pay on top of that, the gate fee. Using source-separated methods of collection could also lead to local authorities being able to demonstrate lower carbon footprints.

The research suggests that few local authorities are currently considering the potential for social enterprises to meet cross-cutting objectives. The *Review of the Voluntary and Community Waste Sector*⁴¹ suggests that even when local authorities recognize the potential for cross-cutting benefits, they struggle to handle them and may need guidance in this area.

It is also the case that cross-cutting benefits provided by social enterprises in the waste sector include factors difficult to quantify such as:

- Improved self-esteem amongst volunteers as well as a sense of contributing to a worthwhile cause;
- Employment and training for some of the hard-to-reach unemployed;
- Provision of basic items (bed, fridge, cooker) for the socially excluded.

⁴⁰ Recyclates are separated at the kerbside as opposed to when collections are co-mingled

⁴¹ *Review of the Voluntary and Community Waste Sector in England*, N. Williams, M. Crocker, D. Barrett, The InHouse Policy Consultancy, Serving ODPM, DfT and Defra, 2005

One objective of the secondments we undertook in Phase 2 was to try and measure the social impact of these social enterprises. For example, F.A.S.T., a furniture re-use social enterprise⁴² had carried out a one-off customer survey. It showed that:

- all the interviewees found that the services provided by the project are essential to their community and all of them were also ready to recommend F.A.S.T.
- 7 out of the 20 interviewees said they either did not know what they would have done if F.A.S.T. has not been there or they would have gone without the furniture purchased there.
- the large majority of those surveyed had come to purchase essential items such as a bed, a washing machine or a cooker.

Although major caveats have to be attached to these findings as the sample only included 20 clients, findings suggest that social enterprises do fill a gap in the market and that the services offered are valuable to the community.

However, measuring social impact was not routinely undertaken in any of the social enterprises we worked in. This reflects a wider problem in the social enterprise sector where the importance of being able to demonstrate social impact to funders is not yet fully recognized.

Lack of access to finance

Social enterprises are reportedly more likely to cite access to finance as a barrier to growth than mainstream SMEs⁴³. The Government's approach to addressing this issue has been threefold:

- Firstly, it has sought to raise the profile of social enterprise amongst commercial lenders;
- Secondly, it has established schemes and initiatives specifically aimed at social enterprises that may be considered too risky by commercial lenders to improve access to debt finance.

One of these schemes, Futurebuilders, offers long-term finance arrangements and development support to social enterprises involved in public service delivery. Loans and grants available through Futurebuilders are intended to build organisational capacity so that, in future, these organisations can apply to conventional lenders for debt finance. As mentioned in Section 2.2.4, the programme will open to all sectors, including waste, from April 2008.

However, it is currently a requirement for social enterprises applying for Futurebuilders loans and grants to derive at least 50% of their income from public sector contracts. Should this requirement remain, a significant number of social enterprises in the waste sector, including those in re-use, could be excluded from the scheme as a most of their income is generated through sales.

- Thirdly, the Office of the Third Sector has commissioned projects to investigate methods to encourage private investment in social enterprises in response to the reported lack of equity finance available to social enterprises. Private investors are reportedly reluctant to consider social enterprises as social enterprises tend to reinvest profits in their social mission. However, the stakeholders' interviews suggested that there may be investors in the market, ranging from trusts and

⁴² Survey of 20 clients undertaken by FRN in 2006 on behalf of Furniture Aid South Thames.

⁴³ DTI (forthcoming) *Finance for Small and Medium-Sized Enterprises: Comparisons of Social Enterprises and Mainstream Businesses*

foundations to ethical investors, who would be prepared to take a mix of financial and social return.

Whilst this work may go some way to improve access to finance for social enterprises, no consideration seems to have been given to why these organisations are considered too risky by commercial lenders. It may be that the lack of access to finance is related to the lack of internal processes within some of these organisations. This issue is clarified further in the section below.

Within the Social Enterprise sector

Lack of internal processes

There is a great diversity of social enterprises in the waste sector (see Section 3.1.3), with a significant proportion that originate from the VCS. Such organisations have often been set up by social entrepreneurs driven by passion and a vision of the objectives they strive to achieve. However, one common shortcoming of these social enterprises in the sector is the ***lack of attention given to processes*** which may result in products and services of a lower quality than that delivered by the private sector. Establishing processes is indeed perceived as a dull and repetitive task which does not sit easily in the mindset of social entrepreneurs. This is contributing to holding back the development of small social enterprises into medium and large social enterprises and is posing a very real threat to the future ability of the sector to up-scale.

Other threats related to the lack of internal processes include:

- In their attitude to borrowing: social enterprises appear to be reticent to borrow money. For some, this may be linked to their charitable status. Indeed, the responsibility for a charity ultimately rests with its board of trustees. Decisions made by trustees are therefore often conservative and risk-averse.
- In their attitude to negotiating contracts with local authorities: stakeholders' interviews suggested that social enterprises are generally not good at marketing themselves to the public sector. Social entrepreneurs can be very enthusiastic individuals with a high profile but may not necessarily know which 'buttons to press' with the public sector. These skills can be acquired provided social entrepreneurs recognize that they do have skills gaps.
- In their attitude to the activities undertaken: as seen in Section 3.2., social enterprises tend to undertake several activities, often because these activities are complementary. However, this also means that there can be a lack of focus within the organisation. This lack of focus may be related to the lack of internal processes mentioned above. By cutting out the number of activities undertaken and focusing efforts on the core activity, social enterprises may be more likely to achieve growth.

Governance issues

Governance is an issue affecting a large number of social enterprises with charitable status. This is because charities are controlled by trustees who do not always have the necessary skills and time to steer the organisation on a growth path. Recruiting trustees is a difficult task and, often, social enterprises do not have much choice but to recruit those individuals that are willing to become trustees. The more high profile and savvy social enterprises are the most likely to make sure they have trustees with legal, financial, fund-raising and marketing backgrounds.

However, this issue is rising on the agenda. Research has been commissioned by the Governance Hub⁴⁴ in partnership with the Social Enterprise Coalition into the governance support needs of social enterprises. It is also worth noting that some organisations (e.g. Primetimers, Rockpools) specialise in supplying trustees coming from the private sector to third sector organisations with a view to enhance the social enterprise's professional, business and management skills. Raising the profile of these organisations within the social enterprise sector should be a priority.

