



SOCIAL ENTERPRISES AND THEIR ECOSYSTEMS IN EUROPE

Country report
UNITED KINGDOM
Fergus Lyon
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This report is part of the study "Social enterprises and their ecosystems in Europe" and it provides an overview of the social enterprise landscape in the United Kingdom based on available information as of December 2018. It describes the roots and drivers of social enterprises in the country as well as their conceptual, fiscal and legal framework. It includes an estimate of the number of organisations and outlines the ecosystem as well as some perspectives for the future of social enterprises in the country.

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United Kingdom

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This report provides an overview of the social enterprise landscape in the United Kingdom based on available information as of December 2018. The report updates a previous version, submitted by ICF Consulting Services to the European Commission in 2014. The current report has been prepared as part of a contract commissioned by the European Commission to the European Research Institute on Cooperative and Social Enterprises ([Euricse](#)) and the EMES International Research Network ([EMES](#)). Fergus Lyon, Bianca Stumbitz and Ian Vickers from Middlesex University were in charge of producing the report.

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Countries included in the three social enterprise mappings by the European Commission

No	Country	TYPE	2014	2016	2018-19
1	Albania	Fiche	-	-	✓
2	Austria	Report	✓	-	✓
3	Belgium	Report	✓	✓	-
4	Bulgaria	Report	✓	-	✓
5	Croatia	Report	✓	-	✓
6	Cyprus	Report	✓	-	✓
7	Czech Republic	Report	✓	-	✓
8	Denmark	Report	✓	-	✓
9	Estonia	Report	✓	-	✓
10	Finland	Report	✓	-	✓
11	France	Report	✓	✓	-
12	Former Yugoslav Republic of Macedonia	Fiche	-	-	✓
13	Germany	Report	✓	-	✓
14	Greece	Report	✓	-	✓
15	Hungary	Report	✓	-	✓
16	Iceland	Fiche	-	-	✓
17	Ireland	Report	✓	✓	-
18	Italy	Report	✓	✓	-
19	Latvia	Report	✓	-	✓
20	Lithuania	Report	✓	-	✓
21	Luxembourg	Report	✓	-	✓
22	Malta	Report	✓	-	✓
23	Montenegro	Fiche	-	-	✓
24	The Netherlands	Report	✓	-	✓
25	Norway	Fiche	-	-	✓
26	Poland	Report	✓	✓	-
27	Portugal	Report	✓	-	✓
28	Romania	Report	✓	-	✓
29	Serbia	Fiche	-	-	✓
30	Slovakia	Report	✓	✓	-
31	Slovenia	Report	✓	-	✓
32	Spain	Report	✓	✓	-
33	Sweden	Report	✓	-	✓
34	Switzerland	Report	✓	-	-
35	Turkey	Fiche	-	-	✓
36	United Kingdom	Report	✓	-	✓

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List of acronyms

- > **CBS** Community Benevolent Society
- > **CIC** Community Interest Company
- > **CIO** Charitable Incorporate Organisation
- > **CLG** Company Limited by Guarantee
- > **CLS** Company Limited by Share
- > **DCMS** Department of Digital, Culture, Media and Sport
- > **IPS** Industrial and Provident Society
- > **NCVO** National Council for Voluntary Organisations
- > **SEUK** Social Enterprise UK

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Executive summary

Background

Social enterprises present an alternative to business-as-usual with their combination of core social and environmental objectives being addressed through commercial approaches. In this way they present an alternative avenue for a sustainable prosperity that is not driven by profit but rather focused on flourishing and living within ecological limits. In the UK, there has been particular interest and support for the creation of start-ups and the scaling of existing social enterprises. The term social enterprise has been in use in the UK since the 1970s, and the current approaches are shaped by the philanthropic traditions of charities, the cooperative traditions of democratic governance, and cultures of socially responsible business.

The UK social enterprise movement was given a boost by the pioneering public policies and approaches in the 1990s, including various support programmes, the introduction of a new legal form and investment funds. Since 2010 there has been a focus of policy on encouraging social investment funds and mutual social enterprise ‘spin-outs’ from the public sector. However, the context of public sector austerity has seen a considerable decline in overall spending across the UK in recent years, with the exception of Scotland.

Concept, legal evolution and fiscal framework

As this report is part of a pan-European comparative study, we apply a definition which differs slightly from some of the definitions used by policy and sector bodies in the UK. **Social enterprises are organisations that trade in order to support a primary social objective, are accountable to a community of stakeholders including employees and service users, with limits on distribution of profits to individual owners and ‘asset locks’ to safeguard social/community interests.** The UK government adopts a somewhat looser definition in that it lacks the requirement for an asset lock limiting surplus and asset distribution to owners and shareholders.

Mapping

Social enterprises can take a diversity of forms in the UK, the most common being the Company Limited by Guarantee combined with registered charitable status. There are also cooperative or Registered Society forms and a rapidly growing number of Community Interest Companies (CICs), a legal form introduced by government in 2004. The CIC legal form requires that organisations have a primary social purpose and that there are limits on distributions and asset locks. **Based on an assessment of the many different surveys, it is estimated that there are 30,800 social enterprises meeting the EU definition with 19,500 Company Limited by Guarantee/charities, 7,000 active Community Interest Companies and 4,300 cooperatives (Industrial and Provident Societies/Registered Societies) shown to have both social aims and trading activity.** This does not include enterprises that have a private sector legal form, such as Companies Limited by Share. The looser definition used by the UK government allows for the inclusion of private sector legal form businesses with 72% of the UK Governments estimated population of 99,000 social enterprises having private sector legal forms.

The 2017 survey of social enterprises by SEUK, shows the UK social enterprise to have very varied objectives including improving a particular community (38%), supporting vulnerable people (30%), improving health and well-being (27%) and creating employment opportunities for the disadvantaged (27%). There is a spread of ages with 40% that are more than 10 years old and 25% being younger than 3 years. The majority (53%) are microbusinesses employing 1-9 people with women making up 51% of employees and 41% being led by women (double the rate of conventional small and medium enterprises). **There is a diverse range of income sources, with 60% serving the general public, 54% having government contracts (with 20% having this as their main or only source), 52% having income from private sector businesses, 50% having income from the third sector and 43% having sales to other social enterprises.**

Ecosystem

There are a range of support providers, membership bodies and related networks that aim to assist social enterprises to grow and flourish. Key elements of the ecosystem include the policy and legal/regulatory framework and provision of resources; support for social enterprise to win government contracts; support for public sector workers to establish employee- and stakeholder-owned mutuals; certification systems and marks; social investment finance providers and intermediaries; start-up support and facilities (such as incubators); business development support (general support for all business and social enterprise specific support); support networks and membership associations; school and university educational programmes; and research to monitor sector development and assess needs or opportunities.

Perspectives

Interviews and round table discussions for this study with a range of key players identified a number of trends and future issues. The question of how to define social enterprise continues to be a key feature of policy discourse in the UK, even after 20 years of intense debate. **A narrow definition runs the risk of excluding many socially enterprising initiatives, whereas a broad definition risks including too many enterprises that are motivated primarily by private interest.**

Support has become increasingly patchy across the UK during a period of public sector austerity and cuts to funding, with the exception of Scotland where there continues to be a range of relatively well-funded programmes and networks. In England there has been a focus of government support on the provision of social investment debt finance. Concerns have been expressed that this has diverted resources from other forms of capacity building support, and that that this form of finance does not fully meet the specific needs for small scale and early stage support. This is beginning to be addressed through the provision of specific support for such social enterprises and community businesses.

The most important future challenges relate to the nature of the economy and associated uncertainties. Work and employment patterns are showing a growth in the ‘gig economy’ and self-employment, with some evidence of this creating opportunities for social enterprise to bring these people together in novel and agile forms of collective action. **The future economy may also be affected by periods of low growth, other shocks and environmental challenges. While this can be concerning, it also presents opportunities for social enterprise to address these challenges by delivering an alternative form of business combining social, environmental and commercial value.**



UNITED
KINGDOM

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BACKGROUND: SOCIAL ENTERPRISE ROOTS AND DRIVERS

There has been a growing interest in social enterprise from different parts of the UK and different political parties. There has been a long tradition of social enterprise from early records of philanthropy and cooperative movements. Social enterprise as concept developed in the 1990s and became a flagship policy for the New Labour government that provided support structures and established a new social enterprise legal form. Social enterprise has continued to be supported by the Conservative led governments although with less funding for support and more emphasis on helping social enterprises win government contracts.



In the past 30 years, the concept of social enterprise has played an increasing role in the UK, with growing interest in approaches that combine social and environmental aims with business. There is considerable policy interest and actions to encourage start-ups and to support scale-up. Over this period, there have been changes in the types of organisations involved, new legal forms introduced, a changing culture of social enterprise activity in civil society, and the development of policy and supportive infrastructure, including variants within the devolved administrations of Scotland, Wales and Northern Ireland. This has taken place in the context of a turbulent political landscape, including governments of different ideological allegiance and the growth of nationalistic movements and parties campaigning for independence from the UK, notably in Scotland. All these groups have found social enterprise to be a concept worth supporting. For those on the left of the political spectrum, it is seen as a way of offering an alternative to capitalist forms of enterprise and a challenge to 'business as usual'. For those on the right, it is seen as a way of bringing market competition and business-like approaches into civil society and public services (Nicholls and Teasdale 2017, Sepulveda 2015).

While the term social enterprise has only begun to enter into common parlance in recent years, the idea of combining business with social value and activities for the common good can be traced back to much earlier in history. Forms of cooperation in early communities can be seen as prefigurative expressions of social enterprise activity, and more detailed historical evidence of philanthropy taking social enterprise forms can be traced back to the 17th century in England. Early records of philanthropic support for the poor capture the beginnings of 'work integration' social enterprise activity to help the impoverished find work and food (Owen 1964). The emergence of the tradition of charitable provision in health services and housing can also be traced back to this time and has parallels with the modern conception of social enterprise. However, many of these early initiatives were of a highly paternalistic nature and lacked the element of accountability to service users and other stakeholders associated with contemporary definitions of social enterprise.

The emergence of the co-operative tradition is seen by many as the start of social enterprise as a recognisable movement in the UK. The celebrated Rochdale consumer cooperative in the 1840s pioneered the idea of an enterprise that supports the poorest and is owned by its customers. This was set up in response to the highly exploitative conditions in communities and the need for access to affordable, good quality food.

The 19th century saw the growth and development of different types of social enterprise, taking both charitable and cooperative forms. This continued into the 20th century alongside the growing role of the public sector. The nationalisation of health services in the 1940s involved some charitable and mutual health services being absorbed into

the public sector. Other forms of social enterprise grew in the latter half of the 20th century with the tradition of community business growing in Scotland and elsewhere in response to economic and social challenges. There was also a growth of cooperatives and policies to support their development. Internationally focussed charities also introduced the concept of Fair Trade in the 1950s, using the sale of goods imported from developing countries to resource development activities in poorer communities.

The political shift in the 1980s and 1990s towards more neoliberal policies and the outsourcing of services from the public sector further contributed to the growth of social enterprise activity, particularly in the social housing and leisure services sectors. The social challenges of this period led to the establishment of initiatives that are now some of the flagship larger social enterprises in the UK. For example, Greenwich Leisure was established in 1993 and adopted a cooperative model to deliver sport, leisure and health services. The Big Issue was established in 1991 to address homelessness by producing a magazine which is sold by homeless people to provide them with an income. Social enterprise became more established as a term under the New Labour government which replaced the Conservatives in 1997, with a manifesto to tackle social justice while supporting market principles and elements of a neoliberal agenda. **Social enterprise became a flagship policy that fitted well with the political agenda of New Labour.** In 2001, Government established a dedicated Social Enterprise Unit within the (then) Department of Trade & Industry and appointed a junior minister responsible for social enterprise. The Unit published its first strategy in 2002 (Social Enterprise: A strategy for Success), which set out how barriers would be addressed and introduced various measure to support the growth of the sector. The New Labour government also brought in devolution of policy for Scotland, Wales and Northern Ireland, which has also been accompanied by some differences in policy and support for social enterprise in these devolved administrations.

Funding was made available for new social enterprise projects, including some very large investments. For instance, the Eden Project, a tourist attraction with environmental education aims, was established in the late 1990s to regenerate a rural area left with very high unemployment and a legacy of environmental degradation following the decline of the clay mining industry in Cornwall. Of the 106 million GBP (119.8 million EUR) grant funding awarded to this project, over half was from the National Lottery and 26 million GBP (29.4 million EUR) was from European funding sources.

The government established the Community Interest Company (CIC) form as part of the 2004 Companies Act, with a view to further enabling the trend for charities to engage in commercial activities to support their social missions, and to overcome some of the regulatory limitations on hybrid activity in the for-profit and charity sectors. The CIC form has been central to the recent development

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of the social enterprise sector, with just over 200 CICs registered in the first year (2005-2006) steadily growing to 14,254 in 2017-18 (Regulator of CICs 2018). In 2006, the Social Enterprise Unit was moved from the Department for Trade and Industry to a newly formed Office of the Third Sector in the Cabinet Office. While this brought social enterprise closer to the centre of government, it could also be seen as de-emphasising social enterprise as a potentially transformative influence on mainstream business and related policy, representing instead a narrower emphasis on encouraging third sector organisations to engage in more trading and deliver public services under contract. The new strategy (Cabinet Office 2006) focused on: (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 considerable investment in social enterprise support infrastructure throughout the 2000s stagnated and declined following the financial crisis of 2008 and the ensuing recession, with the Conservative-led Coalition government of 2010 instigating a programme of major cuts to public spending in order to ‘balance the books’ and in line with neoliberal (pre-Keynesian) economic philosophy. **The new government under David Cameron introduced their vision of the ‘Big Society’, under which individuals and communities were encouraged to take greater responsibility for their own welfare needs, and with continued interest in the social enterprise concept being integral to this** (Cabinet Office 2011). The Office of the Third Sector was renamed, the Office for Civil Society and policy was focused on: (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.

Recent social enterprise policy has focused on the investment required to scale-up social enterprise, with legislation to allow dormant bank accounts to be used to establish Big Society Capital as an independent social investment institution which provides finance to other intermediary organisations that support front-line social enterprises to help them grow. Other policy measures include the development of Social Impact Bonds that seek investment from outside of government to fund public services delivered by social enterprises, with repayment from the public sector based on meeting agreed outcomes, and the introduction of a new tax relief for social investment.

