

**Senate Economics Committee Inquiry
Finance for the not-for-profit sector**

Submission by Social Firms Australia, June 2011

Background: Social Firms Australia (SoFA)

Vision

Social Firms Australia's (SoFA) vision is of a society in which workplaces are accessible to people of all abilities, and in which everyone has the opportunity to secure fulfilling and durable employment.

Mission

SoFA is a not-for-profit organisation committed to creating accessible, durable employment for people with a mental illness or disability, with a particular focus on assisting people with a mental illness. SoFA works to create accessible employment by supporting organisations to establish social firms and by providing assistance in the support required for employees with a mental illness.

Scope

- SoFA provides business expertise and mentoring support to the development of social firms that are based on sustainable models.
- SoFA provides support and training in the strategies required to support people with a mental illness to get and keep a job.
- SoFA advocates for appropriate support and employment opportunities for people facing barriers to employment as a result of mental illness.
- SoFA works in partnership to evaluate the impact of social firms.

Social firms are a well established international model of social enterprise developed to meet the employment needs of people excluded from the labour market as a result of mental illness, disability or other disadvantage. Social firms have been operating successfully in Europe for more than three decades and although there can be some variation from country to country the model used by SoFA has the following criteria:

- an integrated workplace: between 25- 50% of employees have a mental illness, disability or other disadvantage
- the majority of income is generated through the commercial activity of the business
- all employees are paid at award/ productivity-based rates
- the same work opportunities, rights and obligations are provided to all employees
- a supportive working environment is provided, with the modifications required for employees in need of support built into the design and practices of the workplace

Response to Inquiry

The Australian government's recognition of the important role social enterprise can play in assisting people in to employment is to be applauded. A broad range of enterprise options are required to provide training, pathways to work in mainstream businesses, and/or ongoing employment in social enterprises. This provides a responsive platform from which to meet the varying levels of employment support needs of the target populations.

However it is important that in the discussion about supporting the creation of commercially sustainable social enterprises –particularly when developing an environment that embeds some of the principles drawn from the for-profit business sector, (most notably in terms of funding options) – there is not an expectation that the not-for-profit social enterprise sector will then operate in a share holder driven fashion, (as with the for-profit sector).

To some extent, the development of a robust capital market in the social economy sector is a contradiction in terms. A robust capital market implies free flowing capital, bands of risk that can be priced and capital allocated accordingly and efficiently. The social economy by contrast includes many not-for profit organisations supporting people with entrenched disadvantage and complex needs and, as not-for-profits, limited access to capital and reliant on government, philanthropic, and fundraising activities for funding.

The international development of government-led structured interventions to create market opportunities to effect social impact in the social economy is an important development. We refer the Committee to a January 2011 report supported by the Rockefeller Foundation *Impact Investing A Framework for Policy Design and Analysis* that critically analyses a number of case studies internationally that utilise government policy interventions to develop the social economy.

www.rockefellerfoundation.org/uploads/files/88fdd93f-b778-461e-828c-5c526ffed184-impact.pdf

SoFA is aware of the value that the various social enterprises across Australia offer to communities and individuals facing barriers to work; SoFA's particular interest is to support the development of a robust social firm sector within the Australian economy.

Social firms are typically small to medium sized businesses operating as divisions of larger not-for-profit organisations. Their primary purpose is to create durable and flexible (usually part-time) employment for people with a mental illness or disability in an integrated and supportive work setting and to be viable businesses competing against commercial operators.

Social firms can be formed as start-up enterprises, by acquisition, (buying an existing business and converting it in to a social firm) replication of successful models, reverse integration of existing Australian Disability Enterprises (by increasing the number of employees without the mental illness or disability) or replicating a proven business idea into a new market.

The inhibitors to a rapid expansion of the social firm sector in Australia are:

1. Access to capital

- Lack of ready access to seed capital to start a business or acquire one, or for growth once business is established.

