



Forecast for the Future: Scaling Up the Community Food Sector

Research by Cardiff University for the
Making Local Food Work Programme



Working Paper 2

The growth of the community food sector:
key drivers and barriers

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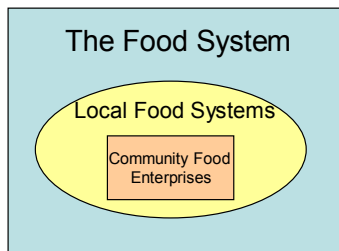
1 Introduction

The overall goal of the Forecast for the Future project is to understand the capacity of the community food sector to:

- continue to improve the operation of the food system, and
- deliver improved impacts to both rural and urban communities, in particular through initiatives at a local level.

The community food sector is understood to be a sub-set of the “local food” sector, which in turn forms a small part of the (increasingly globalised) food and farming industry (see Figure 1 below).

Figure 1: Community Food Enterprises as a Sub-sector of the Food System



Working Paper 2 focuses on the factors that will influence the future growth of the community food sector. Three main influences on food systems in general, and community food enterprises in particular, will be explored:

- supply-side factors, understood as the state of, and the ability to mobilise, the five capitals (natural, human, social, manufactured and financial) which any enterprise needs to operate;
- demand-side factors, such as levels of income, distribution of income, education and awareness, food culture, etc, which influence whether the products and services of a community food enterprise can be purchased;
- the overall political context, and the government policies that shape that context (such as subsidy, regulation, taxation, planning rules, etc) – this will influence both the supply side and the demand side.

The diagram below summarises these three main influences:

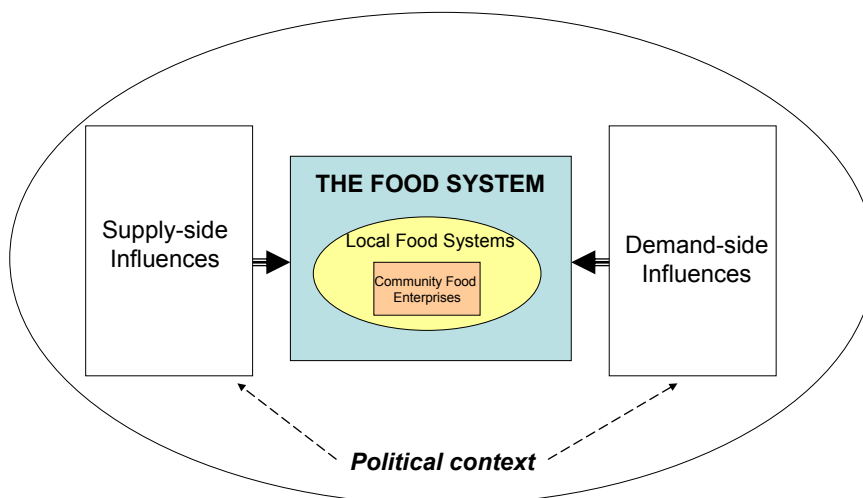


Figure 2: Influences on food systems & community food enterprises

A community food enterprise mobilises 4 different types of resource:

- Natural capital, including land, water and soil, photosynthesis and waste recycling (e.g. from anaerobic and aerobic digestion).
- Social capital, including networks, associations and organisations.
- Human capital, including intellectual knowledge, creativity and physical labour.
- Physical capital, such as buildings (from an allotment shed and a poly-tunnel to a shop, van or food hub) or equipment (such as spades, vans and ovens).

Some of these resources may be freely available, such as land from a benevolent landlord, volunteer labour, existing social networks and donated tools. Others will need to be bought or rented, and for this a fifth resource – financial capital – is required.

Many community food initiatives seek grants to provide this finance, and then supply food and food-related services at no cost to individuals or groups in the community. Others decide to trade, either through securing contracts or through selling goods and service in “the market”. This trading activity makes them a community food enterprise.

Community food enterprises therefore need to focus on two key functions:

- a) mobilising resources, and combining these to create the core operations of the organisation – this is the area of **supply**;
- b) finding customers who will pay for the resulting goods and services – this is the area of **demand**.

Governments can assist this process – of mobilising resources on the supply side and finding customers on the demand side – because through the **policies** they introduce they can influence both the supply side (for example, introducing tax changes which make it easier to mobilise financial capital) and the demand side (for example, by using public procurement to support community food enterprises).

Working Paper 2 will explore these three areas (supply, demand and policies) in turn, beginning with the core entrepreneurial process of mobilising resources to meet identified needs. The aim is to identify some of the key opportunities and barriers faced by community enterprises wishing to scale up (either individually or in collaboration with others) and some key policy changes which could be introduced to support their growth.

2 Developing the supply side

As explained above, in order to start up or scale up production, community food enterprises require a set of “capitals”, which are then employed to transform raw materials into the outputs (i.e. products and services) demanded by consumers or members. Supply is built up from “factors of production”, whereby finance would be combined with land, labour and equipment. Ekins (1992: 48 - 61) has reframed the traditional factors of production as natural capital, human capital, manufactured capital and social/organisational capital, all of which are combined with financial capital through the process of investment. The diagram below summarises this process:

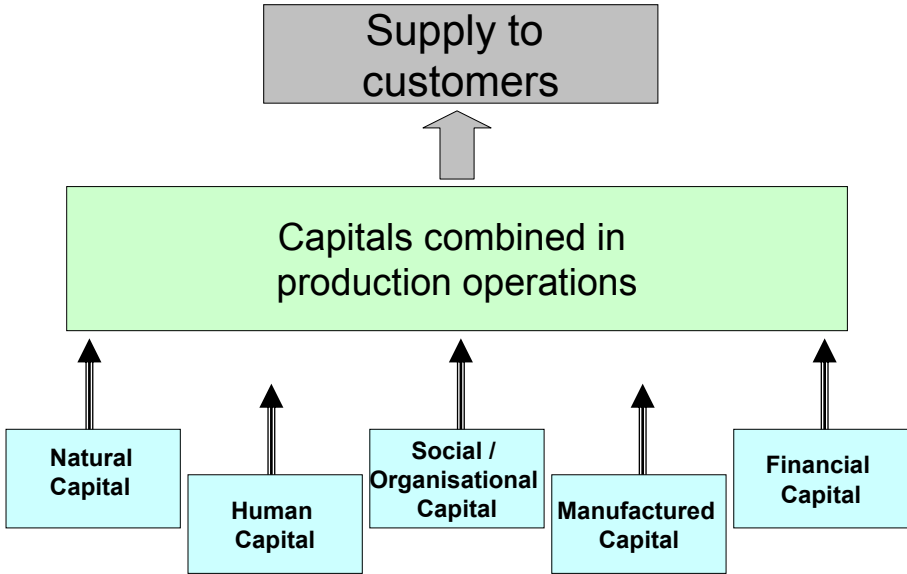


Figure 3: The 5 Capitals Model

2.1 Natural capital

“Natural capital (also referred to as environmental or ecological capital) is any stock or flow of energy and matter that yields valuable goods and services. It falls into several categories: resources, some of which are renewable (timber, grain, fish and water), while others are not (fossil fuels); sinks which absorb, neutralize or recycle waste; and services, such as climate regulation. Natural capital is the basis not only of production but of life itself.”

(Porritt, 2005:113)

For community food enterprises, natural capital is of course fundamental. They may take natural resources and turn them into products for sale (at the primary production and processing end of the food chain) or they may be taking those “natural resources” from others and selling them through retail outlets such as farmers’ markets and box schemes.

Moreover, the modern food system is shaped by the way in which stored natural capital (in the form of oil, gas and coal from the Jurassic era) has been used to transform the food and farming industries. As explained in Working Paper 1, many people in the local and community food sectors are motivated by concern for the negative externalities caused by the use of this stored natural capital – from climate change and soil depletion to the pollution caused by petro-chemical based fertilisers and pesticides. This has led to an increasing emphasis on the development of “sustainable food systems”, which harness the power of the sun (through, for example, wind and photovoltaics) and where the “waste” from one process becomes the raw materials for another.

According to Porritt (2009), the transition to a more “resilient” food system will require re-solarisation and re-localisation:

“the only way to avert a sequence of food crises resulting from supply disruptions and price spikes in oil and gas over the next twenty years is to systematically reduce our dependency on stored solar energy (fossil fuels) in favour of real-time solar energy. All farms must therefore become powerhouses of renewable (solar) energy.....
Whichever way you cut it, a combination of high oil prices, high input prices, growing demand for food, an additional seventy million or so people every year, and growing pressure on soil, water and biodiversity, compounded by accelerating climate change and the kind of high carbon prices that are inevitably on their way, leads to only one rational conclusion: increased resilience by reducing the length (and vulnerability) of our supply chains. The more high-quality, healthy food we can produce close to the point of consumption, the more resilient our food supply chains are going to be.”