There has been renewed effort to encourage the ‘spinning-out’ of public services from the state and support for public sector employees to establish themselves as independent social enterprises (or ‘mutuals’) by creating an enabling environment and help with access to support and finance. **There has also been an emphasis on**

helping social enterprises win contracts to deliver public services, notably the Public Service (Social Value) Act of 2012 designed to encourage public procurement and commissioning to consider contributions to social value in the bidding process alongside value for money and financial efficiency.

Most recently, the policy environment for social enterprise has been significantly impacted by Brexit - the decision of the United Kingdom to leave the European Union, not least through the reduction of policy attention accorded to pressing domestic matters, as well as international issues such as climate change. Also of potential significance in terms of the role and influence of social enterprise within government has been the transfer of the Office for Civil Society from the centre of Government, i.e. the Cabinet Office, to the Department for Digital, Culture Media and Sport.¹ The justification for this move is unclear, with statements citing the common focus on 'enriching lives.' However, **social enterprise leaders have expressed concern that policy for social enterprise is now yet further removed from ministers responsible for core business and investment concerns.**

In summary, social enterprise within the UK has evolved over time by drawing on ideas, energy and support from varied sources and ethical/philosophical traditions. The charitable tradition has seen philanthropic organisations moving towards trading activity while retaining their roles as voluntary organisations and associations; and the cooperative tradition has posed a radical alternative to traditional ownership models and shareholder capitalism. The social enterprise movement has drawn on both these traditions, in varied ways and at different times, and there are some common obstacles faced by them all. In broad terms, these challenges relate to developing markets and meeting the needs of customers who want to contribute to social value by purchasing a product or service. **The growth of the social enterprise movement requires further actions to raise awareness of the value of supporting social enterprise, amongst the general public, potential business customers, and the public sector as a major purchaser of social enterprise services.**

(1) <https://www.civilsociety.co.uk/news/office-for-civil-society-formally-transferred-to-dcms.html>

2

CONCEPT, LEGAL EVOLUTION AND FISCAL FRAMEWORK

There are a range of legal forms available to social enterprises in the UK, although there is no single type that precisely meets the EU definition. In this section, the operational definition of social enterprise used by the EU is set out, followed by how this definition is applied in the UK context. The different legal forms are then discussed in turn.



2.1. Defining social enterprise borders

2.1.1. The EU operational definition of social enterprise

This report draws on the organisational definition included in the Social Business Initiative (SBI) of 2011. According to the SBI, a social enterprise is an undertaking:

- > whose primary objective is to achieve social impact rather than generating profit for owners and shareholders;
- > which uses its surpluses mainly to achieve these social goals;
- > which is managed in an accountable, transparent and innovative way, in particular by involving workers, customers and stakeholders affected by its business activity.

This definition arranges social enterprise key features along three dimensions:

- > an entrepreneurial dimension,
- > a social dimension,
- > a dimension relative to governance structure.

Provided that the pursuit of explicit social aims is prioritised through economic activities, these three dimensions can be combined in different ways and it is their balanced combination that matters when identifying the boundaries of the social enterprise.

Building upon this definition, a set of operational criteria was identified by the Commission during the previous stages of the Mapping Study (European Commission 2015, 2016) and refined during the current phase of the study (see appendix 1 for further details). In this definition, social enterprises explicitly limit the distribution of profits and have an asset lock. The non-profit distribution constraint is meant to ensure that the general-interest is safeguarded.

2.1.2. Application of the EU operational definition of social enterprise in UK

Different definitions of social enterprise commonly used

There have been various definitions used in the UK, with changes over time and also some differences emerging between parts of the UK. These will be discussed in relation to each of the key features of the EU definition set out above. The definition established by the UK government (DTI 2002) has guided subsequent policy and legislation towards social enterprise and was formulated to accommodate a wide range of organisations and legal forms and allow flexibility in interpretation:

“Businesses 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.”

Membership associations often have their own definitions, with Social Enterprise UK², for instance, stating that social enterprises should:

- > Have a clear social and/or environmental mission set out in their governing documents
- > Generate the majority of their income through trade
- > Reinvest the majority of their profits
- > Be autonomous of the state
- > Be majority controlled in the interests of the social mission
- > Be accountable and transparent

There has been much debate about the breadth of the social enterprise definition. On the one hand, there is a desire to be open to all types of enterprise and allow innovation by including legal forms without an explicit asset lock. Such an inclusive approach has shaped how UK national government statistics are gathered. On the other hand, some of the definitions used are closer to that of the EU, particularly in terms of the importance attached to asset locks. This is exemplified by the Scottish Social Enterprise Network (SENSCOT) definition whose code of practice – The Scottish Voluntary Code³, identifies five essential elements of a social enterprise:

1. A Social Enterprise is a business trading in the marketplace - selling goods and services - but whose primary objective is to achieve social and/or environmental benefit.

(2) <https://www.socialenterprise.org.uk/Pages/FAQs/Category/FAQs>

(3) SENS COT (2018) Voluntary Code of Practice for Social Enterprise in Scotland. See: <http://www.se-code.net/wp-content/uploads/2018/04/SE-Code-Flyer18.pdf>

2. Regardless of its legal form, the constitution of a social enterprise will include the requirement that profits are reinvested in the business or in the beneficiary community - and not distributed to owners/shareholders/investors.
3. The constitution will always require that on dissolution, the assets of the social enterprise are reinvested in another organisation with similar aims and objectives.

Taken together, criteria 2 and 3 are referred to as the ‘asset lock’—the defining characteristics that distinguish social enterprise from mainstream (private sector) enterprise.

4. Social enterprises are different from those charities and voluntary organisations which do not aspire to financial independence through trading.
5. Social enterprises are distinct from the public sector and cannot be the subsidiary of a public body.

Legal forms

Social enterprises in the UK exhibit a variety of legal forms and the complexities involved can cause confusion about which form is most appropriate for start-up ventures to adopt. Recent policy and enabling legislation to facilitate new social enterprise forms includes, most notably, the CIC introduced in 2005 under the Companies (Audit, Investigations and Community Enterprise) Act 2004, designed for social enterprises that want to use their profits and assets for the public good (see Section 2.2 for a full discussion of this legal form). Table 1 below sets out the most common legal forms for UK social enterprise and how they meet the EU definition.

Table 1. Overview of how most common social enterprise legal forms in the UK meet the EU definition

Dimension. Entrepreneurial dimension.	Criterion. Engagement in economic activity.	Community Interest Company (CIC). A company engaged in economic activity but can also receive grants.	Company Limited by Guarantee (CLG) with an option to also be a Registered Charity. A company engaged in economic activity but can also receive grants.	Company limited by share (CLS). A company engaged in economic activity but can also be receiving grants.	Industrial and Provident Society (IPS) – Community Benefit Society. Engaged in economic activity but can also receive grants.	Industrial and Provident Society (IPS) – Bona Fide Co-operative Society. Engaged in economic activity but can also receive grants
Social dimension (public benefit)	Social aim.	Yes, must have provisions in Memorandum and Articles of Association (constitutional document) 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.	Not guaranteed unless registered charitable status.	Not guaranteed unless directors decide to add a social mission, or social ownership lock in their articles.	Must show that its activities benefit the wider community rather than simply its members. Can also be registered as a charity.	Not guaranteed, but often established to achieve social value. Requires a common economic, social or cultural need or interest among the members of the co-operative.
Inclusive governance-ownership dimension	Distribution of profits and/or assets according to defined rules and procedures.	A CIC as a CLG has no shares and is not able to distribute profit through dividends. A CIC as a CLS has strict rules regarding distribution of profits and assets. There is a cap on the maximum dividend and interest payments it can make (currently restricted to no more than 35% of the aggregate distributable profits).	There are no limits on dividends unless the Articles of Association include any limits. CLG that are also registered charities cannot distribute profit.	A CLS is typically established with commercial aims, to distribute profits to its shareholders.	Profits must generally be reinvested into the business. Where part of the profits are used for another purpose then that purpose must be similar to the main aim of the society, for example for philanthropic or charitable purposes. However, there is no cap on profit distribution.	Any distribution of surplus capital is made subject to the requirement that it is not needed by the business of the co-operative, but there is not cap on profit distribution. The Co-operative Principles require that share capital receives a strictly limited reward. Any distribution to members must be in the form of a dividend on their transactions/trade with the society.

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Dimension. Entrepreneurial dimension.	Criterion. Engagement in economic activity.	Community Interest Company (CIC). A company engaged in economic activity but can also receive grants.	Company Limited by Guarantee (CLG) with an option to also be a Registered Charity. A company engaged in economic activity but can also receive grants.	Company limited by share (CLS). A company engaged in economic activity but can also be receiving grants.	Industrial and Provident Society (IPS) – Community Benefit Society. Engaged in economic activity but can also receive grants.	Industrial and Provident Society (IPS) – Bona Fide Co-operative Society. Engaged in economic activity but can also receive grants
Inclusive governance-ownership dimension	Asset lock	Yes, requirement that assets are locked and protected for social purpose. Restrictions on transfer of assets.	There is a strong asset lock for CLG that are also registered charities. Other CLGs do not have an asset lock.	None, unless specified in Memorandum and Articles of Association (constitutional document).	Optional. A change in the law has now made it possible for a non-charitable IPS to have an asset lock.	None, unless specified in Memorandum and Articles of Association (constitutional document).
Inclusive governance-ownership dimension	Autonomy - organisational autonomy	Implied (companies are autonomous organisations, independent from state).	Implied (companies are autonomous organisations, independent from state).	Implied (companies are autonomous organisations, independent from state).	Autonomy and independence – controlled and managed by members.	Autonomy and independence – controlled and managed by members.
Inclusive governance-ownership dimension	Democratic and/or participatory governance in decision-making processes	Members (and directors) are requested to have regard to the wider community and involve stakeholders in its activities.	For elected directors, there is "one member one vote", but the CLG structure is flexible and can allow for different classes of membership and different voting rights attaching to the different classes.	One vote per share.	The share typically acts as a 'membership ticket', and voting is on a 'one member one vote' basis.	Co-operative societies have members – not shareholders – that take decisions democratically (each member has an equal vote/say).

Source: Adapted from SEUK (2017)

The choice of legal form is dependent on the types of activities of the organisation, targeted income streams (present and future), customers/service users and partners, as well as the preferred governance structure (e.g. how much control is given to whom). The following sub-sections will provide an overview of the legal frameworks specifically designed for social enterprises in the UK, as well as the most frequently adopted legal forms.

Charities and Company Limited by Guarantee (CLG)

The Company Limited by Guarantee (CLG) is the most common legal format, taken by 39% of organisations in the SEUK (2017) survey of 1,581 social enterprises⁴, and is often adopted in combination with the registered charity form. Legal charitable status is attained through applying to the Charity Commission, making a statement of the public benefit provided and appointing trustees for governance (who cannot be employees). The Charities Act 2006 introduced the Charitable Incorporated Organisation (CIO) with the first appearing in 2013. These are similar to the combination of charitable status and Company Limited by Guarantee but avoids having two forms of registration.

Incorporation of a charity as CLG or CIO is advisable and even necessary for various reasons:

- > To enhance credibility with customers/service users, funders, suppliers and employees
- > It may be a requirement by stakeholders that the venture is planning to engage with (e.g. if applying for funding, bidding for contracts or recruiting staff)
- > To protect individuals involved from personal liability

(4) Organisations were considered to be in the scope of the survey if they self-defined their venture as a social enterprise and if they generated 25% or more of their income from trading activities. This is the most comprehensive survey of social enterprise that broadly meets the EU definition and also includes organisations that self-report as social enterprises but have legal forms that allow distribution of some profit and without asset locks.

Illustration 1. London Early Years Foundation

The London Early Years Foundation (LEYF) is a charitable social enterprise (Company Limited by Guarantee), providing nurseries and other early years services with the aim to build a better future for London's children, families and local communities through commitment to excellence in early years' education, training and research. It currently has 37 award-winning nurseries, looking after more than 4000 children (aged between 4 months and 5 years) in more disadvantaged areas of London each year. LEYF aims to be socially inclusive and seeks to provide all children with high quality childcare, regardless of background, and fees are charged according to the ability to pay. The LEYF Pedagogy is designed to strengthen children's social and cultural capital through language, social opportunities, cultural experiences and friendships, which in turn widen their networks of social relationships and expand their cultural horizons. LEYF also believes that nurseries are a catalyst for social cohesion in the community, fostered through multi-generational partnerships within the local communities, by hosting local arts, food and other events as well as collaborative projects with schools, residential homes and other social enterprises. LEYF currently has over 600 staff and wants to grow and nurture its own staff by both employing and training 60 apprentices annually. It has grown using repayable finance from banks and from social investors.

<https://www.leyf.org.uk/>

CLGs fall under the Companies Act 2004 and must be registered with Companies House. They operate a one member one vote system. Not all CLGs can be defined as social enterprises as many lack a core social dimension and tend to be focused on the interests of particular private-interest groups, such as property owners coming together to share the management of common assets, such as the roof of a block of flats. (It should also be noted that some of the organisations registered under the recently introduced Community Interest Company form are also registered as Companies Limited by Guarantee. These will be discussed separately below).

Cooperatives: Community Benefit Societies or Community Cooperative Societies (previously Industrial and Provident Societies or Registered Society)

The Industrial and Provident Society (IPS) was based on the Industrial and Provident Societies Act 1965. Under the Co-operative and Community Benefit Societies Act 2014 the IPS form was replaced by the community benefit society or cooperative society forms. **In the SEUK (2017) survey, 9% of the sample had this legal form with just over half of these self-identifying as IPS Community Benefit Societies, and just under half as IPS Bona Fide Co-operative Societies.** These organisations meet the governance requirement of the EU definition and trading bodies and therefore also meet the entrepreneurial dimension. There is debate on the extent to which the cooperative

principle regarding the “concern for community” means that cooperatives meet the social dimension. Unlike Italian social cooperative legal forms, there is no separate legal form for those emphasising the social dimension. In this report we show that a sizable proportion of the social enterprise community are cooperatives with an explicit social dimension.

‘Borderline’ forms: Private sector legal forms including Company Limited by Shares

The UK government definition of social enterprise has been broadened to include a large proportion of enterprises with private sector legal forms. In the SEUK survey (2017), 16% of the respondents were Companies Limited by Shares; these were included within the survey sample frame as they had subscribed to various social enterprise membership groups across the country. This legal form offers many similarities with the Company Limited by Guarantee form in that it offers limited liability for directors, but with the main difference being the allowance on profit distribution and lack of an asset lock, unless individual social enterprises choose to put their own controls on this. High profile examples include Café Direct and The Big Issue as well as the subsidiary trading enterprises of many large charities. The CLS legal form allows these social enterprises to take on equity finance for a share of the business. There are no specific controls on the social dimension but there is a need to present some accounts to Companies House. The Governments’ Social Enterprise Market Trends report (DCMS, 2017) found that 44% of their sample were CLSs, 14% were sole proprietorships and 10% were partnerships. These therefore correspond to a broader definition than that used by the EU. There is interest in finding ways of supporting the very large number of small businesses that have self-defined social objectives but pursued within a for-profit legal form. There are a number of approaches being developed to attempt to create “mission lock” or “lock of social ownership” in these sorts of enterprises.