Missed opportunity

In 2003, the New Opportunities Fund launched the £49.5 million Transforming Waste Initiative. The objective of the Initiative was to expand community sector waste reuse, recycling and composting. In England, the programme, known as the Community Recycling and Economic Development Programme was run by the Royal Society of Nature Conservation (RSNC). In England, the CRED programme benefited 179 organisations between 2003 and 2005⁴⁵.

The CRED programme was timely in that it was supposed, among other things, to help build the capacity of the sector before the Waste Electrical and Electronic Equipment (WEEE) Directive⁴⁶ was implemented in the UK. The WEEE Directive was indeed agreed in February 2003 at the European level and was due to be transposed into UK legislation by August 2004 before coming into force in August 2005.

Recycling and re-use groups therefore submitted bids for CRED funding with these timings in mind, ensuring that the need for additional capacity could be met from August 2005 onwards. However, the UK implementation of the Directive kept being delayed and has only just entered into force in January 2007.

This delay has had an unfortunate impact on social enterprises engaged in the recycling and re-use of WEEE. The funding structure of the CRED programme was not flexible enough to allow for this delay to be taken into account. As a result, many organisations drew down the funding and increased capacity even though take-back contracts with producers and retailers were not yet in place. As a result, the funding came to an end before these organisations were able to generate the income that would have allowed them to become financially sustainable. The only option in the face of continued uncertainty regarding the WEEE Directive, was to downsize.

This is a major missed opportunity as the CRED Programme has now finished and there is no funding programme on this sort of scale available to the sector any more.

⁴⁴ The Governance Hub is one of six Hubs of expertise, developed as part of the Home Office-funded Change Up programme to build capacity and improve the infrastructure of the voluntary and community sector.. The Hub is funded by Capacity Builders. More information can be found on www.governancehub.org.uk

⁴⁵ *The Evaluation of the Transforming Waste Programme, Annual Report*, ERM for the Big Lottery Fund, October 2005

⁴⁶ The WEEE Directive aims to reduce the quantity of waste from electrical and electronic equipment and increase its re-use, recovery and recycling. The Directive affects producers, distributors and recyclers of electrical and electronic equipment – including household appliances, IT and telecoms equipment, audiovisual equipment, lighting, electrical and electronic tools, toys, leisure and sports equipment. (Defra website)

4.2 Opportunities

Demand side

WEEE Directive

We have touched on the WEEE Directive in the previous section and showed how the delay in its implementation has had a detrimental impact on the development of the sector. The Directive has now entered into force and there is hope that the sector can at last seize the opportunity.

This is how producer responsibility in the UK will be put into place:

- Producers are responsible for financing the management of consumer electrical and electronic waste. They will have to pay for the collection, reprocessing and sound environmental disposal of waste equipment;
- To do so, they are required to join individual or collective compliance schemes and to inform their scheme about the amount of products they place on the market. Each compliance scheme will arrange the collection, reprocessing and sound environmental disposal of waste equipment arising in each compliance period on behalf of their members. The amount of WEEE treated by each scheme will be based on the amount of equipment placed on the market by their members.

The WEEE Directive effectively creates a much needed boost to the market for re-use social enterprises by giving priority to re-use over recycling. Indeed, it states that

'an operator of a scheme shall ensure that systems are set up to prioritise the reuse of whole appliances'⁴⁷

In theory, producers should support re-use as this lowers their own recycling and disposal costs. It also forms part of their social and corporate responsibility activities. In addition, producers are keen that the refurbished market should not be a threat to the market for new appliances and, therefore, should favour social enterprises engaged in re-use as they mostly sell refurbished appliances to low-income families.

The Second Kelly Market (SKM) report

As explained in Section 2.3.2, the SKM report expresses several concerns, one of which is the concentration of local authority waste contracts in the hands a small number of contractors. Some of the stakeholders we talked to expressed the view that the conclusions and recommendations of the report present an opportunity for social enterprises, provided these recommendations are acted upon by both Defra and local authorities.

Smaller private waste contractors and social enterprises engaged in collection activities are amongst the organisations that could bring some competition in the market. If local authorities were to review their contracting arrangements and let different contracts for collection, disposal and street cleaning, it may be possible for social enterprises to re-enter the market.

A view was expressed that this could also help local authorities achieve efficiency gains as smaller contracts are easier to specify. Our interviewee also believed that it would be easier for local authorities to appreciate what bids include and do not include in smaller contracts than in 25-year integrated contracts.

⁴⁷ The Waste Electrical and Electronic Equipment Regulations 2006, Environmental Protection, 2006 No 3289

Need for good quality recyclates

The community sector has recently launched "The Campaign for Real Recycling"⁴⁸ in partnership with major UK re-processors and Friends of the Earth to lobby central and local government 'to act urgently to improve the **quality** of materials collected for recycling in the UK'.

The concern is that collection methods that gather recycling materials in one bag and compact the materials before they are sorted contribute to contamination and undermine the quality of the materials. Re-processors in the UK are reportedly worried that the recyclate feedstock they are receiving does not meet the standards required for their own products.

The campaign gives a number of reasons why source-separated collections are better than co-mingled collections including:

- the potential to increase revenue from sale of materials due to their higher quality;
- no need for a MRF and therefore lower capital costs and a reduced carbon footprint;
- more local jobs; and
- the potential for giving householders immediate feedback which can help change and embed behaviour.

One of our interviewees argued that separating materials at source is the most cost-efficient collection method and could lead to waste collections being entirely financed by the sale of materials in future. Indeed, prices for recyclates have been following an upward trend over the past ten years and there are no indications that this is about to change, especially in view of increased demand for and scarcity of some materials.

Should this campaign be successful – the Welsh Assembly is reportedly taking on board these recommendations – this could give a much needed boost to the community sector engaged in waste collection activities as many of these organisations operate source-separated collections.

Within the Social Enterprise sector

WEEE and Authorised Re-use Centres

As mentioned above, the implementation of the WEEE Directive is a major opportunity for re-use social enterprises. To make the most of this opportunity, the Furniture Re-use Network (FRN) is set to co-ordinate the development of regional hubs operated by social enterprises to provide a service to Local Authorities, retailers and other WEEE stakeholders to help the separation of WEEE from the domestic waste stream. The objective of these facilities will be to ensure that good quality reusable electric and electronic equipment is repaired and fully tested before it is sold to people in need. It is expected that these facilities will also have the capacity to take on other services such as collection, low-level treatment, dismantling, storage and transportation for further re-processing.

