A map of social enterprises and their eco-systems in Europe

Country Report: United Kingdom
This report provides a non-exhaustive overview of the social enterprise landscape in the United Kingdom based on available information as of August 2014. Although a range of stakeholders were interviewed to verify, update and supplement the information collected from secondary sources, it was not possible to consult all relevant stakeholders within the constraints of the study.

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A report submitted by ICF Consulting Services

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Charu Wilkinson
Lead Managing Consultant
+44 (0)782 794 6021
charu.wilkinson@ghkint.com

ICF Consulting Services
Limited Watling House
33 Cannon Street
London
EC4M 5SB
T +44 (0)20 3096 4800
F +44 (0)20 3368 6960
www.icfi.com

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## Document Control

| Document Title                        | A map of social enterprises and their eco-systems in Europe  
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<td>Prepared by</td>
<td>James Stroyan (ICF Associate), Dr Nick Henry (country expert) and BWB (legal experts)</td>
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<td>Checked by</td>
<td>Charu Wilkinson</td>
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## Contents

Executive summary .......................................................................................................................... i

1 Definitions and concepts of social enterprise in the UK ....................................................... 1

2 The ecosystem for social enterprise in the UK ................................................................. 3
   2.1 The policy and legal framework for social enterprise .................................................. 3
   2.2 Public support schemes targeting social enterprises .................................................. 6
   2.3 Other specialist support and infrastructure available to social enterprises .......... 8
   2.4 Networks and mutual support mechanisms ................................................................ 9
   2.5 Marks, labels and certification systems ..................................................................... 10
   2.6 Social investment markets ......................................................................................... 12
   2.7 Overview of the key actors in the social enterprise ecosystem .................................. 16

3 Mapping social enterprise activity in the UK ................................................................. 18
   3.1 The spectrum of social enterprises in the UK ............................................................ 18
   3.2 Application of operational definition: determining the boundaries ....................... 19
   3.3 Measurement of social enterprises ......................................................................... 21
   3.4 Characteristics of social enterprises ....................................................................... 25
   3.5 Summary of mapping results ..................................................................................... 30
   3.6 Opportunities and barriers ......................................................................................... 33

Annex 1 Comparative overview of legal forms most commonly used by social enterprises in the UK .................................................................................................................. 35

Annex 2 List of Information Sources .......................................................................................... 51
Executive summary

Definition(s) and concepts

The UK Government\(^1\) defines a social enterprise as “a business with *primarily social objectives* whose *surpluses are principally reinvested for that purpose in the business or in the community*, rather than being driven by the need to maximise profit for shareholders and owners”.

There is a reasonably broad consensus among stakeholders on the key characteristics of a social enterprise as set out in the above definition: (i) it must be an enterprise; (ii) it must be (social) mission-driven; and (iii) it must reinvest the majority of its profits or surplus to further the social mission.

Policy and legal framework

Social enterprise has been high on the national policy agenda since 2001. Key policy developments over the fifteen years include:

- 2001: Creation of a dedicated Social Enterprise Unit within the (then) Department of Trade & Industry and appointment of a junior minister responsible for social enterprise;
- 2002: Publication of a dedicated strategy (Social Enterprise: A strategy for Success) aimed at creating an enabling environment for social enterprise;
- 2004: Creation of a specific legal form – a Community Interest Company (CIC) – for social enterprise;
- 2006: Publication of a new strategy (Social enterprise action plan: Scaling new heights) setting out specific actions aimed at supporting the development of social enterprise\(^2\);
- 2010: Launch of the ‘Big Society’ agenda which, inter alia, envisages a bigger role for social enterprises in contemporary British society;
- 2011: Launch of ‘Growing the social investment market: a vision and strategy’;
- 2012: Establishment of ‘Big Society Capital’, an independent financial organisation that aims to support and develop social investment in the UK;
- 2013: Enactment of the Public Services (Social Value) Act 2012 which requires public bodies in England and Wales “to have regard to economic, social and environmental well-being in connection with public services contracts; and for connected purposes”;\(^3\)
- 2014: Introduction of social investment tax relief to encourage individuals to support social enterprises and help social enterprises access new sources of finance.

Public support and initiatives

There is a large number and variety of (publicly funded) support schemes for social enterprises delivered at UK, national, regional and local levels, most of which are operated and delivered through partnerships or networks of support providers.

A broad range of specialist providers and support networks are now well established in the UK at all levels (national, regional and local), and provide a wide array of business development support from early (pre-start) through to consolidation and growth. Specialist providers, such as UnLtd, and sectoral bodies, such as Social Enterprise UK and Locality, offer many different support services and products, and there is a huge wealth of free to access advice, guidance, tools and other information available to budding or established social entrepreneurs. Dedicated training and education institutions and platforms, such as the School for Social Entrepreneurs, have also been established to support the sector.

Networks and mutual support mechanisms

There are a large number of networks and mutual support mechanisms for social enterprise in the UK. These include: Social Enterprise UK (SEUK); Social Firms UK, Cooperatives UK and the Locality. In

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\(^1\) Department for Business, Innovation and Skills (2011) *A Guide to Legal Forms for Social Enterprise*

\(^2\) the Social Enterprise Unit became part of the newly created Office of the Third Sector, under the wing of the Cabinet Office
addition to these major representative bodies, a large number of networks and mutual support mechanisms operate at regional (e.g. Social Enterprise North West) and local levels (e.g. SEN – Social Enterprise Network for Liverpool). New networks are also forming around the 39 Local Enterprise Partnerships (LEPs) created since the closure of the UK’s nine Regional Development Agencies in 2011.

Other notable networks include the Global Social Entrepreneurship Network (GSEN) - a new platform hosted by UnLtd and supported by the UK Cabinet Office, and the online Social Enterprise Network run by The Guardian newspaper.

Marks, labels and certification systems

The Social Enterprise Mark Company [http://www.socialenterprisemark.org.uk/] operates a certification scheme for social enterprises in the UK.

Social investment markets

As well as having strong support structures for social enterprises, the UK is home to a dynamic and fast growing social investment market. The UK marketplace for social investment has grown steadily since the mid-2000s, and an established base of specialist Social Investment Finance Intermediaries (SIFIs) – including social banks, impact investors, venture philanthropy funds and Community Development Finance Institutions (CDFIs) – has developed to supply much of the finance needed by the sector. Emerging market infrastructure includes a Social Stock Exchange; matching platforms (ClearlySo, Ethex); a crowdfunding platform for social investment (Abundance); financial instruments such as Social Impact Bonds and tools such as MicroGenius that allow ordinary people to buy shares in community-based projects easily and safely.

The UK government is playing a key role in supporting the development of a social investment market. In the last few years a range of public funding schemes, initiatives and policies have been put in place to aid the supply of investment to the UK social enterprise sector, including the launch of Big Society Capital, the Social Incubator Fund, the Investment and Contract Readiness Fund, the Social Outcomes Fund and a new tax relief for social investment). In addition, The Big Lottery Fund (also known as BIG) - a non-departmental public body responsible for distributing funds raised by the National Lottery to “good causes” - has played an important catalytic role in developing the social investment market in the UK.

Spectrum of social enterprises

The UK’s social enterprise ‘sector’ is incredibly diverse, encompassing cooperatives, development trusts, community enterprises, social firms and trading arms of charities among others. Social enterprises use a wide variety of legal forms; some incorporate as companies while others take the form of industrial and provident societies. From July 2005 social enterprises have also been able to register as CICs.

Scale and characteristics

Official estimates suggest that there were ~ 284,000 social enterprises in 2012. There is however, some controversy surrounding these estimates due to the selection criteria and sampling techniques used and a reliance on self-identification rather than documented evidence. The number of social enterprises meeting the EU operational criteria is estimated to be in the range of 9,500 (CICs only) to 71,000 (assuming that a quarter of the self-identified social enterprises fulfil the EU criteria).

As regards the main characteristics of UK social enterprises, available survey data show that they are active in all of the main industry sectors, but are most likely to be operating in Food/accommodation (29 per cent), Business services (13 per cent), Health (13 per cent) and Retail/wholesale (12 per cent). A vast majority (estimated 84 per cent) of social enterprises derive the majority of their income through trade.
Factors constraining the start-up and development of social enterprise

The main barriers experienced by social enterprises at start up are: Lack of, or poor access to, finance or funding (40 per cent); Cash flow (25 per cent); Lack of marketing expertise / marketing issues (21 per cent); Time pressures (20 per cent);

The main barriers to sustainability and growth of social enterprises are: Lack of, or poor access to, finance or funding (39 per cent); Economic climate / recession (32 per cent); Prohibitive commissioning / procurement with public services (18 per cent); Cash flow (17 per cent).
1 Definitions and concepts of social enterprise in the UK

The UK has a long tradition of social enterprise of one form or another – see Box 1. The concept of social enterprise is therefore, well established and recognised. A reasonably broad consensus exists on the defining characteristics of a social enterprise in the UK. The UK Government\(^3\) defines a “Social Enterprise” as

\[ \text{“a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners”}. \]

This definition captures three core features of a social enterprise: (i) it must have primarily social objectives; (ii) it must be a business; and (iii) any surpluses generated should be reinvested principally for its social objectives or in the community, rather than distributed to shareholders and owners.

These are also among the defining features of a social enterprise according to Social Enterprise UK (SEUK), the largest UK membership body for social enterprises. In its guide on starting a social enterprise\(^4\), it states: “Social enterprise is not a legal term, but an approach. The phrase is used to describe businesses that exist for a social purpose (...) In the end, being a social enterprise is about adopting a set of principles”. SEUK membership criteria indicate that these principles are: (i) having a clear social and/or environmental mission set out in governing documents; (ii) generating the majority of income through trade; (iii) reinvesting the majority of profits to further the social mission; (iv) owned / controlled in the interest of the social mission; and (v) transparent operations and reporting of impacts.

The emphasis placed on these features, and the ways in which they can or should be demonstrated by social enterprises, varies depending on who is providing the definition and for what purpose. Up to this point there has been a strong emphasis on the concept of self-identification – if an enterprise considers itself to be a good fit with the UK Government definition, then it can legitimately describe itself as a social enterprise and attach this label to itself. However, as SEUK acknowledges, “since the term started being more widely used in the mid 1990s, there has been a lot of discussion (and sometimes confusion) about what social enterprise is, and whether the social enterprise label could be ‘hijacked’ by businesses that aren’t social enterprises, but are keen to pretend they are.”\(^5\) However, SEUK also notes “where divisions exist, they tend to do so at the margins, with the vast majority of social enterprises being in broad agreement about what they stand for and how they do business.”

While there is a clear central core to the definition of a social enterprise in the UK, different approaches and interpretations place differing degrees of emphasis on each of the core dimensions (entrepreneurial, social, governance), and often employ different criteria (or place varying requirements - burdens of proof) for demonstrating ‘compliance’ with these principles. In addition, emphasis is also placed on features such as independence, transparency and accountability, demonstration of social value/impact, asset locks and dividend caps, and other measures to ensure and protect the social mission that sits at the heart of all social enterprises. The various definitions of social enterprises used in the UK, and the different criteria and tests that are used to estimate their number are further elaborated in Section 3.

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\(^3\) Department for Business, Innovation and Skills (2011) A Guide to Legal Forms for Social Enterprise

\(^4\) Social Enterprise UK (2012) Start Your Social Enterprise

\(^5\) Social Enterprise UK (2012) What makes a Social Enterprise a Social Enterprise
Box 1 Origins and evolution of the social enterprise ‘movement’ in the UK

Stakeholders trace the pioneers of social enterprise in the UK back to the 1840s, to Rochdale, where a consumers’ cooperative was established to provide high quality affordable food in response to factory conditions that were considered to be exploitative. The original ‘Co-op’ is still operating today, and the Cooperative Group now has over 6 million members and 4,500 trading outlets.

The UK has also played an important role in the growth and the development of the Fair Trade movement. The earliest traces of Fair Trade in Europe date from the late 1950s when Oxfam UK started to sell crafts made by Chinese refugees in Oxfam shops. In 1964 it created the first Fair Trade Organization, and the UK has been a leading participant in the Fair Trade movement since that time.

The sector has gathered momentum and has been keen to support and promote itself and its credentials. The sector has successfully bridged the gap between the idea of ‘businesses’ as essentially profit-seeking for private interest and charities which rely on donations and volunteers to tackle societal problems. There is growing public awareness of the social enterprise movement and that businesses in many cases pursue a social mission and act for the benefit of the community rather than private interests. This has been boosted by growth in the number of recognised ‘brands’ associated with the social enterprise movement, including the Big Issue and the Eden Project, which have promoted their social and environmental missions to the British public, and have helped to raise consumer awareness of social enterprise.

The growth in the UK social enterprise sector has been consistently supported by the policies of successive governments, starting with the 1997 Labour Government, which in 2001 created a dedicated Social Enterprise Unit within the (then) Department of Trade & Industry and appointed a junior minister responsible for social enterprise (see section 2.1 for further information on the policy developments).
2 The ecosystem for social enterprise in the UK

2.1 The policy and legal framework for social enterprise

2.1.1 National policy framework

As mentioned in section 1, the UK government created a dedicated Social Enterprise Unit within the (then) Department of Trade & Industry and appointed a junior minister responsible for social enterprise in 2001. The Social Enterprise Unit published its first strategy in 2002 (Social Enterprise: A strategy for Success), which aimed to tackle barriers and achieve outcomes in three key areas: (i) Create an enabling environment: by tackling legal and regulatory issues, and promoting social value in public sector procurement, (ii) Make social enterprises better businesses: through improved business support and training, and improved provision of finance and funding, (iii) Establish the value of social enterprise: by improving the knowledge base, recognising and promoting the achievements of social enterprises, and creating trust. Subsequently, recognising the growing trend for charities to engage in commercial activities to support their work, as well as the limitations on hybrid activity inherent in the for-profit and charity sectors, the UK government established the Community Interest Company (“CIC”) as part of the 2004 Companies Act – see also section 2.1.2. The CIC has played a key role in the development of the social enterprise sector, proving more popular than initial government projections had anticipated.

From 2006 the Social Enterprise Unit became part of the newly created Office of the Third Sector, under the wing of the Cabinet Office. In the same year it published a new strategy (Social enterprise action plan: Scaling new heights) which set out a range of more specific actions, including: (i) the promotion of higher level training in the sector; (ii) specific funding to improve the provision of social enterprise business support; (iii) an investment fund; (iv) training to promote improved access to finance generally, and (v) a cross-departmental Third Sector plan, to encourage closer working between government and Civil Society Organisations.

The banking crisis and the 2008/09 recession led to business closures and rises in unemployment across the country. The election of a new Coalition Government in 2010 heralded sharp reductions in public spending across most government departments and changed the organisational context for the delivery of public services. The overarching vision was of a ‘Big Society’, where decisions are taken locally, individuals take more responsibility and communities do more for themselves. The Office of the Third Sector became the Office for Civil Society and its new Minister announced that government policy would focus on three fundamental issues: (i) Making it easier to run a charity, social enterprise or voluntary organisation, (ii) Getting more resources into the sector: strengthening its independence and resilience, and (iii) Making it easier for sector organisations to work with the state.

In 2011 the Government, recognising the difficulties that social enterprises face in accessing finance, published a new strategy for growing the social investment market. The strategy included proposals to review tax incentives and regulatory frameworks to encourage social investment, and to establish an independent Big Society Bank to lever new finance and create links between social enterprises and social investors. Set up in April 2012, Big Society Capital is an independent financial organisation – the first of its kind - that aims to

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6 This section draws heavily on the United Kingdom comments paper for the Peer Review on Social Entrepreneurship, Croatia 2013 (prepared by DWP and UnLtd) and specifically the section on ‘Current Policy Position’ on Social Enterprise within the UK (http://ec.europa.eu/social/BlobServlet?docId=11147&langId=en)

7 Doeringer, MF. Fostering Social Enterprise: A Historical and International Analysis (available from http://scholarship.law.duke.edu/cgi/viewcontent.cgi?article=1052&context=djcll)


9 Cabinet Office (2011) Growing the social investment market: a vision and strategy
support and develop social investment in the UK. It has been supplied with £400 million from England’s dormant bank accounts and £200 million from the 4 largest UK high street banks. Big Society Capital became operational in April 2012, and published its first annual report in May 2013.

The increasing importance of the UK social enterprise sector in the delivery of public services was reinforced through the 2012 Public Services (Social Value) Act, which came into force in 2013. The Act requires all public bodies in England and some Welsh bodies to consider how the services they commission and procure might improve the economic, social and environmental well-being of the area. The aim is to ensure that the public sector’s purchasing power is directed at achieving social and environmental benefits as well as financial efficiency. Social Enterprise UK has noted that, as the creation of a wider social impact through trade is at the very heart of the sector, it gives social enterprises an opportunity to demonstrate their strength in delivering social value.

Other recent policy measures, including the development of Social Impact Bonds and the introduction of a new tax relief for social investment, are intended to further bolster the growth and development of the ‘sector’ in the UK over the coming years (see also section 2.6 on the social investment market in the UK).

The size of the UK’s Social Enterprise sector means that it is largely self-sustaining and benefits from a wide array of non-Government intermediaries and organisations whose purpose is to support the growth and health of the sector. These include trade bodies who represent the sector’s views to Government and help to develop the social enterprise ecosystem more generally (e.g. Social Enterprise UK); support organisations which provide financial backing and expertise to support start-ups and already successful enterprises achieve scale (e.g. UnLtd); and networks that help to attract private investment to the sector (e.g. Social Finance UK).