2.2. Legal evolution and Community Interest Companies

The only legal form specifically designed to enable and regulate social enterprise is the CIC (see illustration 2 for an example). **There have been 14,254 CICs created over the 14 years since the form was introduced as part of the 2004 Companies Act**, although some of these are less active. Over the last two years, 5,000 new CICs have been registered⁵ and 22% of respondents to the SEUK survey (2017a) were CICs, up from 10% in 2011, of which 11% were CLGs, 5% CLSs and 6% ‘unsure’.

(5) <https://communityinterestcompanies.blog.gov.uk/2018/07/26/annual-report-2017-to-2018-the-social-impact-of-community-interest-companies/>.

The social dimension is protected by a requirement for the social purpose of the organisation to be clearly stated in the articles of association. There is also an asset lock that restricts the distribution of assets out of the CIC and ensures that any such transfer is solely for the benefit of the community. There are also caps on dividends and interest payments, as detailed in Table 1. A CIC can either be registered as a CIC Company Limited by Guarantee (not able to distribute profit through dividends) or a CIC Company Limited by Shares with strict rules regarding distribution of profits and assets. For CIC CLS there is a cap on the maximum dividend and interest payments it can make (currently restricted to no more than 35% of the aggregate distributable profits). In both cases a memorandum and articles of association are required as a condition of registration with Companies House and the CIC Regulator.

The entrepreneurial dimension is not stated as an explicit requirement, although most CICs are engaged in trading activity. However, they are able to receive grants and some smaller ones rely on these forms of income. There are limited prescriptions on governance and transparency but there is a need to present an annual report to the CIC regulator.

Illustration 2. Eco Larder

The Eco Larder is a Community Interest Company (CIC) based in the Haymarket area of Edinburgh. Opened by Matthew and Stephanie Foulds in November 2018, it's the city's first zero waste supermarket. The zero-waste movement encourages the redesign, recycling and reuse of materials and products. This helps to limit the amount of rubbish sent to landfill, for incineration or to the ocean. Matthew and Stephanie decided to set up the Eco Larder to make it easier for Edinburgh residents to reduce their plastic waste. From the start, they wanted the shop to become part of the local community. They also wanted to embed a social purpose in the company's values. After registering as a private limited company in July 2018, they then chose to convert to a CIC. The Eco Larder puts any profits towards environmental charities and local clean-up missions. They arrange community events such as local beach clean ups and educational workshops. Becoming a CIC meant that there were different streams of funding available to them when setting up the business. They were able to apply for a £5,000 grant from Firstport—Scotland's development agency for social enterprises. They crowdfunded over £22,000 and worked with social enterprises and volunteers to source produce and renovate the shop. (Text edited from <https://www.gov.uk/government/case-studies/the-eco-larder-cic>)

2.3. Fiscal framework

The CIC and IPS legal forms receive no fiscal benefit in terms of exemptions from any areas of government taxation policy. This also applies to Companies Limited By Guarantee, although CLGs that are registered charities can claim Gift Aid and receive 25p from HM Treasury for every £1 (€1.13) donated by UK tax payers. They can also get a reduction of 80% on the business rates payable to local authorities. Business rates reductions are occasionally available to other legal forms of social enterprise at the discretion of local governments.

Individuals wishing to invest in social enterprises (Charities, CICs and Community Benefit Societies) are eligible for the Social Investment Tax Relief scheme, introduced in 2014. Individuals making an eligible investment can deduct 30% of the cost of their investment from their income tax liability, either for the tax year in which the investment is made or the previous tax year. The investment must be held for a minimum period of 3 years for the relief to be retained. However, very few social enterprises have benefitted from these provisions, with only 50 being in receipt of any such investments according to SEUK (2017a).

3

MAPPING

There are a wide range of different data sources on social enterprise each reflecting different definitions used. This study estimates the minimum number of social enterprises in the UK that would meet the EU operational definition of social enterprise. The analysis shows that the EU operational definition does not include those self described social enterprises which take a private sector legal form. The estimate is therefore a smaller subset of the UK government's own estimation of social enterprise. Surveys of social enterprise show they are operating in a wide range of sectors and with different income sources, with an emphasis on diversity in their workforce.



3.1. Measuring social enterprises

The diversity of approaches to defining social enterprise in the UK and a policy preference for an inclusive and flexible approach is also reflected in the various statistical sources, making it difficult to specify how many UK social enterprises there are that are fully compliant with the EU definition. The Data Availability Report in the appendix 2 sets out the key sources, their characteristics and limitations. The UK government published data on social enterprise includes a large proportion of businesses with private sector legal forms which do not meet the EU operational definition. The Scottish government's definition is closer to that of the EU and provides a rigorous analysis of the available administrative data. Below we explore the various data sources and how they contribute to understanding.

Data on registered Charities and Companies Limited by Guarantee

The UK data from NCVO (National Council for Voluntary Organisations) uses information on charities held by the Charity Commission and combines this with other data sources. Their Annual Almanac identifies 81,362 charities that have an element of trading income but does not specify a trading income threshold above which a charity is classified as a social enterprise. It therefore includes some charities with only limited amounts of trading income and so is likely to overestimate the number of charity social enterprises. CICs and IPS/CBS forms are also not included (NCVO 2018).

In 2016, NCVO combined UK wide data on Registered Charities, CICs, CLGs with social goals, and IPS/CBS/Registered societies in order to assess the size of what they termed "the social company sector". The resulting 67,000 identified organisations appear to meet the social and governance dimensions of the EU operational definition, but it is not clear what proportion are actually trading and to what extent. So this figure may overestimate the number of social enterprises. The 67,000 social companies are approximately 6% of the population of all businesses with employees and includes 46,238 CLGs (of which 33,769 are charities), 10,703 CICs, and 10,724 Registered Societies (Kane and Ravenscroft 2016). The Scottish social enterprise census conducted by Social Value Lab (2017) takes a similar approach to provide a detailed analysis of the number of social enterprises in Scotland only. The Scottish census reported a figure of 5,600 social enterprises, with 81,357 employees and a total turnover of 3.8 billion GBP (4.3 billion EUR). This is approximately 5% of the population of all businesses with employees.

Data from the English National Survey of Charities and Social Enterprise (Charity, CLG and cooperative forms)

The most rigorous study of social enterprises using a definition that is very close to the EU operational definition was the Ipsos MORI (2009) National Survey of Third Sector Organisations (NSTSO⁶). This surveyed 49,000 organisations in England randomly sampled from the population of charities and IPS held on administrative data bases. It also included questions on meeting a social enterprise definition and the amount of trading income. **Additional analysis of this estimated that there were 21,344 social enterprises in England that meet the stricter definitions used, but not all of these would use the term 'social enterprise' to identify themselves** (Teasdale *et al.* 2013). Of these social enterprises, 81% (17,289) were charities and/or CLG, 16% (3,415) were cooperative form IPS/Registered Societies and 3% (640) were the newly introduced CICs.

Data on CICs

The annual report of the CIC regulator provides data on the total number of registered CICs drawn from their administrative records but is otherwise rather limited (Regulator of CICs 2018). They provide a figure of **1,4200 CICs**. Some further more detailed insight is provided by SEUK (2017a) drawing on a sample of CICs in their survey.

Data on Cooperatives

Co-operatives UK, the national membership body, assembles data on different forms of cooperatives, including Registered Societies, and some employee-owned businesses. The total of **7,226 organisations** included is less than the estimated 10,704 cooperative forms identified in the NCVO social companies study. However, it is likely that a large proportion do not meet the EU definition of social enterprise, particularly with respect to the social dimension and related asset lock requirement.

Data from the Small Business Survey (for all small organisations)

For the past 13 years, the most cited data on social enterprise has been drawn from the UK Small Business survey, now conducted every two years. This is a very rigorous survey of small businesses with questions included to identify social enterprises but using a very broad definition. **The recent 'Social Enterprise Market Trends' report (DCMS 2017)⁷ shows that of the 181 organisations in their sample that identified as social enterprises, only 28% had legal forms that met the EU**

(6) <https://www.ipsos.com/ipsos-mori/en-uk/national-survey-charities-and-social-enterprises-2010>

(7) <https://www.gov.uk/government/publications/social-enterprise-market-trends-2017>

operational definition, with the bulk of the sample (72%) having private sector legal forms. The Market Trends report estimates that 9% of the small business population are social enterprises using the wider definition including private sector legal forms. Based on this, it is reported that there are 99,000 social enterprises with employees and a much larger number of self-employed and sole trader social enterprises. These figures can be recalculated, by only including the 28% of organisations that have a legal form that meets the EU definition. It can be estimated that this study implies that there are 27,000 social enterprises that meet the EU operational definition. The 28% figure comprises Charities and CLG (20% or 19,503 enterprises), and CICs (7% or 6,930 enterprises).

However, this may be an underestimate as there are limitations with the size of the sample. For example, not a single Registered Society/IPS was identified through the process of random sampling of small businesses, while SEUK (2017a) has found that 16% of its random sample of 1,581 social enterprises had this form. Furthermore, the number of CICs may be underestimated as the sample frame of the Small Business Survey may not include newly registered organisations since the survey.

Furthermore, the recalculated figure of 27,000 will not include those social enterprises with a private legal form but stating that they defined their organisation as a social enterprise. While the Market Trends report takes a very broad definition of social enterprise with 72% having private sector legal forms, SEUK (2017a) has found that 22% of its sample had a private sector legal form (CLS, sole proprietorship or limited company) and self-defined themselves as a social enterprise.

Towards an assessment of the scale of social enterprise

An estimation of the total number of social enterprises can be made by drawing the above sets of data together. The NCVO study of UK social companies may be the most robust source, although it is likely to include a proportion of organisations that are not trading. This therefore provides a maximum figure of 67,000. Another rigorous source is the 2010 Survey identifying 21,000 organisations, with 272,000 employees and a total turnover of 10.7 billion GBP (12.1 billion EUR). However, this is likely to be an underestimate since it is dated and only includes social enterprises with more than 50% of their income coming from trading). **The BEIS Small Business Survey data used in the Social Enterprise Market Trends Report (DCMS, 2017) shows that there may be 27,000 social enterprises meeting the EU definition extrapolated from the limited sample. This is the most recent and rigorous survey but may be an underestimate, so should be taken as a minimum figure.**

In order to estimate the population of social enterprises meeting the EU definition, we can say that there are at least 27,000. We can add to this a likely number of IPS/Registered Societies based on previous surveys of Ipsos MORI (2009) and SEUK

(2017a), both of which found 16% of their sample were of this legal form. **This would add an additional 4,320 social enterprises.**

From combining this data we can estimate that there are a minimum of 30,753 social enterprises and a minimum employment of 353,357 in the UK. **It should be noted that this figure is lower than many other UK estimates as it excludes all social enterprises with a private sector legal form.** It is known than there are many UK social enterprises that may meet the EU definition but cannot be easily identified.

Table 2. Estimation of the minimum number of social enterprises in UK using the EU definition

Legal form	Minimum estimated number
Charity/ CLG	19,503
Community Interest Company	6,930
IPS/Registered Societies	4,320
Total	30,753

Source: Adapted from DCMS (2017) Ipsos MORI, 2009 and SEUK (2007a)

3.2. Social enterprise characteristics

Age of social enterprises in the UK

SEUK's most recent survey (2017a) reports that 25% of social enterprises have been trading for 0-3 years and 14% for 4-5 years, 22% for 6-10 years and 40% for more than 10 years. This pattern is consistent with previous SEUK surveys which have shown a core of well-established social enterprises and with a considerable number of start-ups being added year on year. Although the proportion of start-ups (aged 0-3 years) has fallen from 35% to 25% since 2015, the number remains considerable higher than for mainstream business start-ups (8%). Illustration 3 provides an example of an organisation that has stood the test of time and successfully responded to the challenges provided by the changing social enterprise landscape for almost 27 years.

Illustration 3. Core Arts

Core Arts is a mental health day care service and educational/training college that promotes recovery, social inclusion and mental wellbeing through the arts. In 1992, artist Paul Monks encountered a number of people who had used mental health services near his studio. He started to encourage them to be creative and an open studio was created and Core Arts was officially born and gained charitable status in 1994. Now also registered as CLG, the organisation has grown to support 900 students taking part in 85 creative classes (arts, music, multimedia, sport and horticulture) a week. Other key activities include resources for self-directed projects, including recording studios, exhibition space, art workshops, and individual guidance and support in personalised progression and skills development.

Core Arts is run by professional artists, writers and musicians, some of whom have been through the psychiatric health care system themselves. The organisation has a small, management team of 11 (five full time), 43 part-time staff and a large volunteer group (circa 160 per year), with a special member volunteer progression scheme made up of clients or ex-clients.

Given the very difficult and uncertain funding context for mental health provision of recent years, Core Arts has been responding to income generation opportunities. Public funding via delivery contracts is the main source of income, including from personal budgets (currently about 25% of overall income) which are expected to be a growing funding source and seen as an increasing opportunity, given reduced public spending in other areas. Other sources of income and support are from grants and donations, local government funding, earned income and public donations.

<https://www.corearts.co.uk/>

Fields of activity and target groups

Principal trading activity: Social enterprises in the UK operate in an ever-increasing variety of activities and in a broad range of sectors. They run restaurants (e.g. Jamie Oliver's Fifteen) and education courses in the woodland (Hill Holt Wood, see illustration 6 below), make chocolate (Divine Chocolate), coffee (Cafédirect), help the homeless (Big Issue; Bevan Healthcare), operate buses (HCT Group), offer dental services (Community Dental Services) and educational tourist attractions (The Eden Project). This diversity is also reflected in the results of the latest SEUK survey (2017a; see table 3).⁸ Another driver of diversification is the trend towards the greater involvement of social enterprises and

(8) Respondents were permitted to select multiple areas of trading activity to reflect that many seek to achieve multiple outcomes.

mutual spin-outs in delivering various public services, including in health, education and youth services, culture, media and libraries, and housing (see section 4).

