Social enterprise in the UK
Developing a thriving social enterprise sector
About the authors
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Find out more at: www.britishcouncil.org/society/social-enterprise
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!

‘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 variety:

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 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 Aberpyrgwregyn. The scheme is owned and managed by a local social enterprise, Ynni Anafon Energy Cyl. The scheme generates renewable energy while safeguarding the local environment. As well as saving CO2, it will generate significant income to support social initiatives in the local community.

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.

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. The health and social sector 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 create better jobs, supporting employees’ professional development and offering a high quality, flexible service to people who need their care.

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.

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.
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 cushions. 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.

- **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 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.

- **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.

- **Street League**
  They work with specific groups: young people; old people; homeless people or those leaving prison. They run a range of projects and services to help people build their skills, confidence and employability.

- **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.

- **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.

- **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, cafes 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**
  **Gwmclychd 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.
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.

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.

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.

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

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

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.

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.

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 fledging 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 unshakeable 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.
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.

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 fledging 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.
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.

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 and help 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.
Recovering 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.

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.

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 BIG 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 been developed to try to tackle these issues.

Dame Mary herself was the founding director of the Clore 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.

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 2013 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.

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 the effective use of data in social enterprises.

In Wales, Bangor University ran the Menter Iontach Nua programme which delivered an MSc in Social Enterprise and a series of master’s level classes 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 Said 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 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.’
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.

### 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:

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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.

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 rather than project-based support. 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.

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.

Esme Fairbairn Foundation
The Esme 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. Esme 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.

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.

The Enterprise Ready Fund was a Scottish government funded programme which distributed up to £5 million from 2013 to 2015 to help maintain, develop and grow Scotland’s enterprising third sector.

The Enterprise Ready Fund
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, Conway, 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 Fund is open to all types of social enterprises. In 2012 alone it awarded nearly £700 million to projects supporting health, education, the environment and other charitable purposes.

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.

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 Fairburn 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.

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.

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

Bill 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.
**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 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.

**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.

**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.
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.

“With less money available for welfare programmes there is a renewed emphasis on making sure that scarce resources are spent wisely.”
### 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:

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

### 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, GECES, 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 helped create 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 Enterprise Mark

The Social Enterprise Mark provides independent verification of their social value, guaranteeing that profits are reinvested into their social mission. The Social Enterprise Mark is run by a social enterprise.

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

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 fulfills 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 2 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 ‘spin 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 spin out from their local authorities over the past 15 years. Cartrefi Conwy, for example, spun out of Conwy County 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 £10 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 social 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-Op UK.

Other spin outs

Alongside leisure, health and housing a number of other services have been spin out. For example:
- Salve Re Social Enterprise CIC, Stockport, launched 2011.
- This mutual partnership 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.

Some interesting examples of successful spin outs include:
- Youth Service (Kensington and Chelsea).
- Community learning (Suffolk, Sussex).
- Libraries (York).

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 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 well-being.

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 subcontracting 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 £25,000 and £150,000 to ambitious social ventures. The ICRF model involves sector bodies working with expert advisers 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 Communities 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 social loan funds and 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 start-up 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 products
- 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 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 about 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.’