The UK Government’s role is thus primarily to champion the sector, create an enabling environment and remove market failures that would otherwise stifle its growth. Led by the Office of Civil Society, it aims to do this through a three-pronged strategy:

1. **Making it easier to set-up and run a social enterprise.** The UK Government has an ongoing programme to review the regulatory environment as it affects social enterprises, ensuring it does not impose unnecessary costs, while maintaining confidence in the sector. This includes removing barriers that can restrict the types of volunteering activities on which many social enterprises rely and removing tax barriers that can prevent enterprises cutting costs by sharing services. The Government also provides various targeted grants to partner organisations to ensure information is available to those looking to set up and expand social enterprises.

2. **Making it easier for social enterprises to work with the State.** The UK Government seeks to improve the quality of public services by handing greater power to their users and by giving commissioners greater choice over whom they buy from. This is intended to present opportunities for social enterprises to increase their trade with the public sector, many of which have seen reductions in traditional grant funding sources due to public sector cutbacks. The UK Government has taken a number of steps to aid the sector in this transition, including requiring commissioners to consider social value when purchasing services (as part of the Social Value Act 2012).

3. **Getting more resources into the social enterprise ‘sector’.** A key barrier for social enterprises looking to grow is access to affordable capital to support their plans, with traditional forms of finance e.g. bank loans) often harder to obtain than for other businesses. The UK Government is addressing this by providing strong support to the emerging social investment market. To increase the supply of social investment, the UK launched the world’s first social investment institution of its type – Big Society Capital –

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an independent organisation with £600 million to invest and responsibility to provide wider support to the market. The UK is aiming to attract further investment into the market by (i) introducing a new tax-relief from 2014 for social investments, and (ii) ensuring the regulatory environment recognises investors’ non-financial goals. Support programmes have been established to help enterprises take advantage of this new finance source, including an ‘investment and contract readiness fund’, a ‘social incubator fund’, and an ‘inspiring impact’ programme which helps social enterprises demonstrate their impact. The government is also encouraging innovative new commissioning methods including Social Impact Bonds which allow greater procurement possibilities from the social enterprise sector. Further details are provided in Section 2.2.

### Social Impact Bonds

Social impact bonds (SIBs) are designed to help reform public service delivery and improve the social outcomes of publicly funded services by making funding conditional on achieving results. Investors pay for the project at the start, and then receive payments based on the results achieved by the project. SIBs are based on achieving social ‘outcomes’ (e.g. improved health) that are predefined and measurable. For example, payments for the social impact bond at Peterborough prison are based on whether or not the project has lowered the rate at which prisoners reoffend, rather than the cost of the project or the number of people working on the project.

The Centre for Social Impact Bonds in the Cabinet Office supports the development of social impact bonds by:

- Building a repository of expert information and guidance on how to develop SIBs
- Making available practical tools so that SIBs can be developed easily and cost-effectively
- Providing funding for a portion of outcome payments for new SIBs
- Showcasing how SIBs are transforming public service delivery and building an evidence base of what works
- Stimulating and sharing the latest thinking, research and media coverage on SIBs

Find out more here.

### Legal framework for social enterprise

The community interest company (CIC) was specifically created in 2004 as a legal form for non-charitable social enterprises. A CIC has the same structure as a traditional company but requires additional special features including a requirement only to act in the community interest, an asset lock and a cap on dividend payments. A social enterprise can still use a company form as its legal form. The Articles of Association can be drafted to provide for the features of a social enterprise such as a social purposes and provisions which cap the dividends that can be paid to shareholders. Although, unless the Articles of Association also include ‘entrenchment provisions’, these features can be amended by the company’s members. This means that the company’s assets are not “locked” for use for social purposes in the same way as the assets held by a community interest company or charity.

As previously mentioned, the CIC legal form has been extremely popular. There were just over 200 CICs registered in the first year of its introduction, and now, almost ten years later, there are over 9,500 registered CICs (as of July 2014)\(^\text{12}\).

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\(^\text{11}\) See [http://www.gov.uk/social-impact-bonds](http://www.gov.uk/social-impact-bonds) for further information

Country Report: United Kingdom

2.1 Growth in CICs, July 2005 to March 2014

Figure 2.1 Growth in CICs, July 2005 to March 2014


The first year covers the period July 2005 to March 2006. Thereafter, reporting is for financial years. The cumulative figures take account of dissolutions.

There are a number of other legal forms which are available for social enterprises and some entrepreneurs are confused about the differences between different types of legal forms and are deterred by the perceived complexity of certain forms.

Most social enterprises are companies limited by guarantee or shares, and fall under the general ‘companies’ legislation (see section 3.4.1). They are registered with Companies House under the Companies (Audit, Investigations and Community Enterprise) Act 2004. Many other UK social enterprises are constituted as Industrial and Provident Societies (IPS), which can be either Co-operative Societies or Community Benefit Societies. IPSs fall under the Industrial and Provident Societies Act 1965 and are registered with the Financial Conduct Authority.

Many charities in the UK are also social enterprises and fall under the relevant legal frameworks governing charities, principally the Charities Act 2011, which sets out how all charities in England and Wales are registered and regulated. The Charity Commission is the regulator for charities in England and Wales.

2.2 Public support schemes targeting social enterprises

There is a very large number of support schemes for social enterprises delivered at UK, national, regional and local levels, most of which are operated and delivered through partnerships or networks of support providers. Some schemes attract public funding, and this support may come in the form of financial contributions to the general operations of the delivery agents / networks or in the form of funding for specific schemes or programmes.

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13 See [http://www.fsa.gov.uk/doing/small_firms/msr/societies](http://www.fsa.gov.uk/doing/small_firms/msr/societies) for further information

14 See [http://www.charitycommission.gov.uk/start-up-a-charity/registering-your-charity/](http://www.charitycommission.gov.uk/start-up-a-charity/registering-your-charity/) for further information
Social enterprises are in most cases eligible for the general support provided to all UK businesses. There is also a well-developed array of social enterprise support providers, such as the School for Social Entrepreneurs and UnLtd, many of which are able to access public funding for their activities, either directly from UK government sources or from European regional and social funds. The precise role of ERDF/ESF funding within these support schemes and their providers is difficult to establish, due to the way that ERDF/ESF funding is distributed and delivered, although it is clear that these two major European Funds have had an important role in supporting the missions of, and services provided by, many UK social enterprises. The nine Regional Development Agencies of England (since abolished), and equivalent structures in Scotland, Wales and Northern Ireland, have also played an important role in supporting the sector, principally through the establishment of regional (support) networks.

A number of recent major national-level public support schemes and measures have been developed specifically for social enterprise. In line with current UK government policy, most of these schemes and measures are intended to ensure that there is a ‘pipeline’ of investable and competent social enterprises with support at each stage of their business development (pre-start, early stage, growth), including dedicated programmes of e.g. training, mentoring, incubation, etc. The following major initiatives have been launched recently and relate predominantly to social investment, reflecting a change in focus from ‘business support’ for social enterprises (e.g. specialist / Business Link) to a focus on ‘growing the social investment market’ and helping to ensure ‘investment readiness’ among social enterprises:

- **The Social Incubator Fund** was launched in 2012 and is delivered by the Big Lottery Fund on behalf of the Office for Civil Society (OCS). It provides grants to social incubators, a portion of which is invested in social ventures using non-grant financial structures. The aim of the scheme is to help drive a robust pipeline of start-up social enterprises by increasing focus on incubation support, and attracting new incubators into the market. Each supported social incubator is expected to offer a complete range of support methods and to have the ability to help at least 50 social enterprises. The Social Incubator Fund has invested £10 million in 10 incubators over three rounds of funding.

- **The Investment and Contract Readiness Fund** is a £10 million fund, spread over three years, to help social enterprises secure social investment and bid for public service contracts. Launched in May 2012 by the Office for Civil Society, the fund gives out grants of between £50,000 and £150,000 to social ventures that have the potential to provide their services and positive social impact at scale, but are not yet in a position to take on loans. The fund expects to support over 130 social enterprises, and £3.8 million has been committed to support 40 organisations during 2012/13. The Fund is managed by The Social Investment Business, the social enterprise department of Adventure Capital Fund, and is open to applications from social ventures on a rolling basis.

- **Big Society Capital** is the world’s first social investment institution of its kind, and invests in social investment finance intermediaries (SIFIs). Set up in April 2012, Big Society Capital is an independent financial organisation that aims to support and develop social investment in the UK and is supplied with up to £400 million from England's dormant bank accounts and £200 million from the 4 largest UK high street banks. BSC became operational in April 2012, and published its first annual report in May 2013. During its first nine months, the organisation committed £56m investment across 20 different SIFIs. Many investments made by BSC support other private and charitable funds providing finance and other support to social enterprises. These include, for example, the Community Investment Fund launched by Social and Sustainable Capital in February 2014 which provides loans and equity to community based social enterprises and charities in England.

- **The Social Outcomes Fund** is a £20 million fund managed by the Cabinet Office. It is intended to deal with the main problems holding up the growth of social impact bonds: the difficulty of aggregating benefits and savings which accrue across multiple public
sector spending ‘silos’ in central and local government. The fund will be used to provide a ‘top-up’ contribution to outcomes based commissions (social impact bonds or payment by results) that are designed to deal with complex and expensive social issues. This will catalyse innovative new projects in areas where no single commissioner can justify making all of the outcomes payments, but where the wider benefits mean that a SIB is value for money.

- **Social investment tax relief.** A new social investment tax relief announced in 2014 will give individuals and organisations who invest in qualifying social organisations a reduction of 30 per cent of that investment in their income tax bill for that year. The 30 per cent rate is the same rate as the Enterprise Investment Scheme and Venture Capital Trust investments, and will attract the same capital gains tax reliefs, creating a level playing field for investment in social enterprises. Eligible organisations can receive up to €344,827 (around £290,000) over 3 years in tax-advantaged investment.

The Cabinet Office’s latest progress update on its efforts to grow the social investment market\(^\text{15}\) reports that its interventions are beginning to show real and sustained impact. BSC has made commitments of £149.1 million, with matching funding of 116 per cent from third party investors. The Investment Readiness programme has helped 116 frontline social ventures get investment and contract ready, and has created 10 social incubators that will support over 600 start-up ventures. The Social Outcomes Fund has supported four locally commissioned Social Impact Bonds, with many more in the pipeline. The update notes that from 2014-15 the strategic challenge is to build on this progress and increasingly mainstream social investment, with the aim to build a market that is accessible to everyone.

Stakeholders (e.g. SEUK and UnLtd) have indicated that improved market development (awareness, understanding, opportunities) is critical to the future success of the sector. As such, initiatives to support procurement, commissioning, promotion and market-building are as important (if not more so) than initiatives that seek to provide access to affordable / appropriate finance.

### 2.3 Other specialist support and infrastructure available to social enterprises

A broad range of specialist providers and support networks are now well established in the UK at national, regional and local levels, and provide a wide array of business development support from early (pre-start) through to consolidation and growth. Specialist providers, such as UnLtd, and sectoral bodies, such as Social Enterprise UK and Locality, offer many different support services and products, and there is a huge wealth of free to access advice, guidance, tools and other information available to budding or established social entrepreneurs. Dedicated training and education institutions and platforms, such as the School for Social Entrepreneurs, have also been established to support the sector.

UnLtd provides a wide range of support targeted to social enterprises across all stages of their development, including (i) one-to-one mentoring and support in accessing resources at pre-start stage; (ii) funding and support for established enterprises (>1 year old) looking to expand at local or regional levels; (iii) awards of £20,000 and 12-month intensive support to help social enterprises scale up their ventures and achieve rapid growth. UnLtd also provides dedicated support to social enterprises seeking to raise capital. A key focus for UnLtd is its collaboration with the Higher Education Funding Council for England (HEFCE) on the SEE Change programme, an initiative with 59 universities to help mainstream and embed social entrepreneurship support within the HE sector. The aim is to build knowledge, expertise, capacity and resources to enable a university led ecosystem of support for social entrepreneurs to mature and become self-sustaining.

In addition a range of other ‘infrastructure’ has developed over recent years, including: Big Society Capital and other social banks; The Social Stock Exchange (SSE), a platform

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\(^{15}\) Cabinet Office (2014) *Growing the social investment market: 2014 progress update*
2.4 Networks and mutual support mechanisms

There are a large number of networks and mutual support mechanisms for social enterprise in the UK, which collectively and individually provide a very broad range of support services to the sector and to individual social enterprises.

- **Social Enterprise UK (SEUK)** was established in July 2002 as the Social Enterprise Coalition and is the main representative body for the sector in the UK. It aims to provide a co-ordinated voice for social enterprise and enable stakeholders to work together to develop the sector. SEUK is actively involved in shaping the social enterprise agenda and promoting and supporting the sector across a range of fronts.

  Equivalent bodies also operate in Scotland (Social Enterprise Scotland), Northern Ireland (Social Enterprise NI) and Wales (Wales Co-operative Centre).

- **Social Firms UK** is the national support agency for social firms, a specific sub-set of social enterprise which seeks to employ those disadvantaged / marginalised from the labour market. The organisation carries out promotion, dissemination, research and lobbying to improve awareness and conditions for social firms. Social Firms UK’s services to the sector include access to a range of resources and materials about social firm development in the UK and Business Support delivered through national and regional networks.

  Equivalent bodies also operate in Scotland, Wales and Northern Ireland.

- **Cooperatives UK** is the main representative body for co-operative enterprise in the UK, promoting co-operative and mutual solutions and working in partnership with members to build a strong and successful co-operative movement. Members include co-operatives of all types, federations of specialist co-operatives and also independent co-operative development bodies that provide a service in many parts of the UK.

- **Locality** is the leading nationwide network of community-led organisations and was formed through a recent merger of the Development Trusts Association and The British Association of Settlements and Social Action Centres. It represents a national network of over 700 community-led organisations and 200 associate partners, providing support and advice and seeking to influence government for the benefit of the community-led sector.

  In addition to these major representative bodies a very large number of networks and mutual support mechanisms operate at regional (e.g. Social Enterprise North West) and local levels (e.g. SEN – Social Enterprise Network for Liverpool). New networks are also forming around the 39 Local Enterprise Partnerships created since the closure of the UK’s nine Regional Development Agencies in 2011.

  Other networks include the Global Social Entrepreneurship Network (GSEN) - a new platform hosted by UnLtd and supported by the UK Cabinet Office, and the online Social Enterprise Network run by The Guardian newspaper.
2.5 Marks, labels and certification systems

2.5.1 Social Enterprise Mark

The Social Enterprise Mark Company (http://www.socialenterprisemark.org.uk/) operates a certification scheme and ‘kitemark’ for social enterprises in the UK. It acts as an independent certification authority for social enterprises and describes itself as “the only UK and international body to independently prove that a business is putting people and planet alongside profit”. The certification scheme and Mark were established in 2010. The key features of the Mark are set out in Table 2.1.

Table 2.1 Key features of The Social Enterprise Mark

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<th>Kitemark</th>
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<td>Certifying body/ Organisation operating the scheme</td>
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<td>Year of establishment</td>
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<td>Geographical scope of the scheme</td>
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<td>Aims and objectives of the scheme</td>
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<td>Criteria for participation</td>
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<td>Costs</td>
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<td>Scope and requirements for marks/ labels/certification:</td>
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Mark Company based on an application / assessment form and two key documents - a recent (latest) set of annual accounts and the legal constitutional documents (often known as Memorandum and Articles) of the applicant organisation. Examples of any externally verified evidence to show that the organisation is meeting its social or environmental objectives are requested, but these do not constitute a formal requirement for the award of the certificate.

A Certification Panel of business, legal and social enterprise experts performs regular spot-checks on applications to ensure the level of assessment remains high and ensures that the Social Enterprise Mark’s criteria are rigorously applied. The Panel also reviews complex cases and sets precedents in complex applications, for example, where social aims or beneficiaries need clarification. To protect the integrity of the social enterprise criteria, the Panel is voluntary and works according to a Memorandum of Understanding.

Scale of participation

The directory of Social Enterprise Mark holders lists 314 organisations as of May 2014. However, its Annual Review report 2013 states that it has had 600 Mark holders since its launch. The Social Enterprise Mark Company cites on its website Government figures estimating there are 70,000 social enterprises in the UK. Its current stock of Mark holders therefore constitute just less than half of 1% of the UK sector (or one out of every 223 social enterprises in the UK).

There is some debate as to whether a Mark or certification scheme for social enterprises is adding value in the UK context\(^1\). The rather limited take-up of the Social Enterprise Mark Company’s scheme may be partly due to the costs involved, but may also signal that the majority of social enterprises do not see any strong need to prove their social enterprise status through this route. Organisations meeting the established definition of a social enterprise are not constrained or curtailed due to non-participation in the Social Enterprise Mark Company’s scheme, and indeed membership to sector bodies such as SEUK and/or registration as a CIC arguably provides equivalent or more widely recognised label or ‘proof’ of an entity’s social enterprise status.

### 2.5.2 Systems for measuring and reporting the social impacts of social enterprises

There is no established official or widely used system for measuring and reporting social impacts in the UK, but this is an area of growing interest and study, and a number of actors have published guidance and toolkits to support the sector in this regard, both from the perspective of investors and social enterprises. Recent policies to grow the social investment market and to factor social impacts into public procurement (in particular through the Social Value Act 2012) have led to significant efforts to develop new and better systems for social impact measurement and reporting.

