

Social

enterprise

in the UK

Developing a thriving social enterprise sector

British Council

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Contents

Introduction	02
Report overview	03
Section 1 – The diversity of social enterprise in the UK	05
Income	06
Sectors	06
Social purpose	08
Ownership models	09
Legal structures	10
Section 2 – Creating an ecosystem to support social enterprise	14
The need for specialist support	16
Encouraging social entrepreneurship	16
Incubators and pre-start support	17
Sustainability and growth	20
Replicating successful social enterprises	22
Developing social enterprise leaders	22
Summary of social enterprise support	23
Section 3 – Finance for social enterprise	26
Grants	29
Social investment	31
Patient capital	32
Loans	32
Bonds	33
Social impact bonds (SIBs)	33
Equity investment	34
Quasi-equity investment	34
Crowd funding	35
Finance summary	35
Section 4 – Measuring social impact	37
Main features of impact measurement	38
Social impact methodologies	40
Section 5 – Collaboration	42
Networks	44
Lobbying and campaigning	45
Consortia	46
Social enterprise media	46
Section 6 – Government interventions	49
Public sector spin outs	52
Procurement	53
Financial support from UK government	54
Summary of government involvement	55
Conclusion	55

Introduction

Across the globe, there has been a remarkable growth in social enterprise in the last decade. Longstanding social enterprises are working at bigger scale and new ventures are starting up; grant dependent charities and non-governmental organisations (NGOs) are becoming more entrepreneurial and new, independent social enterprises are taking over services traditionally run by governments.

In the UK, the term 'social enterprise' covers a wide range of different ventures, each of them united by some key characteristics:

- they have a clear social purpose
- they generate a significant proportion of their income from trading
- they reinvest the majority of their profits in their social mission.

These social enterprises bring together the entrepreneurial skills of the private sector with the ethos and values of public service. They comprise thousands of different organisations using diverse business models in different markets to meet the UK's many and varied social needs.

Their origins are varied too. Many have simply started independently; perhaps nurtured by specialist support organisations. Some social enterprises have grown out of charities and NGOs; whilst others have emerged as spin outs from the public sector.

The last ten years have seen a significant evolution in the social enterprise sector in the UK. There have been changes in the approach of government and new responses from the sector itself. There has been a big increase in the number of incubators, a new focus on

social investment and enhanced emphasis on measuring social value. Changes in the economy are forcing traditional charities to become more entrepreneurial. Government policy is outsourcing many services traditionally delivered by government, from healthcare to libraries. And many businesses are choosing to consider their social and environmental impact as well as their financial profit. In short, social enterprise in the UK is a vast, growing, and rapidly changing field. It would be an impossible mission to write an exhaustive report on the topic. What this report tries to do is explore some of the key features of the UK's social enterprise sector in 2015 and some of the important changes that have taken place in recent years. It takes a glimpse at the multiplicity of social enterprise activity; the ecosystem that nurtures it and the investment that finances it. It looks at relationships within the social enterprise sector itself, and the role played by government. It is, hopefully, an accessible, interesting and informative overview that disseminates useful information about the UK social enterprise ecosystem to domestic and international audiences, and a platform from which to launch policy discussions and more in-depth research.

Report overview

This report is broadly split into six sections:

Section 1 looks at the diversity of social enterprise in the UK; the different trades and sectors in which they operate; the different social purposes for which they exist; their different legal structures and models of ownership.

Section 2 explores how an 'ecosystem' of support has evolved in the UK to help foster this abundance of social enterprise activity; from schemes to encourage social entrepreneurship, through incubators and accelerators to programmes encouraging growth and replication.

Section 3 provides an overview of the systems and sources of finance that social enterprises in the UK are able to access; grants, loans, investment and some of the more innovative models that have developed in recent years such as crowd sourcing and social impact bonds.

Section 4 examines some of the methods used by social enterprises to measure their social impact and explains why this has become increasingly important.

Section 5 looks at the many ways in which social enterprises in the UK work together to support each other and achieve greater social impact. It covers lobbying and campaigning; networks; the social enterprise media; and the building of consortia.

The final section, **Section 6**, covers the role government has played in the development of a vibrant social enterprise sector. It looks at funding; tax relief and helpful legislation.



Section 1

The diversity of social enterprise in the UK

If there is one word to describe the social enterprise sector in the UK it is 'diverse'. Social enterprises operate in many different business sectors; they aim to combat a diverse range of social problems; and they adopt a variety of different legal structures.

Every two years [Social Enterprise UK](#), the national body for social enterprise, produces a detailed report on the sector. The latest report, [State of Social Enterprise Survey](#), provides a picture of just how varied the sector is. The government's Department for Business Innovation and Skills (BIS) also carried out a useful and [detailed review of the sector](#).

The UK government estimates there are around 70,000 social enterprises in the UK, employing over two million people and contributing over £24 billion to the UK economy. The sector has grown significantly in the last ten years and continues to grow rapidly despite tough economic conditions. In fact, nearly a third of all the social enterprises in the UK have started in the last three years.

This section aims to capture some of the scale and variety of the social enterprise sector in the UK.

'There are around 70,000 social enterprises in the UK, employing over two million people and contributing over £24 billion to the UK economy.'

Income

Social enterprises earn their income from a variety of different sources. Over half do some trade with the public sector, but the most common source of income is trade with the general public. Their level of income is equally varied with 45 per cent earning less than £100,000 a year, while 39 per cent earn over £1 million. And 73 per cent of social enterprises report breaking even or generating a profit, a similar proportion to for-profit small and medium sized enterprises (SMEs) in the UK.

Sectors

Social enterprises in the UK are involved in almost every aspect of the economy. There are large social enterprises providing housing and financial services; there are social enterprises involved in building, manufacturing and transport; running theatres and arts venues; shops and cafés. There are social enterprises involved in recycling and green energy; in digital and media; and providing healthcare, social care and childcare. As a rule, if there's an opportunity to deliver a beneficial social impact through business activity, someone, somewhere will have started a social enterprise to make the most of it!

The case studies below capture a little of this huge variety:

Arts venues

Many theatres and arts venues are under threat of closure in the UK as public budgets to support them are cut. Many local communities are forming social enterprises to take over the running of these facilities to ensure local people continue to have access to live theatre, music, cinema and art.

Aberdeen Performing Arts is a social enterprise set up in 2005 to manage the running of His Majesty's Theatre and other cultural venues in Aberdeen, Scotland. The buildings are still owned by Aberdeen City Council.

'If there's an opportunity to deliver a beneficial social impact through business activity, someone, somewhere will have started a social enterprise to make the most of it!'

Childcare

In many areas of the UK there are not enough childcare places to meet demand. This drives up the cost, making childcare prohibitively expensive for many people in low income jobs. This forces many adults to rely on state benefits instead of working and can lead to families living in poverty. Many social enterprises have been established to provide affordable childcare, particularly in low income areas.

Harmony Neighbourhood Nursery was founded in 2001. Located in West London, it was created to serve the low income community in which it is based and specifically to support those who work and study. It provides 46 day care places for children aged one to five.

Community green energy schemes

Many rural communities in the UK are coming together to invest in community energy generation. There are examples of wind power, solar power, biomass and hydro powered electricity generation.

The **Anafon Hydro Scheme** is being developed to provide electricity for the North Wales village of Abergwyngregyn. The scheme is owned and managed by a local social enterprise, Ynni Anafon Energy Cyf. The scheme generates renewable energy while safeguarding the local environment. As well as saving CO₂ emissions it will generate significant income to support social initiatives in the local community.

Community owned facilities

Rural communities across the UK are losing their few remaining facilities at an alarming rate. Village shops, pubs and post offices are all closing, unable to remain commercially viable. Some villages are forming social enterprises to buy and run these facilities, using local volunteers to help make them financially sustainable. In urban areas too, communities have used local buildings or land in order to promote local services and economic development. (See **Working in a particular community** below).

Tafarn Y Fic is a pub in the village of Llithfaen in Wales. In 1988, a number of people from the Llithfaen area formed a co-operative and raised capital to purchase the closed pub. Since then, it has grown into a thriving social venue, providing a variety of entertainment in the Welsh language and offering employment locally.

Health and social care

National and local government are increasingly paying others to deliver health and social care services in the UK, rather than delivering these services themselves. This opens up opportunities for social enterprises to ensure that these services continue to be run for the benefit of the service users and not for the profit of shareholders. This is a big sector for social enterprise in the UK. Around a third of all members of Social Enterprise UK (SEUK) operate in health and social care.

Care and Share Associates provide care services to elderly and vulnerable people in their own homes. They run an innovative social franchise in which the workforce are the owners. Their commitment is to creating better jobs, supporting employees' professional development and offering a high quality, flexible service to people who need their care.

Sport and leisure

In the UK many sports facilities have traditionally been owned and run by local government. With government budgets being cut dramatically these services are under threat, just like arts venues. More and more areas are looking at the social enterprise model as an alternative. In some parts of the UK they have been using this model for many years.

Greenwich Leisure was founded in 1993 to run leisure facilities in Greenwich, London. Their mission is to provide access to quality community leisure and fitness facilities at a price everyone can afford. They now manage over 120 facilities, and continue to grow. In fact they have now moved beyond leisure, exploring what else they can provide for communities – such as libraries and playgrounds.

Technology

Many social enterprises adopt technological innovations to tackle social or environmental problems.

Yomp and PleaseCycle use gaming techniques to encourage employees of large corporations to cycle to work rather than drive. Employees can download an app to their phones which monitors their distance and speed against colleagues and other companies.

Transport

Public transport is vital, particularly for those unable to drive or afford their own car. In many rural areas public transport is inadequate to meet the communities' needs. In other areas it is expensive, pulling money out of the local community into the pockets of large companies. A wide variety of community transport schemes have sprung up; some using volunteer drivers in their own vehicles, others much larger.

HCT Group is a social enterprise in the transport industry. They provide over 20 million passenger trips on their buses every year. They deliver a range of transport services; from London red buses to social services transport; from community transport to education and training. The group reinvests all the profits from their commercial work into further transport services or projects in the communities they serve.

Social purpose

The diversity of business sectors in which social enterprises operate is matched by the diversity of social needs they are set up to meet. Some have a particular geographic focus, aiming to improve the life of a particular community. Some work with specific groups: young people; old people; homeless people or those leaving prison. Many social enterprises are involved in supporting disadvantaged people to develop confidence and skills; or creating work opportunities for those who would otherwise find it difficult to get a job. There are social enterprises focusing on protecting the environment, tackling poverty and improving health and well-being. Again, if there's a social or environmental need there's probably a social enterprise somewhere in the UK trying to do something about it.

The following examples help to illustrate the wide range of social aims held by UK social enterprises:

Reducing landfill

Taking a resource that is regarded as having little or no commercial value and transforming it to create something that can be sold for a profit. The idea is to reduce waste whilst generating financial returns to be used for social good.

Elvis & Kresse takes unwanted industrial materials that would otherwise be consigned to landfill and turns them into high-end accessories including belts, wallets, bags and cufflinks. They re-distribute up to 50 per cent of profits to projects and charities related to the materials they reclaim. For example, profits from their range of products made from old fire hoses are donated to the Fire Fighters Charity.

Employment for vulnerable groups

Many social enterprises fall into a sub-category known as Work Integration Social Enterprises (WISE) or Social Firms. These provide employment opportunities for people who would not normally be able to get a job. This might be adults with learning difficulties; those recovering from mental health problems or addiction; or as in the case studies below, people who are homeless or leaving prison.

The Big Issue has been publishing a monthly magazine for over 20 years. People who are homeless or sleeping rough can buy copies of the magazine at 50 per cent of the cover price. Vendors generate an income by reselling at full price.

Bristol Together buys and renovates empty properties. It employs and trains teams of ex-offenders to carry out the work. By providing employment for people who have been in prison it reduces the rate of reoffending, thereby reducing costs to society and government.

Working with young people

As with many countries, the UK has a large number of young people who are not in education and are unable to find work. A number of social enterprises work specifically with disadvantaged young people to help build their skills, confidence and employability.

Street League uses the appeal of football to reach young people aged 16–21 who are not in education or employment. They run an intensive eight-week course mixing classroom and on-the-pitch activities. Eighty per cent of their participants achieve a positive outcome.

Working with people with disabilities

A range of social enterprises exist to provide services or opportunities to people with physical or mental disabilities. Some are Work Integration Social Enterprises (WISE); some offer care and facilities; and others adopt different approaches to help them (and their carers) to live more active, independent and fulfilled lives.

Bikeworks is a London-based social enterprise, which uses bikes as tools to create social and environmental change at community level. Launched in 2006, the social enterprise now has three retail shops, a bike servicing unit in the basement of Deloitte, three training centres and two disability clubs. Bikeworks engages people with physical and learning disabilities in cycling, and provides training to get people back into employment.

Working in a particular community

Many social enterprises have been established to serve a particular, local community. They are often called Development Trusts. Many have been set up in some of the poorest and most disadvantaged communities in the UK. They often manage to provide valuable facilities and services in areas where it is not commercially viable for the private sector to do so. **Locality** is the network organisation for these community-based social enterprises in the UK with over 700 registered members.

Caia Park Partnership Ltd is a community-led organisation located on a disadvantaged estate in Wrexham. It provides activities, services and facilities to meet identified community needs, prioritising resources for those facing the greatest barriers to achieving their potential. They run several social enterprises which tackle social needs and generate income for Caia Park Partnership.