To this end, FRN has developed a relationship with one of the compliance schemes, REPIC. In the furniture sector, FRN is also talking to major producers, retailers and hoteliers to try and set up clearance contracts. This means that social enterprises engaged in furniture re-use would have access to factory seconds, showroom items as well as furniture routinely discarded every 2-3 years. If these contracts come to fruition, this could contribute to a dramatic up scaling of the sector.

⁴⁸ <http://www.realrecycling.org.uk/home.php>

Another aspect of FRN's work is to develop codes of practice to ensure that their members have the capacity and abilities to meet the new legislation requirements. FRN is therefore developing its own accreditation and kite mark system to give assurances to Producer Compliance Schemes on the competencies of its members' services. Only social enterprises with this kitemark will be able to access to the contracts negotiated on their behalf by FRN.

Niche markets

The *Review of the Voluntary and Community Waste Sector*⁴⁹ remarked that as CWS organisations were being pushed out of collection contracts, a number was reportedly shifting their focus on harder to collect items (e.g. wood, some types of plastics, cork, aluminium, paints...) that are unlikely to be profitable for private companies.

This suggests that social enterprises have been pro-active and identified gaps in the various waste markets. While many of these social enterprises deal with small tonnages of waste, there is potential for replicating the various models (see Section 4.3). It is also important that stakeholders in charge of finding large-scale solutions to wood and plastic waste streams are mindful of these social enterprises that are operating at the re-use end of the waste hierarchy. Indeed, large-scale recycling solutions may have a detrimental effect on these social enterprises and shut them out the market.

4.3 Replicating versus up scaling

Having looked at the threats and opportunities facing the sector, we now look at the options for 'growing' the sector, and making it 'successful' in terms of increasing the amount of waste it currently deals with.

New entrants

As we have seen in the previous section, developments in the re-use market mean that there is an urgent need for new capacity to become available in the sector. One model would be to promote the development potential of this sector to existing organisations. Housing associations, social enterprises dealing with disabled and special needs individuals or social enterprises dealing with the homeless may be interested in diversifying their activities.

Furniture and WEEE re-use may be an interesting proposition for these organisations as traditional funding streams are drying up. This could be promoted as an opportunity to generate income and to work towards financial sustainability.

There are also a number of ideas being pioneered by organisations such as Ashoka or Big Invest. For example, Big Invest is about to introduce a new scheme to raise funds for leveraged buyouts of private firms to transform them into social enterprises. Whilst the focus is expected to be on firms in the health sector initially, there is no reason why this scheme could not expand to include firms in other sectors in the future.

Encouraging established new entrants could be a way to expand the sector relatively rapidly as these organisations already have systems in place and may need less support and less time to become operational.

⁴⁹ *Review of the Voluntary and Community Waste Sector in England*, N. Williams, M. Crocker, D. Barrett, The InHouse Policy Consultancy, Serving ODPM, DfT and Defra, 2005

Up-scaling

Again, up-scaling could become a reality for several furniture and WEEE re-use social enterprises; especially those that are to become regional hubs (See section 4.2. Opportunities). However, we strongly believe that their potential for growth will depend on two major factors:

- their ability to establish internal and external processes - this is being addressed by the FRN kite mark - and;
- their ability to attract staff with marketing and financial skills. This is more of a problem as, in order to do this, these social enterprises need to be able to offer competitive salaries.

In the waste collection sector, up-scaling is difficult to envisage until contracting issues raised in the previous sections are addressed. A couple of the social enterprises we talked to in the first phase of this project were hoping either to have collection contracts renewed or to win contracts in other local authorities. As it happened, none of these contracts came to be either renewed or let to a social enterprise. It is therefore likely that these social enterprises have not been able to up-scale as anticipated.

Some of the social enterprises engaged in waste collection are now turning their effort towards businesses. However, it is too early to say how successful they are in winning commercial contracts.

Our general feeling from both the case studies and the secondments is that few of the social enterprises we talked to are looking to significantly expand. A number of them are focused on survival, others do not believe their model would be viable should they try to expand significantly whilst others have tried to expand but have not been successful. Those that are trying to up-scale activities are either already well established or operating in a dominant position in the market they serve.

Model Transferability

It is likely that some sub-sectors such as wood, paint, scrapstores will remain niche markets, partly because there is limited scope to increase demand for these goods. However, there is scope to increase the number of local projects by transferring best practice.

This is the model chosen by the National Community Wood Recycling Project. The mission of this project is to help replicate the Brighton & Hove Wood Recycling Project by encouraging and assisting the setting-up and continued development of community-based wood-recycling projects. There are now more than 20 such projects in the UK.

Conclusion

There does not seem to be a one-size-fits-all model of development for all social enterprises operating in the waste sector. Consideration needs to be given to regulatory drivers – which vary according to the waste stream under consideration – and to the potential market for each type of recycle.

The potential for up-scaling and attracting new entrants is greatest for social enterprises engaged in waste collection, furniture and WEEE re-use while there is potential to increase the number of social enterprises operating in more niche markets.

5 What Role for Government to Enable the Development of Social Enterprise in the Waste Sector?

5.1 Introduction

Given the broad policy background (Section 2), the current situation affecting social enterprises in the waste sector (Section 3) and the forces shaping future prospects for social enterprises in the sector (Section 4), this section of the report sets out recommendations for a variety of functions that could be played by Government (at various levels) so as to maximise the chances that:

- those with responsibility for the waste sector adapt in such a way as to engage with and encourage the social enterprise sector
- those in the social enterprise sector adapt so as to make the most of opportunities arising within the waste sector

As we have seen, the opportunities over the next few years are likely to be considerable; yet key questions remain over the capacity within the waste sector to fulfil the potential (without initiating shortages, price rises etc). Given the relatively small number of social enterprises operating in the waste sector, even a relatively small number of additional successes would represent a substantial uplift for the sector – and could represent an effective and efficient way of promoting the much needed capacity.

5.2 National Government

The development of policy in recent years towards social enterprises in particular, and the third sector in general, has been broadly welcomed. The formation of the Office for the Third Sector, in particular, is a clear recognition of the importance of the sector, and its importance to government. By pulling together lessons learned in a variety of Departments, the formation of the OTS acknowledges the need to move from the late 90s rhetoric of engaging the third sector as a partner in delivery, to a set of circumstances where the practicalities can be addressed.

