

Government Initiatives to Develop The UK Social Economy

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GOVERNMENT INITIATIVES TO DEVELOP THE UK SOCIAL ECONOMY

ABOUT THE PAPER

Since coming to office in 1997, the UK government of Tony Blair has launched a number of important initiatives to facilitate the growth and transformation of the UK social economy. These are a more advanced set of policy initiatives than can be found anywhere else in the world.

The paper begins by outlining the factors that have driven the UK government's initiatives. These span the period of opposition in the mid 1990s and the first few years of the Labour government. One theme running through these influences is the active role of the social economy itself (or more accurately of certain parts of it) in providing agendas for action and in making clear its commitment to institutional reform. In many instances government has taken these agendas on board, and has sought to facilitate them financially, legislatively and rhetorically.

In the analysis three broad policy themes are identified: (i) philanthropy – initiatives designed to stimulate the giving of time and/or money; (ii) voluntary and community sector - initiatives designed to stimulate the development of voluntary and community sector organisations themselves, to build the organisational infrastructure of the sector and government; and, (iii) social enterprise - initiatives designed to stimulate a broader range of social enterprises, such as social businesses, co-operatives, and friendly societies, and to support social entrepreneurs.

These three broad themes are being taken forward by four main government actors: (i) The Home Office, which has responsibility for the voluntary and community sector; (ii) The Treasury, which has responsibility for fiscal and monetary policy; (iii) The Department for Trade and Industry, responsible for leading government strategy on stimulating business; and (iv) The Cabinet Office, which is in essence the Prime Minister's department. While the initiatives are thus cross-government, to an extent the three themes have tended to remain independent of one another, and the opportunity to develop a single social economy framework has not been taken up. Despite this, these British initiatives stand in marked contrast to the scant attention paid by Australian state and Commonwealth governments to the social economy.

BACKGROUND

The social economy is a term most commonly used by the European Union, particularly in continental Europe, to describe the broad range of organisations that are neither part of government nor in the for-profit business sector. Here in Australia the term third sector is more typically used. Within the social economy we find associations, charities, clubs, co-operatives, mutuals, voluntary organisations, community groups and foundations. Among these organisations will be those that trade their products or services, thereby generating revenue through their activities. Such organisations are often generically labeled 'social enterprises'.

The British government has begun using the terms social economy and social enterprise in a range of policy initiatives designed to stimulate, support and develop the third sector. However, as the analysis below outlines, government has focused on different parts of the social economy in different ways, as well as targeting individuals and corporates in attempts to boost philanthropy. Many initiatives have been focused upon what in the UK is termed the voluntary and community sector, which here in Australia we term the nonprofit sector. As we show, the British government has developed initiatives to deepen the capacity of the voluntary and community sector, while extending the limits and roles of the broader social economy.

What appears to have happened is that, while the early thinking that initiated these reforms seemed to be trying to articulate a coherent approach to the social economy, as those initiatives progressed the existing institutions they were attempting to transform successfully fought to maintain, and in some cases, extend their activities. So that, while the different institutional components of the social economy (voluntary sector, charities, co-operatives etc) were reformed, these reforms remained largely independent of each other and the momentum to construct a single social economy framework was lost.

The social economy is a significant part of the UK economy. Late 1990s estimates of the size and scope of its three main components – co-operatives, mutuals and nonprofits – suggest it employs almost 1.7 million people (around 6.5% of those in work, including self-employed people). The vast majority of staff (almost 1.5 million) are employed by nonprofits (Spear, 2001).

CONTEXT

While the focus below is on developments of government policy under Labour administrations headed by Prime Minister Tony Blair, there were several developments before 1997 that were significant in shaping the government's approach to the social economy. Some were independent of the Labour Party, though they often involved people close to Labour. In some cases they bore fruit, in terms of being published, after 1997, although much of the intellectual groundwork was carried out while Labour was still in opposition. Once Blair was elected, they went forward either with direct government support, a government 'watching brief', or with the 'blessing' of government. Detailed and direct response by government typically occurred later, after Labour had been in office for over two years.

The first development was the adoption by Blair (and to a lesser extent other senior members of the then Labour opposition) of the idea of a 'third way' in politics, which explicitly sought out a path between the neo-liberal policies of the Thatcher and Major administrations and the statist social democracy that underpinned previous Labour administrations in the UK. Much of the ballast for the third way notion came from centre-left think tanks such as the Fabian Society and Demos. Hence, elements of the political philosophy that would underpin the Labour administration (and which helped Blair portray Labour as 'New Labour') were already in place before the party came to power in May 1997.

At its most basic, the idea of a third way led directly toward an identification with, and an emphasis on, the third sector (or social economy). The third way was supposed to be a path between the extremes of socialism (and its preferred model for organising, the state owned enterprise) and free-market capitalism (with its model organisation, the investor owned firm). This led inevitably to a heightened interest in an array of organisations that were neither government owned nor investor owned. This was precisely that set of organisations, co-operatives, mutuals, associations and charities that were included in the French concept of social economy that had previously been taken up by the European Union. A main tenet of the Third Way would be the matching of responsibilities with rights (both for individuals and institutions), which stemmed from a concern that the emphasis had slipped too much towards rights away from the reciprocal duty of responsibilities. A number of commentators, such as Peter Kellner and Ian Hargreaves, labelled this linkage a 'new mutualism', and positioned it as a shift away from so-called 'ideological socialism' practiced by previous Labour governments.

Specific parts of the Labour Party ran strongly with this idea, most especially the UK Co-operative Party, which formally launched *New Mutualism* in 1998 as 'a project to raise awareness of new directions in the co-operative movement'. It should be noted that the party

itself is much older, having been founded in 1917 (originally as the Co-operative Representation Committee). It has an electoral agreement with the Labour Party, which allows it to stand Official Labour and Co-operative members at elections for local councils, and national and European parliaments.

In the first of the project's reports, Peter Kellner explicitly linked new mutualism with Blair's Third Way. As well as discussing the broad links between the two, Kellner argued for institutional change, claiming as one of the last of his 'seven pillars of mutualism' that '[g]overnment has a duty to guarantee basic equality of access, but should, as far as possible, leave delivery to independent institutions exercising their mutual responsibility' (Kellner, 1998).