There are opportunities for the community food sector to combine food production with renewable energy and waste recycling, as a way of underpinning the viability of existing and new start food production enterprises:

- renewable energy installations will be subsidised through feed-in tariffs for the next 25 years, and offer appropriate returns to social investors;
- these returns could be supplemented by Enterprise Investment Scheme tax relief, which would not otherwise be available for investments seeking to secure land for food production;
- existing food production enterprises could benefit from hosting renewable energy installations, with the potential to receive rental income as well as lower cost energy;
- new food production enterprises could access land as well as lower cost energy, by being built up alongside a renewable energy development on a particular piece of land;
- anaerobic digestion (AD) systems could be integrated into food production facilities (farms or market gardens).

The diagram below illustrates how this could happen at a farm scale:

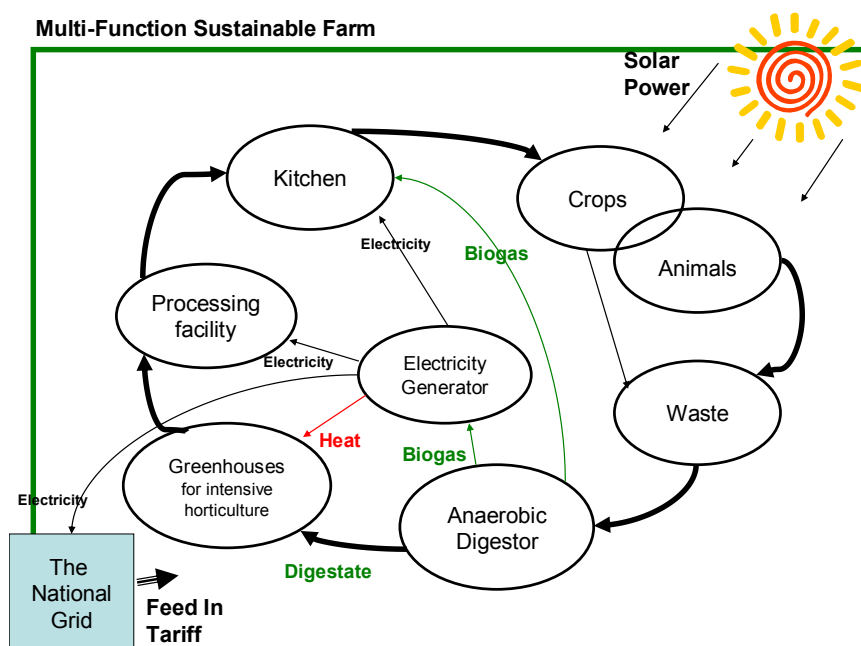


Figure 4: Integrating food production with renewable energy and waste recycling

The rising cost of energy is a major barrier to the success of community food enterprises, and the use of renewable energy as an alternative to carbon based power could be one way to overcome such a barrier. Another major barrier is that many community food enterprises need premises or land to expand. However, land prices and restrictive local planning policies have been creating difficulties for them (Cox and Schmuecker, 2010).

Two innovative responses have been Land share and the proposed National Community Land Bank:

Landshare (<http://www.landshare.net/index>) was established by River Cottage, with support from Channel 4, as an on-line platform to link those with spare land with people who wanted to grow food. There are nearly 60,000 people registered on the site.

The Community Land Bank (<http://www.farmgarden.org.uk/home/local-food-project/growing-trends/community-land-bank>) is an initiative of the Federation of City Farms and Community Gardens, and aims to support access to unused land for either temporary or long term gardening use (plus associated green space activities such as play) by community groups.

2.2 Human capital

Human capital consists of health, knowledge, skills and motivation (all of which are required for productive work), as well as an individual's emotional and spiritual capacities. Enhancing human capital (for example, through investment in education and training) is central to a flourishing economy. (Porritt, 2005: 113)

Referring to people as “human capital” of course runs the risk of reducing them to instruments of production, in the same way that referring to “natural capital” can devalue Earth and its wealth of living systems (Ekins, 1992: 50-54). The important point is that capitals should be “appreciated” not just depreciated – hence they require investment if they are not to be treated as a mere commodities to be exploited.

Community food enterprises can seek to draw on the existing knowledge, skills and motivations of local people, and they also have the potential to build up these capacities in those that engage with the enterprise as volunteers or staff.

Volunteers

All community food enterprises rely on volunteers – either as board members or as unpaid staff. For example a recent report on community owned village shops estimated the value of unpaid staff at an average of £25,752 per shop (Plunkett Foundation, 2011). Community food enterprises will no doubt support the Coalition Government's proposals for the Big Society, and there will be opportunities to seek support from funding and advice programmes which will seek to foster greater volunteering. However, community engagement has a cost and volunteers require management. At the same time, with household incomes falling and many funded civil society organisations having to reduce their services, the number of potential volunteers could reduce significantly.

Staffing

As explained in Working Paper 2, the community food sector works along the food chain, from farming through processing, manufacturing and catering to retail. Skills requirements will be different in each sub-sector, and each of the relevant Sector Skills Council's report skills shortages and gaps. Food tends to be a low-skill, low wage sector, with comparatively high turnover rates. This poses challenges to community food enterprises as well as to mainstream businesses.

Staff – Management

All of the Sector Skills Councils identify problems in the recruitment of managers, and this becomes a particular issue for community food enterprises. Even where managers are available, the community food enterprise has the dilemma of focusing either on industry specific experience and skills, or on experience of running an organisation where ethical considerations are as important as business acumen. There are examples of organisations in the sector experiencing problems by recruiting managers with industry experience who do not share the “ethos” of the organisation. Collins (2006, p.15) suggests: “In the social sectors, where getting the wrong people off the bus can be more difficult than in a business, early assessment techniques turn out to be more important than hiring mechanisms..... You can only know for certain about a person by working with that person.”

Staff – Training

Programmes such as Making Local Food Work and the Plunkett Foundation's Community Shops Network offer specialised training, but community food enterprises engage less with more mainstream programmes. In the South West, for example, the SW Rural Skills project can fund 50% of the cost of existing or bespoke training for land based businesses (including

CSA's), while SW Food and Drink supports subsidised training in management and leadership, "fine" food retail and customer service.

There is also the possibility to benefit from apprentices, though the plans to cancel the Future Jobs Fund has affected a number of community food enterprises.

Leadership

Studies reveal the problem of leadership –e.g., the difficulty to find and replace leaders motivated by community values (Shuman et al., 2009: 23). At the same time, there is also the problem of "sweat equity" – in a traditional share company the initial value of any financial investment is increased if the company succeeds in building a market for its goods and services. The owners of capital benefit from the increase in dividends and/or the value of the company's shares, and are also able to reward managers with increased salaries or share options. In a company limited by guarantee (including a CIC or charity) this process of rewarding hard work is not possible, and the initial founders of the organisation may lose their positions as the management and operational demands of the organisation evolve. In an Industrial and Provident Society the shares do not increase in value (they are "par value") and in the case of community benefit societies dividends are not possible, so although employees could be granted shares this is difficult in the early years. The result is that in almost all cases the organisational forms used by social enterprises may prove unattractive to "social entrepreneurs".

Business advice

One way that community food enterprises can build the knowledge and skills of staff and volunteers is through effective business advice. However, with the reduction in face-to-face support (through changes to Business Link funded services), the provision of specialist advice such as that provided through Making Local Food Work's Enterprise Support programme will be come even more important. Experts agree that initiatives in place (such as Business Link) tend to ignore the peculiar conditions and requirements of the social enterprise sector (Cooperatives et al., 2008). According to Cox and Schumecker (2010: 47), it would be crucial to adopt a "life cycle approach" that responds to the needs emerging at specific development stages.

Effective dissemination of best practice is also important. Despite the wide availability of case studies, there are no comprehensive reviews that quantify the benefits and outcomes provided by social enterprises. In addition to supporting social enterprises' bids for contracts or funding, this type of studies could play an important role in terms of inspiring people (Cooperatives et al., 2008: 6)

2.3 Social / Organisational capital

“Social capital takes the form of structures, institutions, networks and relationships which enable individuals to maintain and develop their human capital in partnership with others, and to be more productive when working together than in isolation. It includes families, communities, trade unions, voluntary organisations, legal/political systems and educational and health bodies.” (Porritt, 2005: 113)

Social capital is a central constituent of community food enterprises. At an organisational level, the basic building block is the enterprise’s legal structure. Traditional, for profit enterprises are structured around the owners of capital – those who own the underlying assets or who inject investment into the business. The structure in this case will either be a private limited company or a public limited company. The key stakeholder is the investor, whose over-riding interest will be to maximise dividend income, capital value or both. While the limitations of such an approach are clear, it has the benefit of providing clarity and incentivising both investors and managers.