Ownership models

The defining characteristics of a social enterprise, as we have stated, are trading for a social purpose and reinvesting its profits to further its social aims. Within that quite broad definition are different models of ownership.

The co-operative movement is one of the roots of social enterprise and many social enterprises still adopt a co-operative structure. Some social enterprises are owned by their employees, some by their customers, and others are owned by members of the local community they serve.

Not all co-operatives are social enterprises, however. Some co-operatives simply trade for financial profit, like any other commercial business.

There are also many social enterprises that are not co-operatives. Some are owned by individuals or groups of people committed to trading for a social purpose; others are owned by a charity and pay any profits they make back to that charity.

Different models of ownership can bring different benefits. The important thing is making sure the social enterprise has the right model of ownership to fulfil its social aims, and to trade effectively.

We've included some examples of the different ownership models below.

Employee Co-operative

Daily Bread is an ethical food co-operative owned and run by its workforce. They sell a wide range of wholesome, organic and Fairtrade products through their shops, cafés and online. Their mixed workforce includes adults with learning disabilities and people recovering from mental illness.

Customer Co-operative

The People's Supermarket is a food co-operative, owned by its customers and established to provide the local community with good cheap food that's fair to consumers and producers.

Community Co-operative

Cwmclydach Community Development Trust in South Wales was established to take over the running of its local community centre. This vital community resource is available for hire as a venue, but also runs a community café, training courses, family activities, a computer suite and credit union facilities.

Charity owned social enterprise

From the outside **Crisis Skylight** in Newcastle looks and runs exactly like a commercial café. But in fact it is a social enterprise run by the charity Crisis. As well as running the café they tutor people to get back into work, teaching them front of house skills and kitchen skills. Trainees are referred from hostels and rehabilitation centres.

Small group of directors

Dementia Adventure is a social enterprise dedicated to helping people living with dementia, and their families, to enjoy the outdoors. They run walking groups and adventure holidays. The social enterprise was started by Neil Mapes and Lucy Harding, two people with over 30 years' experience of dementia care and adventure tourism. They continue to run the company which is registered as a Community Interest Company with two additional non-executive directors.

Underpinning this variety of ownership models are a large number of different legal structures. While the type of ownership structure places some restrictions on the type of legal structure you choose, there are also a number of other considerations. These are explored in the next section.

Legal structures

There has been a lot of discussion about the appropriate legal structure for a social enterprise. In the UK there is a bewildering variety of legal structures available. No one structure defines a social enterprise; rather each social enterprise

chooses the legal form that they believe will best serve their social purpose.

Social enterprises can become limited companies just as for-profit enterprises can. These are regulated by government through Companies House. Some can also register as charities if their social objectives meet certain criteria. They are then also registered with the Charities Commission. Social enterprises with strong co-operative roots are likely to be registered as an Industrial and Provident Society (for the benefit of the community). And finally some are registered as Community Interest Companies (CIC) which means they are regulated both by Companies House and the CIC regulator.

We have summarised the most common legal structures used by social enterprises in the table below:

Legal structure	Can also be a charity?	Key points	Percentage of social enterprises adopting this structure
Unincorporated Association	Yes	An organisation with no separate legal identity other than its members.	1%
Company Limited by Guarantee (CLG)	Yes	A limited company with no share capital where members act as guarantors (usually for a nominal amount) if the company is wound up.	51%
Charitable Incorporated Organisation (CIO)	Yes	A new legal structure with limited liability which only needs to register with the Charity Commission, not Companies House.	New
Company Limited by Shares (CLS)	No	The standard structure for a for-profit company. The liability of the shareholders to creditors of the company is limited to the capital originally invested.	12%
Industrial and Provident Society (IPS)	No	A legal form of co-operative regulated by the Financial Conduct Authority and adopted by Credit Unions among others.	19%
Community Interest Company (CIC) Limited by Shares	No	A limited company whose social purpose is enshrined and where there is a limit on the amount of profit that can be distributed other than for its social purpose.	17%
Community Interest Company (CIC) Limited by Guarantee	No		
Public Limited Company (PLC)	No	A company limited by shares which can be traded publicly on a stock exchange.	1%

A useful summary of why different social enterprises adopt different legal structures is provided by [UnLtd](#).

The diversity of legal structures available in the UK means social enterprises are now able to choose the best one to enable them to carry out their trading activities and deliver their social purpose. This positive situation has evolved over the past 20 years and has come about largely through the recognition of three important points:

You don't have to be a charity to do good

In the 1990s social enterprises often had difficulty finding grant makers who were prepared to give money to an organisation that wasn't a registered charity. There was a perception that if you weren't a charity you were not genuinely working for social benefit. But if you were a registered charity you were severely restricted in the trading activities you could carry out, and would be unable to take on investment.

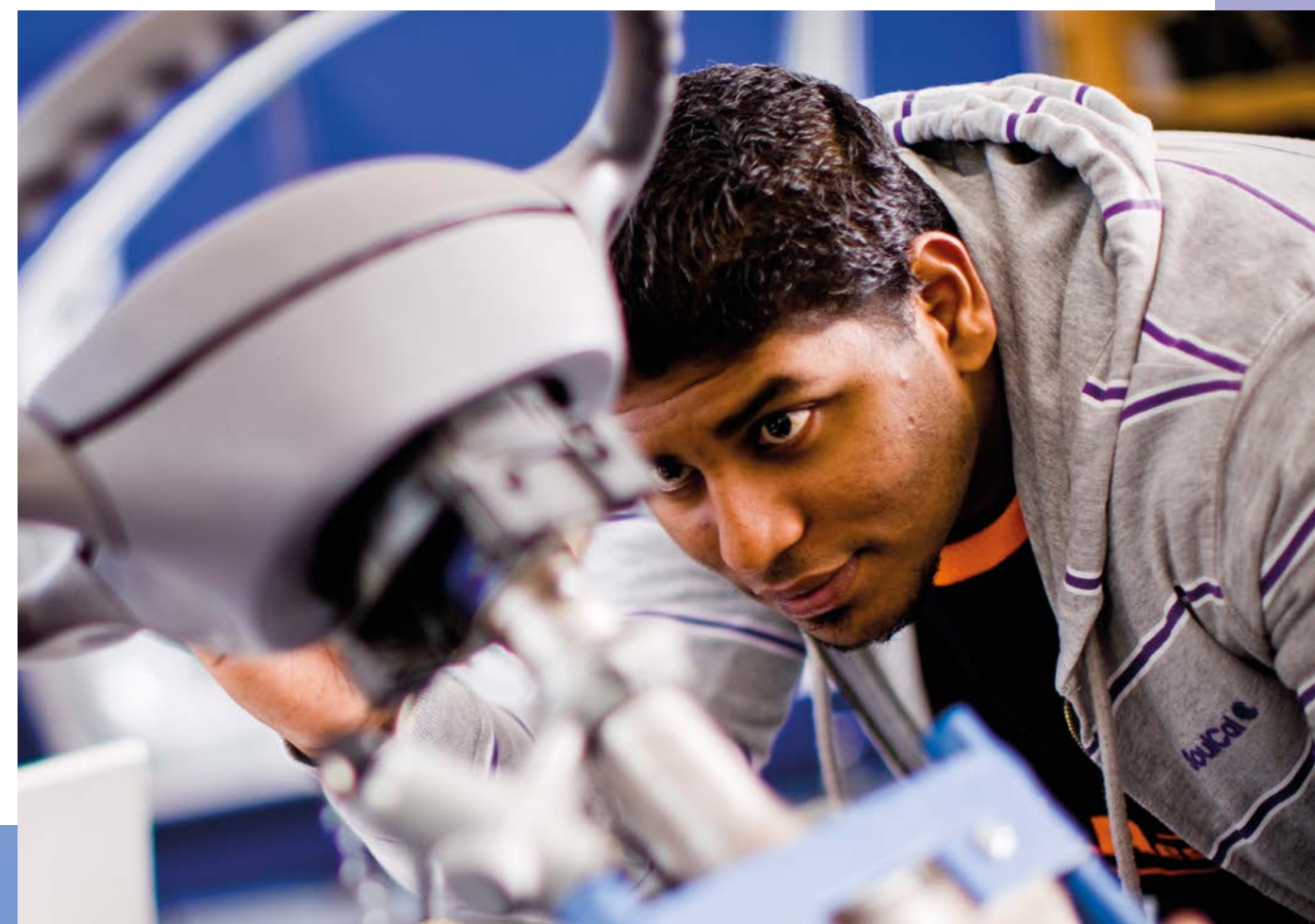
You can trade for a social purpose

The growth in the number of organisations trading for social purpose has led to an increased acceptance amongst grant makers, government and the general public that there is such a thing as social enterprise. And this acceptance has in turn created a more supportive environment for such organisations to flourish.

Social enterprises often need grants and investment

Many social enterprises in the 1990s struggled to raise investment because they had legal structures such as Company Limited by Guarantee (CLG) that didn't allow investors to take shares. Conversely, those that could take on investment struggled to find grants to support their work because they had share structures.

'In the UK there is a bewildering variety of legal structures available [...] each social enterprise chooses the legal form that they believe will best serve their social purpose.'



Hybrid legal structures for social enterprises

The UK has introduced two legal structures specifically designed for social enterprises. These enable trading in pursuit of social impact.

Community interest companies (CICs)

Acceptance that social enterprises needed to trade, often could not register as charities and required a mixture of grant and investment led to the development of a specific legal structure; the community interest company (CIC). This has three very important components:

- it enshrines the social purpose of the organisation in its governing documents
- it contains an 'asset lock' which stops the assets of a CIC being distributed except to charities or other CICs

- the share CIC allows investors to own shares in the company but caps the distribution of profits to those shareholders.

These three aspects gave confidence to both grant givers and social investors, creating a more flexible funding environment in which social enterprises thrive. Since their foundation in 2005–06, there are now over 10,000 registered CICs, of which around 7,000 are believed to be active.

Charitable companies

Charitable companies provide even tighter control on a social enterprise's social purpose. A charitable company:

- can't distribute its surpluses to its members or shareholders – a charitable company is usually limited by guarantee, not shares

- can only apply its assets to carry out its charitable purposes
- must operate in a way which is in the best interests of the charity.

Generally a registered charity has more options for raising grants and donations, but fewer for raising social investment.

An organisation used to have to register with Companies House as a company limited by guarantee in order to have the benefits of limited company status, and then with the Charity Commission in order to have charitable status. Since 2014, however, a new legal form, the Charitable Incorporated Organisation, has been introduced. This gives the benefits of an independent legal status and limited liability while only needing registration with the Charity Commission. It is mainly suitable for smaller charities but some social enterprises may choose to adopt this structure.



Section 2

Creating an ecosystem to support social enterprise

Just like the private sector, a really vibrant social enterprise sector requires a range of support to help it flourish. It is quite a journey to make from bright idea to successful social enterprise and well-targeted support can make a big difference to the number, quality and sustainability of the social enterprises that develop.

To start with you need people who think creatively about social problems and consider enterprise-based solutions. But how to create this culture of social entrepreneurship?

Over recent years in the UK, particularly in Scotland, a lot of effort has been made to encourage children and young people to think in a more entrepreneurial way; to develop business skills but to put them into practice for a social purpose. And organisations such as [UnLtd](#) have helped stimulate a culture of social entrepreneurship throughout society.

Once someone is inspired and motivated to start a social enterprise they often need support and encouragement to help them develop these ideas. While many social entrepreneurs will succeed in launching a social enterprise without such support, its provision will help many more to succeed.

A different sort of support is then required for social enterprises once they have started trading, and again for those developing and growing. And finally further support is needed to help successful and sustainable social enterprises replicate their model into a different city or region.

‘Well targeted support can make a big difference to the number, quality and sustainability of the social enterprises that develop.’



‘Different approaches have been taken to embed the skills and motivation that will help produce the social enterprise leaders of tomorrow.’

The need for specialist support

In many ways the business support needs of social enterprises are similar to those of for-profit SMEs. They need to carry out market research; write a business plan; develop products or services that reach a market; raise finance and so on. However, there are many important differences in the way social enterprises operate which make mainstream business support services unsuitable. For example, social enterprises:

- typically have different legal and governance structures from for-profit SMEs
- have a primary aim which is social not commercial
- often have inseparable social and commercial activities
- are often involved in diverse activities, not a single product or service
- usually need to balance a mixture of income streams including grants and donations
- can access different sources of finance and investment compared to for-profit SMEs
- often lack commercial expertise.

As a result of these differences mainstream business support services often failed to meet the needs of social enterprises. In response, a range of programmes and organisations delivering specialist support have developed in the UK over the past ten years or so. Some of these have grown from the social enterprise sector itself; some from charities; some from national or local government; and some from the private sector.

The following sections give a brief overview of the range of different support that now exists.

Encouraging social entrepreneurship

For children growing up before the year 2000 becoming a social entrepreneur was not an obvious career path. For many children growing up in the UK today, the possibility of setting up or working for a social enterprise is at least something they are aware of.

While there is an ongoing debate as to whether social entrepreneurs are born or made, what certainly is true is that exposing people to the concept of social enterprise and the skills involved in setting up and running a social enterprise can only help increase the chance of those with a natural aptitude putting it into practice.

Social entrepreneurs are found in all parts of society and at all ages. In recent years, in different parts of the UK, different approaches have been taken to embed the skills and motivation that will help produce the social enterprise leaders of tomorrow.

