State of the Art Review

What can Social Enterprises contribute to the 'levelling up' agenda?

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The 'levelling-up' agenda offers the opportunity to change the way we think about regional development. Based on traditional measures of performance, interregional inequality is substantial in the UK and unlikely to be addressed without a sustained and significant policy effort. Government moves to change industrial and regional support following the UK's exit from the European Union have been tentative but are now taking shape. Society and policy may be well served by a broader interpretation of regional success which incorporates wellbeing in a wider sense and social enterprises are well placed to contribute to this broader interpretation. This review reflects on their potential role in reducing interregional inequality in light of the COVID-19 pandemic and Brexit.

Background

There is a broad recognition that the UK economy suffers from substantial regional inequality (The Economist, 2017). The 'levelling up' agenda was an integral part of the campaign for the 2019 UK General Election and indeed contributed to the landslide victory of the Conservative Party (Tomaney and Pike, 2020). However, the campaign trail was light on detail of exactly what was meant by 'levelling up' and how policy would address this in a way that would see significantly improved outcomes for the left-behind regions, where past policy interventions had largely failed to have a lasting impact.

Leaving the EU at the start of 2021 has significant implications for the UK economy. From the perspective of regional policy, when the current tranche of committed funds end, the UK is no longer part of the European Social Fund or the European Regional Development Fund. Combined, these contributed £2.1bn annually to the UK's most deprived areas (Brien, 2021) and brought in associated private investment. Establishing a replacement scheme has potentially created an opportunity to reduce bureaucracy (a recognised problem of EU support programmes) and improve deployment, targeting those in need, ensuring greatest value for money and focussing on outcomes. Recent government rationale for the latest plans also highlights that these funds can be more closely aligned to other government objectives such as net zero and levelling up. Details of the replacement policies have been slow to emerge but comprise of both capital investment (e.g. the Levelling Up Fund) and revenue-based expenditures (such as the Community Regeneration Fund).

From 2022, the UK Shared Prosperity Fund (UKSPF) will replace the lost structural funds with the aim to 'reduce inequalities between communities' (Brien, 2021). At their heart, current policy papers emphasise the importance of levelling-up and regenerating left-behind regions but there remains a lack of clarity about what is precisely meant by the term 'levelling up'. Moreover, the proposed plans under the UKSPF have recently been criticised for their centralised nature and concerns have been expressed particularly in relation to devolved governments' input into the distribution and allocation of spend (Nice et al, 2021). While the devolved regions, which currently play an integral part in enabling the most deprived areas access to funding, have been promised involvement, this is currently undefined. The introduction of the UK Internal Market Act (2020) has provided the opportunity to centralise this decision making and the plans as they stand run the risk of duplication of core functions, fragmentation of services, confusion over accountability and the security of funding over longer time horizons. All of which is likely to be detrimental to a deteriorating relationship between central and devolved governments (Nice et al, 2021), having a knock-on effect to the allocation of funding for left-behind regions.

Since the Great Recession, social enterprises have offered an alternative model to the traditional neoclassical profit-maximising firm, providing a more sustainable solution for third sector organisations within a market framework. Defined broadly as for-profit organisations with a social aim (Docherty et al, 2014), social enterprises provide both an opportunity to address gaps in public provision left by the period of austerity following the Global Financial Crisis as well as building community and identity. As entities, they seek to address issues of social and environmental need, often at a local level and look to broaden the employment base to include those that are at the margins of the labour market. Early research questions on this latest incarnation of social enterprises have been discussed elsewhere in the ERC's SOTA series (Robinson, 2019; Hazenburg, 2021). Academics have sought to grapple with definitions and distinctions as well as their overarching purpose, but it is clear there has been renewed academic interest in social enterprises and social entrepreneurship from social policy experts and economists (van Twuijver et al, 2020).

The COVID-19 pandemic and its effect on the economy have been profound but, among other things, it initially resulted in the levelling-up agenda being delayed in the short run as attention and support was diverted towards managing the consequences of lockdown (Magrini, 2021). Increasingly however, there has been a growing awareness that inequalities have been exacerbated by the pressures created by COVID-19 in some regions and localities as the economic cost it imposed has not been evenly felt (Davenport and Zaranko, 2020). The Centre for Cities, in its annual Cities Outlook report argues that COVID-19 has made levelling-up four times harder than in pre-COVID-19 times. The report stresses that there is an increasing danger of levelling-down occurring as traditionally thriving areas of London and the South-East experience tremendous slow down (Centre for Cities, 2021).

The purpose in this review is to consider, how far social enterprises can tackle the challenges of levelling-up and to what extent can social enterprises address the growing regional divide? Can social enterprises exceed expectations by bringing greater benefits to local communities which are comprised of more than economies (Building back better)? Finally, what will be the role of social enterprises in a post-COVID world?