It is with these practicalities that we believe government generally should be concerned in the short and medium term. In particular, government should:

- Specify a *particular* set of expectations for the scope of social enterprise engagement in the waste sector. In our judgement, given the development needs of the sector, generalised statements will, at best, contribute to a continuation of the current unsatisfactory state of affairs (i.e. warm words will not be enough) or, at worst, could actually contribute to a reversal in the sector's fortunes (as disillusionment becomes intractable). Specific expectations could take a variety of forms: the proportion of a certain form of activity that ought to be delivered by social enterprises by a target date; or a target number of contracts that should have social enterprises as major partners; or a particular set of locations (cities, neighbourhoods) around the country that should, by a target date, be relying upon social enterprises to deliver key waste management activities.

There are a variety of models for achieving this: the existing PSA model offers one such avenue; LAAs and MAAs another; Tasking Frameworks for the Government Offices another. In all cases, the requirement is to move from generalised commitments to specific intentions, so as to direct attention, energy and resources.

- Secondly, government needs to articulate this set of expectations clearly, and to a variety of audiences. This includes:
 - Central government departments (on the assumption that endeavours of the kind we are proposing will be led by OTS, then key departments for communication will be DCLG, Home Office, DTI, Treasury and – of course – Defra [see below])
 - Regional and local government (particularly RCU and ALG)
 - The social enterprise “community” itself
 - Other agencies and partners holding a stake – ranging from private sector contractors, through executive agencies such as Wrap, to entities such as IDEa
 - Other funders of social enterprises – e.g. private trusts and the Big Lottery Fund – so as to ensure both complementarity and non-duplication, focusing in particular on trustees
- Thirdly, central government is ideally positioned to consider and address some of the structural funding issues facing the sector, and should consider options such as:
 - Specifying funds for transition enterprises, as they move from voluntary or community or charity status towards being fully-fledged social enterprises
 - Developing and/or legitimising localised (regional, city) rotating funds to recycle revenue-generating investment in social enterprises
 - Dedicated support for funding entities as they move from grant-giving to commissioning status
 - Offer tax breaks or similar incentives to encourage commercial (particularly ethical) investment in the sector

5.3 Defra

To an important extent, our research findings indicate that Defra has a particular role to play with respect to social enterprises: amidst the generality of policy development around the third sector, it is clear that “waste” – as so often – has a low profile. The number of social enterprises active in the field of waste management appears to be relatively low – see Section 3.3 – and it is easy to imagine that, without specific and careful attention, this situation will persist.

Defra’s key role must therefore be to ensure that, within the overall framework of government support suggested above, enterprises specific to the waste sector are accorded due profile.

In support of this overall objective, there are number of further actions that, we recommend, could contribute further to the positive development of the sector:

- Many of the recent laments about waste policy (made to us during our consultations for this research and through our case study investigations) will, no doubt, be resolved by the new national waste strategy, once it is published. Whether in the Strategy itself or otherwise, our research suggests that it will be exceptionally important to be as specific as possible about which elements of sustainable waste management – which materials, which markets, which processes – best lend

themselves to the engagement of social enterprises⁵⁰. As our WEEE example showed – see Section 4.2 – there are good reasons for supposing that social enterprises do indeed have a comparative advantage in certain areas of the waste sector; equally, they are exposed to a greater extent when things go wrong. As a result, not merely greater clarity, but greater commitment must be a part of any plan to develop the social enterprise sector in a robust fashion.

- Defra should be looking to build intra-departmental connections – these should help strengthen its position on social enterprises as well as its capacity in other areas. For example, in terms of rural affairs, the potential social and environmental benefits of social enterprises in rural communities are both considerable, and underdeveloped. The opportunity presented by waste management – and not just household waste management – to provide the platform for “bottom up” rural development is under-explored, but could present benefits in both directions. Similarly opportunities reside within the domain of food (across the entire supply chain, from farm to fork), and within sustainable development more generally.
- Finally, Defra should be looking to build upon and make use of the experience of social enterprises gained in other sectors. There are two reasons, in particular, for this. Firstly, the lessons learned in other sectors – notably health and social care (and, by extension, within the DH and DSS) – may be valuable to Defra in terms of specification, contracts, management, capacity building and so forth. Secondly, by becoming more familiar with the landscape of social enterprises in other sectors, Defra may be better positioned to support the diversification of existing enterprises into the waste sector. Diversification of this kind has, as we suggested in Section 4.3, the potential to develop more rapidly the kind of capacity the waste sector is looking for (though there are, as we consider below, particular support needs required by, for example, a housing association stretching into the waste management sector).

5.4 London

At the London level, the questions of the future role of government focus clearly on the Mayor and the GLA, the London Development Agency and the Government Office for London⁵¹.

Linkages and collaborations between these entities – disputes over the amendments to the Mayor’s powers notwithstanding – have, in the case of support to social enterprises in the waste sector, been positive. The Enhance programme itself – funded by the Mayor’s agency for business and jobs, the LDA, and co-delivered by London Remade and LCRN – appears to have been successful during the first two years of its operation in providing a range of support services. It has recently been extended through a new £2mn capital programme, to support both private businesses and social enterprises with recycling, reuse, reprocessing or remanufacturing activities.

In terms of future working, key issues at the regional level appear to be:

- “business support” means different things to different people and different organisations. As the new LESS⁵² portal illustrates, the lessons from the experience of Business Link (and its predecessors) need to be taken on board when delivering

⁵⁰ OGC Kelly Report to the Financial Secretary of the Treasury: *Improving competition and capacity Planning in the Municipal Waste Market*, OGC, 2006

⁵¹ Of course, in other regions the focus will be upon the relevant Government Office, Regional Development Agency and (to a greater or lesser extent) the Regional Assembly. However, for reasons explained earlier, the focus of this report is upon London.

⁵² LESS – London Environmental Support Service – www.less-online.com

support to the business community, whether that community is motivated by profit or by wider concerns.