In the community food enterprise sector, the type of organisational structure employed is different. There are some instances where companies limited by shares are used – for example where a charity sets up a food-based trading subsidiary to generate profits from trading. In the case of Industrial and Provident Societies (IPS), the members are shareholders (i.e. investors), but they may also be consumers, workers or representing “community benefit”. Many food co-operatives are set up as “bone fide co-op” IPS’s, while there is a growing interest in the use of IPS’s for community benefit (which have a statutory asset lock and cannot distribute profit, only interest on shares) for enterprises such as community owned stores and community supported agriculture.

In the majority of cases the structure used is the company limited by guarantee, sometimes with the additional “wrapper” of charitable status or community interest company (CIC) status. One of the key problems with the company limited by guarantee format is that it does not allow equity to be brought into the business, so that it is limited to grants, loans and retained surpluses. This will be addressed in the section on financial capital below.

Making Local Food Work’s Governance strand has greatly increased understanding about the range of structures available to community food enterprises, including the way in which organisational form can engage a range of stakeholders (including volunteers and staff) and also underpin access to other “capitals” such as land or finance. It is essential that such specialist support be available into the future. Case studies show that some social enterprises still find it difficult to have the space and finance needed to undertake organisational reviews (Cox and Schmuecker, 2010: 47), so it is essential that advice on good governance and the adoption of suitable legal structures continues into the future.

2.4 Manufactured capital

“Manufactured capital comprises material goods – tools, machines, buildings and other forms of infrastructure – which contribute to the production process but do not become embodied in its output.” (Porritt, 2005: 113)

Community food enterprises will aim to mobilise natural resources and people in a suitable legal format – however, these three “capitals” must be combined with manufactured (or “physical” capital) in order to produce goods and services. The mainstream food and farming sector has invested heavily in manufactured capital over the last 50 years, creating capital intensive industries in the process. This of course creates a difficult context within which community food enterprises seek to operate – it is essential to note the growing scale of the mainstream, profit driven food sector, when considering how it might be possible to expand the scale of the community food sector.

This increasing scale was already being noted in studies twenty five years ago, such as research by Davis and Bollard (1986):

“Britain has an industrial and commercial system that is more highly concentrated and centrally directed, in both private and public sectors, than that of any advanced Western nation.....little remains of local production meeting local needs.”

Focusing on the food sector, they explain (p.4) that the “rapid mechanization of agriculture has brought about a big increase in the size of farm units, in the same way that technical developments have greatly increased the size of many other industrial plants and firms.” This trend has also been accompanied by a shift to greater complexity, as illustrated in the food and drink processing industries:

“Between the wars much of food processing was carried out in domestic kitchens and in small local processing plants (flour mills, bakeries and so on). Fifty years later most of these have been replaced by big central processing plants, producing a vast range of packaged products, which are then distributed through a complex network fed by fleets of delivery vehicles of ever increasing size. This effect of technology on size and complexity has been greatly reinforced in Britain by the absence of significant controls on company takeovers and mergers.”

This process has accelerated recently, with significant developments including:

- One of the big four supermarkets gets planning permission every working day, resulting in approval for 577 such stores in the last two years.
- The development of 10,000 cow “super-dairies”, as supermarkets attempt to reduce their supplier base to buy at cheaper prices from fewer, larger firms.

Industrial scale farms, processors and retailers enjoy economies of scale and levels of productivity which are very difficult to compete against. Community food enterprises tend to mobilise “manufactured capital” that is less capital intensive, and compensate by using other resources such as volunteer labour and social capital which larger firms are unable to mobilise.

One innovation in the area of manufactured capital that the Making Local Food Work Programme Workspace has sought to develop is the concept of “Food Hubs”:

“A hub is an intermediary.....which by pooling together producers or consumers adds value to the exchange of goods and promotes the development of a local supply chain. This added value may be gained through economies of scale, social value, educational work or services. In other words, the pure function of distribution is only one element of the hub and the distribution function may be contracted out to a third

party. The hub may also provide a means for public sector services to reach disadvantaged communities, provide a space for innovation and act as a focal point for developing a political agenda around an alternative food system.”
 (Horrell et al 2009: 2)

The diagram below gives an illustration of the range of facilities that could be contained with a food hub:

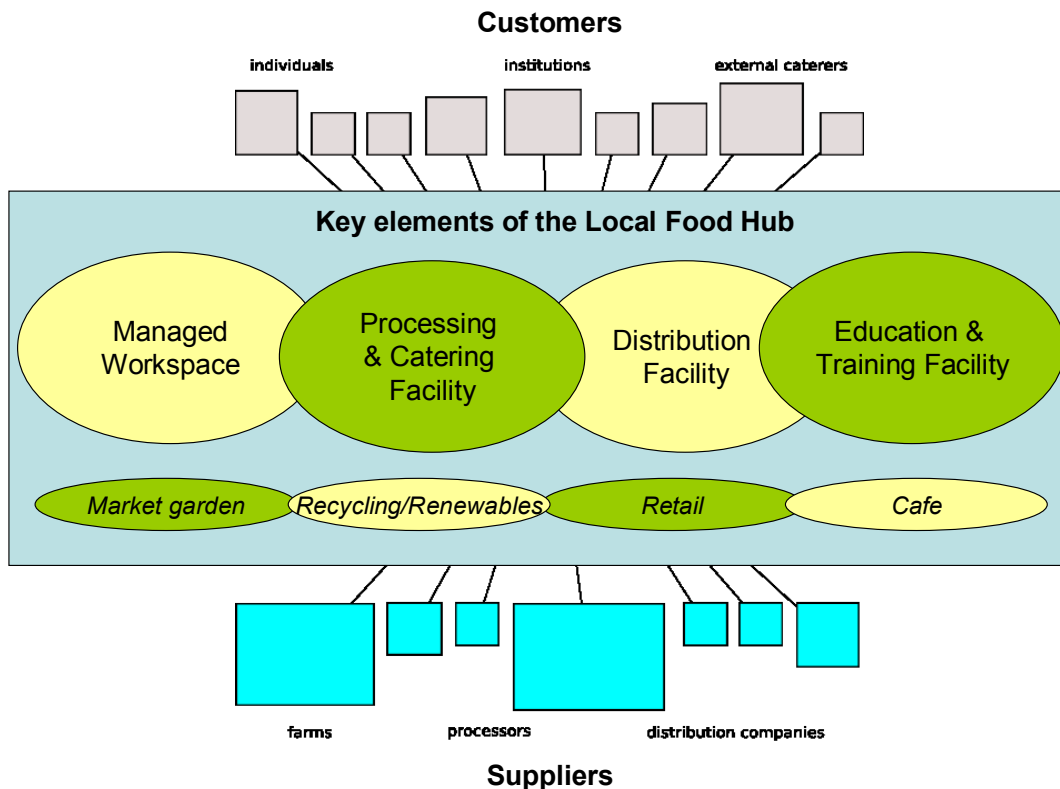


Figure 5: Local Food Hubs

Food Hubs could play an important role, alongside other initiatives such as new small scale processing plants (flour mills, micro dairies, central kitchens, etc). However, the research identified a number of barriers to the development of such workspace:

Leadership and ethos

The reliance of the hubs on one or a small group of visionary people to initiate the enterprise can make the food hub vulnerable if these people are not released from some or all of the day-to-day operations to focus on the development of the hub. This requires attention to the issue of ‘succession’ – i.e. helping other staff members to take on the roles and responsibilities initially provided by the instigators of the enterprise. The management team of the food hub (the board of directors, trustees or other group overseeing the activities) needs to have a wide range of skills to help support the management in developing the organisational structures needed to develop the hub. The board’s skills need to reflect the range of work undertaken by the hub, and a key role will be to manage the tensions that can exist between social/environmental and commercial work.

Structure and systems

Although very diverse, the food hubs interviewed for this research were united in their concern to ‘go against the grain’ of the conventional food system and develop alternative models founded on more ethical and sustainable principles. All of them were trying to build direct, mutually beneficial relationships with growers. The development of alternative models for food supply and distribution are of critical importance in developing a more healthy, sustainable, ethical and secure food system. However, it is also the case that the power of the prevailing food system means that community-based food hubs routinely struggle to be economically viable. This appears to be particularly true of those

hubs who supply unprocessed (i.e. non value-added) food, particularly fruit and vegetables. These businesses are competing directly with the fine tuned economic models of supermarkets and large wholesalers. The fact that two of the hubs we interviewed were making this sort of business work at the premium end of the market underlines the effect that the lowering of basic food prices has had on the structure of our food system, driving it towards the larger suppliers and their economies of scale. Lack of skills, commercial experience and money means that many of the hubs did not prioritise the efficient management of their administrative costs and organisational systems. This can have a detrimental effect on the development of the hub and if not addressed will affect its long term viability and stability.