This positioning, and the argument that 'new mutualism' is rooted in co-operative principles existing, not just in legally constituted co-operatives, but in a range of other 'independent institutions', opened up debate over the role of the social economy in the UK. It broadened the narrow co-operative sector into a range of institutions (and possible new forms of institution) rooted in a mutual ethos.

Others soon followed suit, most especially the Demos think tank, which, in 1999, launched its own research into the UK mutual sector. What is of interest in this work is its embrace of a definition based on a so-called mutual ethos, rather than one based on the formal characteristics of ownership. In so doing, it captured a much broader array of agencies, and was able to link 'mutual' organisations delivering services in 'childcare, insurance, health care, education, food and community safety, among others' with the broader aims of the Third Way (Leadbeater and Christie, 1999). Indeed, the report concludes with an agenda to build mutualism into a range of public policy areas, including the delivery of public services (the latter relates strongly to Kellner's 'seventh pillar of mutualism' above).

The link running through these strands of activity is a commitment to institutional reform, rooted in an attempt to tie in a so-called Third Way with the development of the third sector. The vehicle for doing so was 'New Mutualism', which extended co-operative principles that previously had been embedded within a narrowly prescribed set of organisations into a broader range of institutions. Another New Mutualism writer argued for a strategic approach to this extension of mutualism, which would be mapped out via a 'Royal Commission on Ownership' tasked with enriching the blend of institutional ownership models in the UK. Its ultimate aim would be 'ensuring that each form of ownership, including co-operatives, has a modern appropriate legal and fiscal framework' (Hargreaves, 1999). Our analysis below reveals that while such a Commission never happened, the Labour government has taken forward requests to change the legal framework governing third sector institutions.

A second development can be traced back to the community development movement of the 1970s, from which emerged a series of government initiatives, many focused on particular 'problem places' (such as inner cities) or 'problem sub-populations' (such as long-term unemployed people), though in effect they were often focused on both simultaneously. These various programmes were initially based on a 'welfarist' model, of providing benefits to those in need, but through the 1980s they shifted towards market-based policies, as highlighted in a change of terminology from community development to community *economic* development. The latter foregrounded the role of 'social entrepreneurs' in job creation, who were viewed as agents who could identify and drive new opportunities for the public good as opposed to private benefit¹.

This shift was picked up (and expanded) by key sources of influence, such as Demos (Leadbeater, 1997), which argued for innovation to develop a 'problem-solving welfare

¹ For fuller definition see: <http://www.dta.org.uk/content/glossary/enterprise.html>

system', as opposed to one it argued 'maintained people in a state of dependency'. The report went on to call for a central place for social entrepreneurs as 'one of the most important sources of innovation' and claimed '[t]hey do not see themselves as providing their clients with a specific service; their aim is to form long-term relationships with their users that develop over time'. Finally, they work in organisations that 'create a sense of membership by recognising that their users all have distinct and different needs'. This contention links a mutual ethos with the entrepreneurial spark, both embedded within social organisations. The Demos report also called for government to create a 'simple, hybrid, deregulated, off-the-shelf legal form that these organisations could adopt'. This point is picked up in the analysis of government initiatives that follows.

Institutional and community sustainability, and breaking the bonds of dependency between state and citizen, both found voice in the emphasis on rights and responsibilities in the new Labour third way. Broadly, recipients of state benefits would be encouraged to work, and benefits would move towards topping up pay as opposed to providing out of work support. And institutions delivering services for the state would be encouraged to change their culture from grant to loan finance – a move presaged to some extent by the replacement of grant funding with service contracts and service-level agreement financing. These changes took place within a growing rhetoric of 'partnership' between the state, the third sector, and 'the community' - language that represents one continuum between the previous Conservative and Labour administrations.

A growing public hostility to the demutualisation of financial services organisations was the third development shaping the Labour government's thinking about the social economy. Following a series of stock market floats, which transformed member-owned mutuals into stockholder banks, and delivered tradable shares to their members, public opinion became steadily more questioning of the benefits of changes of ownership. Those who joined mutuals to gain benefits by voting for demutualisation were known disparagingly as "carpetbaggers". Media scrutiny of large (and quickly rising) executive salaries and benefits packages, higher charges for newly created customers (former members), and a spate of branch closures, all served to shift public opinion. The change seemed to happen in the mid 1990s, and in 1997 and 1998 the membership of the Nationwide Building Society voted to maintain their mutual status, despite the promise of the equivalent of a \$5,000 windfall. It should be noted however that the Nationwide remains the only large building society that directly competes with banks – both those that have long been stock holding and those that converted in the 1980s and early 1990s.

To an extent the then Labour opposition latched onto this change in mood with an announcement that if it came to power it would levy a one-off windfall tax on privatised utilities. While these corporations were never part of the social economy (they were previously state owned) this statement of intent can be read as indicative of a change of emphasis toward organisational ownership, and as an attempt to at least claw back into the public purse some of the benefits that had been privatised through change in ownership. The government levied the tax in its first budget in 1997. Since then it has tended to treat institutional ownership on a case by case basis. It has moved to part privatise air traffic control services, has resisted full privatisation of the Royal Mail, has strongly pushed a public-private partnership to run the London Underground, but has replaced Railtrack, the stock holding company created by a previous Conservative to run rail infrastructure, with a company limited by guarantee run by members who receive no dividends nor hold share capital. We can surmise that the Labour government is open to a broader range of ownership forms than the investor owned company, but it is not actively pushing mutual forms of ownership from an ideological perspective. Its approach instead seems to be based more on pragmatism – a perception of what works is best.

A fourth development was an initiative from within the social economy, or, more precisely, of the National Council for Voluntary Organisations, a peak body representing a wide grouping of organisations within the voluntary and community sector. This was the 1996 Commission on the Future of the Voluntary Sector (or Deakin Commission), which set out a new agenda for the voluntary and community sector in the 21st century. In terms of developing UK philanthropy, many of its recommendations ally with those in a 1995 Demos report (Mulgan and Landry, 1995), however among the most significant of Deakin's recommendations was that government and the sector negotiate and agree a 'concordat' outlining their mutual relations. This was picked up by the Labour opposition in its 1997 publication *Building the Future Together*, which called for just such an agreement (Compact) between government and the voluntary and community sector.