- Tailoring business support according to audience needs means, on the one hand, providing some kinds of support that are generic (finance, marketing, management) in ways that are tailored to a particular audience (i.e. it simply has to be acknowledged that whilst social and profit-oriented SMEs share many basic component parts, their subjective experiences of those parts are very different, and will require different sensibilities from support services); and some kinds of support that are sector-specific (legislation and regulation, succession planning in a non-shareholding environment, and so forth).
- Many of the blockages on the future development of the social enterprise sector in waste are likely to be financial in origin, and detailed attention will need to be paid to this issue – start-up financing, development financing, R&D financing, all will require different treatments for social enterprises. A particular role exists for a brokerage function, between (social) lenders and (social) enterprises.

We would also recommend that the LDA builds in a 'value for money' indicator in the evaluation of the Enhance programme. Whilst targets such as 'number of jobs created or preserved' are included in the evaluation of the Enhance programme, there are no indicators showing whether capacity is effectively being built, nor is there any assessment as to the effectiveness of the support provided.

The linkages between Mayoral and/or LDA priorities and the minutiae of supporting social enterprises in the waste sector may not always be as obvious or as glamorous as might be hoped for. The London 2012 Olympics, for example, could offer innumerable opportunities for both social enterprises generally, and sustainable waste management in particular. However, given the scale of the contractual negotiations, it is hard to envisage how London's social enterprises will gain much of a foothold here. Nevertheless, as per the recommendation to Defra, the opportunity for intra-departmental communication to promote a delimited number of social enterprises operating in the waste sector is surely both sensible and achievable.

Such linkages could have particular resonance in particular areas: in terms of food (the Mayor's Food Strategy clearly identifies the need for waste management to be an integrated component of a sustainable food sector), in terms of physical development and regeneration (e.g. the development of a sustainable business park in Dagenham), as well as linkages into the skills and adult learning agendas (social enterprises are, of course, exemplary in this area).

In the light of this, our particular recommendations for the LDA are as follows:

- Engage in dialogue with Defra about its response to the recommendations in this report, and ensure appropriate co-ordination
- Research and identify potential new entrants from other sectors, and provide support and encouragement to those organisations
- Continue the process of targeting support towards established social enterprises with growth potential rather than providing generic support to any and all that request it, focusing on capacity building
- Provide start-up funding for social enterprises wishing to deal with niche waste streams that are under-represented in London (e.g. wood)

- Consider the establishment of a dedicated revolving fund for social investment in London, not necessarily linked solely to the waste sector, but in which waste is clearly identified as a priority
- Carefully monitor and where necessary amend the functioning of LESS so as to ensure support to social enterprises
- Work closely with both infrastructure organisations and local authorities to bridge any “gaps in understanding” around contract issues

5.5 Local Authorities

The final area in which the State has a particular set of responsibilities with respect to the social enterprise sector in waste is local government.

In many respects, the potential contribution from local authorities will be delimited by decisions taken at national level. However, there are four particular steps that local authorities should consider:

- To make better use of Local Area Agreements as both a mechanism for working with social enterprises on a medium term basis and as a space within which to bring waste and waste-issues alongside other social and environmental concerns
- To develop and share best practice in the use of social clauses in mainstream waste contracts
- To support, and even initiate, work to “make the case” on the wider benefits of using social enterprises as delivery partners (linking to our recommendation that more effort needs to be made to gather the data necessary to demonstrate the social and environmental benefits of social enterprises operating in the waste sector – see Section 6)
- To invite appropriate organisations – for example LGA, ALG, IDeA – to ensure the appropriate dialogues are taking place between, crucially, DCLG and Defra

6 What Role for Infrastructure Organisations?

This section first looks at the development history of infrastructure organisations – i.e. organisations, typically member networks, that support ‘frontline’ organisations – in the waste sector before identifying them and examining the challenges they face. Recent developments are then reviewed. Finally, recommendations are made – both to central government in terms of what they should expect from infrastructure organisations and to the organisations themselves, in terms of how support should be prioritised and segmented. This section is based on opinions expressed in our consultations with stakeholders.

6.1 Current State of Play

6.1.1 Diversity of the sector reflected in the number of infrastructure organisations

The landscape of dedicated community waste infrastructure organisations is highly fragmented with little history of close co-operation. The Community Recycling Network UK (formerly the Community Recycling Network) emerged during the ‘halcyon days’ of the sector during the early 1990’s. New infrastructure organisations then followed during the early years of the new millennium. Some of these organisations seized the opportunity of direct relations with the devolved administrations in Wales, Scotland and London whilst others provided a bespoke voice and development body for defined sub-sectors within this diverse sector (notably furniture and appliance re-use, community composting and, latterly, wood recycling and scrap stores).

The resulting high number of support organisations in the waste sector is partly a reflection of the profound diversity within this sector and the need of the community sector to develop such organisations to meet their own (equally diverse) support needs.

6.1.2 Who are the infrastructure organisations?

The principal infrastructure organisations for the community waste sector are:

- **The Community Recycling Network UK (CRN UK)** – covers the entire sector UK-wide. It operates a regional support programme in three English regions. The focus of this organisation has increasingly been on kerbside recycling as this is the only significant part of the sector not represented by its own national sub-sector network. This activity has been gradually diminishing largely as a result of procurement barriers.
- **The Furniture Reuse Network (FRN)** - provides support and representation for organisations involved in furniture, appliance and, increasingly, IT reuse and recycling. Due to the fact that much of the immediate potential of the sector lies in this area (in many cases due to the success of the FRN’s lobbying activities) it is seen as one of the more successful support networks, especially since the appointment of its new director who is forging links with the corporate and housing sectors.
- **The Community Composting Network (CCN)** – Covers one of the more polarised areas of the sector. Most members are small voluntary and community sector organisations providing communal composting facilities, many supported by grant funding such as CRED which is due to diminish. Significant barriers to public procurement, a lack of political emphasis upon communal composting, regulatory pressures and pressure upon economies of scale have hit the sub-sector hard. A very small handful of social enterprises exist within its membership.