Diversification

Distribution activities may be the initial focus for a food hub, but are rarely financially viable on a small scale. Diversification is therefore key to the development of the hub and needs to include profitable value-added strands that can help support the more socially or environmentally focused work. Accurate costing of diversification activities prior to launch seem important to ensure that the activities have a positive rather than negative effect on the viability of the hub. Piecemeal evolution without proper planning can jeopardise the viability of the food hub by generating capital and personnel costs without clear benefits. This again reinforces the need for a strong and experienced board to support the management in this process. A physical space is of secondary importance in the initial development of a food hub, but may become more useful in later stages. The key to a food hub's initial development is building relationships and trust in the community.

Finance

The work of the hubs is often ground-breaking and as a result is likely to require some level of grant funding in the initial stages of development. More flexible funding regimes which allow projects the freedom to adapt to changing circumstances and/or unanticipated events could lead to better long-term results. An overly rigid project plan, meeting the needs of the funder but not necessarily the food hub, can present a significant barrier to the hub's ability to innovate and adapt to challenges.

Support

Hubs can get into difficulties because of a lack of skills and experience, particularly in organisational, financial, and legal issues. Quite often however, it appears that they "don't know what they don't know". Thus, there appears to be a need to provide support to the sector which is less dependent on the organisations themselves being able to identify the support they need. Support along the lines of the "critical friend" approach trialled by the Joseph Rowntree Foundation in their Light Touch Support programme (<http://www.jrf.org.uk/publications/changing-neighbourhoods-impact-light-touch-support-20-communities>) is an area that could be explored. One of the hubs interviewed has well-advanced plans for a replication programme to help other community-based food enterprises through the initial stages of establishing a food distribution scheme. Such approaches could be a way of providing expert and peer support to future community-based food hubs.

2.5 Financial capital

“Financial capital plays an important role in our economy by reflecting the productive power of other types of capital, and enabling them to be owned and traded. However, unlike the other types, it has no intrinsic value; whether in shares, bonds or bank notes, its value is purely representative of natural, human, social or manufactured capital” (Porritt, 2005: 113).

Financial capital is not essential for the production of goods and services, as the origin of the word “economy” implies – it comes from the Greek “*oikonomia*” meaning the management of the household. However, it has played a central role in the development of the modern food and farming industry, as explained in the section above on manufactured capital. Financial institutions convert savings into shares and loans, and in the process have created a preponderance of high-tech, large-scale businesses where the return to shareholders is paramount.

There is increasing understanding that the maximisation of share-holder value can destroy natural capital, exploit human capital, undermine social capital and replace human scale technology with industrial scale manufactured capital. This is an opportunity for community food enterprises, which have the opportunity to mobilise local investment and social investment. This can be secured at below market rates, in return for offering a “blended return” of financial, social and environmental outcomes. However, it needs to be recognised that meeting the bottom lines of other stakeholders (like workers, consumers and community members) also raises challenges. As Shuman et al. (2009: 20-21) explain, many community food enterprises around the world see this as a moral imperative, but improving labour and environmental performance adds additional costs and requires a sophisticated approach to potential providers of financial capital.

However, financing is probably the key area where many community food enterprises may need to develop their understanding, including access to equity, quasi-equity and loans. The literature points to the persistence of cultural barriers that seem to hinder the development of an entrepreneurial approach within the community sector. For example, despite the improvements made in the supply of lenders, social enterprises (particularly in the voluntary and community sector) tend to avoid loan finance (Cooperatives et al., 2008: 6). This increases their dependence on the public sector and on grant funding (Cox and Schmuecker, 2010: 46), which is however becoming less and less easy to obtain. Clayton Brook Community House is a case in point. As Cox and Schmuecker (2010: 24) explain, the enterprise faced as its major barrier to growth an insufficient level of operational and business acumen, which raised the need for training to create a truly sustainable business model. In general, achieving the right balance in terms of entrepreneurship is in itself a challenge. In fact, as Cox and Schmuecker (2010: 21) explain, “if funders see organisations too enterprising they wonder why they need their money”.

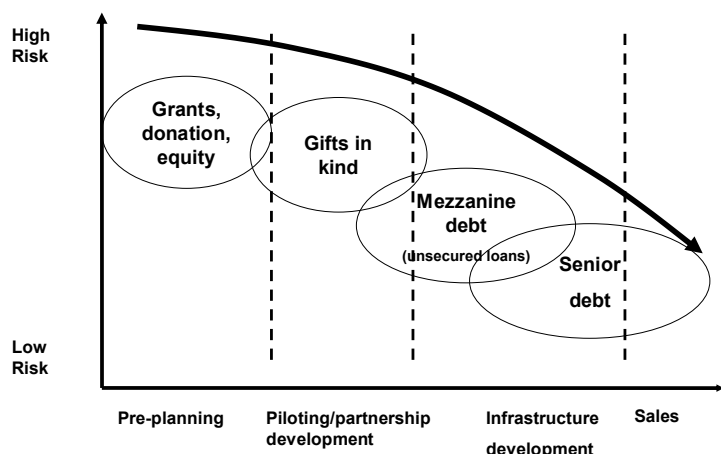
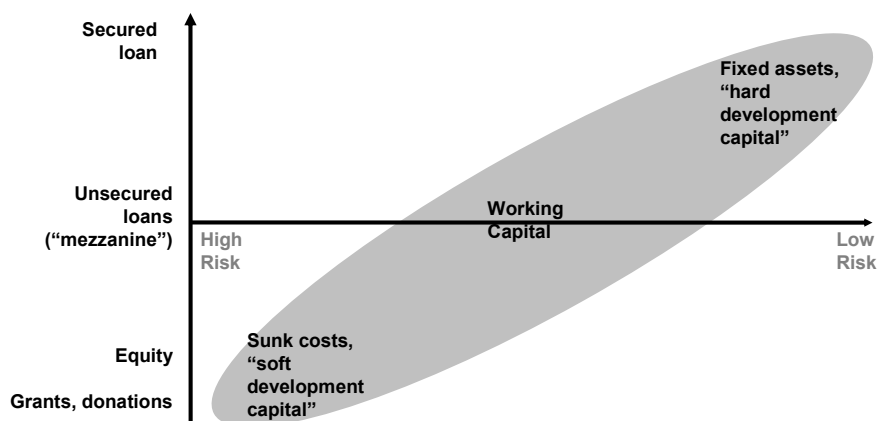


Figure 6: Types of finance (Source: J. Ludlow, Venturesum)

The diagram above shows where different types of finance might fit within the stages of growth of an organisation. It also demonstrates how these different types of finance are related to risk.

As explained above, the legal structure adopted by a social enterprise will affect the type of finance which it is able to attract. Generally speaking, registered charities and organisations with charitable objectives and an asset lock will find it easier to attract grants. For the raising of a loan, the legal structure adopted is not so important (though many charities still have objects which do not allow the taking of a loan) – the key issue will be whether they are able to provide sufficient security or satisfy the lender that the risk of default is small.



The key area where charities and many social enterprises (if registered as companies limited by guarantee) are precluded is that of equity finance. Loans (or debt finance) require interest payments and the repayment of the amount borrowed (i.e. it is investment with the expectation of repayment and regular interest payments). Equity, on the other hand, is investment in exchange for a stake in the organisation, in the form of shares. This stake usually entitles shareholders to a share of the profits of the organisation, or payments once a certain limit of earnings has been achieved.

As explained above, equity finance can be useful in the early stages of growth or when developing a new product or service. Unlike a loan, investors providing equity finance are effectively sharing the risk with the organisation and are likely to defer any expectation of a financial return for some time. However, if a company undertakes a share issue, the costs of

issuing a prospectus are usually very high (at least £50,000) because of the due diligence requirements demanded by the Financial Promotions Regulations. This layer of cost presently exists for all share companies, including Community Interest Companies, seeking investments from the public.

However, Industrial & Provident Societies can be exempt from the Financial Services Authority (FSA) Financial Promotions Regulations. Article 4 of the Financial Services and Markets Act 2000 (Exemption) Order 2001 (weblink: <http://www.opsi.gov.uk/si/si2001/20011201.htm>), entitled “Persons exempt in respect of accepting deposits”, states that anyone / anything listed in Part II of the schedule is exempt from general prohibitions in respect of the regulated activity of accepting deposits.