After its election in 1997, the author of the Labour report was tasked with securing the Compact, and it was signed in 1998. The agreement sets out the framework for relations between government and the sector, and since it was signed separate 'Codes of Practice' have been negotiated and agreed to take forward key elements of the framework. The five Codes so far established relate to: funding; consultation; black and minority ethnic voluntary organisations; volunteering; and, community groups. An independent review of the Compact, published in 2002, found that it had achieved significant improvements in relations between the government and the voluntary sector, but was still not understood or embraced by all parts of government. It recommended actions to boost implementation across government, including increasing its profile by allocating a senior civil service Compact 'champion' within each department affected by it (Home Office, 2002).

LABOUR AND THE SOCIAL ECONOMY

Having set this context, the paper turns to a discussion of developments around the social economy since Labour took office in May 1997. Some have come from the social economy itself, some from government, and some from a 'partnership' of government and the social economy.

These government initiatives can be broken down into three main themes or areas:

- *philanthropy* – initiatives designed to stimulate the giving of time and/or money, by members of the public and business alike;
- *voluntary and community sector (VCS)* – initiatives designed to stimulate the development of voluntary and community sector organisations themselves, to build the organisational infrastructure of the sector, or to improve the capacity of government itself to support the sector's development. In Australian terms the voluntary and community sector is synonymous with the non-profit sector;
- *social enterprise* – initiatives designed to stimulate a broader range of organisations, including social businesses, co-operatives, and friendly societies, and to support people working to build new social enterprises (social entrepreneurs).

As the paper makes clear, some initiatives cover more than one target area. This paper aims to produce a summary of developments in the UK social economy, which reveals both the breadth of initiatives, and the way that they are clearly targeted on different issues. This will provide an initial assessment of the Government's approach towards the social economy.

However, it is worth noting that four parts of government have been instrumental in taking forward developments in the UK social economy:

- The Home Office, which has responsibility for the voluntary and community sector. This responsibility was crystallised in 2002 into a performance commitment by the Home

Office '[t]o increase voluntary and community sector activity, including increasing community participation, by 5% by 2006' [from 2003]. This Public Service Agreement (PSA) is agreed with the Treasury, and forms one measure against which the department's performance will be reviewed in 2005, when the next spending round is launched and bids for funding are invited from departments. In a sense the PSA is the key aim – the meta-aim – toward which the developments in philanthropy and in boosting the voluntary and community sector are focused;

- The Treasury, which has responsibility for fiscal and monetary policy. It also has ultimate responsibility for tax administration through the Inland Revenue;
- The Department for Trade and Industry, responsible for leading government strategy on stimulating business;
- The Cabinet Office (and especially the Strategy Unit within it), which is in essence the Prime Minister's department, and which has markedly increased in size and scope under Labour administrations since 1997.

THE INITIATIVES

Analysis has identified 27 initiatives on the social economy since Labour took office (see Table 1); although it should be noted that one of these is proposed for the future (a Charities Bill, which will be introduced in 2004 at the earliest). The five Compact codes of practice have not been included in this figure.

The initiatives take a number of different forms:

- Twelve of them involve increased funding of existing programmes, the launch and funding of new initiatives, or increased funding of government functions designed to support the voluntary and community sector;
- Five involve legislation or changes in regulatory responsibilities (one piece of legislation is under consultation, and one is still only proposed at this stage);
- The remainder comprise reviews, strategy papers, or major consultations.

Taken together, these initiatives show a broad government interest in the social economy, which goes beyond opportunistic (or tokenistic) actions to develop a broad programme. There are however distinct elements to this approach, which show how government is attempting to stimulate traditional areas of third sector activity, and extend the influence and importance of old and new forms of social enterprise alike. The most detailed and firmest grounded actions have taken place in the traditional areas of philanthropy (the giving of time and money) and in the organisational infrastructure (based in government and in the sector) designed to support and develop a narrower range of organisations than the social economy. The paper now looks at the three strands of the government's policy in turn.

Philanthropy

Initiatives designed to boost philanthropy fall into three main types.

First, there has been a range of initiatives to encourage greater charitable giving by the British public, and to boost corporate philanthropy. The main vehicles for these changes have been the annual Budgets from the Chancellor of the Exchequer (Gordon Brown, who has responsibility for the Treasury and Inland Revenue), in which a raft of measures has been introduced, mostly attempting to stimulate giving through adjustments to the tax system.

To understand the changes, an Australian reader needs to realise that in the UK, tax incentives for giving work differently than they do in Australia. In short, all charities (in the proper legal sense, including churches and private schools) are eligible to receive tax effective gifts.

However, except for payroll giving, it is the recipient, not the giver who receives (most of) the benefit of the tax foregone by the government on the donation. This is because, as well as the gift itself, the charity can claim from the government the base or standard rate of tax that the donor has paid on the gift (23%). Should the donor be in the higher income tax bracket (40%) they can claim a deduction on tax paid on the gift over the base rate. As in Australia, tax on donations made via payroll can be claimed back by the donor in its entirety: in practice, donations are made from pre-tax income.

When Labour assumed office, there were a small number of so-called tax-effective (and highly bureaucratic) methods through which charities could reclaim tax on a donation. These required the charity to demonstrate that each donor was indeed a taxpayer, which in turn involved a great deal of complicated bureaucratic procedure, annoying for both donor and charity. Under the Blair government reforms, the presumption is that all donations, regardless of the method of donation, are tax-effective². Such donations are now generically termed Gift Aid, a system where an individual or a business can give a one-off donation to charity, which can in turn reclaim basic rate tax on the donations. This 'trust system' marks a major shift in government attitude towards charities, while simultaneously placing a burden of trust on charities to behave with due probity. This change points to a loosening of the controls employed by the Inland Revenue (which falls within the remit of the Treasury and is the British equivalent of the Australian Taxation Office) in its policing of giving.

In a similar way, the government took measures to simplify the ways that people can give to charities via their payroll. In Britain, organisations operate their staff's payroll giving by deducting the donation before any tax is administered, and then adjusting the pay accordingly. Often organisations match their staff donations £ for £. In an attempt to boost payroll giving, the government introduced a promotional campaign in 2000, backed up by a 10% supplement on donations to be paid to charities for three years from April 2000. At the same time, the minimum and maximum levels of donation have either been changed or abolished altogether. The supplement has since been extended to 2004. Successive budgets have also introduced new ways for people to give tax-effectively to charity, through shares for example.

To promote its changes, in 2000 the government also initiated a Giving Campaign, with a £1 million support package, including direct funding and staff. A range of leading fundraising charities boosted the funding package, and provided support through making some of their fundraising campaign data available to share. A number of leading voluntary sector agencies sit on the campaign's steering committee. The campaign can be viewed as one example of the kind of 'partnership' that government has been seeking with the voluntary and community sector (VCS).