Evidence

McCann (2020) highlights the significant challenges and pitfalls associated with analysing regional variation in key indicators of inequality. Earlier research, such as by Robson (1996), and subsequently applied in papers including Mason et al (2009), initially focused extensively on alternative definitions of geography in an attempt to ensure economically meaningful units were compared. These typically suffer from a lack of transparency in their constitution. International comparisons are also fraught with issues with comparability of regional level data (Rincon Aznar et al, 2021) as the characteristics of regions can be so diverse that comparison seems less meaningful. More aggregate levels of geography suffer from the fact that much of the 'within' variation is hidden (Davenport and Zaranko, 2020). However, McCann (2020) carefully demonstrates that compared with other OCED countries, the UK is amongst the most interregionally unequal. He argues that 'it is the combination both of the magnitude and proximity of the interregional inequalities that is so marked' (p264), implying that inequality is felt keenly in the UK because neighbouring or near neighbouring regions show such huge variation in economic fortunes.

Understanding the left-behind regions is not straightforward; the causes of their position are multifaceted, complex and often historical (Davenport and Zaranko, 2020). Some regions are located in urban areas, close to large cities that have experienced industrial decline. Other regions are remote, rural and coastal areas where employment opportunities and industry have been firmly limited to tourism and primary sector production. Recent evidence on the impact of COVID-19 suggests marked differences across these left-behind regions, increasing the complexity of how best to respond and support regional development. Recent initiatives such as the Levelling Up Fund and the Community Regeneration Fund, which have been devolved to Local Authorities appear to recognise that one size will not fit all and that a bottom-up, community-led approach will be necessary to create genuine impact (HM Government, 2021a; HM Government, 2021b). This has the potential to create space for active participation of social enterprises that operate at the local level and often at the margin of the economic activity, developed on a needs-basis. However, it is yet to be seen how inclusive these investment processes will ultimately be.

The concept of levelling-up is a nebulous one, meaning different things to different stakeholders. In a narrow sense, interregional inequality is captured by standard economic measures of prosperity and productivity: GVA (Gross Value Added), GDP (Gross Domestic Product) or RDI (Real Disposable Income) per capita. Other indicators of deprivation offer a more rounded view of economic disadvantage, such as unemployment rates, crime rates and the composite multiple deprivation indices. Talbot and Talbot (2020) argue that levelling-up is broadly 'the rebalancing of the economy between the soar-away London and the Southeast and the rest of the UK'. The Government have identified their Priority Areas - 100 local authorities most in need of levelling-up - on the basis of productivity, skills, connectivity and capacity (HM Government, 2021c). They use the following metrics:

- GVA per hour worked
- Unemployment (amongst the 16+ aged workers)
- The proportion of the working age population with no qualifications
- Average journey times to employment centres
- Commercial and dwelling vacancy rates

Other commentators have highlighted the importance of health in social inequality and stress that any attempts to level-up should also take account of the health gap (Dixon, 2020). However defined, addressing regional inequalities is a mammoth task. The Institute for Fiscal Studies (IFS), in its Green Budget, 2020, suggested that it would take decades to make significant in-roads in bringing up the economically left-behind regions (Davenport and Zaranko, 2020).

Social enterprises offer a potentially attractive route to reducing economic and social inequality; given their wider social purpose, they appear to lend themselves to regional development (Kim and Lim, 2017). Social enterprises were estimated to contribute around £60bn to the UK economy in 2018, accounting for around 100,000 businesses employing around 2 million workers (SEUK, 2019). As such, social enterprises are a significant and growing force in the UK economy, covering a range of not-only-for-profit organisations, from cooperatives to community interest companies (Robinson, 2019), and vary in size, shape and purpose. They are often regionally focussed which is consistent with environmental and community purpose; however, not all social enterprises are bound by geography. In many cases, the communities that social enterprises aim to serve or support may be more dispersed, requiring coordination across interest groups rather than geography. Richter (2019) argues that social enterprises are able to act as 'embedded intermediaries' and foster social innovation, suggesting that even locally based (small) social enterprises are able to make a significant contribution to social change, acting as a conduit for regions and interest groups through social networks. Greater understanding of how these operate and how they might be supported is required.

Social enterprises often create economic opportunities at the margins, employing those weakly associated with the labour market and facing significant barriers. In addition, they create opportunities for skills development appropriate to the needs of the local community. They also promote locally relevant production in such a way to protect local communities. Typically, these are for-profit organisations that make start up decisions based on a broader set of criteria, including social and environmental need. This enables them to enter marginal markets, serve local communities and contribute to employment creating opportunities for those marginalised in the labour market (Hazenburg, 2021). Thus, they contribute more obviously to civil society rather than purely to regional economies. A large amount of the evidence in relation to social enterprises is qualitative and case study based (Defourny and Nyssens, 2017), but a recent paper focusses on the role *rural* social enterprises play in addressing rural community needs (van Twuijver et al, 2020). The authors argue that successful social enterprises are based on community involvement, which build legitimacy and trust in their organisation. This study also demonstrates the use of volunteer workers which can contribute positively to local communities through the upskilling of marginal workers and their reintroduction to the labour market. However, tensions are reported with paid employees and how their use can limit a social enterprise's potential for growth (van Twuijver et al, 2020). The role of social enterprises in building community involvement does, however, prove to be central to their identity and success.