Table 3. Principal trading activity of Social Enterprises in the UK (2017)

Principal trading activity	% of social enterprises citing as a principal trading activity
Retail	16%
Business support/consultancy	13%
Education	11%
Creative industries - e.g. web, design, print	9%
Employment and skills	8%
Health care	8%
Social care	8%
Culture and leisure	7%
Environmental - e.g. recycling	7%
Financial support and services	7%
Hospitality	7%
Housing	6%
Workspace	3%
Childcare	2%
Farming/agricultural/gardening	2%
Transport	2%
Manufacturing	1%
Other	6%

Source: SEUK (2017a).

For the first time since SEUK started its State of Social Enterprise survey in 2011, retail is the activity with the highest percentage (16%), possibly representing a trend towards diversification of income away from the public sector (SEUK 2017a, p.19-20). However, as in previous years, the survey found **a high concentration in the service industries (business support, education, employment and skills, health and social care), with health and social care remaining the largest area of activity, if combined**. This finding supports the trend reported in the previous two SEUK surveys which identified health and social care, as well as education as key areas of activity,

particularly amongst younger social enterprises (i.e. trading for three years or less). This trend may be explained by new social ventures responding to the opportunities created by public sector reforms and financial austerity measures. In the UK, health and social services are facing increasing resource constraints and social enterprises are proving their ability to deliver cost-effective public services while also seen offering innovative approaches to addressing the health and wellbeing needs of communities (Vickers *et al.* 2017). Illustration 4 provides an example of a venture that took over a health and social care public service.

Illustration 4. Glamis Hall Community Centre

In 2014, people from the local community in Wellingborough, Northamptonshire, started a protest group and petition demanding to keep open a council-run day care centre for people over 50, because there was no alternative provision in the town or surrounding area. When these efforts failed, they decided to take over the building and service themselves. At the beginning of 2015, the charity was granted the freehold of the community centre by the local council at a cost of £1. The community centre now provides wellbeing activities for people of all ages, ranging from toddler groups, football, youth and theatre groups and cookery classes for young people through to seated exercise and Zumba gold classes for older people. However, the principal activities of the organisation are the day centre and lunch club for people over 50 which aim to increase health and wellbeing more broadly by reducing isolation and loneliness, as well as increasing physical activity and improving nutrition.

Glamis Hall draws from a variety of income sources, including trading with the public (a day centre, lunch club, café, exercise classes, room hire, transport and bathing services, fundraising events), grants (from the public sector and trusts) and donations (from local businesses, service users and the wider public). Although the day care service and lunch club for the elderly are the main source of income, Glamis Hall is very entrepreneurial in spotting opportunities for generating income that can be reinvested into their social aim without causing conflict with core activities. Such activities include serving as the local driving test centre and renting out space for birthdays and other family celebrations.

Glamis Hall has four full-time employees but is highly dependent on volunteers (currently 25). It also benefits from various local businesses that have chosen to support the organisation as part of their corporate social responsibility activities. Staff of these enterprises choose to do work for Glamis Hall in their free time and become involved in gardening and other manual jobs as needed.

<http://www.glamishall.org.uk/>

Target groups and accountability: The key target groups of social enterprises are often defined by their social mission or objectives, such as to provide services and/or create employment opportunities for particular groups (see Section 3.2). The latest SEUK (2017a) survey revealed organisations' main objectives to be focused on improving a particular community (38%), supporting vulnerable people (30%), improving health and well-being (27%) and creating employment opportunities for the disadvantaged (27%) (see Illustration 5 for an example that addresses all of these objectives). They also address social and financial exclusions, education and literacy, housing and the environment. For a significant proportion (18%), supporting other social enterprises or third sector (charitable) organisations constitutes a core part of their objectives (see Table 4). In addition, **social enterprises often actively involve their staff (62% to a large extent, 26% to some extent), beneficiaries or service users (70%) and community (54%) in decision-making in some way.**

Table 4. Main social and/or environmental objectives of social enterprises in 2017

Social enterprise objectives	% of social enterprises citing as a main social and/or environmental objective
Improving a particular community	38%
Supporting vulnerable people	30%
Improving health and well-being	27%
Creating employment opportunities	27%
Addressing social exclusion	19%
Supporting other social enterprises or third sector organisations	18%
Promoting education and literacy	17%
Protecting the environment/fair trade	17%
Supporting vulnerable children and young people	14%
Addressing financial exclusion	10%
Providing affordable housing	4%

Source: SEUK (2017a).

Illustration 5. Windmill Hill City Farm

City/care farms and community gardens have become very popular in the UK, particularly in urban neighbourhoods, with London having the largest concentration. Windmill Hill City Farm was set up by a group of local residents in 1976 with an emphasis on education and the environment, as well as addressing disadvantage by providing a green space in the heart of Bristol. Over time, the venture has moved more into wellbeing-related activities with a key focus on mental health, learning difficulties and disabilities. However, although provision of services has become more diversified, the farm has stayed true to the original social aim that motivated its start-up and has maintained strong links to its local neighbourhood. The community facility continues to attract general visitors from the local population and aims to build community cohesion.

Windmill Hill City Farm aims to improve the lives of local people through its services and facilities. It has a dedicated team (72 staff) that works closely with the local community and runs activities for people with health and social care needs such as those related to mental health, learning difficulties, addiction recovery and so on. It also offers opportunities for personal development through short-courses for adults with support needs, a mental health drop-in as well as work and volunteer placements (400 volunteers per year – 63 per week are regular). The venue also hosts other organisations with similar aims and services and offers educational, recreational and therapeutic facilities and activities for a variety of client groups, including arts and crafts, complementary therapy, yoga and poetry, farmyard animals, community gardens, picnic area, community café and farm shop, sports pitch hire, a community building with rental spaces, and a nursery.

The farm, which operates as a charity and CLG, draws from a variety of income sources responding to income generation opportunities while, at the same time, trying not to put activities related to its social mission at risk. Instead, income from trading with the general public, generated through its nursery and café for example, is used to cross-subsidise the organisation's mental health support activities. The organisation adopts an open approach to sharing knowledge and its business model with other public and civil society organisations, and emphasises the 'give and take' nature of such relationships.

<https://www.windmillhillcityfarm.org.uk/>

Staff and volunteers

Table 5 presents an overview of employees in social enterprises as reported by SEUK (2017a), including both full and part time staff. As can be seen, most are microbusinesses (53%), employing between one and nine staff.

Table 5. Employees in social enterprise

Number of employees	% of social enterprises
None	15
Micro (1-9)	53
Small (10-49)	23
Medium (50-249)	6
Large (250+)	3

Source: SEUK (2017a).

Workforce composition: The survey further reported that women constitute just over half (51%) of the social enterprise workforce and that for 9% their entire workforce is female. In Scotland, over three-quarters have a majority female workforce. Social enterprises in the UK are also more likely than mainstream businesses to employ people who are disadvantaged in the labour market, such as by particularly seeking to employ the following groups: the long-term unemployed (over 20% of social enterprises); people with mental illnesses (17%) and learning disabilities (over 16%); individuals with a physical disability (15%) and ex-offenders (15%) (SEUK 2017a) (see illustration 6).

Illustration 6. Hill Holt Wood

The role of social enterprises in rural development and rural diversification is becoming an issue of increasing interest and seen by the government as a way of providing public goods. Hill Holt Wood (HHW) is a 34-acre conservation area in rural Lincolnshire. It offers a wide range of different services, from education and training to 11-19 year olds, adult education courses in the woodland, countryside and forestry management and access to green space for those suffering from mental health issues

In 1995, Karen and Nigel Lowthrop bought HHW for £32,000 as a piece of neglected and degraded woodland with the aim to develop it into an environmentally sustainable,

locally-valued and economically viable social enterprise. In 1997, Hill Holt Wood Management Committee was established with volunteers from the community and local government officials as a link between the owners and the surrounding community. In 2004, the founders transferred ownership of most of the asset to the community and, since then it has grown with new public service contracts for developing training, countryside maintenance services for the local council, and the procurement of another piece of woodland nearby. HHW has also moved into new areas, including eco-housing and retrofitting of existing buildings. The organisation currently has 37 employees and about 30 volunteers.

One of the core activities of HHW is to provide training for young offenders, young people not in education, employment or training. They also gain experience of paid work through being involved in the conservation and maintenance contracts being delivered for local authorities. Further activities include eco-therapy and wellness provision, and a range of educational and health programmes. HHW is open to the public every day and other sources of income include a café, sale of firewood, renting out space for weddings, children's parties and other celebrations, team building days, and natural burials. HHW has become increasingly well-known at both a regional and national level due to effective networking and partnership working with local government, schools and charities, as well as word of mouth, and won a broad range of awards.

<http://www.hillholtwood.co.uk/>

Diverse leadership: 41% of social enterprises are led by women, a significantly higher proportion than in mainstream SMEs (20%) and large businesses (7% of FTSE 100). In addition, 12% of social ventures are led by a member of the black and minority ethnic (BAME) community⁹ in comparison to 5% of mainstream SMEs. On average, the leadership team of a social enterprise comprises six people – 89% of these teams include women, 36% directors with a disability, and 34% have a leader from a BAME background. The Board of social ventures also often includes beneficiaries and representatives from the local community.

Local recruitment: Another key feature of UK social enterprises is that they often recruit their employees from the local area. SEUK (2017a) reported that almost **eight out of ten (79%) of participating organisations recruited over half of their staff locally**; 58% recruited their entire workforce locally and only 5% did not employ any local staff. There are however regional differences, with local recruitment being particularly prevalent in the North East (80%), the South West (76%) and particularly low in London (39%).

(9) This proportion broadly matches that of the BAME population in the UK overall and also varies by geographic location, which is largely in line with the national diversity patterns of populations.

Fair pay and staff engagement: 78% of social enterprises surveyed by SEUK (2017a) were paying the national living wage (in line with the Living Wage Foundation standards). The proportion of Living Wage Employers increases with size and length of establishment of the social venture. The ratio between the average highest paid person (e.g. CEO) and lowest paid staff (2.7:1) is also much lower than in mainstream business, although increasing with the size of the organisation. Almost nine in ten (88%) social ventures actively involve their employees in decision-making, and 79% felt they provide their workforce with good training and development opportunities.

Trends in employment and plans for future job creation: The SEUK survey 2017 reported that 12% of social enterprises¹⁰ had increased their staff numbers in the previous 12 months, whereas 30% reduced the size of their paid workforce and 56% reported no change. The considerably smaller proportion of social ventures increasing their workforce compared to the 2015 survey (42%) may be due to organisations seeking to reduce their costs in the current climate of public sector financial austerity (see Sections 4 and 5). In contrast, 45% of SME employers had increased their staff numbers in the same period, 28% had reduced the size of their workforce and 27% reported no change. On a more positive note, 38% of social enterprises expected to increase their number of staff within the next 12 months. Although this is less than in 2015 (47%), it is more optimistic than the plans of SME employers for the same period (26%).

Volunteers: Most social enterprises (72%) make use of volunteers. According to SEUK (2017a), the proportion of organisations reporting volunteers had increased to 72% from 66% in 2015. However, the extent to which social ventures are reliant on volunteers depends on the organisation's staffing model. The use of unpaid volunteers lowers costs to the organisation and allows them to flexibly adjust resources in line with fluctuating demand for their services (see illustration 4. Glamis Hall for an example). At the same time, over-dependency on volunteers can sometimes create challenges in relation to stability and control. In 2017, 20% of social enterprises reported drawing on the help of 10-25 volunteers, 14% had 5-9 volunteers and 20% less than five volunteers. A smaller number of organisations were particularly reliant on volunteers, with 8% having 26-49 volunteers, 5% drawing on 50-99, and 4% having 100+ volunteers.

Scale and Scope

Turnover and Profit for Good: The vast majority of social enterprises are small or micro, with almost one third (31%) reporting a turnover of under 50,000 GBP (56,500 EUR). However, in the SEUK 2017 survey, 21% reported a turnover of between

(10) Only social enterprises over a year old were asked this question.

250,000 GBP (282,500 EUR) to 1 million GBP (1.13 million EUR), and 14% a turnover of over 1 million GBP (see table 6). Turnover is closely related to the age of the venture: while 45% of those reporting under 50,000 GBP (56,500 EUR) turnover were under three years old, those with a turnover of 1 million GBP or above had been around for more than 11 years.

Table 6. Turnover of social enterprises

Turnover (in GBP)	%
0 to 50,000	31
50,001 to 100,000	15
100,001 to 250,000	19
250,001 to 1 million	21
Over 1 million to 5 million	9
Over 5 million	5

Source: SEUK (2017a)

While about one third (34%) of ventures under 3 years make a profit, the proportion increases to over half (56%) of those who are 6–10 years old and 66% of those over 11 years. However, one of the key features of social enterprises in comparison with their mainstream counterparts is what they do with their profits—**92% of surveyed organisations reported reinvesting the majority of their profit to advance their social and/or environmental goals.**

Diversity in Scope: Although one third (34%) of social enterprises reported operating at neighbourhood or local level and 29% across several localities/regions, significant proportions of ventures operate nationally (8% in England and Wales respectively, 7% in Northern Ireland and 2% in Scotland), at European level (2%) and beyond (16%). However, there are regional differences, with ventures in the North East being most likely to operate locally (44%) and London-based organisations being most likely to operate at an international level (17%). In addition, social enterprises are often concentrated in areas of deprivation, with **28% of organisations located in the most deprived communities in the UK.**

Sources of income

Most social enterprises have varied income streams and progressively **more organisations are attempting to reduce their dependency on grants and donations while increasing their trading income.** The SEUK (2017a) survey reported

that 87% of their sample derived the majority of their income through trade – 74% of social enterprises earn more than 75% of their income from trading.

Table 7: Sources of income of UK social enterprises (2017)

Source of trading income	% citing as a current source of income	% citing as their main or only source of income
General public	60%	32%
Public sector	54%	20%
Private sector	52%	13%
Third sector	50%	7%
Other social enterprises	43%	3%
Grants from the government/local authority/public sector	37%	7%
Other grants	33%	5%
Donations	27%	2%

Source: SEUK (2017a).

The most common source of income was trade with the general public, with 60% of social enterprises deriving some income from this source, and 32% citing this as their main source of income. The next most common income source was trading with the public sector, with over half (54%) of social enterprises derived some income through this route, and 20% describing it is as their principal or only source of income. The third most common income source for social enterprises is trade with the private sector—52% cited this as a source and 14% cited trade with the private sector as their main or sole source of income. Other main sources of income included trade with third sector organisations (7%) and other social enterprises (3%). Grants also remain an important source in the income mix of social enterprises, particularly for more recently established ventures—37% received a grant from a public sector body and 33% from other organisations. For health and social care related organisations, personal budgets are also an increasing source of income. A personal budget is an amount of money given to an individual from the state to help them design a personal health and care support package, allowing them more control over the nature of the treatment/care provided and choice of a range of suitable providers. Illustration 7 provides an example of a small social venture that receives two thirds of its income from this source.