The government has also invested £2.9m in Guidestar UK, which has been set up as a charity with the support of the regulator, the Charity Commission. Guidestar will be a web-based database, containing data from annual returns made by charities to the Charity Commission. Charities will also provide additional narrative information about their respective missions, programs, objectives, and accomplishments (this form of annual reporting was recommended in the Strategy Unit review, which is outlined in more detail later in this paper). Guidestar will be free to access for members of the public and charities themselves. The aim is to provide donors, and potential donors, with detailed information on which to make decisions about whether, and how much, to donate to a particular charity or charities. It is based on a similar initiative in the US, and is a further attempt to open up and rationalise giving behaviour, especially as government looks to encourage larger tax-effective donations.

² Any donation can now be tax-effective (in theory) as long as the donor has paid enough tax to subsidise the tax-relief and has made a declaration over the phone or in writing that he/she is a taxpayer.

A second set of initiatives to boost philanthropy are designed to build, and maintain, public trust and confidence in the VCS particularly in the way voluntary organisations go about their fundraising and apply the funds they raise. The Strategy Unit review of charities and nonprofits included recommendations to bolster self-regulation of public fundraising by the sector (especially charities) and to crack down on problems in public fundraising (Strategy Unit, 2002). Research has shown that the public has a somewhat split attitude towards charities – supporting their ends but being concerned over the means they adopt (fundraising) to provide resources to meet such ends (Tonkiss and Passey, 1999).

Such government measures are designed to build confidence in fundraising (and fundraisers) with the goal of shifting public attention away from the means and back to the ends of voluntary action. The government's response to the Strategy Unit (SU) report accepts its recommendations on fundraising, including opting for self-regulation by fundraisers of their professional activities. However, in a sense government has put fundraisers on notice through its intention to reserve powers for statutory regulation in the proposed Charities Bill.

A third set of philanthropy initiatives are targeted on increasing the number of people who volunteer their time to work for voluntary and community sector organisations.

The flagship government initiatives have been targeted at the two ends of the age spectrum, with Millennium Volunteers (MV) focusing on people aged 16 to 24 and the Experience Corps on those aged 50 and over.

The emphasis on 16 to 24 year olds indicates a desire to better socialise 'young people', in response to quantitative and anecdotal evidence of people of these ages being more 'disenfranchised' and less likely to take an active part in community and political life compared with older cohorts. Millennium Volunteers could therefore be seen as an attempt to tackle this situation, and to introduce young people to agencies viewed by many as the seedbeds of democracy. MV is administered by the Department for Education and Skills (DfES), and according to its website there have been over 111,000 Millennium Volunteers on the scheme since 1999, 60% of whom it is claimed have never previously volunteered.

The Experience Corps, even from its name, reveals an aim of recycling the skills and talents of older generations that may have been lost to the workplace. A less sanguine reading might be that targeting older people is an admission of growing unemployment of people aged 50 plus in a rapidly changing work environment. Experience Corps has links with over 1,000 organisations and projects that offer opportunities for its members. The Home Office is the key funder, but will not be renewing funding in 2004.

The voluntary and community sector (VCS)

Having set out a number of initiatives to boost philanthropy (i.e. essentially a supply-side approach) we now turn to government attempts to tackle some issues on the activities of the VCS (demand-side). Among these initiatives are some of the major reviews of government support for, and policy towards, the VCS.

As we have seen, the framework for relations between central government and the VCS is set out in the Compact, negotiated not long after the government came to office (Home Office, 1998); in 2002, a Treasury review of the role of voluntary and community sector organisations in the delivery of public services (the "Cross Cutting Review"), in effect a review of the Compact, led to new government funding (H.M Treasury, 2002). As well, a 2002 review by the Strategy Unit of charities and nonprofits is a key hub around which many further developments are taking place (Strategy Unit, 2002); the formal government response to the Strategy Unit review is set out in a document from the Home Office (Home Office,

2003); and there is the promise of a Charities Bill to take forward those initiatives requiring new legislation. These are initiatives designed to:

- (i) improve the capacity of government to support the sector's development.
- (ii) stimulate the development of voluntary and community sector organisations (VCSOs);
- (iii) build the organisational infrastructure of the sector, so it can better provide public services.

Improving the capacity of government to support the sector's development

The Cross Cutting Review fed into broad government spending decisions, and as a result of its findings, the Home Office was allocated an extra £93 million from 2003 to 2006. This marks a major cranking up of government support for the sector. In 2003, the Home Office bolstered its own infrastructure for supporting the voluntary and community sector, with a new Active Communities Directorate comprising three units:

- The Active Community Unit, whose aim is to 'promote the development of the voluntary and community sector and encourage people to become actively involved in their communities, particularly in deprived areas'. It is 'responsible for the achievement of the Government's target of increasing voluntary & community sector activity, including increasing community participation, by five per cent by 2006';
- The Charities Unit, which aims 'to develop and maintain a legal and regulatory framework which enables the charitable sector to realise its potential whilst ensuring that public confidence in the sector is maintained'; and
- The Civil Renewal Unit, which aims to 'promote awareness and practices that will help to increase citizens' active and democratic engagement in decisions or activities which affect their lives'.

Stimulating the development of VCSOs

The Strategy Unit (SU) review is wide-ranging (it is an initiative that cuts across our three-way typology) but many of its key elements focus upon the shape, nature and development of the VCS. The Strategy Unit is part of the Cabinet Office (in some ways the PM's own 'department') and has a specific mission to think widely and creatively, and often seconds team members from outside government for specific projects and programmes.

The SU report tackles everything from charity regulation; charity action in the marketplace (mergers); their generation and use of resources; performance issues and reporting; recruitment and remuneration of trustees who govern them; reform to the charity regulator (the Charity Commission); and, levelling the regulatory playing field to include educational and religious institutions. However, the review goes beyond the roles charities have played for 400 years by raising proposals for new types of incorporated entities to reflect the broader activities of 'modern' charity.