Big Society Capital (BSC)\(^1\), the UK social investment bank, has, in close collaboration with the sector, carried out some of the most important recent work in this area and has published a series of tools including:

- A set of [social impact tests and thresholds](http://www.bigsocietycapital.com) that BSC itself uses to guide its own investments
- A [best practice guide](http://www.bigsocietycapital.com) for social investors that integrates social value into a robust investment process; from creating an impact strategy through to screening, due diligence and monitoring and reporting

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\(^1\) See [http://www.bigsocietycapital.com](http://www.bigsocietycapital.com)
An outcomes matrix that standardises definitions for key outcomes areas as well as providing research, context and suggested indicators for each of these outcome areas.

A set of guidance for social sector organisations on what social investors expect to see in an impact plan.

The Cabinet Office has also supported work on the measurement and reporting of social impacts through the Inspiring Impact programme. Co-ordinated by New Philanthropy Capital and managed and delivered by eight sectoral bodies, Inspiring Impact aims to make high quality impact measurement the norm for UK charities and social enterprises by 2022. The first year of the programme developed a Code of Good Impact Practice, and the Cabinet Office has also previously published its own Guide to social return on investment.

A range of other tools and resources have been developed that assist social enterprises and investors in measuring and reporting their social impact:

- SROI Network. The SROI Network promotes the use and development of the Social Return on Investment methodology internationally, and encourages a community of practice. It provides a range of resources and training to support analysis of social return, including a comprehensive Guide and associated resources;

- Social Impact Analysts Association. The SIAA is an international professional body for social impact analysts. SIAA supports and represents its members and the wider social impact analysis field on a global scale, and provides a wealth of resources for measuring and reporting social impact;

- Social Accounting & Audit Manual. The Social Audit Network has developed a Social accounting and audit manual to guide social economy practitioners through the process of setting up social accounting systems and preparing social accounts for external audit;

- Proving & Improving: a quality & impact toolkit for social enterprise. New Economics Foundation has developed ‘Proving and Improving’ – a quality and impact toolkit for social enterprise’ within the EQUAL project. The toolkit has five main sections: knowledge, tools, comparing proving and improving approaches, resources and a SROI primer;

- Co-operatives UK Key Performance Indicators. Following several years of development and consultation, Co-operatives UK has released guidance on Key Social and Co-operative Performance Indicators. These indicators have been developed as part of the Social Enterprise Partnership (GB) EQUAL project.

In addition, many of the representative bodies and support networks (e.g. Social Enterprise UK) provide advice, guidance and training on measuring and reporting social impact. E3M has reported on the state of thought and practice in measuring social impact in social enterprise in the UK.

2.6 Social investment markets

2.6.1 The supply of finance

The UK marketplace for social investment has grown steadily since the mid-2000s, and an established base of specialist Social Investment Finance Intermediaries (SIFIs) – including social banks and Community Development Finance Institutions (CDFIs) – has developed to supply much of the finance needed by the sector. However, the UK Government’s social investment strategy in 2011 identified continued barriers to growth in the social investment

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19 ICF-GHK, BMG Research (2013) Growing the social investment market: the landscape and economic impact

20 Cabinet Office (2011) Growing the social investment market: a vision and strategy
market, including the supply of appropriate finance, the pipeline of investment ready demand, and the development of a robust and efficient market infrastructure.

In the last few years a range of public funding schemes, initiatives and policies have been put in place to aid the supply of investment to the UK social enterprise sector, including the launch of Big Society Capital, the Social Incubator Fund, the Investment and Contract Readiness Fund, the Social Outcomes Fund and a new tax relief for social investment (see Section 2.2.2). In addition, The Big Lottery Fund (also known as BIG) - a non-departmental public body responsible for distributing funds raised by the National Lottery to “good causes” - has played an important catalytic role in developing the social investment market in the UK, including:

- Supporting investment readiness: by delivering the Social Incubator Fund on behalf of the Cabinet Office; providing £15m funding to School for Social Entrepreneurs and UnLtd, to provide social entrepreneurs and social enterprises with financial and expert support; and by developing an investment readiness fund that complements the ICRF

- Supporting social investment product development with the Next Steps fund: Awards totalling nearly £3m have been made to a range of initiatives, and the fund has already leveraged over £20m in social investment. BIG is also developing a fund to grow the market in Social Impact Bonds (SIBs) and other outcomes based investment instruments, aligned with the Social Outcomes Fund

- Supporting social investment research: as part of the joint Market Stewardship Research Group, Big Lottery Fund has also co-commissioned research with Big Society Capital into what a better functioning market might look like

ICF-GHK reported on the UK social investment market in 2011/12 based on surveys of SIFIs and ventures receiving social investment\(^\text{21}\). The results of the study indicated that:

- 29 UK SIFIs were confirmed as actively investing in 2011/12. This included social banks, Community Development Finance Institutions (CDFIs) and other Social Investment Finance Intermediaries (SIFIs). In comparison, the previous study\(^\text{22}\) identified 24 organisations who had undertaken at least one social investment in the period 2010/11

- In 2011/12, 765 social investments were made by SIFIs. Annual investments across the SIFI sector ranged in number from one to 170 investments. Total investments continue to be dominated by a small number of major SIFIs. Three social banks accounted for 80% of the market and seven SIFIs (including the social banks) account for just over 90% of the market. Nevertheless, substantial growth in investment values was evident across SIFIs of all sizes.

- In 2011/12, the value of social investments in the UK market reached £202m. This compares with a figure of £165m of investment in England in 2010/11. By value, secured loans increased to 90% of the total market (£182m). In contrast, the value of unsecured lending (5%) and equity-based investments (2%) placed in the market reduced. Only just over 40 equity-based investments were completed in 2011/12

- Two thirds of SIFIs met less than half of their investment requests in 2011/12 and none were able to meet more than 70% of their prospective customers’ requests for social investment. The vast majority of SIFIs (89%) plan to increase their investment activity over the next two to three years, and almost half (47%) expect to develop and launch new products

Big Society Capital has prepared a Social Investment Compendium – a summary portfolio of research and intelligence on the social investment market. This notes that the supply of


\(^{22}\) Boston Consulting Group (BCG) & The Young Foundation (2012) Lighting the touch paper: growing the market for social investment in England
finance is currently fragmented and at this early stage of market development more infrastructure is needed, particularly to strengthen supply of information and data. BSC also notes that while commercial banks provide the vast majority of finance to the social enterprise sector, they fail to target key segments of the social sector that need capital. While Government has traditionally been an important supplier of social investment, this is reducing, and even BSC’s major resources are said to be insufficient to meet predicted demand. The ‘gap’ between supply and demand is estimated to be anything between £300 million pa and £1 billion pa, and BSC states that future growth in the supply of finance will rely on accessing new classes of investors. High Net Worth Individuals (HNWIs), University endowments, housing associations, local authority pension funds, and corporate foundations expected to be the next key investor groups, alongside existing social banks, trusts and charitable foundations.

2.6.2 The demand for finance

According to the recent (2013) UK Cabinet Office report on social enterprises\(^{23}\), based on the national small business survey 2012, 27 per cent of social enterprises had sought finance in the preceding 12 months. In two thirds of these cases financing had been sought only once. This profile is similar to that within the general population of SMEs (24 per cent had sought finance) and with equivalent data on social enterprises from the 2010 survey (27 per cent had sought finance). Key findings concerning social enterprises’ demand for finance were as follows:

- The main types of finance sought by social enterprises were bank loans (43 per cent); bank overdrafts (26 per cent); grants (23 per cent); leasing/hire purchase (11 per cent); credit card finance (6 per cent), asset finance (2 per cent); and mortgages (1 Per cent). Compared to other SMEs, social enterprises were more likely to seek grants and credit card finance and less likely to seek asset finance and bank overdrafts.

- In most cases social enterprises had sought finance for working capital/cash flow (53 per cent), for capital equipment or vehicles (22 per cent), for improving buildings (12 per cent), for research and development (9 per cent), or to purchase land or buildings (7 per cent). This profile is similar to that reported by the general population of UK SMEs, but social enterprises were more likely to seek financing to improve buildings or carry out R&D than mainstream businesses.

- Social enterprises tend to seek smaller amounts of finance than other SMEs. The median amount of financing sought by social enterprises was £10,000 (as compared to £22,000 in the general SME population) and the mean amount sought by social enterprises was £239,000 (as compared to £294,000 for other SMEs). Almost half (42%) of the social enterprises had sought less than £10,000, and only 7% had sought more than £250,000. Equivalent figures for SMEs that are not social enterprises were 20% and 10%.

- Social enterprises were more likely than other SMEs to experience difficulties in obtaining finance. 58 per cent of social enterprises reported that they had managed to secure all of the financing sought, which is below the achievement level of the general SME population (68 per cent). The corollary to this is that 32 per cent of social enterprises failed to secure any of the financing they applied for, a situation that held for just 21 per cent of other SMEs. This means that in practice social enterprises typically apply for smaller amounts of financing than other SMEs, but also tend to be less able to secure the amounts requested. There were no significant differences between social enterprises and other SMEs in terms of (i) their awareness of how banks assess business credit worthiness, (ii) their relationship with their bank, or (iii) their awareness of alternative types of external finance.

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\(^{23}\) Cabinet Office (2013) *Social enterprise: market trends, based upon the BIS Small Business Survey 2012*, BMG Research
Social Enterprise UK’s most recent survey\(^{24}\) found that a larger proportion - 48 per cent of social enterprises – had sought to raise external finance in the previous 12 months, and that the amounts sought were generally higher than those reported by the Cabinet Office (median of £58,000). The SEUK survey also found that the median amount received (£30,000) was approximately half of the median amount applied for and that more established (older) social enterprises typically received a higher proportion of the amount requested. As such, younger social enterprises (0-3 years) are more likely than older ones to seek finance (55 per cent vs 45 per cent) but are less likely to find it (39 per cent vs 57 per cent). SEUK also noted that the median amount applied for is lower than the minimum investment thresholds of many of the specialist social investment or finance intermediaries, and that this finding supports other research identifying the need for smaller-scale, patient, risky, unsecured lending for social enterprises.

The SEUK report found that the most common forms of external financing sought by social enterprises were grants (89 per cent), loans (20 per cent), and overdrafts (13 per cent), leasing/HP (7 per cent), mortgage (4 per cent) and equity (3 per cent). More than half of the social enterprises seeking each form of finance received either some or the entire amount sought, with attainment rates being highest for leasing/HP (86 per cent) and lowest for equity (53 per cent). The main uses for the finance sought were development capital to fund growth or new services and products (52 per cent), working capital to manage cash flow (31 per cent), equipment/vehicle acquisition (22 per cent) and property acquisition/refurbishment (17 per cent).

ICF-GHK’s report on the UK social investment market in 2011/12\(^ {25}\) provided additional insight into social enterprises’ demand for finance, albeit based on a smaller sample (~100) than the SEUK (~800) and SBS surveys (350). The results of the study indicated that:

- Social enterprises applied for grants and secured or unsecured loans, or a combination of these. The median amount of financing sought was £30,000;
- More than half of the social enterprises (57 per cent) sought finance for enterprise growth, and 31 per cent were seeking finance to start-up their enterprise. The remainder had sought finance to prevent enterprise closure (7 per cent) or contraction (5 per cent); Most social enterprises had sought finance from alternative providers (than SIFIs) and more than half of these had sought a loan from a bank or building society. Only a very small minority (<5 per cent) had been successful. Approximately one quarter of the sample had sought a government grant or loan, and just over half of these had been successful.

In its Social Investment Compendium, BSC also notes that social enterprises have a significant need for long-term and risk-taking capital, but typically have few assets against which to secure lending while also lacking a strong financial track record. As such, demand is strongest in areas most neglected by existing lenders.

### 2.6.3 Market gaps/ deficiencies

Overall, the surveys of social enterprises detailed above paint a picture of strong demand for finance from the UK social enterprise sector, but clear difficulties in accessing that support, particularly the forms of support most in demand (high risk, unsecured capital), and particularly when sought by less well-established and smaller social enterprises. Other research\(^ {26}\) has also identified the same mismatch between supply and demand, and the situation is compounded by the high transaction costs involved in accessing what are typically very small amounts of external financing.

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\(^{26}\) See for example Big Lottery Fund/Clearly So/NPC (2012) *Investment readiness in the UK*
ICF-GHK\textsuperscript{27} identified that there are fewer than a dozen substantial providers of social investment in the UK, and social banks offering secured loans dominate deal value. With the exception of the provision of secured debt, many social ventures remain unable to access the right type of finance for their organisation. Overall, the value of equity based products reduced in 2011/12, and equity has tended to be neglected by social investors due to the organisational structure of social ventures (i.e. a lack of profit distribution mechanisms), inability of business models to generate returns that reflect the investment risk, and lack of exit opportunities (i.e. no route to Initial Public Offering (IPO), few potential trade buyers, no secondary investment market). The equity gap is potentially restricting the development of (particularly high growth potential) social ventures because equity allows more flexibility as an early stage financing tool than debt. Ultimately, however, UK social enterprises are most likely to seek grants or unsecured loans, and in these areas they currently fair least well.

SIFIs remain the only choice for finance for large numbers of (rejected) social ventures but ICF-GHK study noted that they rarely ‘shop around’. Whilst SIFI coverage is national, there are indications that regional presence remains limited especially when seeking a diversity of product. In turn, SIFIs report difficulties in meeting demand – but also note the lack of attractive social ventures to invest in and the current high transaction costs of deals – and sustainability remains an on-going challenge.

Stakeholders such as SEUK and UnLtd have highlighted the importance of providing improved access to finance across all stages of business growth, but particularly at pre- and early- start-up phases where small-scale (<£50,000) grants and unsecured loans are vital in order for many social enterprises to become established.

\subsection*{2.7 Overview of the key actors in the social enterprise ecosystem}

In the UK there is a very large number of actors in the social enterprise ecosystem. The table below provides an overview of some of the main actors. It should be noted that many more organisations could be listed within each category, and that many of the organisations, bodies and networks fulfil multiple different roles within the sector. The omission of any single organisation does not imply that it is not a significant actor.

\begin{table}[h]
\centering
\begin{tabular}{|p{12cm}|p{12cm}|}
\hline
**Policy makers** - Governmental departments or institutions designing or implementing policy, support instruments and measures for social enterprises and infrastructures & Department for Business, Innovation and Skills  
Cabinet Office - Office for Civil Society  
Department for Communities and Local Government  
Department for Work and Pensions  
Other Government Departments  
\hline
**Customers** – authorities contracting social enterprises & Government Departments  
Regional authorities  
Local authorities / councils  
\hline
**Organisations promoting, certifying and awarding social enterprises labels** & Social Enterprise Mark company  
Social Enterprise UK  
\hline
**Institutions, civil society initiatives or other social enterprises promoting social entrepreneurship education and training, and presenting role models** & School for Social Entrepreneurs  
Striding Out  
Inspire2Enterprise  
Social enterprise support networks / representatives  
The Scottish Social Enterprise Academy  
\hline
**Organisations that have the capacity to act as an observatory and to monitor the development and to assess the needs and opportunities of social entrepreneurs/social enterprises** & BIS (through its biennial Small Business Survey)  
Social Enterprise UK  
Social Firms UK  
Co-Ops UK  
The RBS SE100 Index  
Locality  
\hline
\end{tabular}
\end{table}

### Providers of social enterprise start up and development support services and facilities (such as incubators)

| UnLtd | Social enterprise support networks / representatives |

### Business support providers

| UnLtd | The Plunkett Foundation | Social enterprise support networks / representatives |

### Facilitators of learning and exchange platforms for social enterprises

| RBS 100SE Index | Inspire2Enterprise | Community Action Network (CAN) |

### Social enterprise (support) networks, associations

| Social Enterprise UK | Social Enterprise NI | Social Enterprise Scotland | Wales Co-operative centre | CIC Association | Social Firms UK | Co-ops UK | NCVO | ACEVO | Locality | Community Action Network (CAN) | ABCUL | UnLtd |

### Key providers of finance and intermediaries

| Major banks (e.g. RBS) | Big Lottery Fund | Big Society Capital | City of London Corporation | Social Finance UK | SIB Group | UnLtd | Clearlyso | Big Issue Invest | Key Fund | Bridges Futures | CAF Venturesome | Esmee Fairburn Foundation | CDFA on behalf of all CDFIs |

### Research institutions

| Third Sector Research Centre (TSRC) at the University of Birmingham | Social Enterprise University Enterprise Network (Plymouth University) | Market Stewardship Research Group | Social Investment Research Council |
3 Mapping social enterprise activity in the UK

3.1 The spectrum of social enterprises in the UK

The UK’s social enterprise ‘sector’ is incredibly diverse, encompassing among others the following types of organisations:

- **Social Firms**: businesses set up to create employment for those most severely disadvantaged in the labour market.

- **Development trusts**: businesses created to provide integrated employment to people with disabilities and disadvantages. They are umbrella organisations under which different regeneration activities can take place.

- **Intermediate labour market companies**: these provide training and work experience for the long term unemployed and other disadvantaged groups. The aim is to assist these groups to re-enter the labour market through the provision of paid work together with high quality training, personal development and active job-seeking.