As the UK economy emerges from COVID-19 and current government support mechanisms are withdrawn, it is likely that the UK will see a significant rise in redundancy and unemployment rates. Depending on where (sectorally as well as regionally) these are most keenly felt, interregional inequality is likely to grow without further government intervention at a spatial level. Moreover, early evidence suggests that those at the margins of the labour market (those with disabilities, the long term unemployed, those with health issues or criminal records) will be most affected (Emerson et al, 2021). Recent work by the Social Market Foundation (O'Brien, 2020) argues that COVID-19 offers a unique opportunity to encourage all businesses to adopt some of the attributes associated with social enterprises such as the reinvestment of profit and having a social or environmental aim. This is a radical manifesto but makes some interesting points that highlight the transformative power of active engagement with social enterprises supporting regional development. Social enterprise growth offers the potential to address the COVID-19 impact more rapidly than for-profit business development and growth since these often operate with more vulnerable and left-behind sections of the community. However, early OECD research found that while policy literature claims that social enterprises promote and protect employment opportunities for vulnerable and marginalised workers, the insecure nature of funding for social enterprises can lead to less security and lower pay (OCED, 2013). Thus, targeting of social enterprises for specifically tailored, longer term government support may be necessary, if social enterprise is to fulfil its potential in creating employment opportunities for a wider proportion of the labour force.

As well as a direct economic effect, an indirect consequence of COVID-19 is the change in workplace practices, with increased telecommuting and greater adoption of working from home. While this may bring increased flexibility, the pandemic is likely to result in a scarring effect on individuals and workplaces, as society becomes reluctant to resume such close contact working rapidly (Florida et al, 2020). Social enterprises tend to be more dispersed and locally based, focussing on sustainable, local and environmental issues and needs. Thus, growth in such organisations will enhance community-living and foster a sense of belonging in more remote and deprived areas, improving intangible measures of quality of life that contribute to wellbeing.

To date, the balance in income for social enterprises from government sources is estimated to be around one-fifth of their trading income (Social Enterprise UK, 2019). If we are to see significant support for social enterprises, this also needs to be accompanied by sufficient budget growth at the local authority level to enable them to champion social enterprise provision more locally. Davenport and Zaranko (2020) point out that local authorities have seen substantial cuts in their budgets over the last decade with the most deprived areas the greatest hit. Early indications from the current UK Government suggest that this trend is unlikely to be reversed in the short run but the emerging blueprint for future regional support policies suggest the UK Government is looking for a more direct relationship with local organisations when distributing funds.

Summary and evidence gaps

This paper considers the role for social enterprises in reducing regional inequalities in light of changes to work and the economy as a result of the global pandemic. It is apparent that a clear view of what is meant by 'levelling-up' has not yet been established and until such time, success of this policy objective will be hard to gauge. Social enterprises exist in most sectors and across all regions of the UK. They are community-minded and often develop innovative local solutions to local challenges, working with marginalised resources. Policy changes as a result of Brexit and COVID-19 offer an opportunity to place these organisations at the heart of 'levelling-up' in order to reduce inequality.

Social Enterprise UK has been keen to demonstrate the significant contribution social enterprises have the potential to make to reducing regional inequality, if appropriately supported (SEUK, 2020). It argues that it would do this by creating jobs, stimulating economic activity and reinvesting in deprived areas, proposing a number of government-backed lending/grant schemes. While the levelling-up agenda focuses on economic growth and prosperity, one could argue a broader interpretation of economic development is required if we are to create sustainable and inclusive economies and social enterprises offer an approach that could be central to this broader sense of economic and social wellbeing.

Social enterprises have the potential to enrich local economies and make a significant contribution to the left-behind regions, reducing regional inequality and thus have the potential to be a key driver of levelling-up. In the short term, this contribution may be more directly felt in terms of identity and community rather than aggregate economic output but longer term there is evidence to suggest that improved community quality will enable regions to develop their own prosperity based around local resources and advantages (Florida et al, 2020). Thus, fostering growth of social enterprises offers a more place-based, sustainable path to regional development than a more centralised, top down policy approach. Indeed, changes to the way we work in life after COVID-19 may prove to demonstrate that where we live becomes more important to us than where we work.

Recommendations

In order for the UK to realise the benefits from social enterprises in reducing regional inequality and contributing to the levelling up agenda, the following will be required:

1. A clear definition of what is meant by the term 'levelling-up' is needed – not only from a social enterprise perspective, but in order to evaluate how successful the policy responses are.
2. Further research is required to determine a clear policy focus on how to best invest and support growth of social enterprises, specifically as a vehicle to reduce regional inequality. For example, devolved funding could have a requirement - not just an intention - that a minimum percentage of investment/delivery funds is through local third sector infrastructure.
3. National and devolved governments should develop explicit (evidence-based) policies focused on deploying social enterprises as a mechanism to address entrenched social and economic inequalities.
4. Local governments should aim to incorporate the potential of social enterprises in their areas as enablers of levelling up and invest in them when implementing local policies.
5. Strategic co-ordination will also be required to capitalise on economies of scale across regions. While focus on place is important, social enterprises also work with communities of interest that operate across borders and boundaries.

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