Recommendation

- SoFA supports the federal government's proposed Social Enterprise Development Investment Fund (SEDIF) initiative that will provide greater access to funds for the not-for-profit sector to develop commercial enterprises and to leverage co-contribution from corporate and philanthropic interests with potentially more durable outcomes attached to investments. A combination of grant and loan options is considered ideal.
- SoFA's interest in seeing a fund or funds developed is in one that meets the capital needs of both small start up social firms where stable cash flows have yet to be realised and where a hard asset base does not exist for security purposes, and for more robust investment opportunities that will support more sophisticated debt or equity financial instruments over time. SoFA's response to the SEDIF is attached.

2. Lack of business expertise in the not-for-profit sector

- Although once established, social firms are managed by people with relevant industry expertise, there is a need for more business expertise in the development phase. Apart from access to funds a significant barrier to the expansion of the social firm sector in Australia is the lack of commercial management expertise within the not-for-profit sector, inhibiting a confident proactive approach to business development.

Recommendation

- The sector's financial capacity could be used to embed the necessary commercial expertise within the organisation, a practice already occurring in some not-for-profits.

3. Ongoing fluctuations in business activity due to support needs of employees

- Although there are a range of supports and subsidies available to any employer who recruits staff with a disability, the ongoing demands on a workplace which commits to a high level of staff with complex needs can affect the business's ability to maintain high standards and competitive pricing. This can be particularly challenging if the subsidy has expired but the support needs of the individual are still significant, particularly in the case of mental illness where the condition is episodic. This, combined with the fact that social enterprises will generally have a high number of part time staff, will need to meet a high standard of HR practice, and unlike many small businesses where the owner operator may not remunerate themselves at an hourly rate based on the relevant award, ensure that all staff are paid at a level commensurate with their skills and experience, can put the commercial viability of the enterprise at risk.

Recommendation

- A modest but ongoing subsidy tailored to offset these additional operational costs could be made available not just to the social enterprise sector but all employers who commit to a certain number of employees with a disability or disadvantage. (and could be an incentive to complement the German example given below).

4. Access to contracts; Social Procurement

SoFA supports the development of an all of government (Federal, State and Local) co-ordinated initiative to facilitate and enable social procurement to be opened up to the social enterprise sector.

Social Procurement involves:

- Social tendering (directly identifying a social purpose business rather than competitive tendering)
- Engaging a principle provider (who delivers services through the use of sub-contracts with social benefit organisations)
- Including a community/social benefit criterion in the call for and assessment of competitive tenders
- Procuring goods and services only from suppliers who demonstrate socially responsible work practices

Such initiatives will assist social enterprises with opportunities to secure a stable source of long-term revenue. There needs to be an associated capacity building mechanism to support not-for-profits to respond to commercial opportunities. A current challenge for social enterprises operating in the commercial sector is their inability to respond to many tender opportunities, which can be multi-million dollar contracts and too large for a social enterprise to consider.

In the area of social procurement SoFA has recently launched a 'Partnerships With Industry project' that works specifically to identify opportunities and develop relationships between government, business, and social firms to increase contracts for existing social firms. Ultimately this work will lead to increased employment opportunities for people with a mental illness, SoFA's primary target group, to secure durable employment.

In previous decades there had been a close working relationship between the commercial sector and Australian Disability Enterprises, (ADE); however many of the traditional procurement contracts offered to the ADE sector have now been transferred off shore to reduce costs.

Recommendation

Other than recommending a whole of government approach to social procurement as stated above a strategy that might encourage business owners to support Australian Disability Enterprises would be to offer a tax incentive to businesses that offer contracts to social enterprises. There are other benefits to having work undertaken locally which combined with a tax incentive might change some of the business community's practice in this regard.

4. Embedding diversity practises in legislation

An approach that the government could consider is the German example where there has been long-standing supportive legislation for people with a disability. *This legislation requires that private and public employers, that have at least 20 jobs, have to employ in their staff a minimum of 5% people with a disability.* An employer whose workforce does not comprise 5% people with a disability has to pay a fee per employee that they fall short. The fees generated through this system are used to finance projects that lead to job creation for people with a disability. Some of these initiatives include:

- Special funding for each new workplace (employment creating social enterprises, e.g. social firms)
- Coaching and support for business managers.
- Finance psychological support of the employees.
- Wage subsidy of 30% for each employee with a disability.