- **Community business**: these are social enterprises that have a strong geographical definition and focus on local markets and services. They are trading organisations which are set up, owned and controlled by the local community and which aim to be a focus for local development and ultimately create self supporting jobs for local people.

- **Credit unions**: these are finance cooperatives that help people save and borrow money. They also provide access to community finance initiatives.

- **Charities trading arms**: these enable charities to meet their objectives in innovative ways such as restaurants, shops and fair trade companies.

Social enterprises adopt a variety of legal forms in the UK. Most social enterprises are registered companies limited by guarantee or (less frequently) by shares. Other legal forms include CICs, Industrial and Provident Societies (cooperatives and societies for the benefit of the community), and Limited Liability Partnerships. It is also possible for charities to operate as social enterprises, as can sole traders and unincorporated associations.

For operational purposes (e.g. estimating the scale of Social Enterprise through the biennial Small Business Surveys carried out by the responsible Government Department (BIS)), the UK government states that social enterprises must:

- See themselves as a social enterprise and consider themselves ‘a very good fit’ to the following definition: a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners)

- Not generate less than 25 per cent of income from trading

- Not generate more than 75 per cent of income from grants and donations

- Not pay more than 50 per cent of profit or surplus to owners or shareholders

This operational definition is, by and large, used across the sector, with only minor variations (see Section 3.2 below) in the criteria used and the features considered to be essential.

The distribution of social enterprises by legal form can be estimated from the main Government survey. The 2012 survey found that the most common legal forms used by

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28 Types of social enterprise as identified by Social Firms UK: http://www.socialfirmsuk.co.uk/faq/faq-what-social-enterprise-and-what-types-are-there

29 See Section 3.4.1 for a fuller description of the legal forms for social enterprises in the UK

social enterprises in 2012 were private company, limited by shares (31 per cent), sole proprietorship (29 per cent), partnership (13 per cent), company limited by guarantee (8 per cent), Community Interest Company (5 per cent) and Industrial and Provident Society (3 per cent). Compared to the general business population, social enterprises are less likely to be private limited companies and more likely to be CICs or IPSs.

3.2 Application of operational definition: determining the boundaries

Because social enterprise can take any of a range of legal forms in the UK, the definition of what is – and what is not – a social enterprise is not usually or usefully made with reference to its legal form. There is one exception, however, in that the CIC is a specific, regulated form of company set up specifically for the social enterprise sector. CICs are required by law to have provisions in their articles of association to enshrine their social purpose, specifically an ‘asset lock’, which restricts the transfer of assets out of the CIC, ultimately to ensure that they continue to be used for the benefit of the community; and a cap on the maximum dividend and interest payments they can make. The CIC structure provides a clear signal to investors that the enterprise operates for the benefit of the community, and that this social purpose is protected by regulation.

While organisations that adopt other legal forms may meet all of the criteria for a social enterprise, CICs have to meet those criteria. As such, the CIC represents the closest thing that the UK has to what might be considered a legal definition, although it should be noted that it incorporates both required and desired features so it is possible (and indeed commonplace) for organisations which do not meet all of the criteria for a CIC to still legitimately count themselves as a social enterprise in the UK context.

Operational definitions of social enterprise within the UK vary from actor to actor and have developed over time, but in most cases there is a strong alignment between the EU definition and those used most widely in the UK. Table 3.6 maps four of the main UK definitions and explores the relationship between these and the EU definition used in the study. The four UK definitions considered are as follows:

1. **The CIC legal form definition.** As explained above, the CIC is a specific legal form of company expressly created for social enterprises. Therefore the requirements placed on organisations registering as CICs provide an insight into the defining features of a social enterprise in the UK.

2. **The UK Government operational definition.** Through its major UK-wide business surveys, the UK government has set criteria for the essential features of a social enterprise. The operational definition as used in the surveys provides the basis for Government estimates of the number of social enterprises in the UK.

3. **The sector representative definition.** Social Enterprise UK is the largest representative body for social enterprises in the UK, and provides its own definition and guidance on the essential defining features of social enterprises.

4. **The label/certification definition.** The Social Enterprise Mark Company operates a certification scheme and Mark for social enterprises in the UK. It acts as an independent certification authority and sets specific criteria that need to be met in order to become a social enterprise Mark holder.

Some points emerge from an analysis of these four UK definitions of social enterprise, and help to define key areas of convergence and divergence between them, and in relation to the EU definition:

- **Engagement in economic activity** is essential, although definitions vary as to what proportion of a social enterprise’s income may come from grants and donations. There is no requirement for social enterprises to generate their income by trading within the area of their social mission (they can conduct any legitimate business) although it is
commonly the case that social enterprises deliver products and services in the area of, or to the groups that form the target of, their social mission.

- **A social mission** is at the heart of the UK definition, and all social enterprises must have this at their core. There are variations in the burden of proof required, with the government’s operational definition (and hence estimates) being based on self-association while elsewhere it is expected or required that the social mission would be set out in the enterprise’s constitutional documents (articles of association).

- **Profit distribution in favour of the social mission** (rather than private interests) is also an essential criterion within the UK, with CICs operating to stricter rules and caps than is typical for the sector. The other three (operational) definitions indicate that a minimum of 50% of any profits should be invested in the organisation's social/environmental mission.

- The existence of an **asset lock** is considered by some stakeholders to be an essential feature, and is a requirement for CICs and Social Enterprise Mark holders. Social Enterprise UK’s definition considers an asset lock vital in the case of public assets/services but recognises that this may not be possible for social enterprises established with private investment. An asset lock is not a requirement for the UK government definition used to estimate the number of UK social enterprises. Were it included it is likely that estimates of the number of social enterprises would reduce significantly. It is on this criterion that the operational UK definition differs most from the EU definition.

- **Organisational autonomy** is an important component of the SEUK and Social Enterprise Mark definitions of a social enterprise, and is implied in the case of CICs. The government’s operational definition used for estimating the number of social enterprises does not explicitly mention organisational autonomy.

- A requirement for **democratic and/or participatory governance in decision-making processes** feature less prominently as a stated requirement in the UK. However, SEUK stipulates that social enterprises should be owned and controlled in the interests of their social missions. CICs are placed under an obligation to involve community stakeholders in their activities, and annual reports submitted to the regulator are expected to show how this has been done. However, this is another area where a core element of the EU definition is not always fully reflected in the UK operational definitions.

On the basis of the analysis (above and in Table 3.6 below), the spectrum of social enterprises in the UK is as follows:

<table>
<thead>
<tr>
<th>Meeting the UK national definition of social enterprises</th>
<th>Legally recognised</th>
<th>• All CICs</th>
</tr>
</thead>
<tbody>
<tr>
<td>De facto</td>
<td>• All organisations meeting UK government definition</td>
<td>• All members of Social Enterprise UK</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Meeting the EU definition of social enterprises</th>
<th>Legally recognised</th>
<th>• All CICs</th>
</tr>
</thead>
<tbody>
<tr>
<td>De facto</td>
<td>A <strong>sub-set</strong> of</td>
<td>• Organisations self-identifying as social enterprises on basis of UK government definition</td>
</tr>
</tbody>
</table>
3.3 Measurement of social enterprises

3.3.1 Basis of estimates

There are a range of estimates of the number of social enterprises in the UK, but by far the most widely cited and used are those based on the Small Business Surveys commissioned by the responsible UK Department for Business, Innovation and Skills (BIS).

The Small Business Survey

The Small Business Survey (SBS) is a large-scale telephone survey among business owners and managers. The 2012 survey was the latest in a series dating back to 2003. The survey monitors key performance indicators amongst small and medium-sized businesses (SMEs), and gauges their intentions, needs, concerns and obstacles faced.

BIS commissioned 4,000 CATI interviews for the SBS 2012 survey, distributed in proportion to the business populations of UK nations. The Welsh Government, Scottish Government and Northern Ireland Assembly commissioned additional interviews in their own nations to generate a total sample size of 5,723. Survey findings were weighted to the 2012 Business Population Estimates (BPE), published by BIS, which are based upon the Inter Departmental Business Register (IDBR) with supplementary estimates of the populations of self-employed and very small businesses drawn from the Labour Force Survey (LFS).

Social Enterprise report

The UK Cabinet Office commissioned a report entitled ‘Social Enterprise: Market Trends’, conducted by BMG Research in 2013. It uses SBS 2012 data to examine social enterprises in greater detail, and compare them to the general population of SMEs that do not meet the definition of social enterprises. The report provides estimates of the number of social enterprises in the UK, as well as their profiles across a range of dimensions such as size, legal form, age, employment and turnover.

The classification of a social enterprise for the 2013 report on Social Enterprise

In SBS 2012, 24 per cent of SME employers thought of themselves as social enterprises (defined as a business that has mainly social or environmental aims). However, in order to be classified as a social enterprise, additional criteria were proscribed:

1. The enterprise must consider itself to be a social enterprise (as above)
2. It should not pay more than 50 per cent of profit or surplus to owners or shareholders
3. It should not generate more than 75 per cent of income from grants and donations
4. It should not generate less than 25 per cent of income from trading
5. It should think itself ‘a very good fit’ with the following statement: ‘A business with primarily social/environmental objectives, whose surpluses are principally reinvested for that purpose in the business or community rather than mainly being paid to shareholders and owners’

This description is consistent with the way that social enterprises were defined in the 2010 SBS report, and allows for comparisons between the two surveys.

3.3.2 Number of social enterprises in the UK

3.3.2.1 Total number of UK social enterprises

Under the classification employed, the national survey estimated that 6.0 per cent of UK enterprises with zero employees and 5.7 per cent of UK SME employers were social enterprises in 2012 (they met all of the criteria). Large enterprises were not surveyed through SBS, and no robust estimate exists of the proportion that might be social enterprises, so the proxy figure of 5.7% is used. Grossed up to the entire UK business
population this gives an **overall estimate of some 284,000 social enterprises**, or 5.9 per cent of the business population. The estimated number of UK social enterprises by size (number of employees) is shown in Table 3.1.

<table>
<thead>
<tr>
<th>Size of Business</th>
<th>Total numbers in the business population</th>
<th>% that are social enterprises</th>
<th>Number of social enterprises (rounded)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole traders</td>
<td>3,557,255</td>
<td>6.0%</td>
<td>213,400</td>
</tr>
<tr>
<td>Micro-businesses</td>
<td>1,022,695</td>
<td>5.5%</td>
<td>56,200</td>
</tr>
<tr>
<td>Small businesses</td>
<td>177,950</td>
<td>6.3%</td>
<td>11,200</td>
</tr>
<tr>
<td>Medium businesses</td>
<td>29,750</td>
<td>8.7%</td>
<td>2,600</td>
</tr>
<tr>
<td>Large businesses</td>
<td>6,455</td>
<td>5.7% (est)</td>
<td>400</td>
</tr>
<tr>
<td>Total</td>
<td>4,794,105</td>
<td>5.9%</td>
<td>283,800</td>
</tr>
</tbody>
</table>

When reporting on the number of social enterprises in the UK, the Government and other stakeholders often report that there are approximately 70,000 in the UK. This is in fact the estimated number of **SME employers** (micro, small and medium firms with 1-249 employees) that are social enterprises and **excludes** the sole traders (zero employees) and large businesses (250+ employees) that also meet the criteria.

There is some controversy surrounding the official estimates provided above, due **inter alia** to the selection criteria and sampling techniques being used to inform the estimates and a reliance on self-assessment rather than documented evidence. It is clear that many more organisations ‘self-identify’ with the concept of being a social enterprise than meet the operational criteria used by the majority of the sector. For example, in the 2012 survey 24 per cent of SME employers perceived themselves as a social enterprise but less than 6 per cent met all the criteria. In addition, according to NCVO’s Civil Society Almanac, 45 per cent of the UK’s 180,000 registered charities self-identify as a social enterprise. It is expected that the Government’s Small Business Survey that provides the basis of the ‘official’ estimates would not capture many of these 81,000 organisations, although it is not known how many of the charities associating with the term would meet the operational criteria in place. A number of studies have reviewed the basis for the ‘official’ counts of UK social enterprises and identified potential issues with their underpinning assumptions and methodologies.

### 3.3.2.2 Trends in the number of social enterprises

The government estimates show a small decline in the number of social enterprises from 2010 to 2012. The estimated share and number of SME employers that fit the definition of a social enterprise fell from 6.6 per cent (n=78,800) in 2010 to 5.7 per cent (n=70,000) in 2012. Prior to 2010 there had been an upward trend in successive surveys since 2006.

### 3.3.3 Age of social enterprises in the UK

The ‘Social Enterprise: Market Trends’ report (2013) found that 67 per cent of SME employer social enterprises had been trading for more than 10 years, 23 per cent had been trading for 4-10 years and 10 per cent had been trading for three years of less. This is broadly in line with the wider population of SMEs.

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Social Enterprise UK’s most recent major survey\(^{34}\) reported a much ‘younger’ profile than the government’s survey, with 29 per cent of social enterprises trading for 0-3 years, 29 per cent trading for 4-10 years and 42 per cent trading for more than 10 years. SEUK also found that the age profile of social enterprises was getting younger, with the share that had been trading for three years or less increasing from 19 per cent in 2011\(^{35}\) to 29 per cent in 2013. SEUK reported that the start-up rate of social enterprises (29 per cent <3 years old) is more than double the rate within the general population of SMEs (11 per cent <3 years old).

### Employment in UK social enterprises

#### Total employment in UK social enterprises

Data from the Cabinet Office\(^{36}\) indicates that there were an estimated total of **1,145,200 people employed by social enterprises in the UK in 2012**. This figure is built using the proportion of enterprises in each size band estimated to meet the criteria used in the 2012 national small business survey.

The ‘headline’ figure of 1,145,200 people employed by UK social enterprises is not in general use in the UK, with most sources quoting an estimate of 973,700 people employed by social enterprises. This lower figure excludes the employees in large social enterprises.

| Table 3.2 Estimated number of people employed by Social Enterprises in the UK - SBS 2012 |
|-----------------------------------------------|-----------------------------------------------|-----------------------------------------------|
| Number of social enterprises (rounded) | Average number of employees per enterprise | Total number of persons employed (rounded) |
| **Sole traders (No employees)** | 213,400 | 1 (owner/manager) | 213,400 |
| **Micro-businesses (1-9 employees)** | 56,200 | 3.8 | 213,700 |
| **Small businesses (10-49 employees)** | 11,200 | 20.0 | 224,200 |
| **Medium businesses (50-249 employees)** | 2,600 | 110.2 | 286,200 |
| **Large businesses (250+ employees)** | 400 | 450.0 | 171,500 |
| **Working proprietors** | - | - | 37,100 |
| **Total** | 283,800 | 4.0 | 1,145,200 |

#### Trends in employment

In the 2012 survey, 12 per cent of social enterprises reported that they employed more people now than they had 12 months earlier, while 21 per cent had reduced their employment over the same period. Within the general population of SMEs, 19 per cent had increased their employment and 17 per cent had reduced it. This suggests social enterprises are faring less well than the general SME population.

In 2010 the situation was reversed - 21 per cent of social enterprises had increased their employment over the previous 12 months, while 13 per cent had reduced it. This compared to figures of 18 per cent and 21 per cent respectively within the general population of SMEs.

The reasons for the recent change in fortunes for employment in social enterprises are unclear, but it is expected that public sector cutbacks introduced by the Government following the recent economic crisis are now beginning to hurt social enterprises, particularly those who rely heavily on trade with the public sector. Social Enterprise UK’s 2013 survey\(^{37}\)

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\(^{34}\) Social Enterprise UK (2013) *The People’s Business: State of Social Enterprise Survey 2013*


\(^{36}\) Cabinet Office (2013) *Social enterprise: market trends, based upon the BIS Small Business Survey 2012, BMG Research*

found that social enterprises whose main source of income is trade with the public sector (27 per cent) were almost twice as likely as other social enterprises (14 per cent) to have made redundancies in the previous year.

The majority (65 per cent) of social enterprises in the 2012 national small business survey expected their number of employees to stay the same in the coming 12 months, 18 per cent expected to increase their employment, and 17 per cent expected to reduce it. These figures are similar to those for non-social enterprise SMEs, except that social enterprises were statistically more likely to predict a static situation rather than an increase or decrease in employment.

3.3.5 Turnover of UK social enterprises

The mean annual turnover for a (SME) social enterprise in the 2012 small business survey was £206,800, just more than half of the mean turnover among other SMEs not classified as social enterprises (£405,900). Multiplying the mean average turnover by the estimated number of social enterprises leads to an estimated total annual turnover generated of £54.9 billion for all social enterprise SMEs. The vast majority (85 per cent or £46.6 billion) of this turnover is accounted for by social enterprise SME employers, the remainder being generated by sole traders. These figures exclude the turnover of large social enterprises, for which there are no national estimates.

Social Enterprise UK’s 2013 survey also reported on the turnover of social enterprises. The survey data do not provide the basis for global estimates, but indicated that the median turnover of UK social enterprises was approximately £187,000. This figure was below the equivalent figure from the 2011 survey (£240,000) and falls in median turnover were evident across the different age ranges of the social enterprises surveyed. This picture of falling turnover is supported by government figures from the 2012 SBS, which showed that 32 per cent of social enterprise SME employers had seen their turnover fall in the previous 12 months, as compared to 27 per cent that had seen an increase. The 2012 SBS also showed that small and medium-sized social enterprises were more likely to have seen an increase in turnover than a decrease, while the reverse was true for micro social enterprises.