Under Part II of the Schedule, number 24., it includes "an industrial and provident society, in so far as it accepts deposits in the form of withdrawable share capital." Therefore, as long as an Industrial & Provident Society prospectus takes deposits in return for withdrawable share capital, it can avoid most of the regulatory due diligence requirements (and huge related cost) normally associated with a prospectus. The main emphasis remains that a prospectus must be true, fair and not misleading and it must outline the risks to investors.

An Industrial & Provident Society is therefore presently the most cost effective vehicle for raising funds for social / community / environmental projects as it can:

- raise money via borrowing / loans;
- raise money via grants from charitable foundations / grant awarding bodies;
- raise money via soliciting social investments in return for ‘withdrawable’ share capital in a manner that is exempt from the financial promotions regulations under FSMA.

For this reason, many existing community food enterprises, as well as new start initiatives, are considering setting up an IPS either as a stand alone entity or as a means to raise finance for a related social enterprise. Examples include The Community Farm, near Bristol, which raised £127,000, and the Real Food Store in Exeter, which raised £140,000.

2.6 Developing the supply side: the barriers

The diagram below summarises some of the barriers discussed above in mobilising the 5 capitals to create successful operations:

Natural Capital	High cost of all land & limited availability in urban areas.
Human Capital	Leadership & management skills. Absence of incentive structures for entrepreneurs. Community / volunteer engagement has a cost.
Social / Organisational Capital	Choice of organisational structure & governance. Big Society fatigue..... ICT could be powerful tool, but cost / skills barriers.
Manufactured Capital	Access to suitable premises can be difficult – “food hubs” could be one solution.
Financial Capital	Cultural barriers: lack of entrepreneurship or understanding of legal structures & types of finance. Cost barriers: difficult to pay market rates.

Figure 7: Supply side barriers

3 Developing the demand side

We have seen that the supply side relates to the **production** of goods and services, such as food. Community food enterprises also have to focus on the **market** for local/community food – with the challenge being to identify market opportunities and grow the demand for food with key attributes such as quality, traceability, provenance and sustainability.

Demand can be understood either as:

- the desire to possess a commodity or make use of a service, combined with the ability to purchase it; or as:
- the amount of a commodity or service that people are ready to buy for a given price.

It can be seen from the diagram below that the prevailing food system is the result of the interaction of supply and demand factors. Although intuitively it would appear that demand is the primary factor ("*you can't push a chain*"), there are many economists who argue that the supply side is more important– for example, Say's Law states that "supply creates its own demand", while many argue that entrepreneurship, innovation and investment are the driving forces of the economy. It could also be argued that the evolution of the food sector over the last 50 years into a large scale, globalised industry means that individual consumers have little possible influence over production in the farming, processing, catering and retail sectors.

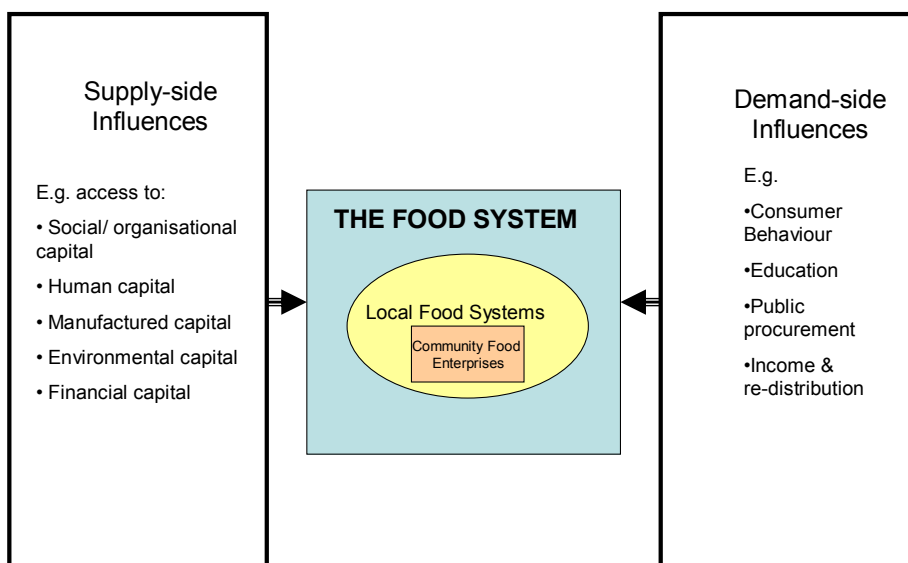


Figure 8: The influence of supply & demand on the food system

This is a critical area for the local/community food sector, because although almost a third of UK shoppers say they buy local food, they do not buy much. According to the Institute for Grocery Distribution, 30% now say they buy locally produced food, doubling since 2006, with 57% believing it is fresher and 54% that it is good for the local economy (IGD 2010).

However, according to a report from Making Local Food Work (MLFW), "the big supermarket chains sell at most a couple of percent of food locally, while all independent grocery retailers, including many that sell no local food, account for only 2.5% of the total market" (Fitzpatrick, I. and MacMillan, T., 2010).

3.1 What influences demand?

In Working Paper 1, we identified a range of motivations that drive enterprises within the food and drink sector:

- first there is the “mainstream”, which comprises mainly medium and large scale businesses driven by the need to maximise returns to external shareholders; they are often listed companies (e.g. Northern Foods) and may form part of a large conglomerate (e.g. Green & Black’s); they may be owned by a private equity firm (e.g. Seeds of Change);
- next there are businesses - usually small and micro-enterprises – which are driven by some ethical consideration, e.g. organic farms, wholefood shops, “artisan” bakeries and butchers, micro breweries, etc; these businesses are often owned by one person or a family, or have small numbers of shareholders within a private share company structure;
- closely connected with this sector are (again mainly small) businesses driven by what has been termed “defensive localism” – this would include farm shops and village shops, Country Markets and Farmers’ Markets;
- then we have identified food enterprises that link food to some other consideration, such as food poverty and access, or health (ranging from healthy eating initiatives to horticultural therapy), or education for sustainability. Examples would include food co-ops, community kitchens offering cookery classes and environmental centres developing a food strand.

During the course of researching Work Package 2, we have identified a fifth set of enterprises. These are “do it yourself” type community initiatives, some of which have been in development for some time, but many of which have emerged only over the last 3 – 4 years. Examples would include community supported agriculture (CSA) enterprises, community gardens and “land share” schemes, as well as initiatives such as The People’s Supermarket and The Real Food Store in Exeter. These have developed from initiatives such as Transition Towns, from encouragement by TV shows such as River Cottage, or from the promotion of ideas around the “Core Economy” (by organisations such as the New Economics Foundation).

This broadening of the understanding of community food enterprise to include an additional set of initiatives illustrates the understanding of economics as *oikonomia*, i.e. “management of a household”. Food can be understood as being produced and consumed in four key ways:

- by individuals and families as “households”;
- in what is being described as the “core economy” – an extension of the non-monetised household economy to include food production based on mutuality and reciprocity in the wider community;
- in a market context, whereby households will purchase food produced by individuals, companies and social economy organisations in exchange for money;
- in the non-market, public sector, where taxation revenues or grants are used to provide food.

The diagram below updates the analysis of WP1 to include the “core” food economy, a concept promoted in the UK by the new economics foundation (see, for example, Stephens et al, 2008):