- **London Community Recycling Network (London CRN)** – Established in 2001 to take advantage of devolved government in London and to break away from the CRN. As the name suggests, it provides support and representation for the sector in London. The organisation provides direct business support and capacity building. It has close operational links with CCN and, in particular, FRN. It also engages in lobbying and representation on behalf of the wider UK sector as it is well placed to do so due to its contacts and location.
- **Cylch – Wales Community Recycling Network** - Established to represent the community waste sector to the devolved administration in Wales. Cylch has had some success delivering co-financed funding packages tied to business support. It managed the *Cleanstream* Fund, the Welsh equivalent to the CRED programme in England.
- **Community Recycling Network for Scotland (CRNS)** – Established to represent community waste sector to the devolved administration in Scotland. It has been successful in raising the game of the community waste sector in Scotland and is recovering from the in-housing of key contracts by several unitary authorities. It enjoys particularly strong links with European networks.
- **National Community Wood Recycling Project** – Established to develop new community wood recycling projects based upon the Brighton Wood Recycling Project model.
- **ECORRN and CCORRN – (Respectively) Essex and Cambridgeshire Community Reuse and Recycling Networks** – Bespoke county-level support networks.

In addition there are a number of informal and un-incorporated networks and bodies including one covering scrap stores (enterprises that serve as banks of materials, normally commercial and industrial waste, for reuse in schools and arts projects) and paint re-use (RePaint – hosted by Resource Futures, but more as a knowledge resource than a membership network). Some other informal county, municipality or regional networks have also emerged.

6.1.3 Challenges faced by infrastructure organisations

Consultations with key players in the sector pointed to a number of challenges facing infrastructure organisations. Any views expressed below are not necessarily those of Defra.

Sector Diversity

The diversity alluded to in section 6.1.1 is one of the key challenges that infrastructure organisations face. Not only is there diversity of activities, each with their own regulatory frameworks and contexts, but there is also a spectrum of ethos from voluntary to community sector organisations and beyond to social enterprises. All of these types of organisations have specific support needs too. However, this means that the spread of support needed cannot always be provided and, if it is, it may not always be cost-effective and may lead to duplication of services.

Another consequence is that considerable areas of crossover and duplication seem to exist between support activities, particularly in relation to national and regional networks. Much of it can be attributed to poor communication although competition for funding has also played a major role. In addition, there seems to be little strategic vision for the sub-sectors guiding support provision. As a result, the type of business support delivered often appears to be either funder-led or delivered on demand, on an ad hoc basis.

In London, some of that duplication is avoided due to LCRN serving as the home of CCN, FRN and CRN.

Funding

There are a number of issues associated with funding. In particular:

- All these infrastructure organisations compete for a finite pot of funding. Until recently, there has been little effort to co-ordinate funding applications. This was mostly related to the lack of strategic vision for the sector alluded to in the previous section.
- There is a definite pressure to be 'innovative'. Indeed, the nature of project funding is such that new activities are often required to justify new funding. As a result, it is sometimes the case that 'old is dressed up as new'. Indeed, some projects necessitate long-term funding to be effective. In the absence of such funding, organisations have to try and access different funding sources to deliver some projects.
- Finally, the short-term and competitive nature of funding does not allow support networks to consider the development of the sector in strategic terms.

Governance issues

All of the support networks are governed entirely or almost entirely by individuals (predominantly management) from member organisations or from other network organisations. Co-option of key skills onto the boards is reportedly rare and virtually non-existent with reference to individuals from outside of the waste or community waste sector. In addition, many of the trustees and directors of the support networks have been in place for much, if not all, of the relevant sector's existence.

This governance pattern has the potential to be both inward-looking and to entrench vested interests. There seems to be little evidence of attempts to foster an objective strategic analysis of the sector or the network bodies. Also, there appears to be only limited evidence of the development of relationships with the community sector outside waste management or with the private sector.

6.1.4 Recent developments

Over the past year, support networks have jointly developed several initiatives. For example, London CRN, the CCN and the FRN have developed a system of Memoranda of Understanding (MoU) that sets out protocols on joint-working, communications and lobbying. The London FRN project is another example of a joint initiative. It is operated by London CRN and delivers capacity building within a strategic context provided by the FRN.

CRN UK, Cylch and CRNS are now joining in with this collaboration and there is a real prospect of coherent collaborative activity involving all networks. These six networks are currently discussing ways of grouping activities within one structure and optimising resources to deliver common services.

It is widely recognised that the networks do provide a great deal of valuable support to the sector as they have managed to keep many projects afloat despite the tide of external events. These networks:

- Have gathered much support within a defined constituency; and

- Have retained a very skilled and experienced pool of staff that often collaborate to great effect.

6.2 Review of Support Networks: Recommendations to Central Government

Central government could play a role in helping the support networks address the issues mentioned above. In particular:

- ***There is a need for funding to be made available to help support networks continue laying the appropriate foundations.*** This funding should not be tied to short-term outputs but should be tied to providing evidence of tangible reform. For example, setting up data management systems would not show significant tangible outputs in the short term but would set the foundations for further development. Funding could also be tied to genuine collaboration between networks and evidence of this could be through peer-reviewed, realistic strategic development plans.
- ***Competition between networks to deliver commissioned work should be encouraged.*** In particular, consideration should be given to support networks outside waste that could potentially deliver some services more cost-effectively.
- ***Support networks should be encouraged to de-couple strategy development and activities that may encounter competition.*** Indeed, the support networks' primary objective was to provide services to all their members on an equal basis. However, the focus of some networks on support services has been to the detriment of strategic development. Conflicts of interest have also arisen due to governance issues, as mentioned above. In addition, these support services may sometimes be out of sync with generic business support provided to social enterprises. One solution could be to have the 'networking' functions (information sharing, lobbying, sign posting) provided by the network *per se*, whilst the business support functions and other services would be provided by a trading arm.

This is the format chosen by FRN which recently set up FRN Enterprises Ltd, a social enterprise charged with negotiating contracts for clearance with manufacturers and retailers before contracting out the work to accredited groups.

6.3 Delivering Business Support: Recommendations to Infrastructure Organisations

There are two major features of business support that need to be reviewed by infrastructure organisations.

6.3.1 Segmenting social enterprises and the type of business support provided

Basic support services

As mentioned earlier, all social enterprises are currently entitled to receive the business support they believe they need through Enhance. However, there may be a need to prioritise support to ensure this support is effective (in terms not just of cost, but of outputs and outcomes). Not all social enterprises are at a similar stage of development and the type of business support required may vary from one social enterprise to another.

Experience has shown that cultural barriers often prevent VCS organisations from making a full transition to becoming a social enterprise. Nevertheless there are highly effective forms of support available to help such enterprises become sustainable and react to change. Members services are the most basic form of support and generally

includes such interventions as lobbying, information and training events. These services are most suitably delivered by member based networks.