Social enterprises’ expectations as to their future fortunes are rather more positive, with 2012 SBS data showing that 40 per cent of social enterprise SME employers expected their turnover to increase in the next 12 months, as compared to just 9 per cent that expected it to decrease. This outlook was more positive than within the non-social enterprise SME population, where 14 per cent expected to see their turnover fall within the next 12 months. These positive findings are reinforced by Social Enterprise UK’s own survey from 2013, which showed that 63 per cent of social enterprises expected to increase their turnover in the next 2-3 years, as compared to just 9 per cent that expect to see a decrease. These figures are more positive than those in the equivalent SEUK survey from 2011, and in line with SBS 2012 data which indicated that 69 per cent of social enterprises plan to grow over the next 2-3 years.

3.3.6 Profitability of UK social enterprises

The 2012 SBS found that 63 per cent of social enterprise SME employers had made a profit or surplus in their last financial year, significantly below the proportion of non-social enterprise SMEs that had done so (72 per cent). The share of social enterprises in 2012 that had turned a profit was also below the level identified in the equivalent 2010 survey, where 69 per cent of social enterprises had reported a profit or surplus in their last financial year. These figures relate only to SME employers (i.e. not sole trades or large companies).

Social Enterprise UK’s 2013 survey covered all sizes of social enterprise and found that 55 per cent had made a profit in the previous 12 months, below the level in the 2012 SBS but a similar figure to that found in SEUK’s 2011 survey (53 per cent). SEUK reported that profitability was very strongly correlated with size: 76 per cent of social enterprises with a turnover of £1 million+ reported a profit, as compared to just 32 per cent for those with
turnovers of £10,000 or less. The exclusion of sole traders form the SBS 2012 figures may account for the higher profitability rate for social enterprises reported there.

3.4 Characteristics of social enterprises

3.4.1 Legal forms

Social enterprises may take a variety of legal forms in the UK. Commonly used legal forms include Limited company, CIC, and IPS. However some social enterprises may also take on an unincorporated legal form such as an unincorporated association or a trust (or a combination of the two). At the simplest level, a social enterprise can be a sole trader who has decided to donate the majority of the profit he or she makes to a good cause.

There are some key advantages for social enterprises in choosing an incorporated legal form: such forms have a separate legal personality and limited liability for investors. Incorporation is advisable, and often necessary, where businesses are taking on significant contractual obligations or raising external capital. A brief overview of the main incorporated (legal) forms, and their applicability for use by social enterprises is set out below.

■ **Limited companies**: The most common incorporated form for business is the private company - limited either “by shares” (CLS), or alternatively “by guarantee” (CLG). The limited company is subject to stricter regulatory requirements than unincorporated forms: greater accountability and transparency to shareholders and to the public, but with a limited liability. The limited company form offers flexibility for various types of business, including social enterprises. It is possible for the members of a company to include provisions in its articles of association that define its social purpose. However, these provisions can be overturned or amended by a special resolution of the company’s members, and so does not provide lasting protection for the enterprise’s social mission.

UnLtd has recently published research on the use of the CLS legal form for social enterprise, and how those adopting it address the issue of ‘mission lock’.

■ **Community Interest Companies (CICs)**: A Community Interest Company (CIC) is a form of company specifically created specifically for the social enterprise sector. The CIC form has been growing in popularity since its establishment in 2005, and there are now more than 9,400 registered CICs in the UK. CIC’s are required by law to have provisions in their articles of association that define its social purpose, specifically an ‘asset lock’, which restricts the transfer of assets out of the CIC to ensure that they continue to be used for the benefit of the community; and a cap on the maximum dividend and interest payments it can make. The CIC structure provides a clear signal to investors that the enterprise operates for the benefit of the community, and this social purpose is protected by regulation.

■ **Industrial and Provident Societies (IPSs)**: Industrial and Provident societies are organisations conducting an industry, business or trade, either as a co-operative or for the benefit of the community, and are registered under the Industrial and Provident Societies Act 1965. They fall into two main types - Co-operative Societies (which may be social enterprises) and Community Benefit Societies or ‘BenComms’ whose purpose must primarily be “for the benefit of the community”.

■ **Limited Liability Partnerships (LLPs)**: A Limited Liability Partnership (LLP) has a legal personality similar to a company. Although not originally designed for the purpose, the LLP form provides a flexible model for social enterprises, particularly where they seek to work in partnership with other organisations or investors, or adopt a mutual model for ownership and control. LLPs have much more freedom than companies to arrange their

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38 UnLtd (2014) *Pushing Boundaries: Why some social entrepreneurs are using a for-profit legal form for their ventures, and how they are embedding their social mission*

39 https://twitter.com/TeamCIC
affairs as they wish – for example in the way decisions are made, and the way in which profits are distributed. Thus is order to be a social enterprise an LLP need only decide that, rather than each member taking an equal share of the profits, a majority proportion of the profits will be dedicated to a social purpose. Charities may also be social enterprises, and usually take the legal form of unincorporated associations, trusts, or companies limited by guarantee. The Charities Act 2006 legislated for a new legal form of incorporation designed specifically for charities, the Charitable Incorporated Organization (CIO), with powers similar to a company but without the need to register as a company. Becoming a CIO was made possible in 2013.

3.4.2 Business models

3.4.2.1 Sources of income

There is no detailed information on the sources of income of social enterprises in the UK. However, the 2013 survey of 884 social enterprises carried out by Social Enterprise UK reported that 84 per cent of social enterprises derive the majority of their income through trade. Overall, the most common source of income for social enterprises is trade with the general public - 63 per cent of social enterprises derive some income from trading with the general public, and 32 per cent cite this as their main source of income. The next most common source of income is trading with the public sector – 52 per cent of social enterprises derive some income through this route, and 23 per cent describe it as their main or only source of income. The third most common source of income for social enterprises is trade with the private sector – 49 per cent cite this as a source of income and 13 per cent cited trade with the private sector as their principal or only source of income. Other principal or sole sources of income for social enterprises include trade with third sector organisations (10 per cent), grants or core funding from public bodies (7 per cent), and trade with other social enterprises (4 per cent).

Table 3.3 Main sources of income of Social Enterprises in the UK - SEUK 2013

<table>
<thead>
<tr>
<th>Source of income</th>
<th>% citing as a current source of income</th>
<th>% citing as their main or only source of income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade with the general public</td>
<td>63%</td>
<td>32%</td>
</tr>
<tr>
<td>Trade with the public sector</td>
<td>52%</td>
<td>23%</td>
</tr>
<tr>
<td>Trade with the private sector</td>
<td>49%</td>
<td>13%</td>
</tr>
</tbody>
</table>

3.4.2.2 Reliance on public contracting

While some social enterprises, particularly may of the larger ones, rely mainly on public sector contracts for their income, they are in a minority. Just 23 per cent of social enterprises cited trade with the public sector as their main or only source of income in the previous 12 months (Social Enterprise UK 2013 survey). This figure was higher than the equivalent obtained from a similar survey conducted in 2011, where 18 per cent of social enterprises cited trade with the public sector as their main or only source of income. It is suggested that this increase is influenced by a public policy drive to increase the role of social enterprises in the delivery of public services, including through the provisions set out in the Social Value Act.

Trade with the public sector as a social enterprise’s main source of income is directly related to the size of the social enterprise. The largest social enterprises, those with turnovers of over £1 million, are nearly four times as likely (39 per cent) as the smallest social enterprises, with turnovers of less than £10,000 (11 per cent), to cite the public sector as their main source of income. SEUK states that “Smaller social enterprises are finding it more difficult to secure work in the public sector than their larger counterparts – the reasons for

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this are well known (business development capacity, balance sheet, contract size and structure)."

The UK Cabinet Office also reported on the extent to which social enterprises are working for the public sector\(^{41}\). In total 31 per cent of social enterprises were found to have worked on public sector contracts in the previous 12 months, a lower share than reported by Social Enterprise UK, but higher than among SMEs that are not social enterprises (26 per cent). 14 per cent of social enterprises reported that they had bid for new public sector contracts in the preceding 12 months.

### 3.4.2.3 Reliance on grants and donations

Recent estimates indicate that only a minority of social enterprises receive any income from grants or donations. The Cabinet Office report\(^{42}\) based on SBS 2012 found that less than a quarter of social enterprises (22 per cent) had received any grants or donations in the preceding 12 months, and in half of those cases it amounted to less than 25 per cent of their total income. The number of social enterprises receiving income through grants and donation appears to be falling, as a significantly higher proportion (32 per cent) reported receiving grants or donations in the equivalent survey carried out two years' previously.

Social Enterprise UK has also reported on the extent to which grants and donations feature as sources of income for social enterprises. Their most recent survey in 2013\(^ {43}\) found that more than a third (39 per cent) of social enterprises received grant funding as a source of income in the previous year, although only 9 per cent cited this as their main source. Donations played an even smaller role in the income of social enterprises - 21 per cent of social enterprises received a donation or donations over the previous 12 months, but the proportion for which this was their main source of income was <0.1 per cent. These figures suggest greater reliance on grants and donations than reported through the Government surveys, but this is most likely due to differences in the samples used (24 per cent of the Social Enterprise UK sample were registered charities).

### 3.4.2.4 Inter-sector trade

The SEUK 2013 Survey showed that there has been an increase in trade with third sector organisations and trade between social enterprises, as compared to the situation in 2011. The proportion of social enterprises that trade with the third sector increased from 39 per cent in 2011 to 48 per cent in 2013. Inter-social enterprise trade also increased, from 29 per cent to 40 per cent, across the same period. This pattern was even stronger in the areas of highest economic deprivation, where 59 per cent of social enterprises trade with the third sector and 49 per cent trade with other social enterprises. Chasing the ‘sound pound’ is also attractive enough to encourage start-up social enterprises. 13 per cent of start-ups (as opposed to 7 per cent of older social enterprises) cite trade with the third sector as their main source of income.

Social Enterprise UK report: "It may be that we are seeing ethical choice in action: an emerging network of trade, one based on values as much as value – the ‘sound pound’. In this scenario, third sector organisations and social enterprises themselves are choosing to ‘buy social’, including social enterprises in their supply chain as a way of maximizing their own social impact. This inter-trading can be particularly crucial at a time of constrained resources.”

### 3.4.2.5 Social impact

Social enterprises deliver societal impact in a variety of ways:

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By adopting a business model where the profits from trading are principally reinvested in order to further the business’ social mission

By providing products or services that directly support society, communities and the environment (e.g. welfare services, energy saving devices, affordable housing)

By providing employment opportunities for disadvantaged groups (as in the case of Social Firms and Work Integration Social Enterprises)

By trading with other social enterprises or third sector organisations

In the UK there has been a growing interest in how to measure social impact or social value, driven both by the sector itself, and by the desire for investors to quantify the social return on investment (see Section 2.5.2).

3.4.2.6 Use of paid workers

The use of paid workers is common practice in social enterprises, given that they operate as businesses that trade much like any other, and the sector does not rely on volunteering to any great extent. This is one of the key differences between social enterprises and most charities – the former trade like any business and pay wages to staff, while the latter rely on grants and donations and make extensive use of volunteers.

Existing definitions in most cases do not explicitly require the use of paid workers, although this is assumed / implicit in the concept of a business or enterprise, as is an expectation that they will pay a ‘fair’ wage. In addition, representative bodies and networks such as Social Enterprise UK and promote the idea that social enterprises should pay reasonable salaries to their staff.

For example, Senscot’s Code of Practice for social enterprises has a specific section on ‘Good employers’ (“SEs are good employers - who continually strive to offer a dignified workplace experience; aiming to pay a ‘living wage’; and having flatter pay structures than the private sector. SEs do not pay inequitable salaries to senior management; a maximum ratio of 1:5 between lowest and highest is a useful guide.”)

3.4.3 Fields of activity

3.4.3.1 Sectoral profile

The UK Cabinet Office report ‘Social Enterprise: Market Trends’ (2013) provides data on the prevalence of social enterprises operating within each main industry Sector (SIC 2007). The data show that UK social enterprises are active in all of the main industry sectors, but are most likely to be operating in Food/accommodation (29 per cent), Business services (13 per cent), Health (13 per cent) and Retail/wholesale (12 per cent). Compared to the overall UK population of SMEs, social enterprises are statistically more prevalent in the food/accommodation, health, and arts/leisure sectors, and less prevalent in the manufacturing, construction, information/communications and business services sectors.

The same source reported on the prevalence of social enterprises (as a proportion of all SMEs) within sub-sectors (SIC 2007, two-digit). This found that the sub-sectors with the highest proportion of social enterprises were: Membership organisations (50 per cent); Accommodation (21 per cent); Sport and leisure (21 per cent); Social work (20 per cent); Food service (15 per cent); Food manufacturing (15 per cent); Creative arts (15 per cent); Residential care (13 per cent); Human health (11 per cent). The prevalence of social enterprises in each of these sub-sectors was at least double their prevalence within the general population of SMEs as a whole (6 per cent).
3.4.3.2 **Principal trading activity**

Social Enterprise UK has reported on the principal trading activities of social enterprises, based on its survey conducted in 2013\(^4\). The results, based on a sample of more than 800 social enterprises, are presented in Table 3.4 and reveal a high concentration in the service industries. The SEUK survey also found that social enterprises that have been trading for three years or less are three times as likely as older social enterprises to be operating in healthcare (15 per cent vs 5 per cent), twice as likely to be operating in social care (16 per cent vs 8 per cent) and more likely to be operating in education (23 per cent vs 14 per cent). SEUK suggests that this could be due to new entrants responding to opportunities found in government agendas, such as health service reform and localism, or it may be that these are simply areas where there are significant social challenges to tackle.

### Table 3.4  Principal trading activity of Social Enterprises in the UK - SEUK 2013

<table>
<thead>
<tr>
<th>Principal trading activity</th>
<th>% of SEs citing as a principal trading activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business support/consultancy</td>
<td>16%</td>
</tr>
<tr>
<td>Education</td>
<td>16%</td>
</tr>
<tr>
<td>Employment and skills</td>
<td>14%</td>
</tr>
<tr>
<td>Housing</td>
<td>13%</td>
</tr>
<tr>
<td>Retail</td>
<td>11%</td>
</tr>
<tr>
<td>Culture and leisure</td>
<td>11%</td>
</tr>
<tr>
<td>Social care</td>
<td>10%</td>
</tr>
<tr>
<td>Financial support and services</td>
<td>9%</td>
</tr>
<tr>
<td>Workspace</td>
<td>8%</td>
</tr>
<tr>
<td>Health care</td>
<td>8%</td>
</tr>
<tr>
<td>Environmental - e.g. recycling</td>
<td>8%</td>
</tr>
<tr>
<td>Creative industries - e.g. web, design, print</td>
<td>7%</td>
</tr>
<tr>
<td>Hospitality</td>
<td>4%</td>
</tr>
<tr>
<td>Childcare</td>
<td>3%</td>
</tr>
<tr>
<td>Transport</td>
<td>2%</td>
</tr>
<tr>
<td>Other</td>
<td>11%</td>
</tr>
</tbody>
</table>

Within these broad sectoral classifications and areas of principal trading activities, social enterprises within the UK can and do operate in almost every area socio-economic area. They run restaurants (e.g. Jamie Oliver’s Fifteen), operate buses (HCT Group), make chocolate (Divine Chocolate, Chocolate Memories), import and sell gifts and other products (Heart and Home), and operate tourist attractions (The Eden Project). Many provide services and/or create employment opportunities for the social groups they serve (e.g. The Big Issue), and it is considered by stakeholders to be an advantage when social enterprises’ areas of trade are in close alignment with their social mission.

3.4.4 **Target groups**

The main target groups served by social enterprises in the UK can be defined with reference to their social mission or objectives. Social Enterprise UK’s 2013 survey revealed that social enterprises’ main objectives are focused on helping communities (in general), the unwell (health), the disadvantaged and vulnerable, and the unemployed. They also tackle social and financial exclusions, education and literacy, housing and the environment. A significant proportion of social enterprises (20 per cent) also consider support to other social enterprises or third sector (charitable) organisations as a core part of their mission (see Table 3.5).

---

The SEUK 2013 survey noted that social enterprises in the most deprived communities are more likely than social enterprises in the least deprived to focus on creating employment opportunities (32 per cent vs 17 per cent), addressing social exclusion (20 per cent vs 12 per cent) and addressing financial exclusion (15 per cent vs 6 per cent).