Schools

The [Social Enterprise Academy \(SEA\)](#) in Scotland has been running the highly acclaimed [Social Enterprise Schools](#) scheme since 2008. It was set up with funding from the Scottish government and provides support to pupils and teachers to set up pupil-led social enterprises in their schools. To date SEA has worked with 500 schools and over 1,000 teachers and each year holds an awards ceremony to celebrate their success.

In England the [Real Ideas Organisation \(RIO\)](#) has developed the [Social Enterprise Qualification \(SEQ\)](#) in which students plan and deliver socially enterprising activity while creating a portfolio of evidence. This work is supported primarily by online resources.

In Wales, the new Welsh Baccalaureate Qualification provides the framework for all qualifications for 14–19 year olds. It has social enterprise as a core principle and should ensure all children in Wales leave school with knowledge of social enterprise and some of the skills needed to run one.

Six pupils at St Luke’s High School in Barrhead, Scotland have started their very own nail bar social enterprise in the school grounds. These girls, aged 15 and 16, originally offered their services to teachers, office staff and pupils and donated their profits to local charities.

The pupils now take their services into a local care home and hospice, bringing welcomed contact between residents and young people.

Over 40 pupils aged between seven and 11 were involved in the Polytunnel project at St Mary’s Primary School in Larkhall, Scotland. The social enterprise was set up in November 2011 to sell decorative plants and flowers and promote disability awareness. Pupils work with a group of men with learning difficulties to mix up soil and plant seedlings and shrubs. The plants were made up into hanging baskets and sold to parents and friends of the school. The profit from the sales was put back into the project. In 2012 they received a Social Enterprise in Education award from the Social Enterprise Academy.

Universities

In December 2013, the Higher Education Funding Council of England (HEFCE) launched a £2 million programme to strengthen and broaden support for social entrepreneurship and social enterprise in universities and higher education colleges across England. The programme, part of the UnLtd Social Entrepreneurship in Education (SEE) Change initiative, is delivered by UnLtd, and encourages higher education institutions to act as ‘hubs’ to support social entrepreneurs in their communities. Nearly 60 universities are currently signed up to the programme and many are already making significant changes to embed social enterprise at the heart of what they do.

[Northampton University](#) were pioneers in this area and became the first university in the UK to be awarded Change Maker Campus status by [Ashoka U](#).

Incubators and pre-start support

In recent years much of the emphasis on social enterprise support has been on the early stages of development – from initial concept through to launch and investment. Often termed incubators these initiatives typically work with individuals who have an idea for a social enterprise and provide a range of support to help them develop it to launch. Some also provide ongoing support for fledgling start-ups.

Since there is an increasing amount of money available for social investment but relatively few social enterprises that can take on substantial investment funding, some incubation programmes specialise in supporting promising social enterprises to become ‘investment ready’.

The incubator model works alongside more traditional business support programmes for social enterprises which typically provide access to a social enterprise business adviser and a ‘signposting’ service providing links to further specialist advice.

While the models of delivery vary, there are a number of key features in the provision of successful pre-start support. These include:

Confidence building and encouragement

While some social entrepreneurs have an unshakable belief in their idea and ability, most doubt whether anyone will really take them seriously. One of the most important features of pre-start support is to give people the confidence to try – even when the idea still needs a lot of work to turn it into anything like a viable social enterprise!

Peer support and access to networks

Much of this growth in confidence comes from being introduced to other early-stage social entrepreneurs. The best motivation in overcoming inevitable setbacks is the encouragement of other people facing similar situations. In some ‘incubator’ models peer networks are fostered through the provision of communal office space. In others they are facilitated through shared workshops or [Action Learning Sets](#). These networks often extend beyond the current cohort of participants to previous cohorts.

Product and service development

Product and service development is emphasised in most support programmes. Emerge Venture Labs does this for technology start-ups, for example. A number of tools and methodologies are used to support this process including variations on the Business Model Canvas, Design Thinking and the Lean Start-up. In all cases the focus is on building a more detailed understanding of what customers and beneficiaries value.

Model refinement and business planning

There is a higher survival rate amongst new businesses with a business plan than those without. Furthermore most grant funders and all investors will want to see a business plan before putting any money into a new social enterprise. Most pre-start support will provide guidance in developing a business plan including a clear overview of the business, product or service and sections on governance and staffing, a budget, a cash flow forecast, and a marketing strategy.

Advice about the basics of setting up a social enterprise

There are a huge number of tasks that every new social enterprise has to do. Some incubators offer advice on everything from selecting the right legal structure to opening a bank account, registering for taxes, and selecting an IT system.

Access to a mentor or other source of trusted strategic advice

Support and advice from someone with the right experience can help a new social enterprise develop the right business model, the most effective means of tackling their chosen social problem, and an appropriate plan for development and growth. Often what is needed is someone to ask the right challenging questions as much as someone to provide answers.

Personal development

The success of a new social enterprise often depends on the skills and abilities of its founder or leader. Many pre-start support programmes offer access to training in areas such as finances and accountancy, legal structures, human resource management (HR), and marketing. Such support is typically provided by externally sourced professionals with industry specific experience and skills.

Many pre-start programmes also make use of mentoring as a means of developing the knowledge and expertise of the social entrepreneurs. These can be experienced social enterprise leaders; previous participants on the accelerator programme; or professionals from the commercial sector.

Access to investment

Some programmes provide direct investment as part of their core package of support. Bethnal Green Ventures offers investment in exchange for equity, much like a traditional private sector accelerator. Wayra, a joint venture between UnLtd and Telefonica, offer investment in the form of convertible loans. In other cases the focus is on supporting participants to get their social enterprises 'investment ready'. At this point they are introduced to potential funders or investors, for example at a 'demo day' event. This is the approach taken by the Young Foundation Accelerator programme.

Social impact measurement

Successful social enterprises deliver a social as well as financial return on an investment. Increasingly investors and funders in the UK expect social enterprises to capture and report on this social impact. Most social enterprise accelerators encourage participants to plan, measure and report their social impact.

Incubator and accelerator models

Social enterprises are most different from for-profit businesses when they are just starting up. NESTA produced a report which explores what makes a good support programme for developing new social enterprises. They identify five models of support that have emerged to support early stage ventures:

- co-working spaces
- social enterprise support programmes
- impact accelerators
- social venture prizes and competitions
- impact angel investor networks.

In reality these models often blur, but the examples below help to illustrate different approaches to meeting the needs of start-up social enterprises.

Co-working spaces

The provision of shared office space provides new social enterprises with a base for their operations as well as access to vital social networks, peer support and sources of information and expertise.

Impact Hubs

There are five Impact Hubs in the UK, four in London and one in Birmingham. They form part of a global network of co-working spaces for individuals and ventures interested in social innovation. They host events, provide office space and run programmes to support social enterprises.

Social enterprise support programmes

This model of incubator puts the personal development of the founding social entrepreneur at the heart of their programme. They provide support to help him or her develop the skills and capabilities they need to run a successful social enterprise.

The Young Foundation Accelerator

The Young Foundation provides support to promising social ventures in London and Wales through a series of workshops, one-to-one mentoring and coaching.

The School for Social Entrepreneurs (SSE)

SSE was founded in 1997 to help social entrepreneurs develop sustainable solutions to social problems. Their main initiative is an intensive, year-long programme of support with a strong focus on peer-support and inspirational input from social enterprise experts.

From humble beginnings in East London, SSE now has a network of franchise schools supporting hundreds of social entrepreneurs a year across the UK, Ireland, Canada and Australia.

Impact accelerators

Access to finance is often one of the biggest barriers facing new social enterprises. Without a track record it can be an uphill struggle to persuade funders and investors to put money into a new venture. Some social enterprise incubators address this head on, by offering loans to grants to their programme participants.

Social Incubator North

Successful applicants from the East Midlands and North of England receive a £25,000 interest-free investment loan as well as tailored one-to-one business support and access to business premises.

Social venture prizes and competitions

Some programmes offer awards to individuals developing new social enterprise ideas. The prizes and competitive nature of these incubators are designed to spur participants to turn their fledgling ideas into focused, practical and actionable business plans.

UnLtd Do It Awards

Part of the [UnLtd](#) offer, these awards, typically of around £2,500, provide individuals with an idea to develop and test it in a small way. The cash awards are combined with expert advice and one-to-one support.

Impact angel investor networks

Venture capital networks have existed for many years to invest in early-stage for-profit ventures. In recent years, a growing number of investors have sought to invest in social ventures in order to generate both a financial return and a social impact. In other words rather than donating money to a good cause they are investing their money in a good cause. Typically these 'angel investors' will provide a level of mentoring and strategic expertise to the social enterprises in which they have invested.

ClearlySo Angels

ClearlySo Angels is the UK's first angel investor network specifically for social ventures. It was launched in London in 2012 and provides both investment and mentoring to selected social enterprises.

Sector-specific incubators

Many social enterprise incubators focus on a particular sector, allowing them to develop very specific expertise, networks and resources. This can be seen in the following examples:

Technology

Bethnal Green Ventures offers £15,000 investment, office space and a three-month programme of support to early-stage Tech for Good ventures. In return for £15,000 investment Bethnal Green Ventures take a six per cent share of the new venture.

Education

Emerge Education has its origins in the Saïd Business School and Hub Ventures in Oxford. The team focuses solely on social enterprise start-ups focusing on education. They launched their first sector-specific accelerator programme in London in 2014.

Health

The Health Social Innovators Fund was originally developed in the US as Healthbox. It has now expanded to run a health technology start-up accelerator programme in London, supporting early-stage ventures with investment, education and mentoring.

Incubator conclusion

As this section on incubators and pre-start support demonstrates, there are many different initiatives and many different models attempting to increase the number of sustainable social enterprises starting up. A lot of these are relatively recent and there is not yet a great deal of evidence to demonstrate the impact they are having on social enterprise in the UK.

‘90 per cent of social enterprises supported through UnLtd’s programme were still trading after five years.’

Sustainability and growth

The majority of for-profit businesses (55 per cent) fail in their first five years. By contrast the School for Social Entrepreneurs reports that social enterprises started by their graduates are 20 per cent more likely to still be trading after five years, and nearly 90 per cent of social enterprises supported through UnLtd’s programme were still trading after five years.

The right support in these early years can make all the difference to whether a social enterprise becomes sustainable or not. Furthermore, if a social enterprise generates a positive social impact, it can often be more effective to help grow or ‘scale’ that existing enterprise than to start a new one.

A number of programmes have been developed to support social enterprises at this stage in their development.

Social enterprise business support programmes

Some initiatives to support growth-stage social enterprises are very similar to traditional public sector business support programmes aimed at for-profit businesses. The difference is that they are typically run by specialist organisations or employ staff with specific knowledge of social enterprise and its different needs and structures.

The last five years has seen a growth in sponsored programmes such as Deloitte Pioneers, Business in the Community (BiTC) Arc programme, Santander Development Awards, and Lloyds Bank Social Entrepreneurs Programme.

Some government-funded social enterprise support intermediaries have struggled given the reduction and reorganisation of government funding since the global financial crisis. Partly through the additional EU funding available in Scotland and Wales, government support for social enterprise programmes remains stronger here, with publicly funded programmes delivered by SenScot, Social Enterprise Scotland and the Wales Co-operative Centre.

Wales Co-operative Centre – Social Enterprise Support Programme

Funded by the Welsh government, the Wales Co-operative Centre specialises in supporting the development of social enterprises and co-operatives with the potential to grow and create jobs. Each social enterprise receives one-to-one support from a development officer who will devise an action plan for them. This plan is then delivered by a range of consultants with expertise in areas such as business planning, legal structures, personnel, finance and marketing. Support is also provided through training, mentoring, masterclasses and networking.

Investment-led support

As with some incubators that assist early-stage ventures, some support organisations for growth social enterprises provide investment as a key part of their support package.

Investment and Contract Readiness Fund (ICRF)

The UK government launched a £10 million **Investment and Contract Readiness Fund (ICRF)** that offers grants between £50,000 and £150,000 to ambitious social ventures. The ICRF model involves sector bodies working with expert adviser bodies to bid for cash which they use to grow capacity to bid for investment and contracts. According to the government the fund has ‘unlocked £20 of investment for every £1 of government grant.’

CAN Breakthrough

Founded in 2006, CAN Breakthrough provides grant funding and management support to enable established social ventures with a minimum turnover of £500,000, three years’ trading and a scalable business model to expand and maximise their social impact.

UnLtd Fast Growth Awards

Fast Growth is an intensive accelerator programme providing £20,000 of grant funding and 12 months of business support to social ventures. Working with partner organisations, UnLtd use this programme to help ambitious entrepreneurs scale their ventures nationally and internationally to achieve maximum social impact.

UnLtd

UnLtd is the foundation for social entrepreneurs in the UK. It is funded primarily from the interest generated on a £100 million investment from the UK government.

UnLtd provides support to social entrepreneurs in the UK through a mixture of seed funding and tailored support. They invest in individuals through a number of different awards. Individuals apply for these through a competitive process.

- **Do it** awards are for people with great ideas, to turn them into ventures
- **Build it** awards target people who wish to grow
- **Fast Growth** awards are for people who are ambitious for rapid growth.

They also run the Big Venture Challenge to help social enterprises raise investment to scale their work. This is funded by the Big Lottery and uses grant finance to de-risk and encourage new investment into social enterprises.

UnLtd also has programmes for specific groups, including staff, students and recent graduates of UK universities, and people living in deprived communities.

The UnLtd model has also been used to support social enterprises internationally.

