

**POSITION STATEMENT ON WELFARE REFORM, THE DAVID FREUD PAPER  
&  
THE SOCIAL FIRM SECTOR**

**May 2007**

The government has outlined its desire to work with the private and voluntary sectors to provide innovative solutions to helping those furthest away from the labour market into work.

We believe that this statement should include 'social enterprise' in order to reflect the range of options available in the marketplace.

In its Welfare Reform Green Paper, and throughout the David Freud paper, the primary solution referred to is placement within the open labour market. Whilst Social Firms UK agrees that mainstream labour market jobs are worth aiming for, we have several concerns with this as the sole approach:

1. Private sector companies that take on severely disadvantaged people will have to put their shareholders first in a time of economic downturn and those who we are aiming to help will be the first ones at risk of redundancy in this situation: we could be back to where we started if there was a recession.
2. The issue of disclosure for people with mental health problems remains an issue within the open labour market – in 2004 the Social Exclusion Unit reported that fewer than 4 out of 10 employers would recruit someone with a mental health problem, and in a survey conducted by CIPD more than 60% of 755 employers disregarded applications from people with a history of mental health problems. 40% of IB claimants are on the benefit because of their mental health problem and this is a secondary factor for a further 10% of IB claimants.
3. There are many severely disadvantaged people who are capable of contributing economically and socially to society, but who are not able to attain or sustain a job in the open labour market for a variety of reasons.

The Social Firm sector has proved that it is possible to start market-led enterprises specifically to create jobs for people with severe disadvantages who are furthest from the labour market. We believe that investment into Social Firm development is something that DWP should consider as part of its Welfare Reform. Social Firms tackle the concerns above because:

- The specific social mission of a Social Firm is to create employment for at least 25% of the workforce who are severely disadvantaged in the labour market; as such these businesses will strive to retain this proportion of the workforce as this is their priority rather than satisfying shareholder interest.
- Disclosure is not an issue in Social Firms. 60% of Social Firms have been set up to employ people with mental health problems because the business model lends itself particularly to the needs of this target group.
- Social Firms act as a stepping stone for some people on their way to open employment, but often serve as the ultimate employment goal for others who would, for whatever reason, have difficulty in retaining a job within a mainstream company.

The Social Firm sector has grown to date despite any governmental or other support. In 1997 there were just 5 Social Firms; in 2006 there were 67 Social Firms and a further 70 emerging Social Firms. As a sector, these firms employ 1652 fte staff, of which 862 are disabled (52%); this despite the minimum employment rate percentage required for a Social Firm being 25%. Between 2005 and 2006 alone the sector grew by 13%.

In other EU countries there have been initiatives from the DWP equivalents (Ministry of Labour) to help grow Social Firms in their countries and Social Firms UK would like to work with DWP to do something similar in the UK.

We believe that Welfare Reform could represent an opportunity for the DWP to invest in a 10-year rolling approach to job creation for severely disadvantaged people through enterprise. Investing in the Social Firm sector as an option for disabled and disadvantaged people would change many peoples' lives, who otherwise would still be excluded from the open labour market.

We would like to propose that the DWP consider one national contract with the Social Firm sector (through Social Firms UK). This contract would provide start-up capital and specialist business support to new Social Firms, similar to methods found in Germany and also the Princes Youth Business Trust and would be based on our learning over the last 10 years about what does and doesn't work within the Social Firm sector.

It is important to note that Social Firms are market-led businesses and we would not advocate starting something that's going to require ongoing central government funding, as has happened with Remploy, for instance. If a Social Firm, over 5 years, is able to create full time employment for even just one person, then an upfront investment of £50,000 into capital start up and provision of appropriate specialist business support for that firm will have been cost effective. This is especially pertinent when the average of disadvantaged employees over 5 years is more likely to be 2-3 people rather than just one!

This national contract would operate alongside the DWP's other contracts which we understand will probably be on a regional basis. There are good reasons for taking a national sectoral rather than regional approach to Social Firm development. It would enable efficiency of scale in delivering a specialist support package based on our knowledge of what we know needs to be done nationally.

So if government really wants to explore innovative ways of helping those furthest away from the labour market into employment, it cannot ignore the potential that the Social Firm sector offers. The cost benefit analysis bears up to the case put forward by David Freud, and that's without all the health savings and other benefits that come through someone getting a job in a Social Firm (estimated to be as high as £24,000 per annum per person with a mental health problem through one Social Firm in Scotland,).

Social Firms UK and Social Firms Scotland are keen to convey the need for exploration of this 'alternative' type of contract and would be willing to discuss opportunities with the DWP as part of its review of Welfare Reform and response to David Freud's recommendations.

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