The review was only empowered to make recommendations to government, and it made around 60 in all. In turn, government undertook a major consultation exercise on the report, and in framing its response took account of its own plans and views expressed in the consultation. The government accepted the vast majority of the recommendations, although with some modifications such as the grading of thresholds for financial reporting and auditing of accounts. In fact, it only rejected outright two recommendations, including a proposal to enable charities to carry out trading activities without a separate trading company. This change would have morphed charities somewhat into social enterprises, and instead government opted for a new form of incorporation, the community interest company (CIC) as

discussed in the next section. Those proposals requiring new legislation are earmarked for the proposed Charities Bill (Home Office, 2003).

Building the organisational infrastructure of the sector, so it can better provide public services

The Treasury review (the Cross Cutting Review) of the role of the VCS in delivering public services, often under contract from government agencies, is the key initiative here. The review stems from a particular emphasis on the activity of VCSOs, and its goal of increasing these activities is explicit. One outcome of the review is a new (and one-off) fund of £125 million called Futurebuilders, which is geared towards fostering, disseminating, and diffusing innovation in the VCS in delivering these services. This itself has been the subject of extensive consultations with the VCS. The overall aim is to build the capacity of the VCS to deliver public services.

UK research has shown that the VCS grew rapidly in the 1990s, mostly due to the contracting out of services previously directly delivered by government agencies (Hems and Passey, 1998). This change particularly affected human services sectors such as social welfare and personal social services. While the sector grew as it delivered more services, there was however, no parallel increase in support for its infrastructure and management capacity. Terms such as ‘mission drift’ and ‘projectisation’ emerged to describe this phenomenon, wherein the organisational overheads attached to services were not funded, meaning that the core financial and management capacities of many VCSOs were eroded through the demands of managing (and winning) contracts for service delivery.

Recent initiatives such as Futurebuilders suggest a new willingness in government to try to remedy these problems, thereby enabling VCSOs to deliver more services, and possibly to move into new areas, as direct government delivery in areas such as health and education is slowly wound down. One can speculate that the government is anticipating the growing demand for services due to demographic changes in the population and its own finite capacity to respond directly to them. It is likely therefore that VCSOs will become more important in delivering services funded from the public purse.

Government has proposed that Futurebuilders will focus on four public service priorities: (i) health and social care; (ii) crime and social cohesion; (iii) education and learning; and (iv) support for children and young people. The consultation on how the fund might operate and be administered closed in July 2003, and government is now considering responses. A key section of the consultation focuses on what the fund might ‘buy’, including:

- ‘physical assets (e.g. buildings);
- intangible assets (e.g. intellectual property);
- development funding (e.g. one-off revenue funding); and
- how the finance might be tailored to suit the needs of the individual organisation, offering a range of funding including grants, loans and guarantees’.

The latter is of major interest, since the ability to loan finance in particular would potentially extend its life and direct impact beyond the three years of funding.

Social enterprise

Finally, there is a swathe of initiatives designed to stimulate a broader range of social economy organisations, including social businesses, co-operatives, and friendly societies, which sit outside often-used definitions of the voluntary and community sector. These initiatives also include measures designed to support people working to build new social enterprises (so-called social entrepreneurs).

In 2000, the British Prime Minister introduced government's strategy as an aim to open up 'entrepreneurial organisations - highly responsive to customers and with the freedom of the private sector - but which are driven by a commitment to public benefit rather than purely maximising profits for shareholders.' To achieve this 'we [government] aim to provide a more enabling environment, to help social enterprises become better businesses, and ensure that their value becomes better understood. Now is the time for us to join together to make social enterprises bigger and stronger in our economy' (Department for Trade and Industry, 2002). It seems that Blair is searching for a 'third way' for private interests (individuals and institutions) to specifically pursue the public good. He is aiming for ways to get beyond the 'invisible hand' of the market in building the public good, to more explicitly foster entrepreneurialism to public ends.

Overall government responsibility for social enterprise resides in the Social Enterprise Unit (SEnU) in the Department for Trade and Industry (DTi). The Unit was launched in October 2001, just after a second Labour election win. In a sense therefore, government was late into the 'marketplace' for developing social enterprise, although one major initiative - the Phoenix Fund - had already been launched (see below).

The SEnU is headed by a junior minister within the DTi and exemplifies a more structured government approach in its second term. The unit is both a focal point and champion for government initiatives on (or affecting) social enterprise, and it aims to break down barriers hindering growth to social enterprise and spread good practice. Its origins can in part be traced to the 1997 Demos report on social entrepreneurs, which recommended that 'the Department of Trade and Industry includes social entrepreneurs within its programmes to help small-and medium-sized businesses'.

What can be called the SEnU workplan is set out in *Social Enterprise: A Strategy for Success* published by the DTi in 2002. This document did not propose new legislation, though it notes other reviews (such as that by the Strategy Unit) from which proposals for legislation might spring (they did). The analysis of initiatives below includes elements of this action plan.

Developments on social enterprise are once again rooted in initiatives from outside of government, but which in some ways had government's stamp of approval during its first term in office. We noted above the important role played by agencies outside of government (and external to political parties) in underpinning the government's initiatives on the third sector, including think tanks and the sector itself through the Deakin Commission. So far, we have considered how these have played through into government programmes to boost philanthropy and support the development of the voluntary and community sector.

In turning to social enterprise, besides think tanks, it is important to note the role of external agencies such as the Social Investment Forum (SIF) and the New Economics Foundation (NEF). The SIF was launched in 1991, and its aim is to promote and encourage the development and positive impact of socially responsible investment, in which investors' financial objectives are balanced with their concerns about social, environmental and ethical issues. The SIF aims to influence both consumer and organisational practice. NEF is an independent think tank, which aims 'to improve quality of life by promoting innovative solutions that challenge mainstream thinking on economic, environment and social issues'³.

Together these two organisations have stimulated many developments in this final plank of government strategy towards the social economy, most particularly through their role, along with the Development Trusts Association, in initiating and driving the Social Investment Task Force (SITF). The SITF was independent of government, but operated with the blessing and knowledge of the Chancellor. Its report focused in particular on the potential for community

³ See the NEF website at www.neweconomics.org

development finance to boost investment flows in those communities that have been most deprived of capital and management expertise (Social Investment Task Force, 2000). As we show below, the SITF has proved influential.

The Co-operative Commission had a narrower institutional focus. It was launched in early 2000 - reporting in January 2001 – and was asked to take an independent look at the sector. The Commission comprised business leaders, politicians, trade unionists and ‘co-operators’. The chair was John Monks, General Secretary of the Trades Union Congress (the equivalent of ACTU). Importantly, while independent of government, the Commission had the backing of Tony Blair.