Deloitte Social Innovation Pioneers

This programme supports socially innovative businesses, providing them with a package of support to help them grow to scale and become investment-ready. In total Deloitte are investing over £1 million a year in this groundbreaking programme which utilises the skills and capabilities of their staff to support social business. They are now working with their third cohort of 12 social businesses across a range of sectors, industries and regions.

Replicating successful social enterprises

Many successful for-profit businesses replicate their model in new areas, either by opening new stores or operations themselves, or by licensing other people to do so through a franchise model. There is considerable interest in adopting this approach in the social enterprise sector through what is termed 'social replication' or 'social franchising'. This approach has been examined in depth in two recent reports for [Big Lottery](#) and [Big Society Capital](#).

Historically there have been three significant attempts to support social franchising in the UK.

The Beanstalk programme, operated by the Community Action Network (CAN) helped five not-for-profit organisations to replicate themselves.

Social Firms UK piloted six business ideas suitable for social firms as part of its Flagship Firms project, supported by the Phoenix Fund.

The Plunkett Foundation, the leading British and Irish think tank on agricultural co-operation, which has developed five franchise models for rural businesses.

As far back as 1994 the Directory of Social Change organised a conference on charity franchising and published a how-to guide with case studies under this title. In 2008 UnLtd also did some work on social enterprise replication and they too published [resources and guides](#). And Social Enterprise UK has also published a [social franchising manual](#) and a guide for social franchisees.

Social franchising is still in its infancy in the UK and there are relatively few people with expertise. Moreover, the people who have the most experience of social franchising are often still involved in running a social franchise rather than offering advice to others.

The International Centre for Social Franchising (ICSF)

The International Centre for Social Franchising (ICSF) is based in the UK but operates globally. It pulls together much of the expertise available with the aim of providing support for existing and aspiring social franchisors and franchisees.

Developing social enterprise leaders

The success of a social enterprise, particularly in its early years, is often down to the quality of its leadership and management. Building a successful enterprise in any sector, whether commercial or social, relies on having access to a broad range of skills and expertise, either within the organisation or through external support. Social entrepreneurs face a particularly tough set of challenges. As well as developing and managing a commercially viable business they also aim to serve unmet social needs.

A 2011 Social Enterprise study for BIS revealed that more than 30 per cent of social enterprises had gaps in core business skills.

In 2013 Dame Mary Marsh led a government review into skills gaps in the third sector (which include social enterprises). This review found major gaps in governance, leadership, enterprise, digital fluency and use of data to drive social change.

In recent years a number of initiatives have developed to try to tackle these issues.

Dame Mary herself was the founding director of the [Clare Social Leadership Programme](#), which picks an annual cohort of around 15 aspiring leaders from the social sector and invests heavily in their skills and leadership over a period of 1–2 years.

'In recent years [...] there has also been a shift in the focus of that support towards building the capacity of the social enterprise to become investment ready.'

[On Purpose](#) is a social enterprise which supports high-flying individuals to move into the social sector and become the next generation of social enterprise leaders. On Purpose provides a mixture of training, mentoring and paid work placements to develop skills and networks. It has supported over 70 people since the first cohort in 2011.

Social Enterprise UK ran a [National Social Enterprise Leadership Programme](#). There are also a number of more mainstream leadership programmes that cater for social enterprise leaders, such as [Common Purpose](#) and [Wavelength](#).

In Scotland the [Social Enterprise Academy](#) has been delivering an innovative programme of peer-led, leadership training for social enterprises since 2004. They have also been providing training in impact measurement to help drive up the effective use of data in social enterprises. They are now in the process of expanding their activities into England and Wales (as well as internationally).

In Wales, Bangor University ran the Menter Iontach Nua programme which delivered an MSc in Social Enterprise and a series of master's level masterclasses to raise the ambition and ability of social enterprise leaders.

Bangor University is not alone in offering development and qualifications for social enterprise leaders. There is a growing interest in social enterprise across the higher education sector, catalysed by the UnLtd See Change initiative in England. Many MBA programmes include social enterprise as an option or a core module. The Skoll Centre in the Saïd Business School at Oxford University is now a global leader in this area.

Several other universities have introduced postgraduate qualifications in social enterprise. Although it is still in early stages it is hoped that bringing universities on board to deliver tailored academic and professional qualifications will help to raise the calibre and ability of social enterprise leaders. The difficulty is that most people working in social enterprise do not have the money to pay for such courses without bursaries.

Summary of social enterprise support

As we have seen, although some social enterprises will start and flourish without support, the provision of a strong ecosystem of support has helped to facilitate the rapid growth of the social enterprise sector in the UK. Traditional business support programmes are often of little benefit to social enterprises, particularly in the early stages of their development.

Specialist social enterprise support has evolved into many different models, each with their own strengths. Most focus on a particular stage in the development of a social enterprise; pre-start, start-up, growth or replication; some focus on particular sectors; technology or education.

The ecosystem of social enterprise support has evolved over the last 20 years in the UK and continues to do so. Particularly in England it has moved from predominantly government funded to predominantly private sector funded. In recent years, with the growth of the social investment market, there has also been a shift in the focus of that support towards building the capacity of the social enterprise to become investment ready.



Section 3

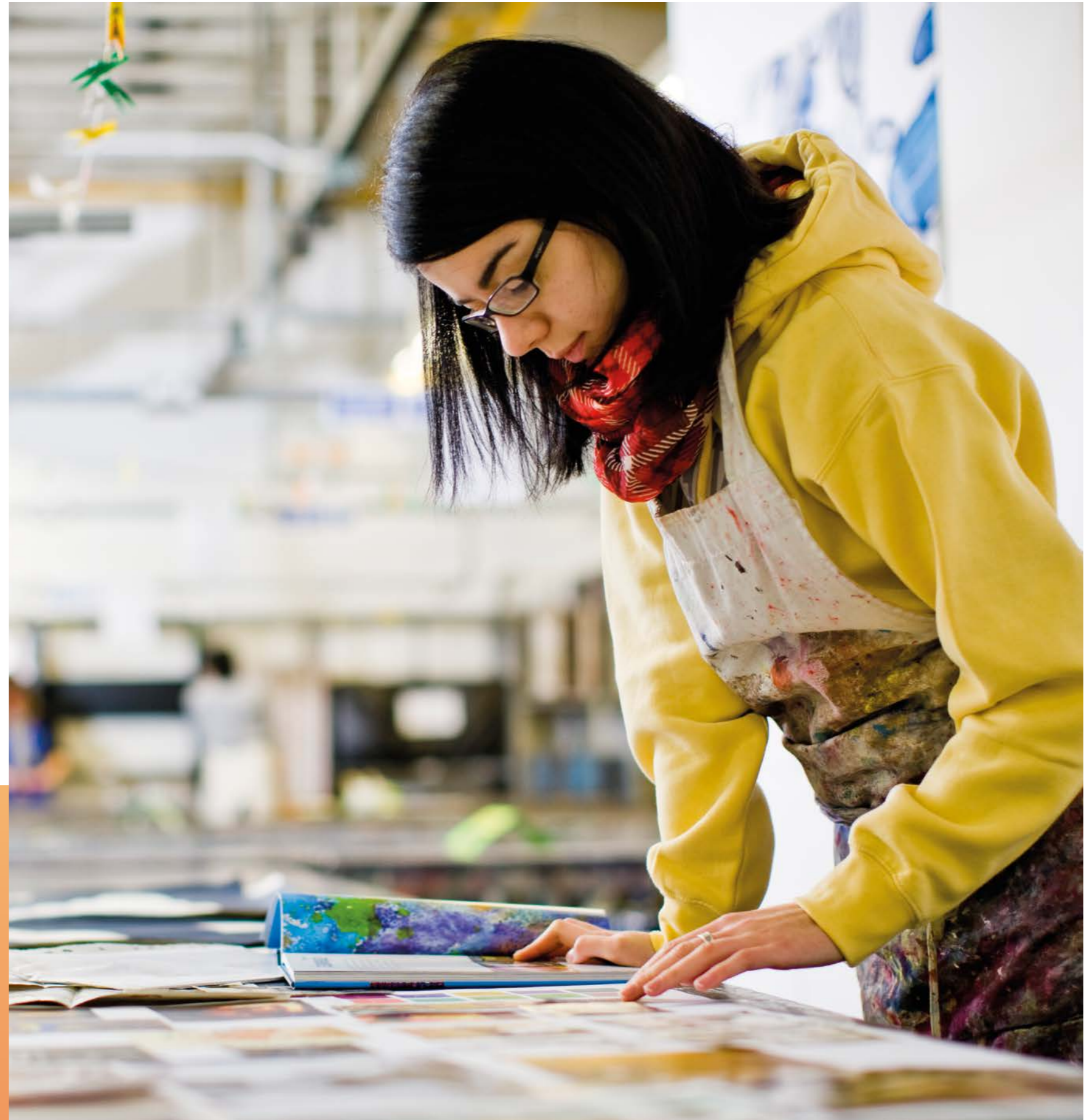
Finance for social enterprise

Social enterprises are unique in the range of finance they can access. They can secure repayable loans and many can access equity investment just like for-profit businesses. Most can also obtain non-repayable grants like charities and NGOs. And in addition social enterprises have access to an increasing number of social investment products developed specifically for them. It is important for a social enterprise to be able to access the right balance of grants, equity (or quasi-equity) and loan finance to ensure their success. And if the trading activities fail to provide enough income to cover the venture's operating costs then sustainable fundraising also needs to be put in place.

The financial needs of social enterprises change at different stages of their growth. Start-up ventures seek out capital to test and prove the viability of a new idea whilst established organisations can require finance to facilitate growth or to balance an uneven cash flow.

Despite the apparent abundance of sources of finance available, social enterprises in the UK repeatedly report that access to finance is the main barrier they face, both at start-up and in trying to reach sustainability. By comparison, traditional SMEs report obtaining finance as only the sixth biggest obstacle to their growth.

‘Social enterprises in the UK repeatedly report that access to finance is the main barrier they face.’



There is a range of organisations providing a spectrum of social finance in the UK. This helpful diagram from [Social Enterprise UK](#) provides a summary of some types of finance and the organisations involved:

Organisation	Grant	Patient capital	Loan	Bonds	Quasi-equity	Equity	Intermediaries
The Social Investment Business	×	×	×				
Social Finance				×			×
Finance SouthEast			×		×		
Key Fund	×	×	×		×	×	
Bridges Ventures					×		
Big Issue Invest			×		×	×	
CAF		×	×		×	×	
Esmée Fairbairn	×				×		
Break Through	×						
Impelus	×						
UnLtd	×						×
Charity Bank			×				
Merism Capital					×		
Resonance					×		×
ClearlySo							×
cdfa			×				
Triodos			×				
Allia				×			
Unity Trust			×				
privateequity	×						

This section will look in turn at the various types of funding available to social enterprises in the UK, and some examples of each.

Grants

Grants are a non-repayable form of finance. They are often linked to specific, expected social outcomes.

Even amongst the more commercially-minded social enterprises grant funding, rather than loans or investment, is often the preferred source of finance. Yet a report for the Scottish government by CEIS points out:

‘Current grant regimes are rarely designed to help community organisations develop into robust social enterprises. Few are intended to fund a package of organisational development. Nor do they specifically encourage the development of more entrepreneurial approaches, such as requiring organisations to lever in loan finance or improve business process. Opportunities may therefore be lost.’

Grants are perhaps most useful in three areas:

- to pilot a new initiative that is too risky for repayable finance
- to pay for capital investments which help a social enterprise develop assets and become more sustainable
- to pay for social costs that cannot, and should not, be borne by trading activities.

Reliance on grant funding to cover revenue costs can quickly become unsustainable and can prevent social enterprises developing commercially sustainable models.

Micro grants

These are small amounts of capital that are awarded to very early stage social enterprises. The intention is to provide new ventures with an opportunity to try out an idea in practice without being burdened by the administration that comes with most grant funds. Other forms of support, such as networking opportunities or mentorship, are usually offered alongside funding.

YoungUnLtd targets young people aged between 11 and 21 who can demonstrate a desire and idea to do something positive to address social issues. They provide cash awards of up to £5,000 as well as one-to-one support from dedicated UnLtd staff members to launch social enterprises.

Challenge funds

These are project-based grants to tackle a specific social or environmental challenge. Funding is awarded to organisations that come up with the best solution(s) to a pre-defined problem, as presented by the grant making body.

The **Working Well Design Challenge** was a collaboration between the Design Council and Nominet Trust. They invited youth organisations and designers to submit ideas for digital products and services that help young people improve their talents and earn a living. Three applicants were each awarded a £50,000 grant to implement their proposals.

Venture philanthropists

Venture philanthropists adopt the tools and approaches of private sector venture funding for philanthropic ends. They typically offer multi-year finance alongside extensive strategic guidance, with an emphasis on long-term viability rather than project-based support. The focus for investors is on high potential organisations exploring innovative and challenging ideas. Grants are often coupled with loan and quasi-equity finance.

Impetus-PEF

Impetus offers long-term unrestricted finance alongside hands-on management support and specialist guidance to senior staff, which is delivered through the Impetus-PEF network of high-calibre pro bono supporters. For every £1 of invested funding, funded organisations get access to an additional £5 worth of non-financial development.

Grant making trusts and foundations

The UK has a long history of grant making trusts stretching back to the 1700s. Many of these organisations were originally endowed by a wealthy individual; some have been set up by for-profit companies; and some have been established with the support of government.