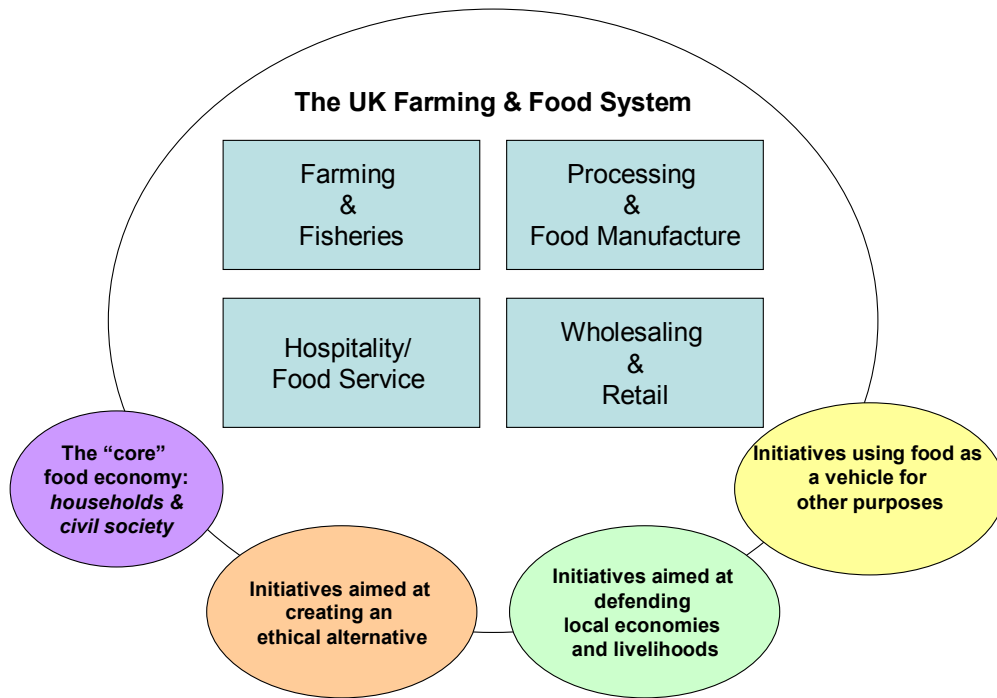


Figure 9: The food sector in the UK

The recent renaissance of the “core” food economy is another in the series of reactions to the dominant “mainstream” food system. Over the last 50 years, much production that was traditionally carried out by households has been replaced by production by food manufacturers or consumption in food establishments outside the home. Although driven, in a positive sense, partly by increases in the income of most households and the development of labour saving technologies in the home, this shift to a market based system of production has resulted in a range of problems or “externalities” – all of which can be traced back to a newly dominant food system that has become industrialised, globalised and ever more concentrated in smaller numbers of larger farming, processing, manufacturing, catering and retail companies.

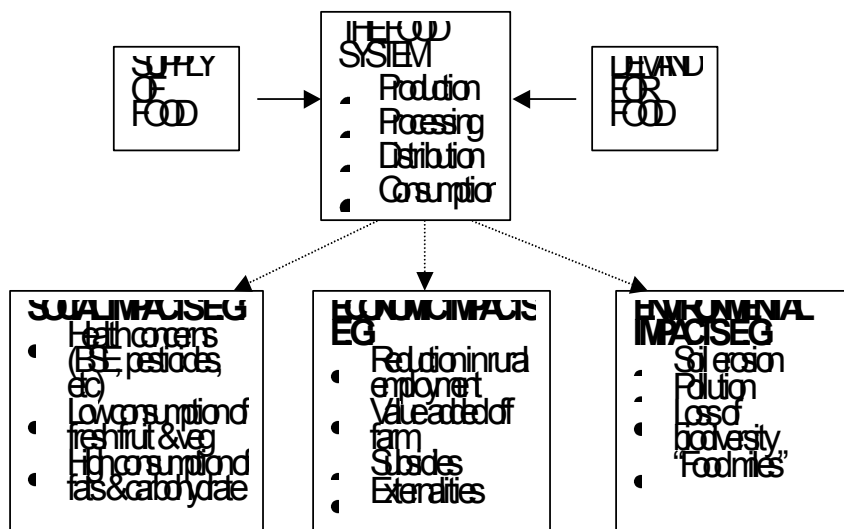


Figure 10: Social, economic & environmental externalities of the prevailing food system

Although the local / community food enterprises identified above have all developed in response to these negative impacts or externalities, recent research by the Social Enterprise Action Research (SEAR) project has identified two particular problems:

- on the one hand, local and community food initiatives are being squeezed by the fall in people's disposable incomes – the “Lidl” effect – whereby consumers reduce their spend on better quality food;
- on the other, many established initiatives such as home delivery schemes, farmers markets and local shops are being squeezed by the new wave of “do it yourself”, community-led initiatives.

This illustrates the barrier of limited demand – the research indicating that local and community food initiatives are pursuing the same small percentage of customers.

Another barrier identified on the demand side is the lack of market infrastructure, which is especially a problem for community food enterprises. As Shuman et al. (2009: 27) point out, community food enterprises often operate in a landscape where global food businesses have systematically dismantled the local food infrastructure – wholesalers, regional distribution, local retailers. Although the economics of local food have been improving, “capital moves slowly to meet even the best investment opportunities” (Shuman et al., 2009: 27).

3.2 Influencing consumer buying behaviour

The recent report by Making Local Food Work (Fitzpatrick, I. and MacMillan, T., 2010) explores the burgeoning advice on ‘behavioural change’, which draws on research in behavioural economics and experience in social marketing, with the aim of helping community food enterprises “break from the margins into the mainstream”. The main points of the report are reproduced below:

Making local food easy

The most immediate barriers to changing behaviour are about access, when the external environment makes it difficult for people to act in a particular way. Tackling this means making desirable behaviours cheaper and easier to achieve, and undesirable ones more expensive and more difficult.

Key points

- It is often more effective to focus on changing the default option than to target individuals with appeals or information.
- Incentives can encourage people to change their behaviour, but appealing to their self-interest may make them care less about social and environmental issues in the long-run.
- A little goes a long way: supermarket reward points amount in money terms to a fraction of the difference in price between competing products, but have a strong influence on perceptions of value and on purchasing.

Making local food normal

Social and cultural norms are behavioural rules or expectations which a society or community uses to tell the difference between appropriate and inappropriate values, beliefs, attitudes and behaviours.

Key points:

- People are prompted by the behaviour of others around them and are encouraged to continue doing things if they feel that others approve of their behaviour.
- It helps to show people that they are part of something bigger – groups can create a powerful momentum.
- Focus on your local area, community or workplaces as people care most about their peer group and immediate surroundings.
- Some people influence social norms much more than others, for instance by being avid networkers or respected figures.
- Agreeing to a small request makes people more likely to agree to a larger one.

Making local food personal

A third strand of thinking on behavioural change is that one size doesn't fit all. In practice, this means using tools such as market segmentation, to identify target groups with different characteristics or relationships to the change you are trying to achieve, and getting messages across in ways that engage the people within each group as personalities.

Key points:

- Understanding how people see the world in different ways can help us to engage them.
- Using messages that promote a positive feeling towards a targeted behaviour, rather than fear or avoidance of an unfavourable behaviour, is more likely to engage people
- Stories – true or fiction – can be a compelling way of getting messages across to people in ways that resonate with their own lives and experiences.

Joining it all up

Behavioural change campaigns use a variety of approaches to target different aspects of human psychology, and the physical and social environment. Engaging with people on multiple fronts at the same time increases visibility and access, which both help to encourage new habits and behaviours. Specific suggestions include to:

- Consider developing a shared brand for local food, to increase the visibility of local food and help with public procurement.
- Provide centralised customer insight, including analysis of the market segments most relevant to local and community food.
- Work with national media to make local food a normal feature of life in radio and TV soap operas.

Government should also do its bit in providing a fertile environment in which community food enterprises can thrive, for example in planning processes. Also public sector catering offers an unrivalled opportunity for the coalition government to support the 'Big Society' by recognising in policy the valued part that community enterprises already play in producing, distributing, retailing and educating about food, and affording them greater influence as partners.

3.3 Public procurement

It is important to explore how the local/community food sector could access large scale or aggregated public sector contracts. According to DEFRA (2010), "it is estimated that the public sector spends over £2bn on food and food services. Approximately half of this is spent on food ingredients, the rest being on catering services, kitchen equipment etc."

Public food provisioning has been moving up the political agenda for reasons that were succinctly expressed by DEFRA:

"If we are what we eat, then public sector food purchasers help shape the lives of millions of people. In hospitals, schools, prisons, and canteens [...], good food helps maintain good health, promote healing rates and improve concentration and behaviour. But sustainable food procurement isn't just about better nutrition. It's about where the food comes from, how it's produced and transported, and where it ends up. It's about food quality, safety and choice. Most of all, it's about defining best value in its broadest sense" (Defra, 2003)

Access to public service contracts emerges as a key barrier on the demand-side, where there is evidence that small social enterprises are not always competing on a level playing field with larger conventional sector businesses (Cooperatives et al., 2008: 6). Specific obstacles here include: pressures on public bodies to secure Gershon efficiencies by aggregating contracts, which invariably discriminate against small businesses; restrictive specifications that set out how delivery should occur, rather than focusing on outcomes; tight timescales; and overly complex processes (Cox and Schmuecker, 2010: 46).

There is a clear opportunity then for community food enterprises to capture some proportion of the £2 billion spent by government on food and food services, but the barriers are great.