Donations play a comparatively small role for social enterprises – even though 27% of the sample had received donations in the previous year (20% of the sample were registered charities), the proportion from whom this was their principal income source was under 2%.

Illustration 7. Triangle Community Garden

The Triangle Community Garden started in 2000 when a social worker and landscape architect had the idea of setting up a community garden in Hitchin, Hertfordshire. They asked the council if they could use a plot of unused land, and after initially being brushed-off, they approached more senior staff who were persuaded of the community garden's benefits. The council supported Triangle with benefits in-kind such as provision of a water supply. A wide range of community members have come on board and the organisation has shifted emphasis in response to the needs of the community, and people with learning disabilities. In 2009, the organisation became a charity as they took on more responsibilities such as the use of a pavilion that had been renovated using local authority funds and a grant from a waste management and landfill company. Triangle currently has five core staff and draws on the help of 30 volunteers.

There has been an emphasis on wellbeing services for adults with learning difficulties using social therapeutic horticulture. The 'Growing Ability' programme is run by a qualified horticultural therapist and involves working in small groups, focusing on the support needs of individuals. This could involve building confidence, developing fine motor skills and support with planning. This led to the 'Growing Health' project that promotes active, healthy living. The sessions include weight management for those that wish, a group walk and learning how to cook healthy food.

Two thirds of Triangle's income comes from service users' personal budgets. This is a state-funded allowance which can be used by people with learning difficulties (and others) to fund their attendance at services that they and their carers deem best for them. To qualify to receive this income, Triangle had to register as a provider with the local authority. Other income comes from renting the pavilion to other organisations, which is earmarked for funding the community garden activity. There is also a small amount of income from selling horticultural produce, jams and apple juice. A new collaborative relationship with a local deli has created more income from these sources. There are also small amounts of income obtained from fund-raising events. Community business costs are kept low by relying on volunteers for some aspects of the business such as finance and publicity.

<http://www.trianglegarden.org/>

4

ECOSYSTEM

This section focuses on the system of support for social enterprise in the UK—the key actors, policy framework and infrastructure designed to enable the growth and development of the sector. How these elements interact will also be considered in subsequent sections. There is evidence of there being ‘nested’ ecosystems of support at national, regional and local economy levels. There are also some important differences between the devolved administrations of Scotland, Wales and Northern Ireland.



4.1. Key actors

The multiple actors that contribute to the social enterprise ecosystem include policy makers and those performing regulatory functions, customers, those who deliver business support, providers of education and training, sources of finance, and those involved in researching and monitoring the sector. Table 8 provides an overview of some of the main actors in relation to these functional roles, although it should be noted that many more organisations could be listed and, as can be seen, some organisations fulfil multiple roles. It is also important to recognise the multiple levels involved and how national level policy and interventions are complemented by and link with regional and local economy actors and interventions (Vickers *et al.* 2017).

Table 8. The UK social enterprise ecosystem - key actors and role

Role/function	Key organisational actors
Policy and legal framework/regulation	<ul style="list-style-type: none"> > Departments of central government (primarily): <ul style="list-style-type: none"> Department for Business, Energy and Industrial Strategy (BEIS) Department for Digital, Culture, Media & Sport (DCMS) - Office for Civil Society - working across other government departments > Devolved Administrations – Scotland, Wales, Northern Ireland > Regional and local administrations > Public procurement legislation: <ul style="list-style-type: none"> Crown Commercial Service (CCS) - leads on the development and implementation of government procurement policies
Certification systems and marks	<ul style="list-style-type: none"> > Social Enterprise Mark company > Social Enterprise UK - Social Enterprise Place badge
Customers	<ul style="list-style-type: none"> > Service users – individuals and communities (of interest and place), which are also sources of voluntary support > Public service commissioners, including local government departments and the National Health Service > Other private and civil society sector organisations

Role/function	Key organisational actors
Financial intermediaries	<ul style="list-style-type: none"> > Wide range including: Big Issue Invest, Big Lottery Fund, Big Society Capital, Bridges Fund Management, CAF Venturesome, CDFA on behalf of all CDFIs, City Bridge Trust (City of London Corporation), ClearlySo, Esmee Fairburn Foundation, Key Fund, Social Finance UK, Social and Sustainable, Capital (SASC), SIB Group, UnLtd, Major banks (e.g. RBS)
Start-up support and facilities (such as incubators)	<ul style="list-style-type: none"> > School for Social Entrepreneurs, UnLtd, Just Enterprise (Scotland) > Other social enterprise support networks / representatives
Business development support	<ul style="list-style-type: none"> > Community Action Network (CAN), Co-operatives UK, Social Enterprise UK, UnLtd, The Plunkett Foundation, Just Enterprise (Scotland) > Other social enterprise support networks / representatives
Facilitators of learning and exchange platforms	<ul style="list-style-type: none"> > RBS 100SE Index, Inspire2Enterprise, Power to Change
Support networks and associations	<ul style="list-style-type: none"> > Social Enterprise UK, Social Enterprise Northern Ireland, Social Enterprise Scotland > Association of British Credit Unions Limited (ABCUL), Association of Chief Executives of Voluntary Organisations (ACEVO), Community Action Network (CAN), Co-operative Centre, Co-ops UK, CIC Association, National Council for Voluntary Organisations (NCVO), Power to Change, Social Firms UK, Locality, UnLtd, Senscot, Wales Cooperative Centre and others
Research - to monitor sector development and assess needs and opportunities	<ul style="list-style-type: none"> > Government: <ul style="list-style-type: none"> Department for Business, Energy and Industrial Strategy (BEIS) Department for Digital, Culture, Media & Sport (DCMS) - Office for Civil Society > Universities – including: <ul style="list-style-type: none"> Aston University, University of Birmingham (Third Sector Research Centre), University of Cambridge (Centre for Social Innovation), Glasgow Caledonian University (Yunus Centre for Social Business and Health), Middlesex University (CEEDR), Oxford University (Skoll Centre for Social Entrepreneurship), Plymouth University, and individual academics > Civil society/other: <ul style="list-style-type: none"> Co-Ops UK, Power to Change Research Institute, Social Enterprise UK, Social Firms UK, The RBS SE100 Index, Locality, Social Investment Research Council

4.2. Policy schemes and support measures for social enterprises

As set out in section 1.1, **social enterprise has been a focus of policy development in the UK for nearly two decades** and government policies have been linked to an overarching (neoliberal) agenda involving the outsourcing (privatisation) of public services and the transfer of responsibility for welfare from state to communities (Nicholls and Teasdale 2017, Sepulveda 2015). It is sometimes claimed that the institutionalisation of social enterprise has been more rapid and is more advanced in the UK than in many other parts of the world (Nicholls 2010).

Support measures for all businesses and non-profit organizations that can benefit social enterprise

Social enterprises are able to benefit from the wider business support ecosystem in the UK. **The very wide range of support programmes are funded by public and philanthropic sources, with many focused on particular geographic areas, or particular sectors.** Advice for start-up and growth is provided by enterprise agencies, Chambers of Commerce and local governments covering specific areas. They are represented in England by the National Enterprise Network. For start-up support there is also the New Entrepreneur Foundation and, for those out of work, the New Enterprise Allowance scheme. There are a range of support programmes for innovation, such as the Innovate UK Smart Grants, Innovation Vouchers and Catapult Centres. Support for growing businesses is also available through Growth Hubs with public-private partners operating in 38 Local Enterprise Partnership areas. Funding from the EU is also available through the European Regional Development Fund, particularly for innovation, low carbon enterprise, enterprise and SME support in general. The European Social Fund support is available to help business contributions to social inclusion, skills and employment.

There is some limited support targeting the non-profit sector, some of which is described below in relation to social enterprise. The National Council for Voluntary Organisation and Small Charity Coalition both provide a range of guidance and support to their members. Specialist support is also provided by some smaller charitable organisations and consultancies.

Support measures addressing specifically social enterprise

The business support needs of social enterprises are, in many respects, similar to those of for-profit enterprises, i.e. in terms of their needs for market research, business planning, raising finance and so on. However, **important characteristics of social enterprises can make mainstream businesses support services less appropriate**, including their distinct legal and governance structures, a primary social mission, reliance on volunteers, and mix of income streams including grants and donations. Given frequent experience of the limitations of mainstream business services, a range of programmes and organisations delivering specialist support have developed in the UK over the past 15 years or so (Lyon and Sepulveda 2012; Richardson 2015).

As previously shown, **UK governments have adopted the role of championing social enterprise and creating an enabling environment** in England, Scotland, Wales and Northern Ireland. These efforts are led in central government by the Office of Civil Society working across other government departments and building on the original strategy for social enterprise set out in DTI (2002). This has involved a three pronged strategy (Cabinet Office 2012): (1) Making it easier to set-up and run a social enterprise (including by reviewing the regulatory environment and ensuring it does not impose unnecessary costs on social enterprises, removing barriers that can restrict volunteering activities and removing tax barriers that can prevent enterprises reducing their costs by sharing services); (2) Making it easier for social enterprises to work with the State (see section 4.3); and (3) Getting more resources into the social enterprise sector (see sections 4.3 and 4.6). Most recently, a new Civil Society Strategy (HM Government 2018) sets out how government intends to continue to work with and support civil society to address complex societal challenges and is framed in terms of ‘five foundations of social value’: people, places, the social sector, the private sector, and the public sector. Some of the main commitments in this new strategy which appear to have particular implications for the future development of social enterprise will be examined below and in section 5.

Scotland's Social Enterprise Strategy was launched in December 2016¹¹ to provide a framework for action over the next decade, and links with the aim of achieving sustainable economic growth, tackling inequalities and building a fairer Scotland. The strategy builds on the existing ecosystem of support, as developed over the previous decade, and focuses on three main priorities: (1) Stimulating social enterprise; (2) Developing stronger organisations; (3) Realising market opportunities. These strategic aims are to be realised through a series of action plans spanning the decade.

(11) <https://www.gov.scot/Publications/2016/12/4404>

The UK social enterprise sector also benefits from a wide array of non-government intermediaries and organisations, including membership/trade bodies who represent the sector's views to government and help to develop the social enterprise ecosystem more generally (e.g. SEUK). There are also various providers of financial backing and expertise to support start-ups and already successful enterprises achieve scale (e.g. UnLtd). Support is also provided by Power to Change, a trust supporting community businesses in localities across the country. The Government provides various targeted grants to partner organisations to ensure information is available to those looking to set up and expand social enterprises. Some of the leading providers of social enterprise support are given in section 4.4 on membership/sector bodies.

Social enterprises across the UK have also benefited from European support, including from ESF, ERDF, Equal, and Leader+ funding programs. The various activities supported include: enterprise development; promoting entrepreneurship; employment creation and tackling labour market exclusion; community regeneration; rural development; policy development; and organisational capacity building.

4.3. Public procurement framework

4.3.1. Extent of public sector procurement

Public sector procurement is an important source of income for many social enterprises. The survey by SEUK (2017a: 23) shows that the public sector is the main source of income (including trading and grants) for 20% of respondents - a significant fall from 27% in 2015. Moreover, the proportion of social enterprises that do some trade with the public sector has declined to 54%, falling back behind trade with the general public (60%) as the most commonly cited trading partner.

Although social enterprise-specific data is limited, data on charities and voluntary sector organisations from NCVO for the period 2013/2014¹², indicates that grants and contracts from government bodies, both UK and EU, contribute a third (34%) of these organisations' income valued at 15 billion GBP (17 billion EUR). Of this 15 billion GBP, 12.1 billion GBP (13.7 billion EUR) comprised public sector fees and payments for contracted services, in comparison to only 2.8 billion GBP (3.2 billion EUR) worth of funding and grants to charitable intermediaries and 92.4 million GBP (104 million EUR) associated with trading with the public sector to raise funds. Moreover, growth in government income has mainly benefited organisations with incomes of

(12) <https://data.ncvo.org.uk/a/almanac16/income-sources>.

over 100 million GBP, with major organisations receiving the greatest share of income from government (42%), and small and micro organisations the smallest share (18%). For both social enterprise and for charitable organisations the majority of government funding (>80%) is for fees and contracts.

4.3.2. Legal framework for public sector procurement

The Crown Commercial Service (CCS) is responsible for the legal framework for public sector procurement and leads on the development and implementation of UK government procurement policies. The overarching policy requirement is that all public procurement must be based on value for money, defined as "*the best mix of quality and effectiveness for the least outlay over the period of use of the goods or services bought*". It is stipulated that this should be achieved through competition, "*unless there are compelling reasons to the contrary*".¹³

The UK framework for procurement has developed in line with internationally and nationally agreed obligations and regulations, including the EU Treaty principles of: non-discrimination; free movement of goods; freedom to provide services; freedom of establishment. The most recent update of the EU procurement directives was in April 2014, including a more flexible regime of procurement rules, which was to be implemented in national law by April 2016. These directives are:

- > Public Sector: Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18/EC
- > Concessions: Directive 2014/23/EU of the European Parliament and of the Council of 26 February 2014 on the award of concession contracts
- > Utilities: Directive 2014/25/EU of the European Parliament and of the Council of 26 February 2014 on procurement by entities operating in the water, energy, transport and postal services sectors and repealing Directive 2004/17/EC

Once the 2014 EU Procurement Directives came into force, the UK government prioritised the Public Contracts Directive for early implementation to simplify the rules and enable buyers to run procurements faster and with a greater focus on getting the right supplier and best tender in accordance with sound commercial practice. The implementation of the Public Contracts Regulations 2015 took effect from 26 February 2015. **Procurement for wider public sector bodies, such as local government, health and education, is also subject to the Public Contracts Regulations.**

The UK regulations include some specific UK rules to support growth by improving suppliers' access to public contracts below the EU thresholds ("sub-threshold contracts"),

(13) <https://www.gov.uk/guidance/public-sector-procurement-policy>.

including requirements for publishing advertised public contract opportunities and contract awards below the EU thresholds, but over certain other threshold values, on Contracts Finder.