Big Lottery Fund

The Big Lottery Fund is responsible for distributing around 40 per cent of the money raised through the UK's National Lottery. It provides grants primarily to charities and social enterprises. In 2014 alone it awarded nearly £700 million to projects supporting health, education, the environment and other charitable purposes.

Esmée Fairbairn Foundation

The Esmée Fairbairn Foundation aims to improve the quality of life for people and communities throughout the UK. The Foundation is one of the largest independent grant makers in the UK. It makes grants of £30–35 million annually. Esmée Fairbairn also operates a £26 million Finance Fund which invests in organisations that aim to deliver both a financial return and a social benefit.

Government grant programmes

Most grants for social enterprise are not managed by the UK government, but many are funded from government money, often through local authorities, or devolved governments in Wales, Scotland and Northern Ireland.

The Enterprise Ready Fund was a Scottish government funded programme which distributed up to £6 million from 2013 to 2015 to help maintain, develop and grow Scotland's enterprising third sector.

The Fund provided grants of up to £250,000 to support the long-term development objectives of new, emerging and established social enterprises in Scotland.

Funding through European Union (EU) programmes

As a member of the EU, the UK receives quite a large amount of EU grant funding to tackle poverty, skills gaps and other areas of interest to social enterprises. Some of this money, often matched by money from local, or national governments, is available to social enterprises in the form of grants and loans.

Cyfenter

The Cyfenter Fund, launched in 2012, provides financial investment of up to £75,000 to social enterprises wishing to develop new products or services. The fund is open to both existing social enterprises and new-starts. Such investment is aimed at creating services that meet unmet community needs or address market failure, and assist enterprises in achieving their potential as viable and sustainable businesses in the economy of North West Wales. Funding for the £4 million project was provided through the European Regional Development Fund (ERDF) and the local authorities of Anglesey, Conwy, Denbighshire and Gwynedd.

Social investment

Social investment is the use of repayable finance to achieve a social as well as a financial return. The social investor hopes to receive their original investment back with interest generated from the trading profit of the social enterprise. And they expect the investment to result in measurable social impact as well. The Big Lottery [Guide to Social Investment](#) produced by SEUK provides a useful introduction to this field.

Social enterprises use such investment to increase their impact on society, for example by growing their business, providing working capital for contract delivery, buying assets, or developing new or existing activities that generate income. Since it generates a financial return, social investment allows investors to recycle their capital. This enables them to invest in more good causes than if they made a one-off donation.

The [Good Investor](#), is a practical guide for socially-motivated investors. It provides a framework for decision-making throughout the investment process and in the generation of positive social and environmental impact. It is designed to offer a UK standard for social investment.

The spectrum of social investment covers patient capital; loans; bonds; quasi equity; and equity. These will all be covered in the following sections.

How social finance helped scale the HCT Group

[HCT Group](#) is a social enterprise in the transport industry. It was founded as Hackney Community Transport in 1982, and started to compete in the marketplace for transport contracts in 1993, aiming to re-invest 30 per cent of profits into community services, with the remainder used to support the growth of the enterprise. HCT Group's revenue grew from a turnover of £202,000 in 1993 to a turnover of £23.3 million in 2009. Access to capital was the greatest barrier for HCT to scale. Throughout its growth, HCT Group has benefited from its relationships with social finance intermediaries as a source of capital. In February 2010, HCT group secured £3 million to finance the next phase of its expansion through a brand new type of social finance, a 'social loan', which was provided by Bridges Ventures in partnership with Futurebuilders. This social loan linked investor returns directly to HCT's turnover.

Source: Growing Social Ventures (2011), Young Foundation, UK

Government support for social investment

The UK government has been keen to develop the social investment market since at least 2002, and the emphasis on social investment has increased in recent years. Perhaps one of the biggest ways in which the UK government has supported the growth of the social investment market is in establishing Big Society Capital.

Big Society Capital

Big Society Capital is an independent financial institution, set up by the UK government to help grow the social investment market in the UK. It is financed from two sources. In total it is expected to receive up to £400 million from money left in dormant bank accounts; and four of the main UK banks have each agreed to invest up to £50 million during its first five years of operation.

Big Society Capital is a 'social investment wholesaler.' It does not directly invest in social enterprises, but through a network of social lenders who are equipped to meet the diverse and complex needs of social sector clients. Big Society Capital also provides support and guidance to these social lenders. This includes improving access to new sources of funding and developing financial products and business support appropriate for the social sector.

Big Society Capital also plays a role as a champion for the social investment market. It shares information and experiences from the sector, defines and demonstrates best practice, and informs government policy.

Another way in which the UK government has tried to stimulate the social investment market has been the introduction of [Social Investment Tax Relief \(SITR\)](#) in 2014. It is designed to support social enterprises seeking external finance by offering a range of tax reliefs to individual investors who invest in new shares or debt investments in those social enterprises. Relief is available at 30 per cent of the amount invested, on a maximum annual investment of £1 million.

More details on social investment can be found through [Big Society Capital](#), and through the [Social Investment Forum](#) which brings together many of the Social Investment and Finance Intermediaries (SIFIs) in the UK.

Patient capital

As its name suggests, patient capital is invested in a social enterprise for the long term. It is repayable finance, but generally not repaid until the social enterprise is generating sufficient profit to afford the repayments. It is generally used for ventures that might be deemed too risky for social investors. The long time horizon allows funds to be used effectively for growth and high-risk, high-impact initiatives.

Most providers of patient capital are also willing to support management with advice as they grow the organisation, so that the probability of high social impact is increased.

Patient capital invested in Cockpit Arts

One of the UK's top grant makers, Esmée Fairbairn Foundation is also developing its social investment activities. In 2005 the Foundation approached Cockpit Arts, the UK's only business incubator for designer-makers, to explore the impact of offering small loans to micro craft businesses.

The overall purpose of the project is to maximise their business development and growth potential through the provision of soft loan finance and intensive business support. This was achieved through investment in Cockpit Arts in the form of a £160,000 grant over six years to support capacity building; a loan fund of £100,000 to lend to Cockpit Arts studio holders; and a £10,000 grant to undertake an independent social return on investment evaluation of the pilot project.

The scheme has been highly successful: it has a zero default rate and loan recipients report an average increase in profits of 75 per cent.

Loans

If a social enterprise is trading successfully, or has assets, it should be able to borrow money from a regular bank just like a for-profit business. But many social enterprises have complex business models balancing income from trade, contracts and grants and are poorly understood by commercial banks. Other social enterprises are simply too high risk for a commercial lender. As a result a number of financial institutions have evolved to provide a range of loans specifically tailored for social enterprises.

Social banks

Some banks in the UK offer services designed to meet the needs of non-profit organisations through the provision of financial products. These include overdraft facilities, working capital loans and cashflow lending. Social banks continue to dominate the UK social investment market, with 82 per cent of all social investments made by the four largest social banks: [Co-operative Bank](#); [Charity Bank](#); [Unity Trust](#); and [Triodos](#).

[Triodos](#) is one of the UK's most recognised banks for social business. Its policy is to only lend money to businesses and initiatives whose key objectives are to add value to society or the environment and bring about positive and lasting change. As well as providing a range of debt finance products, it also offers an equity fund and corporate finance services. Triodos only lend money entrusted by savers and investors, and do not take loans from other banks to safeguard its investments.

Social lenders

Social lenders offer debt financing for social enterprises and charities. Funders providing this form of investment target organisations that find it difficult to access capital through traditional financial institutions or secure grant funding.

CAF Venturesome

Set up in 2002, CAF Venturesome was one of the first social investment funds in the UK. It provides capital to charities, social enterprises and community groups, and operates in the space between charitable grants and mainstream banks. CAF Venturesome provided a £36,000 loan to Midi Music Company repayable over three years. Midi Music Company had been turned down for an overdraft facility from its high street bank and was struggling to cope with ongoing cashflow problems. The CAF Venturesome loan helped them to continue their work providing music lessons, specialist courses and advice on careers in the creative industries to disadvantaged children and young people in South London. CAF Venturesome offers financial products of between £25,000 and £350,000.

Big Issue Invest

BII is the social investment arm of social enterprise The Big Issue. It helps scale-up social enterprises and charities by providing finance, not grants, from unsecured loans to equity investment. Loans range from £50,000 to £1.5 million.

Bonds

Bonds are instruments to raise money from a variety of investors. They generally pay the investor back with interest. In the case of a Social Impact Bond this occurs when a particular social target is reached, triggering a payment from government.

Social impact bonds (SIBs)

Social impact bonds (SIBs) are generating interest around the world. They provide a way to unlock the future savings to government of a particular social programme.

For example, if someone is unemployed the UK government pays them several thousand pounds a year in the form of various benefits. If a social enterprise can help that person get a job that saves the government money. But someone has to pay for the service before any saving is made.

The SIB provides a solution. It provides a way to finance a payment by results (PBR) contract in which the government pays a service provider, such as a social enterprise, but only if it achieves certain agreed outcomes, such as helping a specified number of people to secure employment.

The problem with payment by results contracts is that the service provider must cover the initial costs of delivering services. Many potential providers do not have sufficient funds available to provide services in advance of being paid.

An SIB is a way to bridge this gap, enabling socially-minded investors to fund the provision of a service delivered by a social enterprise or charity on the basis that they will receive a return on their investment from government if the service delivers the results specified in the PBR agreement.

The Essex Social Impact Bond

In 2012 Essex County Council signed a contract with the Children's Support Services to provide therapeutic support to adolescents at risk of going into care. Investors committed £3.1 million to fund interventions for 11–16 year olds at the edge of care or custody so that the young people can safely remain at home with their families. The Essex Social Impact Bond will fund a five-year programme which will provide intensive support to approximately 380 adolescents and their families. The target is to divert the equivalent of approximately 101 adolescents from entering care. The success of the Social Impact Bond will be measured by the reduction in days spent in care by the adolescents. If the interventions deliver successful outcomes, the investors might expect financial returns in the range of between eight and 12 per cent, as well as the satisfaction of the social outcomes achieved.

In England, The Cabinet Office set up the [Centre for Social Impact Bonds](#). It works to increase understanding of SIBs across government and to provide support to SIB developers.

More information on social impact bonds can be found through [Social Finance](#).

Equity investment

In order to access equity investment a social enterprise needs to have legal structures that allow the purchase of share capital. In the UK this can be a Company Limited by Shares; a Share CIC; an Industrial and Provident Society or, in very rare cases, a Public Limited Company.

Equity investment usually takes the form of shares issued to an investor in exchange for capital. Unlike debt, equity finance entails a permanent investment in the organisation. The organisation has no legal obligation to repay the amount invested or to pay interest. Equity investors usually invest in organisations that they believe will grow. In return, they expect to receive dividends paid out of the organisation's earnings and/or capital gain on the sale of the organisation or on selling their shares to other investors.

Community investors

Some social enterprises that provide benefit to a particular community raise funds through issuing shares to that local community. Most use an Industrial and Provident Society structure, which makes it easier and less expensive to issue community shares. Generally the shareholders expect a very modest financial return and are primarily driven by the social or environmental good that the enterprise provides.

This model of raising money for a social enterprise is particularly common in community energy initiatives, where a community all stand to benefit from the generation of green energy from wind or hydro power. It is also common in rural areas to fund social enterprises providing core services such as a community shop or pub.

After the owner of **Green Valley Grocer** in Slaithwaite in Yorkshire decided to retire in 2009, community members became concerned that the shop would be closed due to lack of interest from buyers. They were particularly worried that closure might have a damaging effect on the town's thriving high street. In response to this a small group of local people came together and outlined plans to take the enterprise into community ownership. They formed a co-operative and sold shares to community members at £10 per share. Enough capital was raised to purchase the shop within two weeks and the co-operative now hosts a number of other social enterprises on the same premises.

Quasi-equity investment

When a social enterprise does not have a legal structure that allows it to distribute shares it cannot access equity investment. Nevertheless, the venture may be considered too high-risk for debt financing.

A quasi-equity investment allows an investor to benefit from the future revenues of an organisation through a royalty payment which is a fixed percentage of income. However, the investor may gain nothing if the organisation does not perform. This is similar to a conventional equity investment, but does not require an organisation to issue shares.

'The move towards social investment is also contributing to another change in the social enterprise sector: the growth in impact measurement.'

So just like an equity investment, quasi-equity shares the risk and reward of the investment between the investor and the investee by allowing the investor to take a share of future revenue streams. Unlike a loan, this investment is truly 'at risk', so if the organisation does not achieve the expected financial performance, a lower – possibly zero – financial return to the investor is payable.

Charity Technology Trust (CTT) is a rapidly growing social enterprise with charitable status. It is beginning to transition from a traditional grant-dependent charity to an organisation whose activities are both increasingly commercial and able to compete within a competitive market. In this transitional phase they were seen as too commercial for grant making trusts. Debt financing also posed problems: even if available, the repayment schedules would not leave sufficient working capital to invest in future development. Enter **CAF Venturesome** which offered CTT a quasi-equity investment. They used a legal agreement known as a Revenue Participation Agreement. In this case, Venturesome paid £50,000 to CTT for a Revenue Participation Right. The relationship is one of buyer and seller, not lender and borrower.

Crowd funding

Crowd funding involves raising money by collecting a high number of small-scale contributions from many people. Although it is relatively marginal at the moment in terms of amount of money raised, there is a lot of interest in its potential. This process is often hosted on web platforms that create space for organisations to present their work to prospective micro-investors who can then transfer funds online.