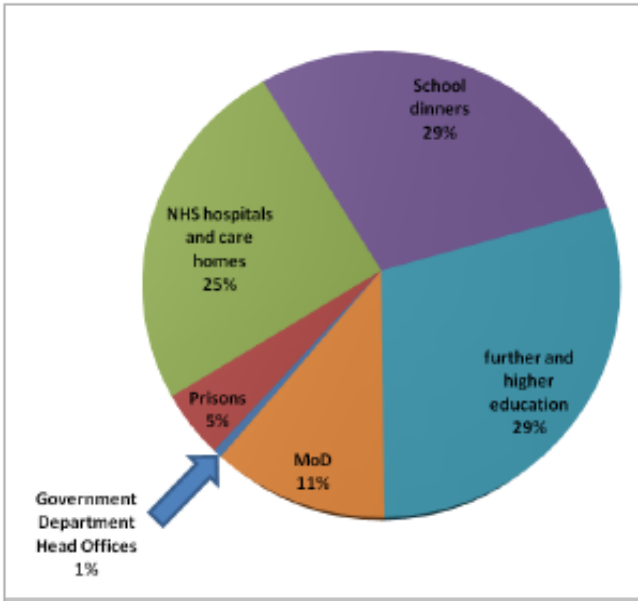
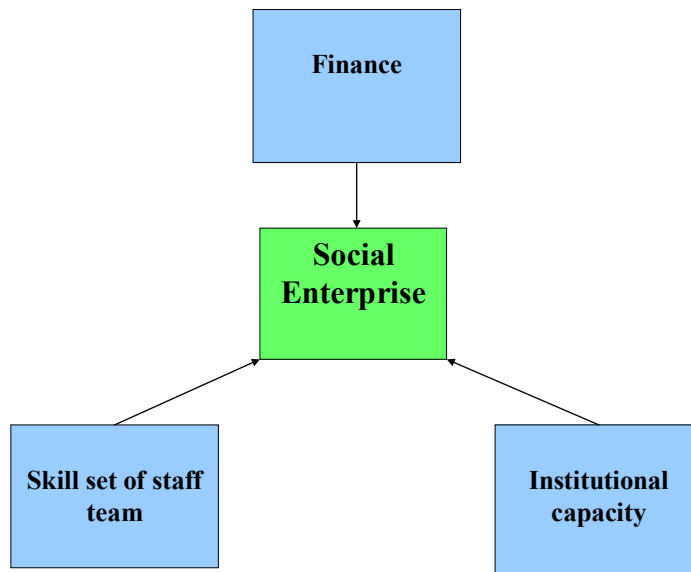


Figure 11: Public sector food procurement spend

4 Scaling up and replication

The main focus of Working Paper 2 has been an exploration of supply side and demand side considerations, and the way in which these are relevant to the community food sector. It is worth noting that there are many other ways in which scaling up and replication can be conceptualised. Over the last few years, a number of reports have explored how organisations can build the capacity to develop new business models, scale up or replicate. The main conclusion appears to be that while the provision of finance is essential, it must be accompanied by capacity building:



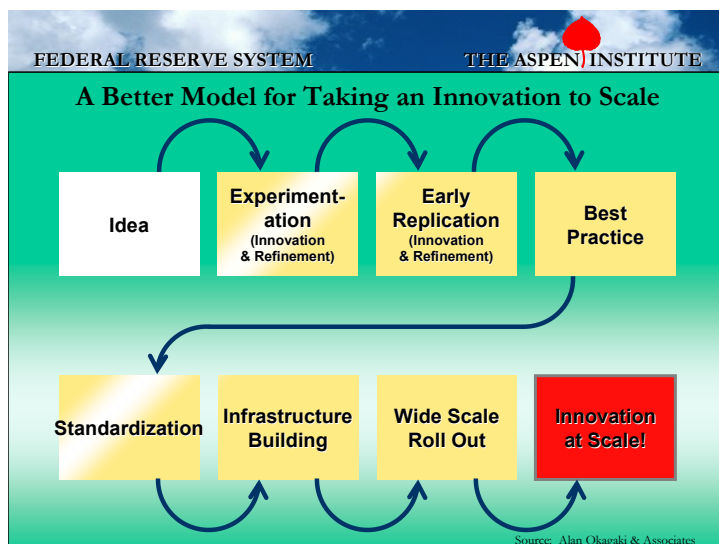
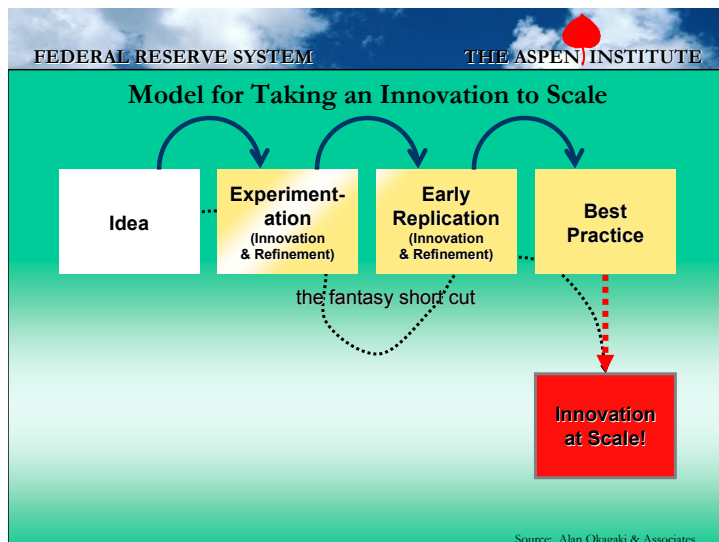
The research has shown that any organisation seeking to “scale up” or diversify will need to develop its institutional capacity – this process can include work on “standardisation” of procedures as well as enhancing the “infrastructure” of the organisation (including facilities, equipment, legal structure, etc). However, in addition to working on institutional capacity, any organisation seeking to scale up will also need to address the skill set of the staff team – either through personnel development or through recruitment.

- **Aspen Institute**

The Institute runs an Economic Opportunities Programme, which has been researching the ways in which social enterprises reach scale and sustainability.

http://www.aspeninstitute.org/site/c.huLWJeMRKpH/b.613655/k.70FA/Scale_and_Sustainability.htm

Their particular focus is on community development finance initiatives (CDFI's), but the research is relevant to other not-for-profit organisations. It points out that taking an innovation to scale requires more than just experimentation and replication. The model emphasizes the need to focus on “standardisation” and “infrastructure building”:



- **NESTA (the National Endowment for Science, Technology and the Arts)**
'In and out of sync: The challenge of growing social innovations' (Mulgan, G., 2007).

This report seeks to explain why certain social innovations grow and why others don't. It concludes that there are:

- Fragile markets for the results of social innovation – even the innovations with the clearest evidence of successful impact are not guaranteed to find reliable funders and purchasers;
- Underdeveloped capital markets to provide finance for social entrepreneurs and a lack of other organisations trying to put good social innovations into practice, and then grow them;
- Few institutions and networks for spreading innovation around communities of practice;
- Few established methods and strategies for nurturing and growing social innovations (so that most practitioners feel themselves to be improvising); and
- Under-developed labour pools from which to draw managers and others to help with growth.

- **Skoll Foundation:**

The Foundation's *'Growing Opportunity'* report (Elkington, J. et al, 2007), addresses the challenges which social entrepreneurs face in scaling their organisations. The biggest challenges identified were:

- Accessing capital;
- Promotion and marketing the organisation;
- Developing a more mature/professional organisation; and
- Recruiting and retaining talent.

"Attracting talent was cited by most entrepreneurs as a priority challenge, but more specifically, social enterprises are challenged to find the right kind of talent for their ventures – a blend of entrepreneurship and professionalism, coupled with an ability to: (1) work as effectively with the communities served by the enterprise (often very poor and marginalised) as with corporate management/boards; (2) bring leading edge technical capabilities to bear; (3) have business know-how; and (4) buy into the enterprise's mission and vision. A tall order, especially without competitive salaries."

- **The Young Foundation:**

The Foundation produced a report entitled *'Social Silicon Valleys'* (Mulgan, G et al, 2006). This report identifies that "although there are many funds supporting individuals and small NGOs there are none with a focus on innovation, and none providing detailed, hands-on support to shape projects and improve their prospects of success." The Foundation is therefore developing the Launchpad programme, which plays an active role in the identification of needs and the design of new organisations as well as their incubation and launch, with a particular focus on ideas that have the potential to be scaled up. In addition the Foundation is exploring the feasibility of 'sectoral accelerators', in fields such as health and education.

Replication

One area of "scaling up" that has received increasing attention in recent years is that of replication through social franchising and other forms of partnership. According to a recent research report published by the Social Enterprise Coalition, a number of obstacles are stopping some social enterprises from branching out into different sectors and geographical areas through franchising and partnership working. **'Growing social enterprise: research into social replication'** reveals a number of external factors that are preventing organisations wanting to expand from being able to do so, including that funding for franchises and license agreements is difficult to secure.