Table 3.5  Main social and/or environmental objectives of Social Enterprises - SEUK 2013

<table>
<thead>
<tr>
<th>Social enterprise objectives</th>
<th>% of social enterprises citing as a main social and/or environmental objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improving a particular community</td>
<td>37%</td>
</tr>
<tr>
<td>Improving health and well-being</td>
<td>31%</td>
</tr>
<tr>
<td>Creating employment opportunities</td>
<td>27%</td>
</tr>
<tr>
<td>Supporting vulnerable people</td>
<td>25%</td>
</tr>
<tr>
<td>Supporting other social enterprises or third sector organisations</td>
<td>20%</td>
</tr>
<tr>
<td>Protecting the environment/fair trade</td>
<td>18%</td>
</tr>
<tr>
<td>Promoting education and literacy</td>
<td>17%</td>
</tr>
<tr>
<td>Addressing social exclusion</td>
<td>16%</td>
</tr>
<tr>
<td>Addressing financial exclusion</td>
<td>13%</td>
</tr>
<tr>
<td>Supporting vulnerable children and young people</td>
<td>13%</td>
</tr>
<tr>
<td>Providing affordable housing</td>
<td>11%</td>
</tr>
</tbody>
</table>

3.5  Summary of mapping results

A summary of the mapping results is shown in Table 3.6 below. It shows that the UK’s dedicated legal form for social enterprise – the CIC – is fully compatible with the EU definition, and as such there exists at least 9,500 ‘EU definition’ social enterprises in the UK. In addition there are large numbers of ‘de facto’ social enterprises (meeting the UK government operational definition and/or the definition used by SEUK) that may or may not meet all of the EU core criteria. Specifically, requirements within the EU definition relating to existence of an asset lock and a requirement for democratic and/or participatory governance in decision-making processes, may place a significant proportion of ‘de facto’ UK social enterprises outside the scope of what is defined as an EU social enterprise.
### Table 3.6  Mapping of social enterprises in the UK

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Criterion</th>
<th>CIC legal form definition</th>
<th>UK government (SBS) definition</th>
<th>Social Enterprise UK definition</th>
<th>Social Enterprise Mark definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core criteria</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entrepreneurial dimension</td>
<td>Engagement in economic activity</td>
<td>Yes, must be a company engaged in economic activity</td>
<td>Yes, must be a business and must generate at least 25% of its income from trade</td>
<td>Yes, must generate the majority of its income through trade</td>
<td>Yes, must earn at least 50% of its income from trading</td>
</tr>
<tr>
<td>Social dimension</td>
<td>Social aim (public benefit)</td>
<td>Yes, must have provisions in articles of association to enshrine social purpose. Must make a community interest statement declaring that its activities will be carried on for the benefit of the community and how this will be achieved.</td>
<td>Yes, must consider itself as a business that has primarily social/ environmental aims. Must agree that it is a 'very good fit' with: 'a business with primarily social/ environmental objectives, whose surpluses are principally reinvested for that purpose in the business or community rather than mainly being paid to shareholders and owners'</td>
<td>Yes, the primary aim of all social enterprises must be a social or environmental one. Social enterprises should have a clear social and/or environmental mission set out in their governing documents.</td>
<td>Yes, must have social and/or environmental aims and in its constitution needs to show that it has clear social and/or environmental aims</td>
</tr>
<tr>
<td>Independence and governance</td>
<td>Distribution of profits and/or assets according to defined rules and procedures</td>
<td>Yes, strict rules regarding distribution of profits and assets (see below)</td>
<td>Partly (see below)</td>
<td>Yes (see below)</td>
<td>Yes (see below)</td>
</tr>
<tr>
<td></td>
<td>Profit cap - existence of profit cap/ limited profit distribution</td>
<td>Yes, cap on the maximum dividend and interest payments it can make (currently restricted to no more than 35% of the aggregate distributable profits)</td>
<td>Yes, it should not pay more than 50% of profit or surplus to owners or shareholders</td>
<td>Yes, the majority (more than 50%) of an organisation’s profits should be reinvested to further its social or environmental mission</td>
<td>Yes, constitution must show that a principle proportion (50% or more) of any profit made by the business is dedicated to social/ environmental purposes. It is ok to not make a profit</td>
</tr>
<tr>
<td></td>
<td>Asset lock - existence of asset lock</td>
<td>Yes, requirement that assets are locked and protected for social purpose. Restrictions on transfer of assets</td>
<td>Not required</td>
<td>Not required but desirable. Vital in cases of public assets / services, desirable but not essential in cases where private personal investment forms the basis of the asset</td>
<td>Yes, constitution must show that if the company ceased trading remaining assets would be distributed for social/ environmental purposes</td>
</tr>
<tr>
<td></td>
<td>Autonomy - organisational autonomy</td>
<td>Implied (companies are autonomous organisations, independent from state)</td>
<td>Implied (companies are autonomous organisations, independent from state))</td>
<td>Yes, social enterprises are autonomous organisations that are independent of the state</td>
<td>Yes, independence and self-governance distinguishes business from the public sector</td>
</tr>
<tr>
<td></td>
<td>Democratic and/or participatory governance in decision-making processes</td>
<td>Members (and directors) are under a stronger obligation to have regard to the wider community and involve stakeholders in its activities than might otherwise be the case</td>
<td>Not explicitly required</td>
<td>Social enterprises should be owned and controlled in the interest of their social or environmental mission</td>
<td>Not explicitly required</td>
</tr>
<tr>
<td>Dimension</td>
<td>Criterion</td>
<td>CIC legal form definition</td>
<td>UK government (SBS) definition</td>
<td>Social Enterprise UK definition</td>
<td>Social Enterprise Mark definition</td>
</tr>
<tr>
<td>-----------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>---------------------------</td>
<td>--------------------------------</td>
<td>--------------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>Number45</td>
<td></td>
<td>9,440 (registered)</td>
<td>284,000 (estimated)</td>
<td>not available (Social enterprise members)</td>
<td>314 (Mark holders)</td>
</tr>
<tr>
<td>Estimated % meeting core criteria</td>
<td></td>
<td>100%</td>
<td>25%</td>
<td>80%</td>
<td>95%</td>
</tr>
<tr>
<td>Estimated number of EU social enterprise</td>
<td></td>
<td>9,545 (July 2014)</td>
<td>71,000</td>
<td>:</td>
<td>300</td>
</tr>
</tbody>
</table>

**Mapping criteria**

**Entrepreneurial dimension**
- Share of income derived from: fees (incl. membership fees); trading income; rental income on assets; income from public contracting (both competitive tenders and direct contracting); grants and donations etc. - Not specified, but trading income assumed - Variable, must generate 25% or more of its income from trading, and should not generate more than 75 per cent of income from grants and donations - Variable. Must generate the majority (more than 50%) of income through trade - Variable. Must earn at least 50% of its income from trading. Trading excludes grants and donations.

- The use of paid workers - Not a specific requirement but implied / expected - Not mentioned - Social enterprises should pay reasonable salaries to staff - Not mentioned

**Social dimension**
- Fields of activity - Any - Any - Any - Any

- Target groups (customers/ users of goods and services provided) - Any - Any - Any - Any

**Independence and governance**
- Transparency - a system for measuring and reporting impact - Must satisfy the Regulator that a reasonable person might consider that the CIC’s activities are or will be carried on for the benefit of the community - Not required - Must be able to explain and justify the value of the social change they aim to bring about. Transparent financial, social and environmental reporting is absolutely essential, but flexibility on how this is done - Must demonstrate that social/environmental aims are being achieved - externally verified evidence required to show the organisation is meeting its social or environmental objectives

**Other characteristics**

- Legal forms - CICs must be limited companies - Any - Any - Must have own legal identity evidenced by a Company or IPS registration number

**NNB: there are likely to be overlaps across the categories listed above. For example, some CICs will be members of the SEUK and/or Social Enterprise Mark holders**

45 Note that the four UK definitions overlap (are not mutually exclusive) and so the estimates of numbers reported here should not be summed.
3.6 Opportunities and barriers

3.6.1 Opportunities and enabling factors

The future of the social enterprise sector in the UK looks positive. A range of recent government policy measures (tax breaks, Big Society Capital, Social Value Act, etc.) should help to improve the sector’s access to finance and to public procurement/delivery of public services, while the very substantial and significant network of support providers in the UK – many of which are themselves social enterprises or other third sector organisations – provides a solid base of support provision across all stages of development. Improved tools and practices for measuring and valuing social impact should also provide increasing opportunities for the sector to demonstrate the economic significance of its contribution to the UK and should help to build further momentum within the sector, increasing its ability to access finance and contracts for the delivery of public services.

The UK Cabinet Office\(^{46}\) has reported a very healthy picture concerning the business capabilities of social enterprises in the UK. Self-reported perceptions of whether the business is strong or poor at various business activities, derived from the national SBS (2012), show that a majority of social enterprises consider themselves strong at people management (76 per cent), taking decisions on regulation and tax issues (68 per cent), developing and implementing a business plan and strategy (61 per cent), and operational improvement (e.g. adopting industry best practice (59 per cent). Only 10 per cent or less of the social enterprises surveyed rated themselves as poor in these areas, and social enterprises were more likely than the general SME population to consider themselves strong and less likely to consider themselves poor at each activity. The only areas where social enterprises were more likely to rate themselves as poor rather than strong was in relation to entering new markets and accessing external finance.

The same survey also revealed the high rate of innovation within UK social enterprises. Two thirds (67 per cent) of the social enterprises from the 2012 SBS had introduced a new or significantly improved product or service in the previous 12 months, as compared to 43 per cent of non-social enterprise SMEs. In addition, almost half (48 per cent) of social enterprises had introduced new processes in the previous 12 months, as compared to only one third (33 per cent) in the general SME population. Social enterprises were more likely than other businesses to have introduced wholly new (as opposed to improved) product/services and processes.

Another key enabling factor, cited by stakeholders, is the very active and effective collaboration and cooperation between the various stakeholders within the sector, with multiple efforts being made to raise awareness, improve connections and share learning insights and good practices. This combination of factors - existing capabilities, effective cooperation among stakeholders, dynamism and innovation, a positive and supportive policy environment, improved access to finance, improved demonstration of social value, and further strengthening of networks and support provision - should help to enable further growth of the sector and ensure that its outlook remains positive.

Stakeholders such as UnLtd and SEUK have highlighted the important enabling role played by UK government policy to date, but would welcome a broader range of initiatives and support structures, and in particular an increased focus on supporting early stage social entrepreneurs. A key area of future opportunity is to better promote social enterprises within the public mind, helping to move them from their current niche role and into the mainstream. Improved education on social entrepreneurship provides a further opportunity to encourage and nurture future generations of social enterprises, and to improve their chance of success.

At present there is no clear need or demand for social enterprise to be more strictly defined, with UK stakeholders favouring the current flexible approach that allows new business models for social enterprise to develop. Certain features are considered essential (clear

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social mission, trading activity, independence and autonomy, profit distribution in favour of the social mission) but there is little appetite for stricter definitions / additional criteria that would place organisations with these features outside the definition of social enterprise.

3.6.2 Barriers and obstacles

The UK Cabinet Office\textsuperscript{47} has provided data on the main obstacles and barriers to the success of social enterprises as reported through the national SBS 2012. The (weak) economy stands as the main obstacle, affecting 81 per cent of social enterprises, followed by regulations (56 per cent), business taxes (53 per cent), cash flow (52 per cent), competition (50 per cent) and obtaining finance (48 per cent). These financial and regulatory obstacles are more widely reported than those relating to skills shortages, recruitment and premises (each affecting approximately one quarter of social enterprises). In comparison with the general SME population, social enterprises are significantly more likely to cite obtaining finance as an obstacle, and are less likely to cite competition as an obstacle to their success.

Table 3.7 Obstacles to the success of social enterprises – SBS 2012

<table>
<thead>
<tr>
<th>Obstacle</th>
<th>% of social enterprises citing as an obstacle in 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>The economy</td>
<td>81%</td>
</tr>
<tr>
<td>Regulations</td>
<td>56%</td>
</tr>
<tr>
<td>Taxation, VAT, PAYE, NI, rates</td>
<td>53%</td>
</tr>
<tr>
<td>Cash flow</td>
<td>52%</td>
</tr>
<tr>
<td>Competition</td>
<td>50%</td>
</tr>
<tr>
<td>Obtaining finance</td>
<td>48%</td>
</tr>
<tr>
<td>Shortage of skills generally</td>
<td>28%</td>
</tr>
<tr>
<td>Availability/cost of suitable premises</td>
<td>25%</td>
</tr>
<tr>
<td>Recruiting staff</td>
<td>25%</td>
</tr>
<tr>
<td>Pensions</td>
<td>15%</td>
</tr>
<tr>
<td>Shortage of managerial skills/expertise</td>
<td>15%</td>
</tr>
</tbody>
</table>

The SBS 2012 also investigated the specific issues relating to the economy affecting social enterprises. The issues cited most frequently were increased energy costs (74 per cent), pressure to reduce prices (69 per cent), reduction in demand (69 per cent), and increased costs of raw materials (61 per cent). Social enterprises were not shown to be any more widely affected than the general population of SMEs by these issues, except in the case of increased energy costs.

Social Enterprise UK also reported on the barriers and obstacles faced by social enterprises, based on its survey conducted in 2013\textsuperscript{48}, and differentiated between barriers experienced at start-up and barriers to sustainability and growth:

- The main barriers experienced by social enterprises at \textbf{start up} are: Lack of, or poor access to, finance or funding (40 per cent); Cash flow (25 per cent); Lack of marketing expertise / marketing issues (21 per cent); Time pressures (20 per cent);

- The main barriers to \textbf{sustainability and growth} of social enterprises are: Lack of, or poor access to, finance or funding (39 per cent); Economic climate / recession (32 per cent); Prohibitive commissioning / procurement with public services (18 per cent); Cash flow (17 per cent).

Both surveys highlight the main external barriers faced by social enterprises (the economic climate, lack of access to finance, cash flow) while the Social Enterprise UK survey also highlights internal barriers, including lack of marketing expertise and time pressures.


### Annex 1 Comparative overview of legal forms most commonly used by social enterprises in the UK

<table>
<thead>
<tr>
<th>Legal form</th>
<th>Company limited by shares (“CLS”)</th>
<th>Company limited by guarantee (“CLG”)</th>
<th>Co-Operative Society</th>
</tr>
</thead>
<tbody>
<tr>
<td>Definition</td>
<td>A CLS is a form of company commonly used by for-profit organisations. A CLS is typically established with commercial aims, to distribute profits to its shareholders. A company established with solely commercial aims would not be considered a social enterprise. A social enterprise can still use a CLS as its legal form. The constitution (Articles of Association) of a CLS can be drafted to provide for the features of a social enterprise. For example, the Articles can include social purposes and provisions which cap the dividends that can be paid to shareholders. Unless the Articles of Association also include ‘entrenchment provisions’, which seek to embed these features in the Articles, these features can be amended by a special resolution of 75% or more of the company’s members. This means that the company’s assets are not “locked” for use for social purposes in the same way as the assets held by a community interest company or charity. A social enterprise that uses the CLS legal form is able to entrench certain features of its Articles of Association so they cannot be amended by a simple special resolution of the members. For example, the company’s Articles could be drafted so that amendments to the Articles could not be made without the consent of another social enterprise. However, any entrenched provision can still be amended if all of the company’s members agree.</td>
<td>A CLG has a two tier structure of directors and members like a company limited by shares but rather than shareholders, its members are guarantors who agree to contribute a nominal amount, usually £1, in the event that the company is wound up. A company limited by guarantee does not have share capital. A CLG can be used as the legal form for a not-for-profit organisation because it does not have shares and cannot pay dividends. However, provided the company limited by guarantee does not have charitable status or some other restriction set out in its Articles of Association which prohibits it from doing so, the company can enter into contracts with its members to provide bonuses which are related to the company’s performance. A CIC limited by guarantee has a two tier structure of directors and members but its members are guarantors who agree to contribute a nominal amount, usually £1, in the event that the CIC is wound up. A CIC limited by guarantee does not have share capital and is not profit distributing. In contrast Charitable CLG - A CLG can have charitable status provided certain provisions are included in its Articles of Association. Charitable status is a status</td>
<td>A cooperative society is an association of persons united to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. Co-operative societies, though not exclusively social enterprise orientated, are often established or run to achieve social value. Because co-operative societies have members - not shareholders - that take decisions democratically, societies are perfectly designed to deliver social value.</td>
</tr>
</tbody>
</table>
### Country Report: United Kingdom

<table>
<thead>
<tr>
<th>Legal form</th>
<th>Company limited by shares (“CLS”)</th>
<th>Company limited by guarantee (“CLG”)</th>
<th>Co-Operative Society</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>which attaches to a legal form, not a legal form itself. There are strict limits on the financial gains that individuals and businesses working with charities (in any legal form) can receive.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Not all CLGs or charitable CLGs will be social enterprises. A company limited by guarantee can be considered to be a social enterprise if it provides goods or services which generate a social return or, has a method of production of goods or services that embodies its social purpose, even though it is prohibited from distributing any profits. A charitable company which simply grants funds to other charities or charitable projects is not a social enterprise.</td>
<td></td>
</tr>
<tr>
<td>A business may have the same Articles of Association as a for-profit commercial business but in practice may operate as a business with a social purpose. There is some scope for argument as to whether such organisations can still be considered “social enterprises” if the directors could freely decide to change the business’ emphasis to generating profit for owners and shareholders to the detriment of its social aims.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>CIC - A Community Interest Company (CIC) has the same structure as a CLS company with special features including a requirement only to act in the community interest, an asset lock and dividend cap. A CIC limited by shares is capable of distributing profits.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Key national legislation governing legal form

- Companies Act 2006 (“CA 2006”)
- **CIC** - Companies (Audit, Investigations and Community Enterprise) Act 2004 (“CAICE Act”)
- **CIC** - Community Interest Company Regulations 2005 (“CICR”)
- Companies Act 2006 (“CA 2006”)
- **CIC** - Companies (Audit, Investigations and Community Enterprise) Act 2004 (“CAICE Act”)
- **CIC** - Community Interest Company Regulations 2005 (“CICR”)
- **Charitable CLG** - Companies limited by guarantee with charitable status based in England and Wales are also governed by the Charities Act 2011 (“CA 2011”)
- **Charitable CLG** - Companies limited by guarantee with charitable status based in Scotland are also governed by the Charities and Trustee Investment (Scotland) Act 2005 (“CTI(S) 2005”).