Of particular relevance to social enterprise is the 2012 Public Services (Social Value) Act which came into force in 2013¹⁴. This requires all public bodies in England and some in Wales to consider how all the types of services they commission and procure can better contribute to social value, defined by those doing the specific commissioning in terms relating to the economic, social and environmental wellbeing of an area. This is in contrast to procurement based solely on the cheapest price for services which is often referred to as value for money. Initial proposals for the Act included powers to enforce the inclusion of social value, but this requirement was diluted during the course of parliamentary debate. The Act states that public authorities should “consider (a) *how what is proposed to be procured might improve the economic, social and environmental well-being of the relevant area, and (b) how, in conducting the process of procurement, it might act with a view to securing that improvement.*” **This gives commissioners permission to include social clauses in public tenders and have regard to social value as a criterion in the evaluation and scoring of bids.**

Recent survey evidence would appear to support that there is a need for further work on how the intention of the Act can be more fully realised; for instance, SEUK (2017a) found that for social enterprises whose main source of income was the public sector, just over a third (35%) had seen more ‘mentions’ of social value in tender documents, with 48% experiencing ‘no change’ as a result of the Act. **Poor public sector commissioning and procurement was reported as the biggest barrier experienced by 11% of survey respondents.**

However, **the Act continues to be a vital piece of legislation that gives commissioners and procurement officers permission and encouragement to assess bids based on social value as well as ‘value for money’ and financial efficiency.** Moreover, the recent Civil Society Strategy (HM Government 2018) expresses a commitment to increasing social commissioning across all levels of government by improving the application of the Act, initially by requiring central government departments to “*account for the social value of new procurements, rather than just ‘consider it’ as currently*”.

Finally, local authority commissioners need to also be aware of The Local Government (Transparency Requirements) (England) Regulations 2015 which require additional contracting information to be published beyond the legislative requirements of the Public Contracts Regulations 2015. There is also a requirement for contracting authorities to have regard to Crown Commercial Service guidance on the selection of suppliers and

(14) <http://www.legislation.gov.uk/ukpga/2012/3/enacted>

the award of contracts, and to ensure that suppliers pay their subcontractors within 30 days as is already required of contracting authorities.¹⁵

4.3.3. Policy to support Public Service Spinout Mutuals

As part of its public service reform agenda, the English government has been encouraging public service employees to ‘spin-out’ from the public sector and establish themselves as independent social enterprises or ‘mutuals’. Although this can be related to other ‘neoliberal’ public sector reform measures in England, notably the outsourcing of public services to private sector providers, the mutuals agenda encourages an increased role for employees and community stakeholders in the ownership and governance of these new organisations. All the legal forms that are set out in section 2 are represented in the mutual spin-outs with a majority being CICs. Public sector spin-outs have been championed across political party lines over several decades (Hazenberg and Hall 2016; Sepulveda, 2015; Sepulveda *et al.* 2018). In England, there are over 100 mutual spin-outs that are also likely to meet the EU social enterprise definition. They have a combined turnover of approximately 1.6 billion GBP (2.1 billion EUR) and operate in a variety of sectors including health, sports and leisure, culture and library services, education, and employment/skills and youth services (CIPFA 2017, SEUK 2018).

Illustration 8. Oldham Community Leisure

Oldham Community Leisure (OCL) is an example of a public service mutual that has spun out from the public sector. The organisation operates leisure and sport centre facilities in Oldham (Greater Manchester) and runs services in partnership with other agencies to improve the health and physical activity levels of local people. OCL was set up in 2002 by staff originally employed at the council-owned and run leisure centre. The outsourcing contract to run the facilities was initially awarded to a private sector operator, but objections to this led to the staff at the centre developing a successful counter proposal to establish themselves as a co-operative. The Community Benefit Society legal form was chosen for its flexibility, including with respect to the democratic involvement of staff and other stakeholders in decision making, responsiveness to community needs and innovation. The Board of Directors includes council members, staff and volunteer community members. OCL currently employs 110 contracted staff (73 full-time, 37 part-time), more than 190 casual staff, and a pool of additional volunteers that can be drawn from to support special events.

(15) <https://www.gov.uk/guidance/transposing-eu-procurement-directives>

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OCL is strongly embedded into the local infrastructure and works closely with the council to add ‘local value’, building on its knowledge and understanding of Oldham and its diverse communities with high levels of poor health and low rates of physical activity in some areas. As well as operating a range of leisure, sport and fitness facilities on behalf of the town council, OCL provides various classes and services related to physical fitness and wellbeing. The aim is to be as inclusive as possible to overcome cultural and other barriers to physical activity. This is achieved by reaching out to those who would not normally use a gym facility, for example through delivering exercise classes in residential homes and women-only classes in the Pakistani community. OCL also work in co-operation with the local community police service to address the town’s history of ethnic and racial divisions and reduce conflict. These efforts have included sports activity that brings together people from different communities to ‘integrate through football’ for example.

A main source of income has been the contract with Oldham council to run its facilities. Other publicly funded services include National Health Service (NHS) commissioned exercise referrals for falls prevention (in partnership with the charity Age UK) and for patients with heart disease (e.g. 2,000 per year). However, in the context of public sector austerity, there has been pressure over a number of years for OCL to steadily reduce its dependency on public funding. Income from trading with the public has increased steadily, particularly from gym memberships and swimming lessons. Any surplus generated is used to cross-subsidise less profitable activities within the community, such as the outreach activities mentioned above.

<https://oclactive.co.uk>

In 2008, under the New Labour administration, the Department of Health initiated the ‘Right to Request’ policy (Department of Health, 2008) to enable employees within community health services to establish themselves as independent ‘Public Service Mutuals’. **These organisations were allowed to leave the public sector with a guaranteed contract for a fixed period of time, usually three years.** After this period, mutuals did not receive any special treatment in the public tendering process but have been successful in winning new tenders and retendering for their existing contracts with only a small number of exceptions. Further measures were supported by the new Coalition government of 2010, notably the Cabinet Office’s Pathfinder Mutuals Initiative and related support offering advice and mentoring (Cabinet Office 2010; Mutuals Taskforce 2012).

Currently, the Department for Digital, Culture, Media and Sport (DCMS) is responsible for advancing the Conservative government’s commitment to supporting the growth and development of public service mutuals throughout England. **The Mutuals Team**

is in the Government Inclusive Economy Unit, part of the Office for Civil Society (OCS) and works across government to support existing public service mutuals to thrive, and new ones to emerge. DCMS defines these public service mutuals as organisations which “have left the formal public sector, continue to deliver public services and aim to have a positive social impact, and have a significant degree of employee ownership, influence or control in the way the organisation is run.”¹⁶

Although research to date presents an overall positive picture for public service mutuals, the sector is still relatively small (CIPFA 2017). Other recent studies have drawn attention to how the complex policy and public procurement context in an era of public sector austerity affects spin out mutuals as well as other social enterprises. **The sector faces several challenges, including how to stay true to their social mission objectives to serve vulnerable individuals and disadvantaged communities while also maintaining their own financial viability** (Diamond *et al.* 2017, Miller and Lyon 2016, Stumbitz *et al.* 2018).

4.4. Networks and mutual support mechanisms

There are a number of membership bodies which represent the different forms of social economy organization, most of which also provide various support services for different stages of the entrepreneurial/business cycle, ranging from early (pre-start) to planning for growth and development – as introduced in section 4.2.

- > **Social Enterprise UK** (SEUK) was established in 2002 as the Social Enterprise Coalition and is the main representative body for the sector in the UK, with 800 direct members and 15,000 members of partner networks. It aims to be a voice for social enterprise, shape the policy agenda, and enable stakeholders to work together to promote and develop the sector across a range of fronts. SEUK’s Social Enterprise Places Programme, supported by NatWest bank, recognises hotspots of social enterprise activity. There are currently 26 official Social Enterprise Places¹⁷ – towns, cities, counties and regions which have been supported to reach out to and involve local councils, businesses, charities, consumers and budding social entrepreneurs, bringing them together to grow their social enterprise communities. The programme aims to promote, raise awareness, and build the markets for social enterprise at a local and national level (SEUK 2016).
- > **Social Enterprise Scotland** is an independent, Scottish, membership-led organisation, originally incorporated in 2005 as the 'Scottish Social Enterprise

(16) <https://www.gov.uk/government/collections/public-service-mutuals>.

(17) <https://www.socialenterprise.org.uk/current-places>

'Coalition' and rebranded at the end of 2011 as 'Social Enterprise Scotland'. SES provides one-stop information and support for social enterprise in Scotland, including start-up, funding and procurement guidance, and access to free support under the Scottish Government supported Just Enterprise programme.¹⁸

- > **Scottish Social Enterprise Network** (SENSCOT) facilitates social enterprise across Scotland by interfacing with other networks and bodies, including Scotland UnLtd; DTA Scotland; the Social Enterprise Academy; Firstport; Senscot Legal; the Scottish Community Re:Investment Trust (SCRT); and, most recently, Partnership For Procurement (P4P). SENSCOT has a particular focus on the operation of Thematic and Local Social Enterprise Networks (SENs) which provide members with opportunities for peer support, collective action and market development. There are currently 18 Local SENs and six Thematic SENs: Health; Community Food; Sport; Cultural/Creative; Tourism; and Employability (in partnership with Social Firms Scotland).
- > **Social Enterprise NI** is the representative body for social enterprises and social entrepreneurs across Northern Ireland and is run by a consortium of social enterprises and social entrepreneurs. SENI provide opportunities for collaboration between social enterprises and the public and private sectors and support for all stages, ranging from start-ups and community groups at the beginning of their social enterprise journey, to more experienced social enterprises.
- > **Wales Co-operative Centre** was established in 1982 and supports co-operatives and social enterprises across Wales by collaboratively delivering projects that provide skills and tackle exclusion. It is mainly funded by the European Regional Development Fund and Welsh Government, with additional funding from the Big Lottery Fund and the Nationwide Foundation.
- > **Social Firms – England, Scotland, Wales and Northern Ireland** are membership and support organisations for social firms, a specific sub-set of Work Integration Social Enterprise (WISE) which aim to improve the employability and create jobs for those disadvantaged / marginalised from the labour market. These organisations carry out promotion, dissemination, research and lobbying to raise awareness of social firms and develop a supportive context for them. Their services include access to a range of resources and materials on social firm development in the UK and business support delivered through national and regional networks.
- > **Co-operatives UK** is the main representative body for co-operative enterprise in the UK, promoting co-operative and mutual forms and working in partnership with members to develop the 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

(18) <http://www.justenterprise.org/>.

> **Locality** is the leading body for community-led organisations in England and was formed in 2011 through the merger of the Development Trusts Association and The British Association of Settlements and Social Action Centres. Its membership comprises over 600 community-led organisations, providing support and advice and seeking to influence government for the benefit of the community-led sector.

In addition to these major representative bodies, there are many networks and mutual support initiatives that operate at regional (e.g. Social Enterprise North West) and sub-regional/local levels (e.g. GMSEN – Greater Manchester Social Enterprise Network). However, it is also important to note that subnational networks face many challenges and often struggle or collapse when funding comes to an end.

4.5. Research, education and skills development

4.5.1. Research

There is a substantial and growing body of policy/practice and academic research. Of particular note is the annual State of Social Enterprise Survey (SEUK 2017a), research on the Community Business Market (Diamond *et al.* 2017) and the Small Business Survey conducted every two years by the Department for Business, Energy and Industrial Strategy.¹⁹

An ongoing programme of Mutuals Research led by the Cabinet Office aims to contribute insight and learning to develop the case for the mutual model as a viable way of delivering public services and informing policy decisions about how government and others can further support the growth and sustainability of the sector. This involves the collection of survey and other evidence (case studies etc.) on over 100 established and developing public service mutual across England and 12 different sectors (CIPFA 2017; SEUK 2018).²⁰

There is also a substantial and growing body of academic research on social entrepreneurship and social enterprise. Relevant programmes funded by the Economic and Social Research Council (and others) include:

Third Sector Research Centre (TSRC) Middlesex University, Birmingham University and Southampton University funded by ESRC, Cabinet Office and Barrow Cadbury Trust. During 2008-14 CEEDR worked on a distinct stream of research themes focusing on

(19) <https://www.gov.uk/government/collections/small-business-survey-reports>.

(20) <https://www.gov.uk/government/collections/public-service-mutuals#research-and-evidence>.

the nature of the social enterprise sector and its contributions within civil society and beyond.²¹

Centre for the Understanding of Sustainable Prosperity (CUSP) ESRC funded 2015-2020 - total value: £6m (€6.8m) which is led by University of Surrey. Middlesex University is leading the alternative business (social enterprise) and investment models strand of this collaborative programme.²²

There have also been several EU-funded research projects which have examined social enterprise, entrepreneurship and innovation in England, Scotland and across the UK. These include:

SEFORIS Social Entrepreneurship as a Force for more Inclusive and Innovative Societies: a multi-disciplinary programme, funded by the EC, that investigates the potential of social enterprise in the EU and beyond to enhance the inclusiveness of societies through greater stakeholder engagement, promotion of civic capitalism and changes to social service provision. Seforis draws on insight from policy makers, social enterprise practitioners and academic research. The UK report (2016) with Aston University includes a comparison of key findings to the 2009 SELUSI survey, the predecessor of the SEFORIS project.²³

FESEIIS Enabling the Flourishing and Evolution of Social Entrepreneurship for Innovative and Inclusive Societies: a project supported by the Seventh Framework Programme with the aim of providing a better understanding of Social Entrepreneurship by analysing data gathered in 10 European countries with a focus on Scotland and England.²⁴ The England National Report provides a historical overview on social enterprises and the role of the EU and other institutions in developing an enabling ecosystem for social entrepreneurship and social innovation in England.²⁵

CrESSI Creating Economic Space for Social Innovation: funded from the EU's Seventh Framework Programme to explore the economic underpinnings of social innovation, with a focus on how policy and practice can enhance the lives of the most marginalised and disempowered citizens in society. The project ran from February 2014 to January 2018 and involved researchers in eight European universities including the Said Business School at University of Oxford in the UK.²⁶

(21) <https://www.birmingham.ac.uk/generic/tsrc/research/social-enterprise/index.aspx>.

(22) <https://www.cusp.ac.uk/themes/p/>.

(23) <http://www.seforis.eu/united-kingdom>.

(24) <http://www.fp7-efeseiis.eu/>.

(25) See Hazenberg *et al.* 2016 and <http://www.fp7-efeseiis.eu/england-national-report/>.

(26) <https://www.sbs.ox.ac.uk/creating-economic-space-social-innovation>.

4.5.2. Education and skills development

There are a wide range of programmes and activities in most universities and many schools, with social enterprise issues being addressed within teaching modules, and specific social enterprise modules in a small number of universities. Universities that run social enterprise related masters programmes include: Goldsmiths (University of London) - Masters in Social Entrepreneurship; Glasgow Caledonian University - MSc Social Business and Microfinance; and University of Cambridge - MSt in Social Innovation.