In a sense, the SITF was to social enterprise and the Co-operative Commission to co-operatives, what Deakin was to philanthropy and the voluntary and community sector. While both were independent of government, they have stimulated government policy responses. However, support by government for private initiatives that in turn led to government policy development is not confined to the UK. The major enquiry into nonprofits in the United States, in the 1970s, had a similar relationship with the government⁴.

The development of social enterprise has also been linked with policies designed to tackle what in Europe is termed social exclusion⁵. The clearest link is made in the Policy Action Team (PAT) 3 report ‘Enterprise and Social Exclusion’. PATs were made-up of civil servants and ‘outside experts and people working in deprived areas to ensure the recommendations were evidence-based and reality-tested’. Each had a so-called ‘ministerial champion’.

The PAT 3 report argued that social enterprises could benefit so-called excluded communities either through providing services that are not profitable enough to attract the private sector, or by providing bridges for excluded communities into mainstream markets. Examples of the latter would be the role of credit unions and other forms of micro-finance to link people back into ‘mainstream’ financial services, or social enterprises training and building the work experience of unemployed people. The report called for greater recognition of and support for social enterprises, for social enterprise to play a bigger role in government-funded community regeneration strategies, and for a culture shift in the voluntary sector and among social enterprises from grants to loan finance.

It is in developing social enterprise that some of the most innovative work has been undertaken. Moreover, while the *Strategy for Success* action plan contained no direct proposal for legislation, a combination of other government reviews and private members bills have given a legislative slant to social enterprise developments. In our brief analysis below, we

⁴ The Commission on Private Philanthropy and Public Needs, 1973-1978 (the Filer Commission) was formed to obtain information, analysis, and opinions on the function of private philanthropy in American society and its relationship to government. It was initiated by John D. Rockefeller 3rd, with the support and encouragement of House Ways and Means chairman Wilbur Mills; Treasury Secretary William Simon; and former Treasury Secretary George Schultz. The Aetna Life & Casualty Company, John D. Rockefeller 3rd and the Ford Foundation each contributed \$25,000 to get the Commission started, and it eventually raised over \$2 million to fund its efforts. Its final published report, (*Giving in America: Toward a Stronger Voluntary Sector*) set out recommendations to boost private and business giving, simplify tax systems for individuals and organisations, require fuller reporting by tax-exempt organisations, and allow charities to lobby freely.

⁵ Social exclusion is said to result from "a combination of linked problems such as unemployment, poor skills, low incomes, poor housing, bad health and family breakdown" (Social Exclusion Unit Leaflet, Cabinet Office, July 2000).

According to the Development Trusts Association “the work of the organisations within the Social Economy are often focused on service delivery to those groups, or in those places, where social exclusion is deemed to be high”. (<http://www.dta.org.uk/content/glossary/inclusion.html>)

distil three elements to government's approach: reviews; innovations in funding; and legislation/regulation.

Reviews and strategy

We have already noted the main government review, *Strategy for Success*, which outlined plans to increase the awareness of social enterprises among government procurement officers, as well as personnel in key business support agencies such as Business Links and the Small Business Service. The plan also includes establishing a knowledge base on social enterprise, and setting up groups and processes to push the plan forward.

Elsewhere, some of the key thinking on social enterprise has come from the SITF, which tied into key government policy interests by highlighting the potential for social enterprise to regenerate excluded communities, therefore linking directly to the PAT 3 report discussed above. The SITF made five recommendations, and by 2003, progress had been made on three of them (see funding section below).

We have already noted the support of the prime minister for the Co-operative Commission, which made 60 recommendations in its 2001 report. These covered a broad scope of issues, among them image, finance, audit and review, new technology, membership, staff, governance, and implementation of the recommendations (not one which was binding on co-operatives). What the Commission reveals again is a commitment to institutional change in one form of social enterprise, as presaged in the Co-operative Party's 'new mutualism' project.

Innovations in funding

The *Strategy for Success* plan emerges here too, with its aim to increase the capitalisation of community development finance institutions (CDFIs), and in its tasks of commissioning the Bank of England to review and make recommendations on debt and equity finance available to social enterprises, and thereafter to try to resolve any problems that the Bank's research throws up.

In summary, there are three funding initiatives, one of which marks a new use of publicly-generated funds. All reveal the extension of the Treasury's role into microeconomic policy – especially regeneration and tackling social exclusion -either through direct funding or via other parts of government.

The £20m Phoenix Fund stemmed from PAT 3 and is administered by the Small Business Service in the DTi, a location that might be seen as one attempt to mainstream social enterprise into services for small and medium enterprises. The fund was launched in 1999, and includes support for community development finance institutions (CDFIs), with the aim of increasing lending to entrepreneurs in disadvantaged communities. Over 40 CDFIs have so far been funded, either through revenue, capital or loan guarantee support. CDFIs are independent financial intermediaries that provide finance in the form of grants, loans and equity. They specifically do so to individuals and enterprises in deprived and disadvantaged regional and urban communities, and provide flexible lending requirements, structures and assistance methods. As we note above, the SEnU has picked up a role in further developing CDFIs.

The 2002 Adventure Capital Fund (ACF) comprised £2.5m for supporting mid-sized social enterprises to overcome barriers to their growth. It is funded by the Home Office, the Neighbourhood Renewal Unit (in the Office of the Deputy Prime Minister) and by four Regional Development Agencies. The Home Office pledged a further £4m in 2003. The aim

of the ACF is to shift organisations away from grant finance to other forms of investment such as loans. Government perceives the latter as building longer-term financial sustainability. According to the ACF website, so far 10 projects are receiving either low interest investment loans or grants of between £50,000 to £300,000, and a further 20 projects are receiving smaller £15,000 development grants.

In 2002, a partnership of seven social enterprises formed UnLtd, which is based on a £100m endowment. The fund came from the proceeds of the Millennium Commission, which was one of the original five bodies established by government to distribute the proceeds of the UK National Lottery. The Millennium Commission was set up on the basis that it would be wound up in 2000 after the millennium celebrations, but it had not distributed all its proceeds by the time of it being wound up. The endowment is invested to generate funds to support social entrepreneurs, and to finance research into their impact.

In addition, the 2002 Budget included the Community Investment Tax Relief and £20m for the Community Development Venture Fund (funded on a matched £ by £ basis with the private sector). The SITF also recommended a code of greater disclosure by banks of their lending to disadvantaged communities, which was adopted by the banking sector on a voluntary basis.