Social enterprises that have sought to replicate their businesses have found that grant funders and mainstream investors often view community-based social enterprises as unsuited to dynamic business growth. The research, which drew on in-depth interviews with more than 20 organisations that have sought to replicate, found that social franchises fall into a 'funding black hole' because funders are perceived as reluctant to allocate grants on the basis that 'franchising' has commercial connotations. And investors are perceived as suspicious of the notion of 'social' franchising and the possible implications of this for returns on investment and degrees of risk.

Barriers within the social enterprise community

The research shows that issues exist within the social enterprise community too. Some professionals aren't aware of the replication options available to them, and lack understanding around the legal and financial practicalities of setting up a franchise or of

working in collaboration with another organisation. Such knowledge gaps are said to be hindering replication, as well as the view by some professionals in the sector that franchising is a 'commercial' form of replication, and could therefore compromise their organisation's fundamental social or environmental objectives.

Successful Replication in Social Enterprise

The report says that franchising and licensing can and does occur in social enterprise. Successful replication, according to the Social Enterprise Coalition, has worked for organisations that have:

- A business model that can be standardised
- An enabling commissioning environment
- An appropriate legal form conducive to investment and recognised by funders
- A financial model based more on income generation than grant funding
- Intensive support at the start-up stage
- Strong relationships with replicating partners

Report Recommendations

The report makes a number of practical and policy recommendations, including that:

- Social enterprises and entrepreneurs need to be clear on why they want to replicate both for internal capacity and vision purposes, and to enable funders and investors to understand their proposed plan of action.
- Funders (grant providers and mainstream investors) need to be educated about the benefits of social replication.
- Local commissioning practices need to be more inclusive of replicated social enterprises.
- Social enterprise professionals need to recognise and understand the variations on the spectrum of social replication, including social franchising, social licensing and collaboration (as well as their financial and legal intricacies).

5 Growing the Social Economy: The Policy-drivers

As was explained in the introduction, both the supply side and the demand side are influenced by government policy and the frameworks established by government. Recent Labour governments in the UK have recognized the potential of the voluntary sector to improve public service delivery and active and cohesive communities. The first coherent strategy in this sense was 'Social Enterprise: a strategy for success' (Department for Trade and Industry, 2002), which introduced the now widely used definition for social enterprises and set out a vision for a dynamic and sustainable social enterprise sector. By viewing the social economy as an integral and dynamic part of the 'real' economy (DTI, 2002), rather than as an alternative to it, the document does little to assess the social or environmental outcomes of social enterprises; instead the majority of case studies are assessed by the number of jobs they have created (Griggs-Trevarthen, 2010: 8).

In this context, Labour governments began to emphasize the need to build the capacity of the sector by providing support to frontline and infrastructure organisations (Cox and Schmuecker, 2010: 9). Key initiatives in this direction include the following:

- *Futurebuilders Fund*. It was established in 2002 to provide loans and professional support to third sector organisations that intended to bid for public service contracts. The projected value of the loan up to 2011 is £ 65 million.
- *Capacitybuilders fund*. It has provided £ 85 million to build the capacity of third sector infrastructure organisations to deliver services to frontline third sector organisations.
- *Communitybuilders fund*. An investment of £ 70 million was made to support multi-purpose and inclusive organisations interested in building and empowering communities.
- *Community Interest Companies*. Established in 2003, they aimed to enhance the inclusivity and accountability of social enterprises. The introduction of this new legal form of business had a major influence on the growth and nature of social enterprises as they continued to expand throughout the last decade (Griggs-Trevarthen, 2010).

The Social Enterprise Action Plan, launched in 2006, recognised that social enterprises "tackle some of society's most entrenched social and environmental problems" and "set new standards for ethical markets, raising the bar for corporate responsibility" (Cabinet Office, 2006: 4). In addition to emphasising the role of social enterprises in delivering the sustainability objectives of government, the action plan promises significant support to the sector. This included £10 million, direct from the Office of the Third Sector, to invest in social enterprises as well as initiatives to improve business support and provide extra help for social enterprises to work with government in the delivery of services (Griggs-Trevarthen, 2010).

Asset Transfer. Following the Quirk Review's call for an asset-based approach to community development, in 2008 the government launched the Empowerment White Paper, which established an Asset Transfer Unit to support communities to take on asset management (Cox and Schmuecker, 2010: 9).

Community Enterprise Strategic Framework. Published at the beginning of 2010, this document emphasizes the role of community-based social enterprises in promoting local regeneration, employment and training and, more widely, in creating space for communities to mobilise around shared concerns, building cohesion and social capital (Cox and Schmuecker, 2010: 10).

More recently, the Labour government published a report on climate change, the environment and sustainable development that places further emphasis on the importance of

social enterprise in delivering a sustainable economy through a business model that “combines economic efficiency with social and environmental justice” (Irranca-Davies et al, 2010, p. 15).

In the light of these initiatives, Morrin et al. (2004) argue that the Labour government has set out the conditions for the emergence of social enterprises from the margins into mainstream policy. In their view, their policy initiatives had a threefold effect on social enterprises. Firstly, they de-emphasise the role of social enterprises as the solution to unemployment in deprived areas. Secondly, they underlined their importance in delivering public services as part of a mixed economy. Lastly, they led to social enterprise becoming mainstreamed into the Department for Trade and Industry (DTI) and business support (Morrin et al, 2004).

The result of these changes would appear to undermine social enterprises’ link to local communities (Griggs-Trevarthen, 2010), but this is not necessarily viewed as a negative outcome:

“it can be argued that social enterprise will only grow as a movement if it is recognised as a new way of organising and delivering services and goods to the community at large and not just in deprived areas” (Morrin et al, 2004, p. 70).

This view is clearly in contrast with the argument set out by Parkinson and Howorth (2008), who argue that the move towards more business-driven social enterprises may undermine the ideological and political principles at the root of the social economy movement. Indeed, their analysis shows that social entrepreneurs draw their legitimacy from a local or social morality – i.e., collective action, geographical community and local power struggles (Parkinson and Howorth, 2008, p. 285). Likewise, Hudson (2009) points out that the fact that social enterprises often have to try to compete in limited local markets requires some compromise on the ‘social’ aspect and that this can endanger their most fundamental ethical and social motivations. In this view, the possibility for the growth of individual social enterprises is limited by their social and ethical obligations.

Another criticism of the social enterprise model is that the majority of them still rely upon a degree of grant funding to operate their businesses (Amin et al., 2002). Until they can operate on a sound financial basis without a reliance on grants, social enterprise will not be able to provide an alternative approach for economic development (Amin et al., 2002, in Griggs-Trevarthen, 2010).

The current Coalition government also seems to be committed to the development of social and community enterprises. As Cox and Schmuecker (2010: 10) summarize, the Conservative Party’s document *Big Society, Not Big Government*, published just before the elections, set out the following commitments:

- Creation of a *Big Society Bank* to invest £ 75 million from unclaimed bank assets to support organisations to become social enterprises and deliver public services;
- Establishment of *National Centres for Community Organising* to train 5,000 independent community organisers;
- Allocation of new powers and rights for *neighbourhood groups* to take over running community assets, start schools, gather local data, create Local Housing Trusts, etc;
- Establishment of a *neighbourhood grants programme* by redirecting Futurebuilders revenues.

In his first major speech on the Big Society, the Minister for the Cabinet Office reiterated the government’s commitment to supporting the voluntary sector by reducing regulation and increasing the resource flow through, for example, the establishment of a Communities First Fund targeted at deprived communities. However, in times of recession “there is some concern about the level of funding available to support the sector to step up to the challenge of the Big Society” (Cox and Schmuecker, 2010: 11).

6 Conclusions

This working paper has assessed a number of factors affecting the development of community food enterprises.

The section on the supply side concluded that community food enterprises face significant barriers to accessing the five capitals necessary for building viable organisations. However, there are many examples where these barriers are being overcome, and this will be explored in the next working paper, in particular through the case studies that will be chosen.

The section on demand side barriers concluded that there is a clear need to increase the demand for food from local food systems and community food initiatives. Public procurement offers one opportunity, but there are dangers that support will diminish under the present government.

The section on scaling up and replication provided a different perspective on the challenges of increasing the impact of community food enterprises, a perspective that complements the supply and demand analysis presented in the main part of the paper.

The next working paper will begin by exploring the role of “sustainable food systems”, as Making Local Food Work is interested in exploring further the potential for integrated action in a particular locality, and is funding a “Local Food Systems” project which is supporting approaches in 6 localities.

The next working paper will therefore explore:

- Examples of successful community-based food **systems** and the lessons that can be drawn.
- **Case studies** of community food enterprises that have the potential for – or have achieved – “replication” or “scaling up through connecting up”.
- **Support mechanisms** that have overcome the demand side or supply side barriers identified in Work Package 2, or that assist replication and connecting up.

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