The Industrial and Provident Societies Act [Co-operative and Community Benefit Societies and Credit Unions Act] 1965 (IPSA).
<table>
<thead>
<tr>
<th>Legal form</th>
<th>Company limited by shares (&quot;CLS&quot;)</th>
<th>Company limited by guarantee (&quot;CLG&quot;)</th>
<th>Co-Operative Society</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Whether the legal form is used exclusively or not exclusively for social enterprise</strong></td>
<td>A company limited by shares can pursue any purpose and a company limited by shares' purposes (objects) will be unrestricted unless any restrictions on a company's objects are specifically set out in the company's Articles of Association (S. 31 CA 2006).</td>
<td>Not exclusively for social enterprises.</td>
<td>Not exclusively for social enterprises.</td>
</tr>
<tr>
<td></td>
<td>The objects of a CLS may include a reference to the social enterprise' social aim(s). Unless the Articles of Association include entrenchment provisions, the objects of a CLS can be amended by special resolution of the members.</td>
<td>A CLG can pursue any purpose and a company limited by guarantee's purposes (objects) will be unrestricted unless any restrictions on a company's objects are specifically set out in the company's Articles of Association (S. 31 CA 2006).</td>
<td>A co-operative can pursue virtually any purpose subject to the requirement that there should be a common, economic, social or cultural need or interest among the members of the co-operative.</td>
</tr>
<tr>
<td><strong>CIC</strong> - Exclusively for social enterprises.</td>
<td></td>
<td>The objects of a social enterprise which is a CLG may include a reference to the social enterprise' social aim(s). Unless the Articles of Association include entrenchment provisions, the objects of a company limited by guarantee can be amended by special resolution of the members.</td>
<td>The business should be run for the mutual benefit of the members so that the benefit the members obtain will stem principally from their participation in the business.</td>
</tr>
<tr>
<td></td>
<td>No requirement to follow a stated purpose but the CIC’s activities must satisfy community interest test (i.e. satisfy the CIC Regulator that a reasonable person might consider that the CIC’s activities are or will be carried on for the benefit of the community).</td>
<td><strong>CIC</strong> - Exclusively for social enterprises.</td>
<td>Finally, the co-operative must work for the sustainable development of its community.</td>
</tr>
<tr>
<td></td>
<td>Charitable CLG - A charity is established to achieve its charitable purposes (S.1(1)(a) CA 2011) and a charitable company limited by guarantee must only carry out activities which fall within recognised charitable purposes (S.3 CA 2011) and which are for the public benefit (S.4 CA 2011).</td>
<td>No requirement to follow a stated purpose but the CIC’s activities must satisfy community interest test (i.e. satisfy the CIC Regulator that a reasonable person might consider that the CIC’s activities are or will be carried on for the benefit of the community).</td>
<td></td>
</tr>
<tr>
<td>Legal form</td>
<td>Company limited by shares (&quot;CLS&quot;)</td>
<td>Company limited by guarantee (&quot;CLG&quot;)</td>
<td>Co-Operative Society</td>
</tr>
<tr>
<td>-----------</td>
<td>-----------------------------------</td>
<td>--------------------------------------</td>
<td>---------------------</td>
</tr>
<tr>
<td>Methods of creation</td>
<td>To incorporate a CLS (S. 7, 8, 9, 10, 12, 13 and 14 CA 2006):&lt;br&gt;■ A completed application to Companies House for registration of a new company (IN01 form);&lt;br&gt;■ A Memorandum of Association;&lt;br&gt;■ Articles of Association compliant with CA 2006 (and the CAICE Act and CICR for CIC)&lt;br&gt;■ The company formation fee.&lt;br&gt;■ CIC - A ‘community interest statement’ that describes the benefit to the community of the CIC (form CIC36)</td>
<td>To incorporate a CLG (S. 7, 8, 9, 10, 12, 13 and 14 CA 2006):&lt;br&gt;■ Application to Companies House to register a new company (IN01 form)&lt;br&gt;■ A Memorandum of Association&lt;br&gt;■ Articles of Association compliant with CA 2006 (and charity law if charitable CLG/ or the CAICE Act and CICR for CIC)&lt;br&gt;■ CIC - A ‘community interest statement’ that describes the benefit to the community of the CIC (form CIC36)</td>
<td>To incorporate a co-operative:&lt;br&gt;A ‘Mutual Societies application form’ must be completed and signed by three members and the secretary of the co-operative and then submitted to the FCA with the appropriate fee. The name of the society and the name and address to which communications by the Registry are to be sent must be provided. The completed form must be sent to the Registry together with two printed copies of the society’s rules.</td>
</tr>
<tr>
<td>Required capital or assets</td>
<td>A company limited by shares must have minimum of one share with a nominal share value of at least 1 pence, though £1 is common.&lt;br&gt;A public limited company must have an authorised share capital of £50,000.</td>
<td>No required capital or assets.</td>
<td>A co-operative society must have minimum of one share with a nominal share value of at least 1 pence, though £1 is common.</td>
</tr>
<tr>
<td>Management and corporate governance</td>
<td>Required to have a board (minimum of one board member, no maximum).&lt;br&gt;The board of directors is responsible for the</td>
<td>Required to have a board - for a non-charitable company limited by guarantee, it may be only one person.&lt;br&gt;The board of directors is responsible for the</td>
<td>Required to have a board - subject to the overriding requirement that the co-operative is controlled by its members. There are no required minimum or maximum although such limitations may be</td>
</tr>
<tr>
<td>Legal form</td>
<td>Company limited by shares (&quot;CLS&quot;)</td>
<td>Company limited by guarantee (&quot;CLG&quot;)</td>
<td>Co-Operative Society</td>
</tr>
<tr>
<td>--------------------</td>
<td>----------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------</td>
<td>----------------------</td>
</tr>
<tr>
<td></td>
<td>administration and management of the company. Board members are usually appointed by resolution of the other board members or the members. The power to appoint new directors can be given to persons who are not board members or members.</td>
<td>administration and management of the company. Board members are usually appointed by resolution of the other board members or the members. The power to appoint new directors can be given to persons who are not board members or members.</td>
<td>provided for under the society's rules. Directors/officers are elected, directly or indirectly, by members under the society's rules. They sit on the committee of management/board of the co-operative society, and are a group of people, generally taken from its membership, who are delegated by the membership of the co-operative to undertake its strategic management. Members of a governing body or even the entire governing body may be removed by the membership.</td>
</tr>
<tr>
<td></td>
<td>Board members’ legal duties include to promote the success of the company and avoid conflicts of interest (s. 171–177 CA2006). To the extent that the company exists for a social purpose, as set out in the Articles, the obligation of the directors is to advance the social purpose rather than to promote the success of the company for the benefit of members.</td>
<td>Board members’ legal duties include to promote the success of the company and avoid conflicts of interest (s. 171–177 CA2006). To the extent that the company exists for a social purpose, as set out in the Articles, the obligation of the directors is to advance the social purpose rather than to promote the success of the company for the benefit of members.</td>
<td>The duties of the committee members of a society are: a fiduciary (in good faith) duty to act in the best interest of the society as a whole and its members; a duty not to misuse information for their own benefit; a duty not to misuse the society’s property; and a duty not to allow their personal interests to over-ride the interests of the society as a whole.</td>
</tr>
<tr>
<td>CIC - Power to appoint new directors cannot be given to persons who are not members of the CIC if this could result in a majority of the CIC’s directors being appointed by persons who are not members of the CIC. Similar restrictions apply to the power to remove directors.</td>
<td>CIC - Power to appoint new directors cannot be given to persons who are not members of the CIC if this could result in a majority of the CIC’s directors being appointed by persons who are not members of the CIC. Similar restrictions apply to the power to remove directors.</td>
<td>Charitable CLG – Board members also known as trustees. Trustees also have duties under charity law, including a duty to preserve the charity’s assets and to act at all times in the best interests of the charity. Usually minimum of three board members.</td>
<td></td>
</tr>
</tbody>
</table>

<p>| Rights of members | Legal form has members (shareholders). Ultimate control of the CLS rests with the members because of their rights to attend, speak and vote at general meetings. They can pass resolutions which | Legal form has members. Ultimate control of the CLG rests with the members because of their rights to attend, speak and vote at general meetings. They can pass resolutions which | Legal form has members. Each member has an equal vote/say in the governance of the co-operative, regardless of shareholding. Since the existence of a co-operative |</p>
<table>
<thead>
<tr>
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<th>Company limited by guarantee (&quot;CLG&quot;)</th>
<th>Co-Operative Society</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>change the Articles of Association (s. 21 CA 2006) and to appoint and remove directors (s. 168 CA 2006).</td>
<td>change the Articles of Association (s. 21 CA 2006) and to appoint and remove directors (s. 168 CA 2006).</td>
<td>society is based on a contract between its members, the members have ultimate control over the rules and the appointment and removal of directors. In a co-operative society, where the purpose of the IPS is to serve the mutual interests of those who choose to become its members, the accountability of the directors to the members is direct and clear.</td>
</tr>
<tr>
<td></td>
<td>Members have the right to receive the annual accounts, including the directors’ and auditors’ reports (s. 423 CA 2006).</td>
<td>Members have the right to receive the annual accounts, including the directors’ and auditors’ reports (s. 423 CA 2006).</td>
<td>Members are represented at general meetings, and by the co-operative society board/committee.</td>
</tr>
<tr>
<td>Voting and representation of members in general meetings</td>
<td>Not required to hold an annual general meeting (an “AGM”) although they must do so if required by the Articles of Association.</td>
<td>Not required to hold an annual general meeting (an “AGM”) although they must do so if required by the Articles of Association.</td>
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</tr>
<tr>
<td></td>
<td>All other members’ meetings are called “general meetings” and may be called at any time by the directors. Period of notice required is usually 14 days unless a longer period is stated in the Articles of Association (Ss. 307(1) &amp; 301(3) CA 2006). Meetings can be held on shorter notice if a certain percentage of members consent (S. 307(4) CA 2006). Members can also require the directors to call a general meeting. (S. 303 CA 2006)</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>All members can appoint a proxy to attend, speak and vote at a members’ meeting (S. 324 CA 2006). The proxy does not have to be another member. Proxies can vote on a show of hands or a poll, if members have more than one vote depending on shareholding.</td>
<td>All members can appoint a proxy to attend, speak and vote at a members’ meeting (S. 324 CA 2006). The proxy does not have to be another member. Proxies can vote on a show of hands or a poll, if members have more than one vote depending on shareholding.</td>
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</tr>
<tr>
<td></td>
<td>Members’ resolutions are either ordinary resolutions which are passed by a simple majority (51% or more) of members eligible to vote and voting, (s.</td>
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<tr>
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</tr>
<tr>
<td></td>
<td>282 CA 2006) or special resolutions which are passed by 75% or more members eligible to vote and voting. Certain decisions, such as amendments to the Articles of Association, can only be made by special resolution (S. 283 CA 2006).</td>
<td>282 CA 2006) or special resolutions which are passed by 75% or more members eligible to vote and voting. Certain decisions, such as amendments to the Articles of Association, can only be made by special resolution (S. 283 CA 2006).</td>
<td>Legal form has shares. Shares have voting rights only insofar as each shareholding confers one vote.</td>
</tr>
<tr>
<td>Types of shares, if any</td>
<td>Legal form has shares. Shares usually carry voting rights but this is not always the case. The rights attaching to the shares are set out in the Articles of Association. Dividends are distributed on paid-up share capital (The statutory rules relating to distributions are set out in Part 23 of CA 2006.). CLSs may make distributions only out of profits available for the purpose, which are basically determined as accumulated realised profits less accumulated realised losses (S. 830 CA 2006).</td>
<td>Not applicable to legal form. CIC - A CIC limited by guarantee does not have shares.</td>
<td>Legal form has shares. Shares have voting rights only insofar as each shareholding confers one vote.</td>
</tr>
</tbody>
</table>

It is possible that the Articles of Association of a social enterprise could include a restriction or prohibition on paying dividends. Alternatively, the Articles of Association (or a shareholders’ agreement) could contain a mechanism requiring the payment of dividends only in certain circumstances; such a mechanism could work on the basis of a percentage of distributable profits. Unless the Articles of Association include entrenchment provisions, any limitations on the dividends that can be paid to shareholder may be amended by special resolution of the members.
### Legal form

<table>
<thead>
<tr>
<th>Distribution of dividends on share capital</th>
<th>Company limited by shares (“CLS”)</th>
<th>Company limited by guarantee (“CLG”)</th>
<th>Co-Operative Society</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CIC</strong> - A CIC limited by shares has shares, which may be bought and sold in the market in the same way as a commercial company.</td>
<td>Subject to profits available for distribution, there are no limits on dividends unless the Articles of Association include any limits.</td>
<td>Not applicable to legal form.</td>
<td>In broad terms, a cooperative society is not entitled to be registered if it carries on, or intends to carry on, business with the object of making profits mainly for the payment of interest, dividends or bonuses invested or deposited with, or lent to, the society or any other person.</td>
</tr>
<tr>
<td><strong>CIC</strong> - Dividends are distributed on paid-up share capital but subject to a dual cap. The first cap limits aggregate distributions (S. 19 CICR) in any year to 35% of the CIC’s distributable profit and the second cap limits the return per share (S. 18 CICR) to 20 per cent of the paid up value of a share (although this cap is likely to be removed in the future). These caps may be varied by the CIC Regulator.</td>
<td>Any dividends paid by the CIC to the asset locked body specified Articles of Association or to another asset locked body (with the consent of the Regulator) are exempt from any cap.</td>
<td></td>
<td>Any distribution of surplus capital is made subject to the requirement that it is not needed by the business of the co-operative.</td>
</tr>
<tr>
<td>Distribution of reserves</td>
<td>No legal provisions regarding reserves.</td>
<td>No legal provisions regarding reserves.</td>
<td>Legal reserves must be used for the business of the co-operative.</td>
</tr>
<tr>
<td>Allocation of the surplus particularly to compulsory legal reserve funds</td>
<td>No requirement to allocate surpluses to compulsory legal reserve funds.</td>
<td>No requirement to allocate surpluses to compulsory legal reserve funds.</td>
<td>There are no restrictions upon the use of surplus capital for the business of the co-operative.</td>
</tr>
<tr>
<td>Distinction dividends/refunds and distribution of refunds</td>
<td>Refunds not applicable to legal form.</td>
<td>Refunds not applicable to legal form.</td>
<td>Member refunds will be made subject to the rules of the co-operative and must not contravene the ICA’s principles. There is no statutory distinction between dividends and refunds.</td>
</tr>
<tr>
<td>Restrictions on</td>
<td>The objects set out in the company’s Articles of</td>
<td>No restrictions unless charitable (see below) or</td>
<td>Any economic activity undertaken by a co-operative</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Legal form</th>
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</tr>
</thead>
<tbody>
<tr>
<td>ability to trade</td>
<td>Association may include a reference to a social enterprise’ social aim(s). If this is the case then the company should only pursue economic activity which is consistent with the stated social aim. If the company’s Articles of Association do not expressly state objects, the company’s purposes are unrestricted and it can undertake any economic activity.</td>
<td>objects set out in the CLG’s Articles of Association may include a reference to a social enterprise’ social aim(s), then the CLG should only pursue economic activity which is consistent with the stated social aim. <strong>CIC</strong> - A CIC can trade in the community interest. The ‘asset lock’ is not a bar to the CIC using its assets and reserves for trading or ordinary business activities. For example, a CIC may take on a commercial venture with the purpose of generating profits to support its objects. If the venture fails and makes losses the CIC must still meet its contractual obligations in regard to the venture even if this means depleting its assets or selling some of them to meet its debts.</td>
<td>must be undertaken subject to the ICA’s principles, otherwise it will not be considered a bona fide co-operative society within the meaning of IPSA. Principally, the economic activity must be “sustainable”. The business of the society should not be conducted for the benefit of providers of loan capital</td>
</tr>
<tr>
<td>Co-Operative Society</td>
<td></td>
<td></td>
<td>The share capital of a co-operative society should not exceed what is required to support the society’s activities. If the society is able to meet its working capital requirements from reserves, there can be no proper reason to seek more share capital because a share offer in these circumstances is not commensurate with the ICA’s principles.</td>
</tr>
</tbody>
</table>

**CIC** - A CIC can trade in the community interest. The ‘asset lock’ is not a bar to the CIC using its assets and reserves for trading or ordinary business activities.

For example, a CIC may take on a commercial venture with the purpose of generating profits to support its objects. If the venture fails and makes losses the CIC must still meet its contractual obligations in regard to the venture even if this means depleting its assets or selling some of them to meet its debts.

**Charitable CLG** - No restriction trade which is carried out by a charity in fulfilment of its main or primary purpose (charitable objects) as set out in its Articles of Association (S. 478 and 479 Corporation Tax Act 2010).