There are also a number of social enterprise specific programmes for potential and existing social entrepreneurs.

- > **UnLtd** was formed in 2002 and provides awards, training and support for social entrepreneurs 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) seeking to grow; (iii) awards and intensive support to help social entrepreneurs scale up their ventures, as well as dedicated support to social enterprises seeking to raise capital. As a foundation, UnLtd oversees a £150m endowment called the Millennium Awards Trust²⁷. In the year 2016-2017 it helped 571 social entrepreneurs start-up and 75 Social enterprises to grow. The Resilient Communities work has focused their input into 19 areas. It also has provided consultancy services to social enterprises and has a research unit that explores issues related to social enterprise. Of particular importance until recently has been UnLtd's collaboration with the Higher Education Funding Council for England (HEFCE) on the SEE Change programme which involved 59 universities to help mainstream and embed social entrepreneurship and related support across the HE sector.²⁸
- > **The School for Social Entrepreneurs (SSE)** was founded by the British Social Entrepreneur Michael Young in 1997. SSE exists to provide training and opportunities to enable people to use their creative and entrepreneurial abilities more fully for social benefit. SSE supports over 1000 social entrepreneurs per year between the ages of 17 and 74 to set up new charities, social enterprises and social businesses across the UK, India and Canada.
- > **The Real Ideas Organisation (RIO)** in England has developed the Social Enterprise Qualification (SEQ) in which students plan and deliver socially

(27) The Millennium Awards Trust was endowed with a National Lottery grant as a permanent source of grants for individuals throughout the UK to develop their own skills and talents and to contribute to the community.

(28) HEFCE closed at the end of March 2018, with many of its functions being continued by the Office for Students, the new regulator of higher education in England, and Research England, the new council within UK Research and Innovation.

enterprising activity while creating a portfolio of evidence. The RIO has worked with 369 schools to date.²⁹

- > **The Social Enterprise Academy (SEA)** in Scotland has been running the Social Enterprise Schools scheme since the 2000s. This highly acclaimed scheme was established with funding from the Scottish Government to support pupils and teachers to set up pupil-led social enterprises in their schools and raise awareness of social enterprise.³⁰

4.6. Financing

As mentioned earlier, **policy towards the support of the ecosystem for social enterprise has increasingly focussed on finance issues and in particular, repayable social investment.** Social enterprises have been voicing their concerns about the lack of access to finance since the early 2000s, with this issue being repeatedly recorded as the most reported challenge. Analysis of how social enterprises interpret the term ‘access to finance’, shows that the majority are seeking grant finance (Lyon 2017). In the latest SEUK survey (2017a), 42% of respondents claimed access to finance was the most significant barrier to their sustainability, but within this figure, 25% were concerned about the availability of grant funding. Survey responses also appear to conflate ‘finance’ with other income streams, with concerns registered about a ‘lack of demand’ (17%) and public procurement issues (11%).

Grant funding therefore remains a vitally important part of the social enterprise ecosystem, particularly for start-ups. **Of the 34% applying for finance, 82% were applying for grants** (SEUK 2017a). The largest grant provider is the National Lottery, to which all charities can apply. There is also specific support available through UnLtd, a foundation supporting social enterprises. These can be small grants for start-up stages or larger grants for growth of existing social enterprises. Other grants come from a range of philanthropic sources, local authorities and EU co funded programmes such as ERDF.

The past 10 years has seen a major focus of government policy on encouraging the infrastructure of repayable debt and equity finance. In the UK, this specific form of finance is referred to social investment - although in much of the world, the term is used in a broader sense to cover all investment in social change. The finance ecosystem is made up a number of social investment finance intermediaries such as social banks,

(29) <https://realideas.org/wp-content/uploads/2018/01/RIO171026-impact-infographics-2016-2017-WEB.pdf>.

(30) <https://www.socialenterprise.academy/scot/social-enterprise-in-education>.

and specialist social investment intermediaries. Detailed analysis of data from 2013 found that **social investment was used by 3.5% of social enterprises or one quarter of all borrowers, while banks were used by 64% of borrowers** (Lyon and Baldock 2014; Lyon and Baldock 2019). The importance of bank finance was also emphasised by Floyd and Gregory (2016) who reported that banks lent £3bn (€3.4bn) to the social sector in 2015. However, the latest SEUK (2017a) survey found that 17% identified lack of debt and equity finance as a barrier.

The scale of the finance ecosystem has increased through the additional funds provided by Big Society Capital and other sources. Big Society Capital was set up under the Dormant Bank and Building Society Accounts Act passed in November 2008. Using unclaimed assets, it is a wholesale provider of finance to social investment financial intermediaries investing 150 million GBP (169.5 million EUR) to intermediaries up to December 2013, with 600 million GBP (678 million EUR) committed to building the social investment market (Big Society Capital 2014). BSC has used 436 million GBP (492.7 million EUR) and reports that it has leveraged a further 804 million GBP (908.5 million EUR) into the sector (OCS 2018). There has also been a considerable investment from the national lottery in setting up infrastructure. Floyd (2017) has reported that although there has been a 189% increase in the funds available, take-up by social venture borrowers has only increased by 20%. This has resulted in many sector leaders questioning the benefits of some forms of social investment and suggesting the need for better targeting. **Although these social investment funds have a contribution to make, there is a need for further examination of how they fit with other sources and that they are not seeking to displace bank finance, with very similar products and limited additional social value created.**

Social investment has been promoted as a way to fund the ‘unbankable’ and risky investments that mainstream funders are unwilling to fund. There is some evidence of shift in this direction, including a DWP (2016) survey which identified an increase in the proportion of unsecured lending that is unsecured against collateral, rising from 5% in 2011/2012 to 26% in 2013/2014.

There remain questions, however, as to the extent to which social investment is providing ‘risk finance’. For it to be genuinely fulfilling such a role, a significant proportion of lending would be expected to be written-off – i.e. due to investments in relatively ‘high risk’ or ‘experimental’ projects which, although plausibly demonstrating high potential, are ultimately unsuccessful. Social investment funds from the 2000s emphasised this in their design and accepted that some of their investments may have to be written off if they were trying to fill this finance gap. The Social Enterprise Investment Fund reported write-offs of 13% of investments and the Future Builders Fund reported 14% write offs while showing overall positive impacts (Lyon 2017).

However, there remains a lack of evidence regarding the additionality of the use of philanthropic funds for more recent social investment.

To meet the demand for smaller, unsecured investment from smaller social enterprises, the Access Foundation is now providing ‘blended finance’ that combines loans and grants, with the 45 million GBP (50.9 million EUR) Growth Fund with 50% grant funding from the National Lottery and 50% investment from Big Society Capital. Recent policy has also focused on investment readiness of social enterprises and helping them approach investors. This includes the Investment and Contract Readiness Fund and Big Lottery’s Big Potential Fund. There have also been Cabinet Office funded accelerator programmes, the Social Incubator Fund provided by the Big Lottery, and other support for investment readiness provided by UnLtd and the School for Social Entrepreneurs. Since 2017, the Access Foundation has been funding the Enterprise and Development Programme and the Reach Fund which combine investment readiness support with funding for wider enterprise development (OCS 2018).

There have been specific innovations in finance to support the delivery of public services by social enterprises, including Social Impact Bonds supported by the Office of Civil Society and the Social Outcome Funds. Since their introduction in 2010, **32 Social Impact Bonds have been set up in the UK**. These allow social enterprises and other providers to have contracts to deliver public services and be paid based on the outcomes, such as a reduction in reoffending amongst ex-offenders leaving prison. A Social Impact Bond is raised to fund the work, with the investors being reimbursed by the public sector on the outcomes delivered.

Community shares and bonds are another area of innovation, with 685 share offers reported for 346 local assets since 2012. This has allowed projects to raise 107.9 million GBP (121.9 million EUR) (Co-operatives UK, 2018 –The Cooperative Economy), despite this not being specifically supported by government with fiscal incentives. This form of finance brings communities together to fund their own activities and has been particularly important in terms of enabling communities to take over local assets (buildings, etc.) and to launch renewable energy projects.

Policies to attract finance to social enterprises include the Social Investment Tax Relief (mentioned in section 2.3), whereby **investors are afforded relief on their personal income tax if they invest in a social enterprise**. Although worthwhile and promising, only 50 social enterprises have benefited from this measure to date.

5

PERSPECTIVES

This final section further examines the issues raised by our review of the available evidence and the perspectives provided by the policy and academic literatures. It does so by drawing on recent insights and perspectives from key stakeholders on the status and ongoing viability of the UK social enterprise sector, the effectiveness of its supportive ecosystem, and future opportunities and challenges. These contributions were collected via a request for responses by email, interviews held with 10 stakeholders (particularly those based in Scotland, North East England and South West England), a roundtable meeting with 11 key stakeholders held at the Government's Office of Civil Society in London, and speeches made by sector representatives and policy makers at recent public events.



5.1. Overview of the social enterprise debate at the national level

The question of how to define social enterprise continues to be a key feature of policy discourse in the UK, even after 20 years of intense debate. Clearly, how social enterprise is defined has important implications for policy and access to support, and the claims that are made with respect to the contribution of the sector. **A narrow definition runs the risk of excluding many socially enterprising initiatives, whereas a broad definition risks including too many enterprises that are motivated primarily by private interest.** Moreover, there needs to be recognition of the dynamic nature of social enterprise which may be reflected, for instance, in a changing balance between trading and other sources of income, which is not captured by narrow definitions.

The UK has held to a broader definition than that used by the EU, and several participants emphasised that the success of the UK social enterprise sector was due in large part to the choice and flexibility of policies and structures. One roundtable participant referred to this as providing a “rich seed bed for social enterprise”. While others were in favour of the diversity of forms allowed, concern was also expressed about the need to protect the social enterprise brand from being co-opted by private businesses that may fail to fulfil expectations, leading to an “erosion of trust and disillusioned consumers”. Related to this, some have advocated that social enterprise should be more closely and explicitly linked with the third/voluntary sector, although this could be to the detriment of a wider definition that includes private sector enterprises with a core social vision.

Public awareness of social enterprise was reported to be generally low but growing, particularly amongst the younger population. There has been a particular growth in awareness reported in some areas, including in Scotland where children exposed to the concept of social enterprise at school are now reaching adulthood. Understanding of related concepts such as community business is also growing, particularly amongst the users of the services provided by the growing number of such organisations. Awareness of cooperatives was also reported as strong in some sectors. National level debates are also impacting mainstream businesses, with increasing attention to how they can include social enterprise within their supply chains. Programmes such as SEUK’s Buy Social seek to encourage ethical sourcing, and stakeholders reported other examples of attempts to build awareness of social enterprise as credible businesses in an open market.

As shown in section 4.3, **public sector commissioning and procurement policy has been playing a key role in terms of creating opportunities for social enterprises to offer new approaches to public service delivery.** There are also policies to

encourage public service providers to ‘spin-out’ from the public sector and establish themselves as independent social enterprises or ‘mutuals’ that include workers and other community stakeholders in their governance. There remain contested views about the outsourcing of public services, with some seeing all such activity as a form of privatisation that is undermining the efficiency and fairness of public service provision. Others emphasise the opportunity to develop new approaches to public service delivery that may be very different to the approaches of both the public and private (for profit) sectors. The collapse of the giant outsourcing company Carillion has further opened the debate about alternative forms of public service delivery, including cooperatives and other social enterprises. There are also discussions about alternative forms of public service partnerships that move from crude forms of competitive tendering to innovative approaches such as contracted co-design.

5.2. Constraining factors and opportunities

The enabling factors referred to above relate to the social enterprise opportunities coming from consumers/community members, business to business trading, public sector commissioning and international trade. The key constraints relate to the start-up and growth of social enterprises.

5.2.1. Finance

Access to finance has been presented as a major constraint in the past and the policy response has been to increase the availability of debt finance. Most of the roundtable participants and others consulted were critical of what they saw as an overly narrow focus on this particular form of investment, described as an “obsessional route to social investment” by one respondent. There was also a view that this had been to the detriment of other forms of capacity building support. One stakeholder reported that social investment providers had not been able to “get the money out the door because it is run by people from the city so funding is too big or too onerous.” Many others noted that bank finance is often cheaper than social investment sources. Strong support was expressed by one roundtable participant for the Access Fund that responds to **the need for small scale and early stage support, by combining grants and loans in blended finance**. It was also seen as “changing the tools of social investment to take on the view of social enterprises themselves”. This is also seen as a way of reaching deprived areas and trialling new ideas. There are also innovations in co-investment with institutional investors (such as the Booster Programme) and equity capital from community shares to provide long term ‘patient capital’.

5.2.2. Building capacity and skills

The recent shift of policy emphasis from public sector and other philanthropic funding towards social investment has resulted in what one roundtable participant referred to as an “unbalanced ecosystem, over-egged one way and capacity building support is neglected, but now there is a shift back towards “pipeline development of investable propositions”. **Although the support infrastructure in England, Wales and Northern Ireland prior to 2010 received public sector funding, it has been cut back considerably in recent years and is now more patchy and fragmented.** There are some areas of more intense support and advisory services in particular towns such as Rotherham and Preston, and in particular counties, such as Cornwall. Some of this is linked to targeted EU funds but there were concerns that such support has tended to be overly prescriptive and narrowly focussed on outputs to be delivered rather than social value outcomes for the social enterprises. There are other specific areas of business support funding such as the Power to Change programme, providing support to community businesses social enterprises, working in specific localities.

The Scottish experience has been somewhat different to the rest of the UK, with greater policy continuity and political commitment to supporting a relatively well-resourced and integrated infrastructure from both the Labour and Scottish National Party. Support for social enterprise is also more evident in the mainstream business support being delivered by the Scottish Enterprise and Highlands and Islands Enterprise development agency. Some concern has been expressed, that the relative abundance of provision in Scotland has led to a rather complex ecosystem and some overlapping provision, which can be confusing, particularly for new social ventures.

There is considerable variety in the types of support provided, with examples of innovative approaches, including the use of social enterprise champions, mentoring, grants to encourage trading activity for smaller organisations (e.g. Matched Trading grants to help social enterprise enter into new contracts while keeping their social value focus), and support for ethical supply chains. This is in addition to conventional or mainstream support available to all growing businesses and other forms of social enterprise start-up and growth funding such as Glasgow City Council’s Cooperative and Social Enterprise Fund.