Capacity building

Progressing from this is capacity building which includes activities such as:

- assistance with governance,
- developing data management systems,
- technical or operational support, assistance with accessing funding/commissioning opportunities,
- umbrella coordination of substantial business opportunities (such as that provided by the FRN for accessing benefits associated with the WEEE Regulations) and signposting to other support.

Capacity building is generally much under-resourced but there is theoretically a great resource available in the form of the generic VCS support infrastructure (also heavily financed by central government) that could be prioritised and brought into play through partnerships.

Indeed, our findings confirm those in the GHK Review (see section 2.2.2) that indicated that the support needs of social enterprises emerging from the VCS might be different from those of more commercially oriented organisations. We found that capacity building is crucial to the small number of social enterprises emerging from the VCS that are willing to seize new opportunities and to grow. Often, these social enterprises receive business support - for example, consultants develop a business plan for the social enterprise - but are not able to 'consume' this business support because of a lack of skills and internal processes. The benefits of this business support are therefore lost to the social enterprise.

Business support

We would argue that business support should be provided to organisations that have the internal ability to implement the changes necessary. Hence the importance of diagnosing both the stage of development the social enterprise is at and its objectives for the future.

Providing support can be as much about fostering new opportunities as about assisting social enterprises with straightforward business matters. Such assistance might include:

- assistance with contracting and linking to procurement opportunities,
- helping with business planning;
- specialist advice about legislation requirements;
- bringing 'new entrants into the sector' and developing new enterprises.

Such support is expensive and should be subject to robust prioritisation, due diligence and ongoing assessment.

6.3.2 Generic versus specialist advice

There is no consensus, however, on who is best placed to deliver such support services. Some argue that support services have to be delivered by organisations that have the experience of working with social enterprises. Others believe that some of the social enterprise support needs can be met by organisations providing generic business support.

The argument of the former rests on the fact that the context within which social enterprises operate is different from that of organisations in the private sector. Social enterprises may have two or three bottom lines whilst the private sector focuses on the financial bottom line. Transferring best practice from the private sector is therefore futile as the business models are different. Nonetheless, this should not exclude the involvement of the many non-waste social enterprise support services working in partnership with bodies familiar with this context.

The strength of sector networks lies in their ability to deliver specialist advice. This area of support will remain important, especially for social enterprises entering the waste sector. In addition, the networks are well placed to spot opportunities and help the sector deliver through umbrella initiatives (and again, the FRN's approach to the management of opportunities to the WEEE Directive is a very good example).

Our experience during the secondments showed that a case-by-case approach is probably most appropriate when deciding whether generic or specialist support is most appropriate. In one of the social enterprises we worked with, the business plan could have been developed by any business adviser whilst, in another, the specialist knowledge of the waste sector was necessary to develop the business plan as it was tied to a business feasibility study that needed in-depth knowledge of the sector.

Another area in which specialist advice may be needed is in helping social enterprises measure their environmental and social impact. In the furniture reuse sector, the FRN set up a database that could be used by all the projects to record quantities of furniture reused as well as social information about the client group. Clearly, it makes more sense for an organisation with in-depth knowledge of the sector to develop a database and to distribute it to all the furniture re-use projects. This also helps standardize the information available for the sector. In this case, generic support would lead to duplication.

We would therefore recommend a two-tiered approach with an organisation carrying out the diagnostic function – perhaps the LESS portal in London – and directing social enterprises towards either capacity building or business support and either generic or specialist business support. The diagnostic organisation should be independent from business support organisations but should include personnel specialised in social enterprises and in the waste sector.

Another model of business support is the model delivered by the Community Action Network (CAN), through its Breakthrough scheme. One of the premises of the project – detailed in Section 3.3.2 – is that social enterprise can benefit from the experience of individuals working in the private sector without compromising their objectives. This is an interesting project as the business support provided takes into account social enterprises' particular set of circumstances rather than providing a blanket approach to business support.

6.3.3 Evaluation of social impact

There have been calls for the sector to provide evidence on their social impacts since the launch of the Social Strategy in 2002. And yet, the evidence is still lacking. Moreover, there are no indications that social enterprises themselves believe that measuring their social impact will help them:

- prove their worth to funders, and therefore access more funding;
- measure progress in meeting their own objectives.

This is due to several factors:

- firstly, many funders' evaluations still focus on outputs rather than outcomes. As a result, social enterprise **do not need** to demonstrate social impacts;
- secondly, there is **little guidance** on how social enterprises could actually measure social impacts. The few methodologies that have been developed have not yet been mainstreamed; and
- thirdly, resources in social enterprises are often stretched and focused –quite rightly - on delivery. **Methodologies to measure social impacts need to be easy and user-friendly**. Ideally, they should fit in the everyday internal processes of the social enterprise.

Members networks are ideally placed to 'sell' the need to evaluate social impact to their members and should be encouraged to do so.

We did come across a database developed by FRN that had the potential to record tonnage of furniture dealt with, origin of donations, destination of sales as well as social circumstances of clients. However, the social enterprise that was using that database did not know how to use the results, nor did it know that it could be used to prove social impact.

We would suggest that developing the ability of members to measure social impact should come under the capacity building umbrella of an infrastructure organisation and should be funded accordingly.

6.4 Concluding Remarks

There has been considerable focus until now on business support rather than on capacity building. And yet, we would argue that support might best be focussed on capacity building to bring organisations up to a level where business support is most likely to be effective.

In addition, we would suggest that one of the major objectives of infrastructure organisations should be on helping the sector evaluate social impact. Although there are currently a number of methodologies being developed, these may perhaps best be left to academics and researchers for the moment. There are a number of simple indicators that could be used by social enterprises that would not put additional pressure on scarce resources.

7 Conclusions

This is an exciting time for social enterprise in the waste sector. The business model is being universally praised for bridging the gap between public and private sectors and recent developments in waste legislation combined with the focus of policy-makers on social enterprise to deliver a range of government objectives have raised expectations on their potential contribution to waste management over the next few years.

In addition, this is a diverse sector led by passionate and committed people, recognized for having brought much-needed innovation in the field of waste management.

However, a number of factors indicate that policy-makers' expectations may be slightly unrealistic in view of the sector's current stage of development and that continuous support – albeit targeted – is needed to ensure social enterprises in the waste sector are helped to fulfil their potential.