Charities permitted to derive up to 25% of their turnover from non-primary purpose trading, subject to a maximum tax-exempt limit of £50,000. Above this threshold, the profits of the trading activity would be liable for corporation tax. If threshold exceeded charities can establish a subsidiary company to undertake the trading activity (typically a private company limited by shares in which the sole shareholder is the charity. Since the trading company is not a charity, there are no restrictions on its ability to trade. Unlike a charity it is liable to corporation tax, but usually the profits which it
## Legal forms

<table>
<thead>
<tr>
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<tbody>
<tr>
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<td>makes are paid up to the parent charity under the gift aid scheme. This reduces the trading company’s taxable profits – in many cases to zero, which means that it has no tax to pay. This enables the charity to undertake a trading activity, but via a mechanism that is tax efficient.</td>
<td>The CLG’s Articles of Association can stipulate that membership of the company is subject to members paying subscriptions which are essentially a membership fee. This is a separate and different requirement to members providing a guarantee in the event of a company winding up.</td>
<td>There will be circumstances where a society, for example, a co-operative society needing to invest to compete with other businesses, has a need for capital. Since it is not possible for a society to issue shares as an investment in the way a company would, and as borrowing may be expensive or impossible, it may be legitimate in these circumstances for the society to look to its members for additional share capital. The terms of any share offer must not prejudice the commitment of the society to the ICA’s principles.</td>
</tr>
<tr>
<td>Internal financing (e.g. investment title, member investors, increase in members contributions)</td>
<td>Subject to any restrictions set out in the Articles of Association, a CLS can access external investment in the same way as a for-profit commercial company. A CLS can allot or issue shares to its members to raise capital. The statutory rules restricting directors’ powers to allot shares are supplemented by the pre-emption rules set out in Chapter 3 of Part 17 of the CA 2006. Pre-emption is a right of first refusal for existing shareholders over issues of new shares, allowing them to preserve their percentage shareholding in the company (provided they have sufficient funds available to subscribe for the new shares). An investor who makes an equity investment into the company by purchasing shares, will become a member of the company. A CLS can also seek loans from its members and it can issue bonds to its members.</td>
<td>The level of subscriptions can be set out in the Articles of Association but it is more usual for the Articles of Association to give directors the power to determine what the level of subscription should be. A CLG can also seek donations or loans from its members and it can issue bonds to its members.</td>
<td></td>
</tr>
<tr>
<td>External financing (e.g. banking loans, issuing bonds, specific investment)</td>
<td>A CLS can be financed by offering equity in the company in return for external investment, loans or other forms of debt, such as bonds.</td>
<td>A CLG cannot raise funds by way of equity investment. However, a CLG can obtain loans from banks or other financers or it can issue bonds. A CLG could enter into a joint venture with other</td>
<td>A co-operative can raise external investment through either conventional equity finance or loan stock issuance.</td>
</tr>
<tr>
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<tr>
<td>funds) including possibility for non-member investors</td>
<td>If the investor is providing a loan or purchasing bonds, there is no requirement for an investor to become a member.</td>
<td>If the investor is solely providing a loan or purchasing bonds, an investor will not become a member.</td>
<td>In respect of non-user investors, the co-operative will need to be satisfied that a society inviting investors into membership has protections in its rules which ensure that the participation of investors will not prejudice its standing as a bona fide co-operative society; the rules of a society must expressly provide for investor membership and set out the rights and conditions attaching to the shares, including the restriction on voting on a resolution to convert to company status.</td>
</tr>
<tr>
<td><strong>CIC</strong></td>
<td>There are limits on the amount of interest that can be paid if the CIC agrees to pay interest at a rate linked to the CIC’s financial performance, which is known as ‘performance related interest’ – this is currently set at 10% of the average amount of a CIC’s debt in the preceding 12 months. If the investor is solely providing a loan or purchasing bonds, an investor will not become a member.</td>
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<tr>
<td><strong>Charitable CLG</strong></td>
<td>Any private benefit (personal financial gains) to individuals or businesses from a charity’s activities must be incidental to the charity’s wider public benefit. An investor could make a loan to a charity on commercial terms, or a charity could issues bonds. The trustees of the charity would need to assess whether it would be in the best interests of the charity to accept such external investment. A charity’s trading subsidiary could enter into a joint venture with other external investment partners, and any profit made by the trading subsidiary would be gifted to the charity.</td>
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</tr>
<tr>
<td><strong>Transparency and publicity requirements (and related auditing issues)</strong></td>
<td>The CLS must file an annual return at Companies House, including a statement of capital (S. 854 CA 2006; S. 856 CA 2006). The CLS must file an original copy of its annual accounts, signed by a director or the secretary, together with the directors’ report and auditors’ report at Companies House. A CLS’s annual accounts for a financial year must be audited unless the company is exempt from</td>
<td>The CLG must file an annual return at Companies House (S. 854 CA 2006; S. 856 CA 2006). The CLG must file an original copy of its annual accounts, signed by a director or the secretary, together with the directors’ report and auditors’ report at Companies House. A CLG’s annual accounts for a financial year must be audited unless the company is exempt from</td>
<td>Every society must submit an annual return to the FCA within seven months of the end of its year of account. The annual return must include a balance sheet and an auditor or accountant's report on the accounts. Societies must keep accounts and produce revenue accounts and balance sheets, including group accounts if appropriate, to provide a true and fair</td>
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## Country Report: United Kingdom

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<td>audit under the small companies exemption, dormant companies exemption or if the company non-profit making and subject to a public sector audit (S. 475 CA 2006).</td>
<td>audit under the small companies exemption, dormant companies exemption or if the company non-profit making and subject to a public sector audit (S. 475 CA 2006).</td>
<td>Accounts must be audited by an independent qualified auditor unless exemptions permitting a less rigorous accountant's report apply on the basis of the society's turnover and net assets.</td>
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<td></td>
<td><strong>CIC</strong> - All CICs have to make an annual CIC report to the CIC Regulator containing, in particular, a fair and accurate description of the way the CIC's activities during the financial year have benefited the community and, if applicable, give details of payments to directors and any dividends paid.</td>
<td><strong>CIC</strong> - All CICs have to make an annual CIC report to the CIC Regulator containing, in particular, a fair and accurate description of the way the CIC's activities during the financial year have benefited the community and, if applicable, give details of payments to directors and any dividends paid.</td>
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<td></td>
<td><strong>Charitable CLG</strong> - An annual return must also be submitted to the Charity Commission (S. 169 CA 2011). The level of detail required is depends on the charity’s income. Trustees must also prepare an Annual Report but only charities with gross income of over £25,000 are required to file these with the Charity Commission (S. 162 CA 2011; s. 163 CA 2011). Trustees are encouraged to adopt a &quot;spirit of full disclosure&quot;.</td>
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<tr>
<td><strong>Employee involvement systems</strong></td>
<td>Paid members of staff of the company can sit as directors on the company’s board. Companies can involve their staff in other ways, such as establishing consultative boards or encouraging a staff representative to join the board, but there is no legal requirement for a company to do so.</td>
<td>Paid members of staff of the can sit as directors on the company's board. Companies can involve their staff in other ways, such as establishing consultative boards or encouraging a staff representative to join the board, but there is no legal requirement for a company to do so.</td>
<td>Co-operatives are trading organisations owned by their members and governed on the principle of one member, one vote, regardless of shareholding. Members of a co-operative are often employees, as in worker co-operatives, which are owned and controlled by their employees. Some worker co-operatives are managed on a collective basis, where all employees will be members and will also be committee members or directors. Other worker co-operatives are managed through a smaller committee or board of directors that is democratically elected by and from the employee</td>
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<td>A CLS can structure its internal affairs to incentivise staff as it wishes. A range of options are available</td>
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<td>from forms of share option to ownership by an employee benefit trust where the employees as a group may have indirect ownership of a substantial part of the company.</td>
<td>basis to provide services to the charitable company, provided only a minority of trustees are engaged in this way at any one time. Paid members of staff of a charitable company can sit on its board as trustees only if the Charity Commission gives its prior consent. Trustees can only be remunerated for their role as a trustee if the Charity Commission gives its prior consent.</td>
<td>members.</td>
</tr>
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<td></td>
<td>If, as in the case of workers co-operatives, employees are members of the co-operatives, they can receive a proportion of the co-operative’s profits.</td>
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</table>

**Distribution of the proceeds of dissolution, liquidation, disinvestment (in particular provision of asset lock)**

If a solvent company wishes to wind up its affairs, the directors may make a statutory declaration that the company is able to pay its debts in full within 12 months (S. 89 Insolvency Act 1986 (IA 1986)). The members can then pass resolutions putting the company into voluntary liquidation and appointing an insolvency practitioner as liquidator (S. 84 IA 1986; S. 283 CA 2006). The liquidator will then usually realise the assets and distribute the proceeds according to law.

There are a number of ways of dealing with companies which are unable (or likely to become unable) to pay their debts, which reflect the main forms of insolvency procedure under the general law for ordinary companies:

- Administration - the directors, members or creditors of the company can apply to the court for the appointment of an administrator to manage the company’s affairs. The appointment effectively stops other proceedings against the company with a view to saving it as a going concern in whole or part.
- Members Voluntary Liquidation - depending

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- Members Voluntary Liquidation - depending

The company winding up procedure applies to societies with minor adaptations. As a result, any of the compulsory or voluntary winding up procedures available to companies can be applied to societies by either court order or resolution. That includes a members’ voluntary liquidation.

However, insolvent co-operatives cannot enter into administration, administrative receivership or a company voluntary arrangement (CVA) with their creditors.

In the alternative an ‘Instrument of Dissolution’ signed by three quarters of the members can dissolve it by stating its assets and liabilities, provisions for the payment of creditors and the intended division of any surplus in the Instrument. The document is sent to the FSA with a statutory declaration. The FCA then advertises the dissolution and registers the Instrument.
## Legal form

<table>
<thead>
<tr>
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<td>upon circumstances the administrator, or liquidator, of a company, or its directors can propose a voluntary arrangement for approval by the creditors. This may consist of a compromise whereby the creditors receive less than the full amount of their debts.</td>
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<tr>
<td>- Creditors Voluntary Liquidation - This is similar to Members Voluntary Liquidation (above) except that the liquidator is appointed at a meeting of the creditors.</td>
<td>- Creditors Voluntary Liquidation - This is similar to Members Voluntary Liquidation (above) except that the liquidator is appointed at a meeting of the creditors.</td>
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<tr>
<td>- Compulsory Liquidation - The creditors may apply to the Court for the company to be wound up on the ground that it is unable to pay its debts.</td>
<td>- Compulsory Liquidation - The creditors may apply to the Court for the company to be wound up on the ground that it is unable to pay its debts.</td>
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</tbody>
</table>

### Distribution of the proceeds of dissolution, liquidation, disinvestment (in particular provision of asset lock)

- Any surplus assets and capital can be distributed between the members, provided the Articles of Association do not include an alternative provision.

**CIC** - Regulation 23 of the CICR limits distribution to members, who cannot receive more than the paid up value of their shares (i.e. what was paid to the company in respect of their shares, including both the nominal value of the share and any premium paid to the company).

If an asset locked body is specified in the CIC’s Memorandum and Articles of Association, on winding up/dissolution any surplus assets will be distributed to that body (S. 23 CICR). If however:

(a) an asset locked body is not specified in the CIC’s Memorandum and Articles of Association;  
(b) the specified asset locked body is known to

**CIC** - Regulation 23 of the CICR limits distribution to members, who cannot receive more than the paid up value of their shares (i.e. what was paid to the company in respect of their shares, including both the nominal value of the share and any premium paid to the company).

If an asset locked body is specified in the CIC’s Memorandum and Articles of Association, on winding up/dissolution any surplus assets will be distributed to that body (S. 23 CICR). If however:

(a) an asset locked body is not specified in the CIC’s Memorandum and Articles of Association;  
(b) the specified asset locked body is known to

In the event of the dissolution of a solvent society by any procedure, the rights of members and the destination of any surplus are determined by the society’s rulebook. In the absence of any provision in the society’s rulebook, it is likely that a court will decide that any surplus should be paid to the members.
<table>
<thead>
<tr>
<th>Legal form</th>
<th>Company limited by shares (&quot;CLS&quot;)</th>
<th>Company limited by guarantee (&quot;CLG&quot;)</th>
<th>Co-Operative Society</th>
</tr>
</thead>
<tbody>
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<td></td>
<td>have been wound up itself; or (c) the directors of the specified asset locked today object to the transfer of assets to that body,</td>
<td>have been wound up itself; or (c) the directors of the specified asset locked today object to the transfer of assets to that body,</td>
<td></td>
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<tr>
<td></td>
<td>The CIC Regulator has the power to decide how the assets should be distributed on winding up (S. 23(6) CICR). The CIC Regulator is obliged to consult the directors and members of the CIC and to take into account the CIC’s Memorandum and Articles of Association.</td>
<td>The CIC Regulator has the power to decide how the assets should be distributed on winding up (S. 23(6) CICR). The CIC Regulator is obliged to consult the directors and members of the CIC and to take into account the CIC’s Memorandum and Articles of Association.</td>
<td></td>
</tr>
<tr>
<td>Charitable CLG</td>
<td>The members of a charitable CLG do not receive any distributions after creditors have been repaid (S. 113 CA 2011). It is a fundamental principle of charity law that the charity’s surplus assets and capital must be used for the charity’s objects (purposes) or transferred to a charity or charities to be used for the objects or for similar purposes, or ultimately used for charitable purposes selected by the Charity Commission.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conversion to another form of company</td>
<td>A CLS can covert to become community interest company limited by shares.</td>
<td>A CLS can covert to become an industrial and provident society.</td>
<td>A society can transform itself by using statutory procedures. It can transfer its engagements to, or amalgamate with another society or a company, or convert itself into a company.</td>
</tr>
<tr>
<td></td>
<td>A CLS can covert to become an industrial and provident society.</td>
<td>A CLS cannot convert to a type of legal form that is limited by guarantee.</td>
<td>A co-operative society may, by following a special statutory process for member approval convert to a limited company, converting the shares of members in the society to shares in a limited company. In either case, this makes it possible for the members of a society to participate in the society’s assets.</td>
</tr>
<tr>
<td></td>
<td>CLGs in England, Wales and Scotland can convert into a community interest company limited by guarantee.</td>
<td>CIC - a CIC may convert itself into a charity or a permitted industrial and provident society, which must have an equivalent form of asset lock.</td>
<td></td>
</tr>
<tr>
<td>Legal form</td>
<td>Company limited by shares (&quot;CLS&quot;)</td>
<td>Company limited by guarantee (&quot;CLG&quot;)</td>
<td>Co-Operative Society</td>
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<tr>
<td></td>
<td>industrial and provident society, which must have an equivalent form of asset lock.</td>
<td>A CIC is only allowed to cease being a CIC by dissolution or by converting to a charity or a permitted industrial and provident society, which means that once a company has become a CIC it cannot become an ordinary company. The CIC’s assets must continue to be used in a way that is consistent with the community interest test and may be subject to additional restrictions depending on the objects of the industrial and provident society or charity after the conversion.</td>
<td>In the absence of steps to end the rights of co-operative’s shareholders and replace them with rights in the company as part of the conversion process, the company’s property is liable to the claims of the former co-operative’s shareholders in accordance with their rights under the society’s rules.</td>
</tr>
<tr>
<td></td>
<td>A CIC is only allowed to cease being a CIC by dissolution or by converting to a permitted industrial and provident society, which means that once a company has become a CIC it cannot become an ordinary company.</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>The CIC's assets must continue to be used in a way that is consistent with the community interest test and may be subject to additional restrictions depending on the objects of the industrial and provident society after the conversion.</td>
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<tr>
<td></td>
<td><strong>Charitable CLG</strong> - On conversion to a CIC, the existing property of the charitable CLG, other than its corporate capital, becomes impressed with a trust for charitable purposes. The newly formed CIC will, in relation to its corporate property acquired whilst it was a charity, become a trustee for the charitable purposes contemplated by the objects of the company immediately before conversion and such property must continue to be applied in a way that is consistent with the charitable company’s objects (purposes).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Annex 2  List of Information Sources

A2.1 References


Delta Economics, IFF Research (2011) *Hidden Social Enterprises: Why We Need To Look Again At The Numbers* (http://www.mbsportal.bl.uk/secure/subjareas/smbusentrep/delta_economics/112951hidden10.pdf)


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(http://www.socialenterprise.org.uk/uploads/files/2012/04/what_makes_a_social_enterprise_a_social_enterprise_april_2012.pdf)


(http://www.tandfonline.com/doi/full/10.1080/19420676.2012.762800 - tabModule)

UnLtd (2014) *Pushing Boundaries: Why some social entrepreneurs are using a for-profit legal form for their ventures, and how they are embedding their social mission*  

### A2.2 List of consultees

<table>
<thead>
<tr>
<th>Name of the person interviewed</th>
<th>Organisation/ Role</th>
<th>Stakeholder category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claire Michelet</td>
<td>UK Cabinet Office / Social Enterprise Policy</td>
<td>Policymaker</td>
</tr>
<tr>
<td>Sara Burgess</td>
<td>UK Department for Business, Innovation &amp; Skills / CIC Regulator</td>
<td>Regulator</td>
</tr>
<tr>
<td>Nick Temple</td>
<td>Social Enterprise UK / Director, Business &amp; Enterprise</td>
<td>Membership association</td>
</tr>
<tr>
<td>Katherine Danton</td>
<td>UnLtd / Director, Research and Policy</td>
<td>Support provider</td>
</tr>
</tbody>
</table>