NESTA has created a database of crowdfunding websites which now includes over 60 sites in the UK alone (www.crowdingin.com) and there is more information at the [UK Crowd Funding Association \(UKCFA\)](#).

Buzzbnk is a crowd-funding platform that focuses solely on supporting social enterprises and charities. Since launching in 2011 they have helped to raise over £630,000 for 73 socially and environmentally minded projects. This money has been provided by individuals in the form of loans and grants. In 2014 they merged with the green energy crowdfunding platform **Trillion Fund**, but continue to provide the same services.

Finance summary

As the above has sought to make clear, social enterprises in the UK have access to a wide range of finance, from grants to loans to social investment. Most of these have been developed to balance the commercial and social aims of social enterprises and the commercial and social aims of the finance provider.

Despite this, many social enterprises still struggle to access the finance they need. Often this is because the finance available is inappropriate for their stage of development. In response, the UK government has introduced a number of finance schemes in recent years to support social enterprises to become 'investment ready', building their capacity and developing more commercially robust business models.

The move towards social investment is also contributing to another change in the social enterprise sector: the growth in impact measurement.



‘With less money available for welfare programmes there is a renewed emphasis on making sure that scarce resources are spent wisely.’

Section 4

Measuring social impact

Measuring social impact has become increasingly important for UK social enterprises in recent years. Government, commissioners and investors are putting more emphasis on the evidence of outcomes across the sector. As a result, a growing number of social enterprises are being asked to quantify and demonstrate their value.

For the UK public sector this stems from mounting concerns about the efficiency and effectiveness of public sector spending. With less money available for welfare programmes there is a renewed emphasis on making sure that scarce resources are spent wisely.

The introduction of the Social Value Act has also prompted government at all levels to look at ways of measuring social value, alongside more traditional measures of measuring value for money.

Social investment has pushed the use of impact measurement further still, demanding rigorous data to evidence social impact as well as financial returns. [Big Society Capital](#), for example, has developed a framework to measure the impact of its investments across diverse areas such as health and well-being, employment prospects, likelihood of re-offending and the ability to live independently.

A further driver has been the launch of the [NatWest SE100](#) in 2010 (formerly RBS SE100). This provides a live platform for social enterprises to measure and report their own social impact, ranking the 100 best performing social enterprises and awarding an annual prize.

As a result of these factors the field of impact measurement has developed extensively over the past decade.

Main features of impact measurement

Many different methodologies have been devised to measure social impact, but they all share a number of common features. Firstly, most methodologies tend to break down a service or 'intervention' into five components:

Component	Definition	Example (Ex-Offender Training Ltd.)
Inputs	The resources that are used in the delivery of the intervention.	Money. Volunteer time.
Activity	What is being done with those resources by the social enterprise (the intervention).	Training courses for ex-offenders.
Output	A quantitative measure of the activity.	50 ex-offenders trained.
Outcome	A change arising in the lives of beneficiaries and others.	23 programme participants are in employment six months later. or Reoffending rate amongst participants reduced by 80 per cent.
Impact	The outcomes, taking into account what would have happened anyway, the contributions of others and the length of time the outcomes last.	Ex-offender Training Ltd is estimated to be 40 per cent responsible for employment outcomes and 75 per cent responsible for re-offending outcomes.

Impact measurement process

The process by which social impact is measured is also similar across the different methodologies.

The European Commission's expert group on social enterprise, GESES, was tasked with establishing a [European Standard for Social Impact Measurement](#). This was agreed in 2014. The G8 also established a working group on social impact measurement and they produced a short [good practice guide](#) which aligned with the European Standard. Their seven step process is a good summary of the standard impact measurement process.

Set goals	Set out clearly the change you seek to make
Develop framework and select metrics	Determine what metrics you will hold yourself accountable against
Collect and store data	Collect and store all the data you need to measure your progress
Validate data	Validate that the data you collected is of sufficient quality
Analyse data	Discover what insights the data provides
Report data	Share the data clearly with key stakeholders to allow comparisons and learning
Make data driven decisions	Whether investment or management decisions, ensuring they are based on objective data and analysis will help drive continuous improvement

This process is deliberately flexible to allow organisations to choose methods of impact measurement that are appropriate to the scale of their operations, and to use one of the many different impact measurement methodologies that have been developed.

Social impact methodologies

There are a number of different methodologies that have been developed to measure social impact. While the details vary, there are some common themes shared by most of them:

Outcomes focused	Measuring the actual change that you want to achieve.
Theory of change	A clear and detailed description of how the inputs and activities of the organisation will deliver the outputs and how these will lead to the desired outcomes.
Beneficiary perspective	Involving the beneficiaries in developing the theory of change, and understanding the situation from their perspective.
Evidence of outcomes	Data, both qualitative and quantitative, that demonstrates the extent to which outcomes have been achieved. Where outcomes occur over a long period of time, short-term indicators of those long-term outcomes are used.
Linked learning	Incorporating the lessons from impact measurement to inform future practice.

Another common feature of most good impact measurement methodologies is that an organisation should only claim credit for the changes that their services or interventions have created. This involves taking into account the following:

Attribution	What percentage of outcomes could have been caused by other interventions by different organisations or people?
Deadweight	What would have happened anyway to a beneficiary or group regardless of interventions by this social enterprise?

Most methodologies also take into account negative or unintended consequences which then give a truer picture of the overall impact a particular service or intervention has had.

Social Return on Investment (SROI)

A number of social impact methodologies are now being used in the UK. The most prominent and widely used of these is Social Return on Investment (SROI).

SROI combines an analysis of social, environmental and economic factors to draw out how an organisation creates and destroys value. It then, controversially, assigns a monetary value (a 'financial proxy') to every measured outcome as a way of comparing them.

An SROI analysis is a detailed document which starts with the theory of change and is open and transparent in recording what outcomes were measured and what left out; the impact attributed to the organisation; and how and why the financial proxies were chosen. The culmination of the report is a ratio which indicates how much social value is created for every £1 invested. So for example, an SROI ratio of 3:1 indicates that an investment of £1 delivers £3 of social value.

While SROI is widely seen as the gold standard in objective impact measurement it is not favoured by all. Some people have raised concerns about the scope for subjective judgements in assigning values in SROI, and many organisations find the rigour of the SROI approach too time consuming.

Other social impact measurement frameworks

New Economics Foundation (NEF) was one of the founders of the SROI methodology. They have helpfully created a resource which collates many of the available tools and methodologies for proving and improving social impact: www.proveandimprove.org

Some notable examples include:

- [Social Accounting and Audit \(SAA\)](#)
- [Local Multiplier 3 \(LM3\)](#)
- [Prove It!](#)
- [Social Impact Measurement for Local Economies \(SIMPLE\)](#)

Impact measurement tools

There are also many tools that have been developed to measure social impact in a specific context. For example, the [Outcomes Star](#) is used to measure the progress made by vulnerable people over time; and the [New Philanthropy Capital Well-being Measure](#) is an online tool to show the difference an organisation is making to the lives of young people.

This variety of techniques, methodologies and frameworks enables social enterprises to find a tried and tested way to measure and understand their impact. As social impact measurement becomes more and more commonplace amongst social enterprises in the UK it is hoped that their efficiency, effectiveness and impact will increase.

Social Value UK is now the largest social value network in both the UK and internationally. It has been formed by the merging of two existing organisations; the Social Impact Analysts Association (SIAA) and The SROI Network.

Inspiring Impact was launched in 2012 with the aim 'to make high quality impact measurement the norm for charities and social enterprises by 2022'. They work across five thematic areas:

- Impact leadership – raising awareness about best practice in the field of impact measurement and evaluation.
- Co-ordinating support – helping to identify, navigate and understand the networks of support and guidance already available.
- Data, tools and systems – making data more easily accessible and connecting organisations with high quality tools and systems.
- Shared measurement – comparing approaches to measurement and exploring common indicators for specific fields or interventions to outline lessons.
- Funders, commissioners and investors – encouraging funders, commissioners and investors to embed impact measurement in decision-making processes, as well as working to help them understand their own impact.

The Alliance for Useful Evidence is a member-based organisation that champions the importance of evidence for social policy and practice. It aims 'to promote the evidence agenda and develop a collective voice, whilst aiding collaboration and knowledge sharing, through debate and discussion'.

Since launching in 2012 the membership has grown to more than 1,600 individuals from across government, universities, charities, business and local authorities in the UK and internationally.

Social impact consultancy

The number of organisations offering consultancy support for impact measurement has also grown. These provide a mix of training, independent advice, bespoke research, and practical guidance for calculating social and environmental impacts. Among the most prominent examples are: [New Philanthropy Capital](#); [NEF Consulting](#); [Intentionality](#); and [CAN Invest](#).

Section 5

Collaboration

Although at times individual social enterprises may be in competition with each other, on the whole the sector in the UK is mutually supportive. Many social enterprises will freely give their time and expertise to support other social enterprises; to mentor smaller or less experienced local organisations; and to share business plans and learning with similar social enterprises in other parts of the country.

In order to facilitate this co-operation a number of social enterprise networks developed across the UK. As the networks became more organised they helped to create a louder voice for the sector. This enabled them to lobby government to create a more favourable environment for social enterprises. Social enterprise media developed to share news within this fast evolving sector. And more recently consortia have formed to enable social enterprises to come together to bid for large contracts, competing with large corporates.

This section looks briefly at each of these developments in turn.

‘Many social enterprises will freely give their time and expertise to support other social enterprises; to mentor smaller or less experienced local organisations; and to share business plans and learning.’



Networks

The first social enterprise network in the UK was Social Enterprise London which launched in 1998. It was soon followed by a number of regional networks. Each network had a membership of local social enterprises and most offered support and training alongside networking opportunities.

Regional social enterprise networks received varying levels of financial support from government and local authorities for over ten years, but as funding was cut many were forced to close. Some adopted a more enterprising model, selling consultancy services and bidding for contracts, and remain active today.

Social Enterprise UK

Social Enterprise UK (SEUK) describes itself as the national body for social enterprise. Together with their 800 direct members and 15,000 members of partner networks, they often act as the voice for the social enterprise sector in the UK.

SEUK help to build the social enterprise sector through a number of activities. They conduct research, provide information and tools for social enterprises, share knowledge, build networks, raise awareness, and campaign to create a business environment where social enterprises can thrive. They also organise the annual Social Enterprise Awards.

Sector networks

As we have seen, social enterprise is a huge and diverse sector. Within it are many sub-sectors that are defined by a shared business model or focus on a particular social issue. Support organisations have emerged to cater to their specific needs with expertise, advice and networks. Many of these operate as UK-wide bodies and also have affiliated organisations in Scotland, Wales and Northern Ireland.

Social Firms UK

Social Firms England and Social Firms Scotland are membership and support organisations for the development of the Social Firm and Work Integration Social Enterprise (WISE) sector in the UK. These are employability-focused social enterprises working to improve the employment prospects and create good quality jobs for people severely disadvantaged in the labour market.

Locality

Locality is the UK's network of development trusts and community-led enterprises. They work to inspire local communities to change and improve. They help people to set up locally owned and led organisations; support existing organisations to exchange ideas and best practice on community asset ownership, community enterprise and social action; and lobby government to build support and investment for the movement.

National Housing Federation (NHF)

The National Housing Federation is the membership body for housing associations in the UK. Housing associations are social enterprises which build, manage and rent affordable housing. There are over 1,100 housing associations in the UK providing two and a half million homes for more than five million people. Each year they invest in a diverse range of neighbourhood projects that help create strong, vibrant communities.

Association of British Credit Unions Ltd (ABCUL)

The Association of British Credit Unions Ltd (ABCUL) is the leading trade association for credit unions in England, Scotland and Wales. Credit Unions are social enterprises that deliver financial services for their members, particularly those who struggle to access mainstream financial services through banks. They offer savings accounts and affordable loans, often providing a vital alternative to loan sharks.

One of the principal roles that each of these sector-specific organisations plays is championing the needs of their members, particularly to government.

Lobbying and campaigning

As social enterprise in the UK has become more established its collective voice has become clearer. Regional social enterprise networks played an important role in raising awareness of social enterprise with local authorities. But perhaps the most impactful campaigning and lobbying has been led by SEUK, influencing government policy and helping to raise the public profile of social enterprise in the UK.

Social Value Act

A longstanding lobbying effort focused on working with the government to encourage the public sector to buy services from social enterprises. In 2012 SEUK was instrumental in supporting the development of the Public Services (Social Value) Act. This requires all public bodies in England and Wales to consider how the services they buy might improve the economic, social and environmental well-being of the area. This is a huge shift from the traditional model of buying services based on a very narrow understanding of 'value for money' that considers little beyond unit cost.

The Social Value Act has certainly been a catalyst for change. Many local authorities, housing associations and other public bodies are now considering the social impact of their purchasing decisions, creating opportunities for social enterprises to deliver services directly, or to be included as sub-contractors in the supply chain.

Buy Social

Building on this work, SEUK's Buy Social campaign which started in 2012 promotes the benefits of buying from the social enterprise sector. The first year focused on trading within the sector, encouraging social enterprises to buy more from each other. The second year encouraged the private sector to buy from social enterprises.

Social Saturday

The campaign has broadened to raise awareness amongst the general public of the benefits of buying from social enterprise. The UK's first Social Saturday took place on 13 September 2014. This campaign encouraged consumers to unleash their spending power and buy from social enterprises. Social Saturday is also led by SEUK. It is supported by government, but has political support from all political parties.