7.1 What are realistic expectations for social enterprises in waste management?

In the first instance, it is important to bear in mind that the proportion of the waste management sector accounted for by social enterprise is relatively small. It is estimated that social enterprises in England deal with around 1% of total waste in the UK. Whilst this figure is based on survey results and should therefore not be relied upon as a precise figure, it does give an idea of the scale of the sector.

Justification for providing support to this sector therefore needs to go beyond looking at the sector's current contribution to waste management and to encompass the wider set of values promoted by the sector as well as its potential contribution.

This highlights the importance of the sector being able to show evidence that it can deliver wider socio-economic benefits. Social enterprises are not yet geared towards measuring and proving social impact but the ability to do so is expected to become crucial in the next few years. This is because competition for funding is increasing following the end of major funding programmes such as the Landfill Tax Credit Scheme and the CRED programme. Also, following the conclusions from the Gershon Review, the public sector is on a drive to effect cost-efficiency gains. Demonstrating cross-cutting benefits could be a way to show the public sector efficiency gains can be achieved in various ways.

At the same time, the waste management sector is expected to almost double in terms of turnover over the next 10 years. Supporting a small sector to share in this kind of growth could arguably result in social enterprise growing relatively faster than the sector as a whole. The benefits of supporting social enterprise's growth will be mostly socio-economic as even if the sector more than doubles in size, it is unlikely to deal with more than 3-5% of total waste in the UK. Additional benefits could include, amongst others, contribution to an area's regeneration, promotion of waste minimisation and re-use, provision of good quality recyclates to UK re-processors, contribution to social inclusion, alleviation of poverty and training of hard-to-reach groups.

7.2 What is the potential for up-scaling the sector?

Up-scaling the sector is unlikely to follow the same pattern in all the waste sub-sectors. This is due to different historical trends but also to specific opportunities arising in some sub-sectors. However, the fastest way to 'grow' the sector in sub-sectors such as furniture and WEEE re-use and waste collection is perhaps to attract new entrants in the

waste sector. These new entrants can include social enterprises operating in other sectors, registered social landlords and health and food NGOs. Although these organisations may need specialist support, they are unlikely to need the same degree of capacity building and business support.

This is not to say that the potential to up-scale existing social enterprise is non-existent. On the contrary, there is a strong base of social enterprises in the waste sector and this base needs to be reinforced to ensure it is able to deal with opportunities as they arise.

In particular, existing social enterprises need to become more professional, both internally and in their dealings with clients. Addressing existing skills gaps through capacity building will also be key to the future development of the sector. In addition, it appears that one of the reasons that resources in some social enterprises may be stretched is that these social enterprises try to develop a number of activities concurrently rather than focus on and consolidate the core activity before considering diversification.

Up-scaling may not be appropriate for some sub-sectors such as wood and paint recycling, where encouraging transferability of existing models may be more suited to the type of activities undertaken. Indeed, these sub-sectors are likely to remain niche. A large number of small, local projects may be the way to increase capacity in these sub-sectors.

7.3 How can the state best enable growth in this sector?

One of the first tasks for central government is to **articulate specific expectations** for social enterprises in the waste sector and to **communicate these expectations** to a variety of audiences. Once expectations have been articulated, government needs to show greater commitment to the sector, not simply in strategic terms, but in terms of sustained support over time.

Another way to ensure commitment to social enterprise is embedded in policy is to make intra-departmental connections. Indeed, social enterprises in the waste sector could potentially contribute to various government agendas, including rural affairs, food and sustainable development more generally.

At the regional level, policy-makers need to ensure that **the right type of support is available for the different types of social enterprises**. Partnerships amongst infrastructure organisations and better co-ordination of services should be encouraged to avoid duplication of services and to ensure social enterprise have access to both capacity building and business support.

We would suggest a London-wide exercise involving a range of stakeholders including GOL, the LGA and other agencies to map out existing support (both capacity building and business support) available to social enterprises, to find out the rate of take-up of these services amongst social enterprises in both in the waste sector and in other sectors and to develop a plan to market these services to a greater number of social enterprises.

In addition, we would recommend support in London to be specifically targeted at those organisations with a potential for growth, focusing in particular on capacity-building. Start-up funding could be provided to social enterprises dealing with waste streams that are under-represented in London.

At the local level, work needs to be undertaken to examine how templates for social clauses could best be developed.

7.4 What are the support needs of social enterprises in the waste sector and how should support be delivered?

The research showed that support is currently not always appropriate for the needs of a sector as diverse as social enterprises in the waste sector. This is mostly because Enhance funding focuses on business support whereas some budding social enterprises need capacity building before being able to receive and implement business support.

Infrastructure organisations also need to adopt a more strategic vision for the sector to better address its needs and to provide some leadership in its development. In particular, the insight of member networks is invaluable and some networks have already started umbrella initiatives to ensure social enterprises are ready to respond to business opportunities as they arise.

Another area in which infrastructure organisations could focus their efforts is in helping social enterprises evaluate their social impact. There is very little awareness amongst social enterprises of the need to demonstrate social impact to (potential) funders. However, in view of declining availability of funding and cost-cutting exercises in the public sector, it is crucial to ensure social enterprises start evaluating their social impact.

Although some of the support needed by social enterprise is considered to be 'generic', it does not ensue that social enterprises ought to receive the same type of support as SMEs. This is because the business models of these two types of organisation are fundamentally different. Business support funders should therefore be alert to these differences and engage organisations already in working with the sector to design support programmes.

There is also a wealth of organisations experienced with providing capacity building to VCS organisations. These should be encouraged to work in partnership with member networks (since they have high quality access to social enterprises in the waste sector) and to market their services to social enterprises in the waste sector.

Therefore, social enterprises in the waste sector are well placed to take advantage from a number of new opportunities provided:

- They get effective support from government, at all levels;
- They understand the need to operate at a more professional level.

APPENDICES

Appendix 1

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Appendix 2

List of Interviewees

Craig Anderson	FRN
Adele Blakebrough	CAN
Julie Bremner	Office of Government Commerce
Mary Chadwick	Primetimers
Gilbert George	Capacity Builders
Richard Gutch	FutureBuilders
Daniel Instone	Defra
Sinead McBrearty	Social Enterprise London
Andy Moore	CRN
Cherry Read	Social Enterprise Coalition
Brent Thomas	Primetimers
Matthew Thomson	LCRN
Marc Upton	DCLG