Research by the Bank of England on the financing of social enterprises found that there were both supply and demand side issues that needed resolving. Again, recommendations remain voluntary. The British government has yet to venture into legislation in this area, instead relying on budget initiatives, back-door nudging, and key allies (such as the Community Development Finance Association) to take its aims forward.

Innovations in legislation/regulation

In respect of social enterprise, there are two new pieces of legislation – the 2002 Industrial and Provident Societies Act and the 2003 Cooperatives and Community Benefit Societies Act. Both were introduced as private members legislation, and they seek to update existing legislation, mostly to ensure assets remain in members' ownership and to make carpetbagging (and hence demutualisation) more difficult. Both however maintain their respective organisational forms.

The IPS Act also brought about the shift of credit unions into the regulatory remit of the Financial Services Authority (FSA), which is a company limited by guarantee funded by the financial services industry to look after the whole of the industry. This puts credit unions on the same footing as banks and building societies, and provides further protection against demutualisation.

Finally, the Strategy Unit review came up with a more radical proposal for a new type of incorporation (a so-called Community Interest Company) that would seek to link the virtues of company legislation (to attract venture capital and entrepreneurs) with guarantees to lock in assets (to attract social investors and aid such organisations' contributions to community regeneration). Once again the Demos think tanks seems to be influential here, having called in 1997 for 'government [to] create a simpler, de-regulated corporate structure for entrepreneurial social organisations that combine commercial and charitable work ... [that] would have to conform to much more stringent rules of disclosure to ensure that their commercial and charitable finances were being kept separate'.

While not followed exactly in the CIC proposal, the proposed new form of incorporation would include relatively high compliance burdens, with 'community interest reports' as well as annual financial returns to the regulator. The aim is to ensure that CICs use their profits

and assets for the public good. This new proposed form of organisation maps out the limits of the British government's efforts to shape and develop the social economy, and is one clear reflection of Blair's aspiration to open up 'entrepreneurial organisations ... driven by a commitment to public benefit'.

And a comparison

But what of Australia? How do these initiatives stack up against government action toward the social economy, or third sector, as it would more likely be called here? We mostly find a stark contrast.

There have been few Australian government initiatives designed to strengthen the social economy, or to improve government relations with the various components of the social economy. The development of philanthropy is the only area where a comparison seems valid. Here the Commonwealth government has introduced proposals to encourage donations of money and in-kind gifts to deductible gift recipient organisations. These would allow deductions on gifts of property; tax benefits to be spread over five years; and tax deduction on payroll gifts to be received straight away and not at the end of the tax year. The government has also encouraged high wealth individuals to donate through the creation of private prescribed funds, which are in effect private charitable foundations. Finally, the government has sought to encourage business philanthropy. The main initiative in this regard has been the Prime Minister's Community Business Partnership, tasked with fostering closer links between business and nonprofits providing community services. A similar body was created in the Arts area. Such entities were not needed in the UK, where organisations such as Business in the Community (with members including most of the Financial Times Stock Exchange Top 100 listed companies) and the Princes Trust have been doing similar work for the last decade and more.

The government also appointed a small group led by a retired Federal Court judge to review the definition of charity as it appeared in Commonwealth legislation. However, this action was forced on the government, as part of the agreement with the Australian Democrats to secure passage of the Goods and Services Tax. Despite limited and confusing terms of reference, the inquiry produced a report with some sensible proposals to widen the definition of charity and for keeping it under review. The government moved slowly in developing a response, but eventually tabled a Charities Bill. This accepted some of the Review's proposals and ignored others. On one point, the restriction on political lobbying by charities, the bill proposed words that reflected the existing case law understanding rather than the liberalisation proposed by the review committee. This in turn aroused public controversy. The bill was referred to a committee of the newly formed Taxation Board of Review. This reported to the government at the end of 2003. In the 2004 budget, the government announced that it was abandoning the bill. Instead, it would legislate to expand the definition of charity to cover two or three small groups of organisations.

In short, most of the initiatives in the United Kingdom have not been picked up, or reflected here. To elaborate the reasons for this difference would require another paper, but several points stand out. One is that the government sees no reason for such initiatives. Australian governments interact with many social economy organisations, and depend on them for the delivery of many services. However, at no point has an Australian government acknowledged the existence of, nor the economic, social and political contributions of the social economy or non-profit sector as a whole. Rather governments see bits of the sector (charities, schools, churches, credit unions and so on) but not a complete sector. In this regard, the government is reflecting the view of the wider public. What Australia also lacks, in comparison with the United Kingdom, is a social economy, or even a non-profit sector that is conscious of itself and that seeks to publicise its contribution to Australia's economy, society and political system more widely. Australia also largely lacks an academic research community and think

tanks that seek to articulate and measure the contribution of the sector and to suggest new roles for it.

SUMMARY AND CONCLUSIONS

Overview

The initiatives towards the third sector can be viewed as all-government, especially since the provisions of the Compact extend across several government departments and agencies in their relations with the voluntary and community sector. There are however four key players, which include the two most senior members of the government (Prime Minister Blair and Chancellor Brown):

- The Cabinet Office (including the Strategy Unit);
- The Treasury (including the Inland Revenue);
- The Home Office (including the Active Communities Unit); and,
- The Department for Trade and Industry (including the Social Enterprise Unit).

In respect of what it seems to be setting out to achieve, we can identify a series of goals informing the government's initiatives:

- Simplifying and broadening existing behaviour (tax-effective philanthropy, gifts of shares, donations from pre-tax corporate profits);
- Revamping existing organisations (charities, IPSs, co-ops; regulators such as the Charity Commission, FSA);
- Proposing new forms of incorporation (e.g. Community Interest Company);
- Focusing on some specific activities that fold into public policy priorities (service delivery, tackling social exclusion);
- Building capacity (new sector funds, better use of existing services, e.g. the Small Business Service, more resources in government);
- Fostering culture changes ('culture of giving', shifting funding from grants to loans, enterprise for social ends).

At a deeper level, underpinning these initiatives appears to have been a belief that the social economy has great capacity to generate the sorts of organisational and policy innovations that are needed if countries like the United Kingdom are to successfully negotiate the many complex challenges of this new millennium. And accompanying this belief is a recognition that the social economy has been badly battered by a number of developments of the late twentieth century, not least government exploitation so that if it is to realise its potential, its own capacity must be rebuilt, through government support, public donations and new forms of social investment.