5.2.3. Legislation and the public sector

Specific legislation for legal forms and tax benefits designed to encourage social investment were felt by the roundtable participants to have had limited impact to date. **The legislation for the Community Interest Company has made starting, running and investing in a social enterprise slightly more convenient but it does not provide any fiscal incentives.** There are limited benefits from reduced local business rates but this is dependent on the discretion of local officials, some of whom include CICs as well as charities, while others only allow reductions for charities. The public sector plays a bigger role in the commissioning and procurement process, notably by creating an enabling environment, funding the support infrastructure and encouraging social value. While social enterprise has remained a key priority referred to regularly by senior politicians in the Scottish Government (and to a lesser extent in Wales and Northern Ireland), this has not been the case in England as the remit for social enterprise has shifted from Department of Trade and Industry to an Office of the Civil Society in the Cabinet Office, and more recently moved to the Department for Digital, Culture, Media and Sport.

5.3. Trends and future challenges

5.3.1. Supportive context and regional differences

While the austerity-related cuts to the English support system are documented above, there are trends towards greater devolution that potentially create new opportunities for supportive ecosystems at local and regional levels. The Scottish context has been particularly conducive to investment in the ecosystem for social enterprise, buttressed by support and interest from political parties, a strong tradition of the social economy, and as the Cabinet Secretary for Communities and Local Government Aileen Campbell stated, the smaller size of the Scottish Government makes development of social enterprise policy easier and more effective. In England, there has been a recent Civil Society Strategy that sets out a vision for social enterprise.

5.3.2. Changing sectors and activities

Recent trends have seen particular growth in retail, hospitality and creative industries according to evidence from the SEUK State of Social Enterprise (SEUK, 2017a). Interviewees referred to the potential for growth in the health and social care sector, and also diversification and growth in very specific service sectors, such as

architects, property developers and undertakers. There are also opportunities arising with digital technology addressing forms of financial inclusion.

5.3.3. Future challenges

Changing roles of the public sector

The UK's social enterprise sector has been closely linked to the public sector, both in terms of the support being provided and also the trading/service delivery opportunities arising from public procurement. The past eight years have been characterised by austerity and cuts affecting public services with no current proposals to increase funding for the social enterprise ecosystem. One roundtable respondent saw this as a motivation for creativity around more cost effective ways of offering support, such as peer-to-peer mentoring rather than one-to-one consultancy provision. The public commissioning environment continues to change with a trend towards fewer and larger contracts and a reduced appetite for risk and innovation from commissioners who are tending to favour shorter contracts with break clauses. **The Social Value Act has potential to increase social value assessments within contracts and the recent Civil Society Strategy (DCMS 2018) expresses the need to reinforce this.**

Finally, the future of social enterprise depends on how public policy is led. A Scottish stakeholder stated: "One of the key challenges for social enterprise policy is where it sits – in the business community or third sector community there is a tendency for silo working- whether through policy formation and application, funding distribution".

Britain's relationship with Europe—the challenge of Brexit

Uncertainty concerning Brexit was dominating the news during the preparation of this report. Concerns were focused on the challenges of recruitment and retention of staff in sectors such as care provision, especially if non-UK staff are made to feel unwelcome. There were concerns about an economic collapse and recession that would hit the most vulnerable hardest. Networks across Europe were also reported as a valuable resource with the need to put extra effort into their maintenance post Brexit. Funding was reported to be a concern for a small number who had received European funding. Others felt that there would be replacements for these sources, and there may be new opportunities from radically different procurement rules, and from new funding streams such as the replacement of the Common Agricultural Policy and the proposed Shared Prosperity Fund. However, **the biggest concern was the lack of action in key policy areas for social enterprise as Brexit was dominating policy attention.**

The future economy

The most important future challenge relates to the nature of the economy and related uncertainties. Work and employment patterns are showing a growth in the ‘gig economy’ and self-employment and there is evidence of this creating opportunities for social enterprise to bring these people together in novel and agile forms of collective action. The future economy may also be affected by periods of low growth, other shocks and environmental disasters leading to radical restructuring. While this can be concerning, it also presents opportunities for social enterprise to deliver a combination of social, environmental and commercial value. **The changing values of young people leaving school and university will also shape how they look to participate in the economy, with evidence of greater interest in enterprise and employment that is congruent with the ethics, values and contribution of social enterprise.**

6

APPENDICES

Appendix 1. The EU operational definition of social enterprise

The following table represents an attempt to operationalise the definition of “social enterprises” based on the Social Business Initiative (SBI) promoted by the European Commission.

Main dimension	General definition	Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high)	Initial minimum requirements (yes or no)	Examples/boundary cases comments
Entrepreneurial/ economic dimension	Social enterprises (SEs) are engaged in the carrying out of stable and continuous economic activities, and hence show the typical characteristics that are shared by all enterprises ³¹ .	<ul style="list-style-type: none"> > Whether the organisation is or is not incorporated (it is included in specific registers). > Whether the organisation is or is not autonomous (it is controlled or not by public authorities or other for-profit/non-profits) and the degree of such autonomy (total or partial). > Whether members/owners contribute with risk capital (how much) and whether the enterprise relies on paid workers. > Whether there is an established procedure in case of SE bankruptcy. > Incidence of income generated by private demand, public contracting, and grants (incidence over total sources of income). > Whether and to what extent SEs contribute to delivering new products and/or services that are not delivered by any other provider. > Whether and to what extent SEs contribute to developing new processes for producing or delivering products and/or services. 	SEs must be market-oriented (incidence of trading should be ideally above 25%).	<ul style="list-style-type: none"> > We suggest that attention is paid to the development dynamic of SEs (i.e. SEs at an embryonic stage of development may rely only on volunteers and mainly on grants).

(31) In accordance with Articles 48, 81 and 82 of the Treaty, as interpreted by the Court of Justice of the European Communities, “**an enterprise should be considered to be any entity, regardless of its legal form, engaged in economic activities, including in particular entities engaged in a craft activity and other activities on an individual or family basis, partnerships or associations regularly engaged in economic activities.**”

Main dimension	General definition	Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high)	Initial minimum requirements (yes or no)	Examples/boundary cases comments
Social dimension (social aim)	<p>The social dimension is defined by the aim and/or products delivered.</p> <p>Aim: SEs pursue the explicit social aim of serving the community or a specific group of people that shares a specific need. "Social" shall be intended in a broad sense so as to include the provision of cultural, health, educational and environmental services. By promoting the general-interest, SEs overcome the traditional owner-orientation that typically distinguishes traditional cooperatives.</p> <p>Product: when not specifically aimed at facilitating social and work integration of disadvantaged people, SEs must deliver goods/services that have a social connotation.</p>	<ul style="list-style-type: none"> > Whether the explicit social aim is defined at statutory/legal level or voluntarily by the SE's members. > Whether the product/ activity carried out by the SE is aimed at promoting the substantial recognition of rights enshrined in the national legislation/ constitutions. > Whether SEs' action has induced changes in legislation. > Whether the product delivered - while not contributing to fulfilling fundamental rights - contributes to improving societal wellbeing. 	Primacy of social aim must be clearly established by national legislations, by the statutes of SEs or other relevant documents.	<ul style="list-style-type: none"> > The goods/services to be supplied may include social and community services, services for the poor, environmental services up to public utilities depending on the specific needs emerging at the local level. > In EU-15 countries (and especially in Italy, France and the UK) SEs have been traditionally engaged in the provision of welfare services; in new Member States, SEs have proved to play a key role in the provision of a much wider set of general-interest services (e.g. educational services up to water supply). > What is conceived to be of meritorial/general-interest nature depends on contextual specificities. Each national expert should provide a definition of what "public benefit" means in her/his country.

Main dimension	General definition	Relevant Indicators (<i>not exhaustive list</i>) (yes/no or range from low up to very high)	Initial minimum requirements (yes or no)	Examples/boundary cases comments
Inclusive governance-ownership dimension (social means)	To identify needs and involve the stakeholders concerned in designing adequate solutions, SEs require specific ownership structures and governance models that are meant to enhance at various extents the participation of stakeholders affected by the enterprise. SEs explicitly limit the distribution of profits and have an asset lock. The non-profit distribution constraint is meant to ensure that the general-interest is safeguarded. The non-profit distribution constraint can be operationalised in different ways.	<ul style="list-style-type: none"> > Whether SEs are open to the participation and/or involvement of new stakeholders. > Whether SEs are required by law or do adopt (in practice) decision-making processes that allow for a well-balanced representation of the various interests at play (if yes, through formal membership or informal channels -give voice to users and workers in special committees?). > Whether a multi-stakeholder ownership structure is imposed by law (e.g. France). > Whether SEs are required to adopt social accounting procedures by law or they do it in practice without being obliged to. > Degree of social embeddedness (awareness of the local population of the key societal role played by the SE versus isolation of the SE). > Whether the non-profit distribution constraint is applied to owners or to stakeholders other than owners (workers and users): whether it is short-term (profits cannot/are not distributed or they are capped) or long-term (asset lock); or both short and long term. > Whether the cap is regulated externally (by law or defined by a regulator) or it is defined by the SE by-laws. > Whether limitations to workers' and/or managers' remunerations are also imposed (avoid indirect distribution of profits). 	SEs must ensure that the interests of relevant stakeholders are duly represented in the decision-making processes implemented.	<ul style="list-style-type: none"> > Ownership rights and control power can be assigned to one single category of stakeholders (users, workers or donors) or to more than one category at a time – hence giving ground to a multi-stakeholder ownership asset. > SE can be the result of collective dynamics or be created by a charismatic leader (in principle a sole owner is admitted by some national legislations provided that the participation of stakeholders if enhanced through inclusive governance) or public agency. > Different combinations concerning limitations to profit distribution envisaged (e.g. most successful solution: capped dividends supported by total asset lock – Italian social coops, CIC, SCICs).

Appendix 2. Data availability report

Legal typology	Source of data (name, type & link)	Data provider (name & type)	Year of reference timeline of updates	Nº of organisations	Nº of workers	Turnover	Degree of reliability (1 to 4) and explanation
Charities and CLG	National Council for Voluntary Organisations (NCVO) Administrative register	Companies house & Charity commission Government institution	2015 - 2016 Yearly	✓	N.A.	✓	4 - Identifies charities with any degree of trading.
“Social companies” including Charities, CLG, CIC and some cooperatives	National Council for Voluntary Organisations NCVO Administrative register	Companies house & Charity commission Government institution	2016 N.A.	✓	N.A.	✓	4 - All incorporated charities, CICs and coops, but not filtered for trading activity.
“Trading third sector organisations” including Charities, CLG, CIC	National Survey of Third Sector organisations (NSTSO) Survey of 49,000 in (England)	UK Government/Ipsos MORI Government institution	2010 N.A.	✓	✓	✓	4 - Charities and other asset locked organisations with >50% income from trading.
Community Interest Companies (CIC)	CIC Regulator Administrative register	CIC Regulator Government institution	2018 Yearly	✓	N.A.	N.A.	4 - Official data. REGAS includes information about SEs that received state aid within the <i>de minimis</i> rule. Data are not publicly available (not public data, available upon request).

Legal typology	Source of data (name, type & link)	Data provider (name & type)	Year of reference timeline of updates	Nº of organisations	Nº of workers	Turnover	Degree of reliability (1 to 4) and explanation
Cooperative economy- CBS, CCS and employee ownership	Coops UK Varied administrative sources	Coops UK Representative body	2018 Yearly	✓	✓	✓	3 - Includes large retailer chains, cooperative groups and farmer cooperatives.
SE including CLG, CIC, CLS and other private legal forms	DCMS SE Market Trends Surveys	Small Business Surveys Government Institution	2017 N/A	✓	✓	N.A.	2 - Only 28% of 181 SE in survey are asset lock legal forms meeting EU definition.
All SE in Scotland	Scotland SE census Varied administrative sources	Office of Scottish Charity Regulator (OSCR) Government institution	2017 N/A	✓	✓	✓	4 - Definition close to EU definition.

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Appendix 4. List of stakeholders engaged at national level

The set of 21 Country Reports updated in 2018 and 2019 included a “stakeholders engagement strategy” to ensure that key input from national stakeholders was incorporated. Four categories of stakeholders were set up: academic (ACA), policymaker (POL), practitioner (PRAC) and supporter (SUP). The stakeholders’ engagement strategy followed a structured approach consisting of a questionnaire, one or two stakeholders’ meeting (depending on the country) and one core follow-up group. Such structure enabled a sustained, diverse and committed participation of stakeholders throughout the mapping update process. The full names, organisations and positions of key stakeholders who accepted to have their names published are included in the table below.

Full name	Organisation	Role	Stakeholder category
Fergus Arkley	Power to Change	Development Manager	SUP
Sophie Armour	Social Finance	Manager	SUP
Jonathan Bland	Social Business International; GECES	Managing Director	SUP
Samantha Butler	Department for Digital, Culture, Media & Sport	Social Policy Advisor	POL
Rachel Corcoran	Department for Digital, Culture, Media & Sport	Head of Mutuals	POL
Elizabeth Doherty	Glasgow Social Enterprise Network	Network Manager	SUP
Nicola Ewing	Highlands and Islands Enterprise (Scotland)	Head of Strengthening Communities, Client Engagement and Development	SUP
Lucy Findlay	Social Enterprise Mark	Managing Director	SUP
James Finnie	CEIS, Scotland	Business Adviser	SUP
David Floyd	Social Spider CIC	Managing Director	PRAC
Jack Goldstein	Social Finance	Fund Manager	SUP
Dan Gregory	Social Enterprise UK; Common Capital	Director of International Sustainable Development	SUP
Lindsay Hall	Real Ideas Organisation (SW England)	CEO	SUP
Jonny Kinross	Grassmarket Community Project	CEO	PRAC

Full name	Organisation	Role	Stakeholder category
Neil McLean	Social Enterprise Academy (Scotland)	CEO	SUP
Jon Monk	Salford Social Enterprise City	Development Manager	SUP
Jane Newman	Social Finance; GECES	Leading Social Finance Intermediary	SUP
Stephen Muers	Big Society Capital	Head of Strategy and Market Development	SUP
Research Team	UnLtd	Research Team	SUP
Social Enterprise Team	Glasgow City Council	Social Enterprise Team	POL and SUP
Ute Stephan	King's College London	Professor of Entrepreneurship	ACA
Ian Taylor	Greater Manchester Centre for Voluntary Organisation	Director of Development	SUP
Nick Temple	Social Investment Business	CEO	SUP
Glenys Thornton	Labour Party, Patron of Social Enterprise UK	Labour and Co-operative member of the House of Lords	POL
Kate Welch	Social Enterprise Acumen (NE England)	CEO	SUP
Alastair Wilson	School for Social Entrepreneurs	CEO	SUP
Darah Zaran	Scottish Enterprise	Social Economy Team Leader	SUP

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