The Social Enterprise Mark

Another initiative to increase awareness and understanding of social enterprise and boost public trust was the Social Enterprise Mark. This accreditation mechanism was developed by one of the regional social enterprise networks, RISE, as a way for social enterprises to communicate their verified status to customers through a logo. Organisations are awarded the Social Enterprise Mark through an independent and rigorous assessment process. It also provides access to customers through its online directory.

The cost of the evaluation – £350 for the smallest social enterprise and up to £4,500 for the very largest – has proved a barrier, and only 350 of the estimated 70,000 social enterprises in the UK use the Social Enterprise Mark.

For those that do qualify, however, the Social Enterprise Mark provides independent verification of their social value, guaranteeing that profits are used to fulfil a social or environmental purpose. The Social Enterprise Mark is run by a social enterprise.

Social Economy Alliance

While social enterprises use the trading models of private business, their social purpose ensures they are rooted firmly within the 'social economy'. As well as social enterprises the social economy or 'third sector' (which sits between private business and government or public sector) includes charities and not-for-profits; co-operatives and social investors; and many other organisations working for a better world.

In the UK over 450 such organisations have joined together to form the Social Economy Alliance. Its mission is to help create a social economy in the UK that better supports people and communities. Their work focuses on promoting economic policies that promote equality, transparency, democracy and sustainability. They work with all political parties to encourage them to adopt these policies.

Consortia

About 52 per cent of social enterprises do some trade with the public sector in the UK, and this proportion has been increasing over recent years. The introduction of the Social Value Act and growth in outsourcing public services are both increasing the opportunities available for social enterprises to provide government and local authorities with goods and services.

The enduring challenge however is that many public sector contracts are large and most social enterprises are small. Most social enterprises do not have the capacity, track record or scale to deliver these large-scale contracts alone. But collectively they do. This has led to the development of consortia – groups of social enterprises that come together to bid for a particular piece of work.

In Wales, the Wales Co-operative Centre offers specific support to businesses wishing to set up a consortium.

National Consortium of Social Enterprises (NCSE)

In England the National Consortium of Social Enterprises (NCSE) has been created in response to demand from public service commissioners to have more social enterprises in their supply chains. The idea is to make it easier for public sector commissioners to contact and contract from social enterprises. It is delivered in partnership by SEUK, Social Firms UK and 3SC, but is still in its early stages.

3SC

3SC is a bidding platform that brings together small and medium-sized social ventures together in consortia to bid for large public sector contracts. Taking a management fee from each contract they win, 3SC is able to compete with large private sector bidders in order to ensure that the third sector has a significant piece of the public sector commissioning market. To date they have won contracts worth up to £70 million for organisations in the social economy.

Social enterprise media

Media, and social media in particular, are powerful tools to promote social causes. They have played a significant role in developing the sense of a social enterprise sector or movement. They spread good ideas within the sector and, as social enterprise media becomes more integrated with mainstream media, they also help to raise awareness of social enterprise throughout wider society.

Pioneers Post

Social Enterprise magazine launched in 2002 as the first media specifically for the sector. In 2012 it re-launched as Pioneers Post, an online newspaper and learning platform connecting social innovators across the globe. It is itself structured as a social enterprise and not only provides a source of social enterprise news and comment but also hosts an online television channel, a quarterly print publication, a business school and a venture platform.

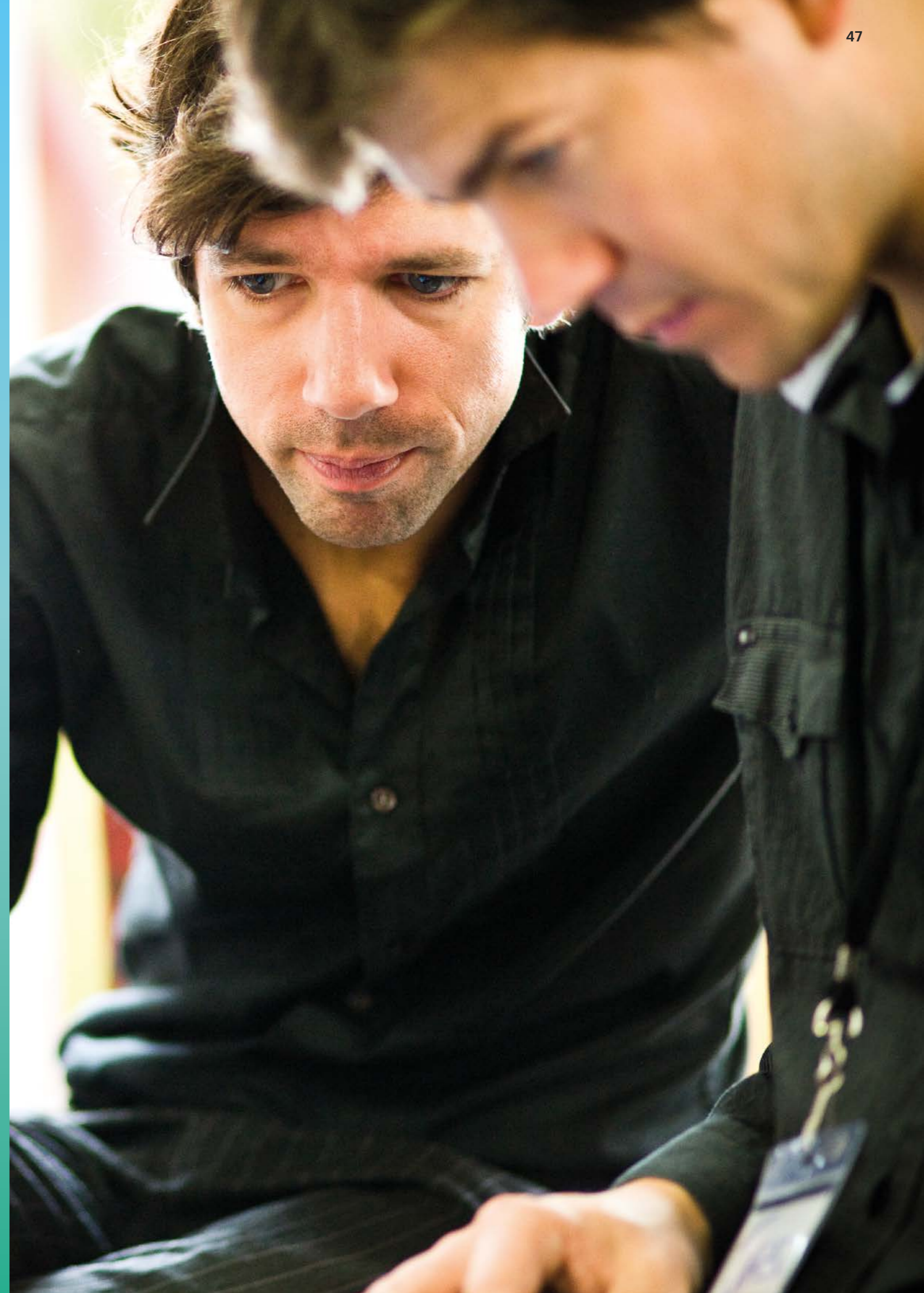
Third Sector Magazine

Third Sector Magazine launched in 1992 and, as its name suggests, deals with issues across the whole of the third sector, not just social enterprise. However, as the social enterprise sector has grown in importance, and as traditional charities have become increasingly interested in social enterprise models, so Third Sector Magazine has devoted more space to it. Arguably this has played a pivotal role in spreading social enterprise into the charity sector.

The Guardian Sustainable Business zone

In 2014 the Guardian Social Enterprise Network became part of Guardian Sustainable Business (GSB), which incorporates a number of 'sustainability hubs' including the Cooperatives and mutuals, International Social Enterprise and Social Impact hubs. The GSB comprises the world's largest online community for social entrepreneurs. Hosted on the Guardian UK website, it aims to raise the profile of social enterprise and provides a platform on which to discuss new developments in the sector. The GSB has an active social media presence and hosts live question and answer sessions with industry experts, blog articles from prominent practitioners and journalists, and articles on social enterprise, ethical business, the voluntary sector and a number of related topics.

The British Council is the International Hub partner for the Guardian Sustainable Business Network. This provides a global perspective on social enterprise and social entrepreneurship.





Section 6

Government interventions

The UK social enterprise sector has grown thanks to grassroots community action and committed social entrepreneurs. But the speed and scale of this development has been due, in large part, to the role of government as catalyst and facilitator.

Since 1997 successive UK governments have expressed support for social enterprise. Through dialogue with the social enterprise sector, often through umbrella bodies such as SEUK, successive governments have introduced a number of initiatives to support the sector's growth. This has resulted in financial support and legislation to make the business environment more favourable for social enterprises.

Over time, the demands from the social enterprise sector and the understanding and response from government, have become more sophisticated. Government support has evolved from basic business advice and awareness raising to targeted finance and clearer strategic policy goals.

Because of the hybrid nature of social enterprise, oversight has tended to shift between the government department for enterprise (BIS/Department of Trade and Industry) and the government department for charity (OTS/OCS).

‘Government support has evolved from basic business advice and awareness raising to targeted finance and clearer strategic policy goals.’

Government support 1997–2010

Between 1997 and 2010 the Labour Party were in government in the UK. Immediately on coming to power they began conversations with prominent social entrepreneurs.

The first real signal that social enterprise was being championed by the UK government came in 2001 with the launch of the Social Enterprise Unit within the Department of Trade and Industry. Several working groups were established, bringing together key stakeholders from the social enterprise community. Their aims were to identify the major barriers facing social entrepreneurs and make recommendations about how to create a more supportive environment for starting and sustaining successful social enterprises.

These recommendations were then fed into the UK's first social enterprise strategy published in 2002. Three key areas of work were identified: creating an enabling environment; making social enterprises better businesses; and establishing the value of social enterprise. One important outcome was the establishment of the Social Enterprise Coalition to provide a voice for the sector. This later became SEUK.

In 2006 the Office for the Third Sector (OTS) was created in government, with its own dedicated Minister for the Third Sector. This raised the importance and influence of social enterprise, and the social economy more widely, within government itself.

OTS launched a revised Social Enterprise Action Plan: Scaling New Heights in 2006. This committed to create the conditions for more social enterprises to thrive by:

- fostering a culture of social enterprise
- ensuring the right information and advice are available to social enterprises
- enabling social enterprises to access appropriate finance
- enabling social enterprises to work with government.

Current government support (2010 – present)

In 2010 a Conservative-led coalition government took office. This government replaced the OTS with the [Office for Civil Society](#). This is now the office responsible for social enterprise in the UK government.

The Office for Civil Society puts a greater emphasis on voluntary and community organisations than the OTS, but otherwise has many of the same responsibilities. Its long-term strategy is built around three goals:

- make it easier to run a charity, social enterprise or voluntary organisation
- get more resources into the sector and strengthen its independence and resilience
- make it easier for civil society organisations to do business with the state.

In 2010 the coalition government published [Building a stronger civil society: a strategy for voluntary and community groups, charities and social enterprises](#). This strategy sets out a vision for the wider third sector to grow, and in particular to take over from government the running of more public services. It sets out the government's plans for social enterprises to be involved in the delivery of health services, social care, criminal justice and supporting unemployed people into work. These plans are set clearly within the context of the government's programme to reduce the national debt. In this strategy, the role of social enterprise is seen as a possible way to deliver public services more cheaply. And the strategy acknowledges that there will be fewer financial resources available to support the sector.

Two specific policies which come from the vision within this report are worth highlighting:

- The introduction of a new legal form, the Charitable Incorporated Organisation, is designed to make it easier to set up and run small charities, some of which may develop into social enterprises.
- The setting up of Big Society Capital to stimulate the social investment market which fulfils the work begun under the previous government.

The development of Big Society Capital is covered in more detail in the UK government's [Strategy for Growing the UK Social Investment Market](#). This was published in 2011 and has been revised and updated several times since then.

Since 2002 there has been an increasing push from the UK government for social enterprises to grow through investment rather than grants. Investment is seen to foster financial independence and sustainability. It is also seen to be a more efficient use of limited funds; recycling money returned from one investment to invest in another. This emphasis on social investment has underpinned the financial support offered to the social enterprise sector by government, and in turn shaped the way the sector has developed.

However, as with any new innovation, there are lessons to be learned from the UK's significant progress towards establishing a social investment market. The Alternative Commission on Social Investment published a report in 2015 which summarises some issues and calls for 'greater transparency from investors, changes to Big Society Capital, and a more principled approach to social investment which puts charities and social enterprises at its heart'.

Government support in devolved administrations

In the UK many powers of government are devolved to governments in Wales, Scotland and Northern Ireland. These different nations within the UK have also placed a great emphasis on social enterprise, developing their own strategies and approaches. However, particularly in Wales and Northern Ireland, there has been far less emphasis on social investment or financial sustainability. This is due in part to a recognition that achieving financial sustainability is much harder for social enterprises operating in an economically deprived, rural area. The economic deprivation also means these devolved nations have greater amounts of European funding to invest in social enterprise. And in Scotland, Wales and Northern Ireland, there is also a greater political emphasis given to the role of the state in delivering public services.

The [Welsh government](#) published the first Social Enterprise Strategy for Wales in 2005. This was followed in 2008 by The Third Dimension, a strategic action plan for the third sector. One of its key priorities was to accelerate the number, scale and impact of social enterprises in Wales. The Social Enterprise Action Plan was then launched in 2009 setting out its commitments in more detail. This strategy is currently being revised and updated but places a much greater emphasis on co-operatives and mutuals than is given in other areas of the UK.