Timing

The Labour government's social economy agenda has become larger and more intense in its second term (from June 2001). As Annex 1 reveals, in its first term Labour focused primarily on codifying its broad relations with the voluntary and community sector with the signing of the Compact in 1998, and in boosting philanthropy through new tax incentives and new schemes designed to foster civic participation.

In contrast, strategic initiatives to develop the social economy, and indeed initiatives more tightly focused on social enterprise, all come in Labour's second term. In its first term, Labour seemed content to allow the third sector, the Co-operative Party and think tanks to

make the intellectual running with third sector issues. Then, in its second term, it showed the ability to bring these interests into government, either through reviews or specifically by adopting recommendations made by agencies external to government. One noteworthy exception were the first-term Policy Action Teams (PAT), which seconded non-government staff to work with civil servants on ways to tackle specific problems under the bracket of social exclusion. The Phoenix Fund, designed to stimulate community-level finance and thereby the work of social entrepreneurs, stemmed directly from the work of PAT 3.

That said however, government was active in fostering links with the social economy from 1997, over and above the Compact and measures to boost philanthropy. It seems no coincidence that key government members, Blair, Brown and Blunkett (now Home Secretary, then Education Secretary) delivered keynote speeches to NCVO annual conferences in 1999, 2000, and 2001. Indeed, going back to Blair's speech, we can see the linking of the voluntary sector with enterprise....

'history shows that the most successful societies are those that harness the energies of voluntary action, giving due recognition to the third sector of voluntary and community organisations. Britain is lucky in that we have such a rich tradition of enterprise of this kind'.

The bulk of the new initiatives came in the second term – with reviews of the wide nonprofit sector, and of voluntary organisations in the delivery of public services. The machinery of government was beefed up with new resources and new units to take responsibility for elements of the social economy. Social enterprise received new funds, and there are plans to explicitly extend government small business support to social enterprises. Private members legislation (impossible without government support) attempted to modernise the law on key institutional forms, and a new type of incorporation has been proposed. As well, there remains the likelihood of new charity legislation in the last few years of the government's second term.

A pattern seems to have emerged of reviews in different parts of the social economy, in turn leading to efforts for institutional renewal and recommendations for taking change forward, many of which government has eventually adopted. The clearest example is the Deakin concordat translating into the Compact, but Deakin contained a broad agenda to boost philanthropy, update legislation and improve institutional infrastructure. Many of its recommendations ally with proposals for fostering charity in the 21st century put forward by Demos (Mulgan and Landry, 1995). Like Deakin, Demos called for an updating of charity law, the extension and clarification of tax incentives, new financial mechanisms and support for charitable investments.

Many of these recommendations have appeared on government's agenda in various guises (though not always in ways that the third sector might have wished). Elsewhere we see Social Investment Task Force recommendations being grasped by government – especially the Treasury – and converted into new funds and further support for social enterprises and social entrepreneurs. For co-operatives, the ball seems more clearly out of government's court, although it did support updates to legislation via private members bills.

...and a caveat

Despite these impressive government initiatives, initiatives that have markedly improved the situation of the social economy in the UK, there are still problems. Charities still face the burden of unrecoverable value added tax, charitable foundations have seen the returns on their endowed investments fall as government taxes dividends, and there remain clarion calls of concern that the third sector and government are too cosy – a situation that has the potential to undermine the role of civil society as a guardian against state excess.

The British government has not moved to simplify the institutional landscape by introducing a single coherent organisational form for the third sector, nor has it proposed a single point of administration (a so-called 'Nonprofits House') to parallel Companies House in the corporate sector. These proposals are understood to have been favoured by certain members of the Strategy Unit; however, the existing institutions, especially the regulators, seem to have won the day on this argument. A danger is that the proposals could fall over one another and the introduction of new types of organisational form might lead to increased public confusion.

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ANNEX 1: THE POST 1997 TIME LINE OF INITIATIVES

	Philanthropy	V&C sector	Social enterprise
1998		<ul style="list-style-type: none"> • Compact (Codes rolled out through 2003) 	
1999	<ul style="list-style-type: none"> • Review of Charity Taxation • DfeS MV - Millennium Volunteers 		<ul style="list-style-type: none"> • PAT 3 'Enterprise and Social Exclusion' HMT • Phoenix Fund
2000	<ul style="list-style-type: none"> • The Giving Campaign • Budget tax reforms for giving, volunteering 		<ul style="list-style-type: none"> • Enterprising Communities: Wealth Beyond Welfare, Social Investment Taskforce
2001	<ul style="list-style-type: none"> • The Experience Corps 		<ul style="list-style-type: none"> • The Coops Commission (No. 10)
2002	<ul style="list-style-type: none"> • 'Next Steps on Volunteering and Giving in the UK' • Budget: gifts on land/buildings; new tax credits • Private Action, Public Benefit. A Review of Charities and the Wider Not-for-Profit Sector 	<ul style="list-style-type: none"> • Budget: amateur sports clubs • The Role of the Voluntary and Community Sector in Service Delivery: A cross-cutting review • Private Action, Public Benefit. A Review of Charities and the Wider Not-for-Profit Sector 	<ul style="list-style-type: none"> • Adventure Capital Fund (ACF) • Budget: CITC and CDVF • Social Enterprise: A strategy for success • Private Action, Public Benefit. A Review of Charities and the Wider Not-for-Profit Sector • FSA takes over regulation of credit unions • UnLtd • Industrial and Provident Societies Act
2003	<ul style="list-style-type: none"> • Charities and Not-for-profits: A modern legal framework. • Guidestar UK 	<ul style="list-style-type: none"> • Home Office infrastructure • Charities and Not-for-profits: A modern legal framework • Futurebuilders, Proposals for Consultation • Charities and Not-for-profits: A modern legal framework 	<ul style="list-style-type: none"> • Charities and Not-for-profits: A modern legal framework • SITF progress report • Enterprise for Communities: Proposals for a Community Interest Company • The Financing of Social Enterprises: A special report by the Bank of England • Cooperatives and Community Benefit Societies Act 2003
2004/5	<ul style="list-style-type: none"> • Charities Bill 	<ul style="list-style-type: none"> • Charities Bill 	<ul style="list-style-type: none"> • Charities Bill