The [Scottish government](#) is developing a ten-year social enterprise strategy in consultation with the social enterprise sector. The latter has produced a [Vision for Social Enterprise to 2025](#). Although later than other parts of the UK in developing a social enterprise strategy, their support for social enterprise over the past ten years has been extremely strong. They have supported infrastructure bodies such as Social Enterprise Scotland; funded the [Just Enterprise](#) programme which delivers tailored business support to social enterprises; and run a [Developing Markets](#) programme to open public sector markets to social enterprises and the wider third sector.

The Scottish government also provide direct funding to social enterprises through their [funding programmes](#) including the Scottish Investment Fund, Enterprise Growth Fund and Social Entrepreneurs Fund.

In [Northern Ireland](#) the first Programme for Government published in 2001, recognised the importance of the social economy. In 2004 the government published a three-year Strategic Plan – Developing a Successful Social Economy. This provided the foundation for the most recent Social Economy Enterprise strategy, published in 2010, which commits the government to a range of actions designed to develop the sector. Social Enterprise Northern Ireland was established in 2012 and has a growing membership.

Like Wales however, Northern Ireland has placed less emphasis on social investment.

Public sector spin outs

One area where the UK government is having a significant impact is encouraging spin outs.

Spin out is the term used for organisations that have transitioned from being public sector bodies to becoming independent service providers. This is a rapidly growing area of the UK social enterprise sector, particularly in relation to health programmes. In 2011 12 per cent of the entire annual turnover of the UK social enterprise sector was generated by spin outs from the National Health Service (NHS).

When done well, social enterprises 'spun out' from government or local authority can:

- retain public sector values
- operate at lower cost
- trade and diversify income
- involve service users in the design, delivery and management of the services
- respond more flexibly to customer needs
- protect services at risk from cuts
- reduce longer-time liabilities.

Spin outs have a fairly long history in the UK.

Greenwich Leisure and Learning (GLL)

GLL was set up in 1993 when public spending cuts forced Greenwich Council to find a new way to run its leisure centres. Seven centres were transferred to the new company. Since then, membership has gone from about 7,000 to nearly 450,000 with tens of millions of visitors every year. It currently manages over 100 community facilities across the UK.

A large number of new housing associations have been created as housing services have been spun out from their local authorities over the past 15 years. Cartrefi Conwy, for example, spun out of Conwy Council in 2008. In doing so they were able to raise investment against the value of their housing stock which allowed them to invest in improvements, bringing it all up to the Welsh Housing Quality Standard.

Health spin outs

In 2008, in a report called High Quality Care For All, the government introduced a policy which gave all staff working in the NHS the 'right to request' to run their service as an independent, mutually owned social enterprise, rather than as part of the NHS. This policy led to around 40 spin out social enterprises. These were supported through a specific fund set up by government, the Social Enterprise Investment Fund.

Social Enterprise Investment Fund

The Social Enterprise Investment Fund (SEIF) was set up in 2007 by the Department of Health. The aim was to encourage more social enterprises to deliver health and social care services. It invested more than £110 million in the health and social care sector, supporting a range of established and start-up social enterprises through a mixture of grants and loans.

This work was expanded beyond the healthcare sector with the establishment of the Mutuals Support Programme.

The Mutuals Support Programme

The government's £10 million Mutuals Support Programme was established in 2012 to support parts of the public sector to set up as a co-operatively owned social enterprise. The government's ambition is that a million former public sector workers will be working for these public sector spin outs by 2016. The Cabinet Office is tracking over 100 established and developing public service mutuals across England, across 12 different sectors, from youth to fire and rescue services. Currently, 65 projects are delivering around £1 billion of public services, although most of these started under the 2007 Social Enterprise Investment Fund.

Central Surrey Health, a nurse-led mutual, was the first social enterprise in the UK to be established by public sector employees. It is owned and run by the 730 nurses and therapists it employs, who have elected representatives to challenge current ways of working.

It is important to note that the current UK government has widened the definition of mutual to include 'something with an element of staff ownership', rather than majority staff ownership. This is something which is strongly disputed by SEUK and Co-Ops UK.

Other spin outs

Alongside leisure, health and housing a number of other services have been spun out. For example:

- Salvere Social Enterprise CIC, Stockport, launched 2011.
- This mutual pathfinder provides personalised support solutions and independent living services.
- Social adVentures, Manchester, launched 2011.
- Social adVentures provides a range of public health services to vulnerable people through a healthy living centre.

- Enable2, Bradford, launched 2011.
- Enable2 provides interpreting and translation services.
- Aberdeen Performing Arts, Aberdeen, launched 2005

Set up to manage the running of His Majesty's Theatre, The Music Hall. The buildings are still owned by Aberdeen City Council.

Other interesting examples of successful spin outs include:

- Youth Service (Kensington and Chelsea).
- Community learning (Suffolk, Sussex).
- Libraries (York).

Evolve YP, Stoke

Evolve YP provides services for children and young people who are in care or are leaving the care system. They support more than 150 children and young people aged between 12 and 25 years old. 15 staff work in the Practice, consisting of six social workers, five personal advisers, one project worker and three office staff. The establishment of the mutual has brought about substantial changes in the way the social workers conduct their work. Decisions are made closer to the young people, reducing time spent chasing authorisation from management. This approach encourages creativity and promotes good practice.

Procurement

Spin outs are not the only social enterprises that deliver public services in the UK. In fact more than half (52 per cent) of all social enterprises now trade with the public sector, and for nearly a quarter, public sector contracts provide their main source of income. Worryingly, however, public procurement policy is cited by over a third of these social enterprises as one of their main barriers to sustainability or growth.

When public sector bodies, such as government departments and local authorities, buy goods or services they go through a 'procurement process.' The way in which procurement is undertaken often puts social enterprises at a disadvantage. There are many reasons for this including:

- Traditional tendering processes favour large businesses that are good at tendering, not those which are good at delivering.
- Contracts are often too large for most social enterprises. The contracts often 'aggregate' similar works into one large contract or 'bundle'

different works into the same contract so only very large organisations can deliver them.

- Scoring often hasn't taken into account social and environmental value, only a fairly narrow definition of best value. This doesn't reflect the true value that social enterprises offer when delivering services.

Public sector procurement was recognised as a problem as far back as 2004 when the UK government set up a Sustainable Procurement Taskforce. The taskforce attempted to broaden the definition of 'value' which was used in public sector procurement. It defined value for money on a 'whole life basis in terms of generating benefits to society and the economy, whilst minimising damage to the environment.'

Although a step forward, very few public sector bodies used this broader definition of value. So in 2013 the Public Services (Social Value) Act was introduced. (This is generally shortened to the Social Value Act.) Public bodies are now required by law to consider the economic, social and environmental well-being of the local area in relation to public service contracts. Although this is still a relatively recent development there is evidence that the procurement culture in the UK is now starting to change.

The governments in Scotland and Wales have more developed policies and practices and are gaining experience in incorporating targeted recruitment and training requirements in public contracts.

The Scottish sustainable development strategy (2005) refers to employment as a key element of well-being, and this commitment is strengthened in the Procurement Reform (Scotland) Bill 2013. This includes a sustainable procurement duty that includes social, economic and environmental wellbeing.

In Wales the Procurement Policy Statement (2012) includes community benefits as one of nine 'policy principles,' with the Welsh public sector expected to 'apply community benefits to all public sector procurements where such benefits can be realised.' To support this objective it has adopted milestones and invested money and resources in information, toolkits and training for procurement professionals.

Some public bodies have been leading the way in this regard for many years before the introduction of the Social Value Act. One of these pioneers is Glasgow City Council.

Glasgow City Council

In 2008 Glasgow City Council introduced a new corporate approach to ensure that Glasgow secures maximum social and economic benefit from its procurement decisions. This was particularly driven by a desire to ensure a clear legacy from their investment in infrastructure for the Commonwealth Games. The focus has been on maximising social and economic benefits in three main areas:

- targeted Recruitment and Training, specifically for the long-term unemployed and those directly leaving education (new entrant trainees)
- the advertising of business opportunities
- the development of SMEs and social enterprises.

Between October 2009 and March 2012 Glasgow City Council invested £271 million in Commonwealth Games infrastructure. By focusing on wider social and economic benefits they were able to secure:

- jobs for 358 new entrant trainees, covering a range of occupations at various skill levels
- 149 work experience places for the long-term unemployed and those directly leaving school
- 2,619 Glasgow-based companies registered as suppliers
- 102 contracts (either Tier 1, 2 or 3 contracts) for Glasgow businesses (42 per cent of all lead and sub-contracting opportunities) with associated knock-on benefits to the local economy.

Financial support from UK government

Leaving aside the differences within the devolved nations of Wales, Scotland and Northern Ireland, the majority of financial support for social enterprise from the UK government has been through funds focused on capacity building with two clear aims in mind.

1. To enable them to take on investment.
2. To enable them to deliver public service contracts.

FutureBuilders

The first large-scale fund of this kind was FutureBuilders. This was launched in 2004 in response to a review of the role of the voluntary sector in public service delivery. Between 2004 and 2010 it invested around £154 million in nearly 500 organisations through a mixture of capacity building grants and long-term loans.

Investment and Contract Readiness Fund (ICRF)

With the growth in the social investment market, a smaller successor to this programme was introduced in 2010 offering grants to prepare social enterprises to take on investment or compete for public service contracts. The £10 million Investment and Contract Readiness Fund (ICRF) offers grants between £50,000 and £150,000 to ambitious social ventures. The ICRF model involves sector bodies working with expert adviser bodies to bid for cash which they use to grow capacity to bid for investment and contracts. According to the government the fund has 'unlocked £20 of investment for every £1 of government grant.'

In December 2014 The Office for Civil Society announced plans for a new foundation, called Access, with more than £100 million to grow charities' abilities to win contracts and take on social investment. This will build on the work of the Investment and Contract Readiness Fund. The bulk of this investment will come from repaid FutureBuilders loans. It is designed to further increase access to the social investment market.

The government's support to make social enterprises more financially independent, sustainable and robust is also seen in their investment in community-based social enterprises.

CommunityBuilders Fund

The CommunityBuilders Fund was set up by the Department of Community and Local Government and is now an endowed fund, owned and administered by the Social Investment Business Foundation. It supports neighbourhood-based, community-led organisations to become more sustainable through a mixture of loans, grants and business support.

Although the majority of government investment has been made into building the capacity of established social enterprises, there are two other areas which have seen government investment. Smaller amounts of money have been allocated to support the development of new social enterprises. And a lot more money has been invested into supporting public services to spin out and become independent social enterprises.

Social Incubator Fund

The Social Incubator Fund is a £10 million fund, set up by the Cabinet Office in 2012, that supports the development of more social start-ups across England. It provides support to companies that help develop and grow social start-ups and social entrepreneurs.

The fund also increases the amount of money available to early-stage social enterprises where the financial return is too low or the financial risk too high for social investors.

Summary of government involvement

Since 1997 government has played an enormous role in facilitating and steering the development of the social enterprise sector in the UK. Some of this impact is intangible; the status given by government to successful social entrepreneurs, for example. Other impact is more clearly measured. Government has:

- supported infrastructure bodies such as SEUK, Social Enterprise Scotland and the Wales Co-operative Centre to make the sector more cohesive and robust
- encouraged financial sustainability and independence through a series of grant and loan funds
- supported the development of the social investment market by setting up Big Society Capital and introducing tax incentives for social investors
- introduced new legal forms such as the CIC and the CIO to make it easier to set up and run a social enterprise
- encouraged the public sector to buy from social enterprises, both through guidance and through legislation like the Social Value Act
- facilitated public sector services to spin out as new, independent social enterprises.

The result of all this is an environment in the UK which has become increasingly favourable for the development, growth and sustainability of social enterprises over the past 18 years. It could be argued, however, that the focus on public service delivery has not delivered the same benefits to social enterprises which sell goods and services to the general public or private businesses, and has skewed the development of the social enterprise sector in the UK towards delivering services for government.

Conclusion

Overall social enterprise has flourished in the UK in recent years, despite the country's economic downturn. This report has set out some of the key developments which have enabled this to happen and we hope it provides a helpful platform from which to investigate some of these in more detail.

There are many things to be learned from the UK experience. Social enterprises themselves need to make the best of whatever environment they are operating in and whatever resources are available. But they also need to work together to make that environment as favourable as possible for social enterprise success.

Networks and support bodies need to be clear what actions can best support the social enterprises they serve and lobby government to create the conditions for them to flourish.

Local authorities and governments need to consider the wider social value they can create with the money they spend on goods and services. And they need to create an ecosystem of support and finance that encourages the growth of social enterprises all the way from the initial idea to sustainability, profitability and scale. This is because social enterprises can deliver a huge range of social and environmental benefits that often can't be achieved by the public or private sectors on their own.

Perhaps the greatest lessons to take away from the experience in the UK, however, are the importance of continually listening to the social enterprises themselves and the importance of working together.

There are many further challenges ahead for social enterprises in the UK: scaling successful ventures; delivering more effective public services; and balancing the often competing demands of commercial success and social impact. And we will meet these challenges most effectively if we work together, not only within the UK, but with social enterprises around the world. Some of the challenges we face are strikingly similar, some are radically different. But by sharing what has worked and what has not along with new ideas and successful models, we hope social enterprise will continue to grow across the world, transforming it for the better.



'We will meet these challenges most effectively if we work together, not only within the UK, but with social enterprises around the world.'

