

What is a Social Enterprise?

Expert knowledge means success

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Note: This publication has not been updated since it was last published. Some of the hyperlinks may have changed and may need updating. In addition, some of the information in this publication may be out of date.

Introduction

A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.

There is no single legal model for social enterprise. They include companies limited by guarantee, industrial and provident societies, and companies limited by shares. Some organisations are unincorporated and others are registered charities.

Social enterprises tackle a wide range of social and environmental issues and operate in all parts of the economy. By using business solutions to achieve public good, the Government believes that social enterprises have a distinct and valuable role to play in helping create a strong, sustainable and socially inclusive economy.

Social enterprises are diverse. They include local community enterprises, social firms, mutual organisations such as co-operatives, and large-scale organisations operating nationally or internationally. There is no single legal model for social enterprise. They include companies limited by guarantee, industrial and provident societies, and companies limited by shares; some organisations are unincorporated and others are registered charities.

Social enterprises and social entrepreneurs provide local goods and services to benefit individuals and enhance communities. Examples of social aims are job creation and training, providing community services and 'Fair Trade' with developing countries. There are many different types of social enterprise, including community development trusts, housing associations, worker-owned co-operatives and even sports clubs.

New data published by the Small Business Service shows that the social enterprise sector is at least three times bigger than previously estimated. The data reveals that there are more than 15,000 businesses trading with a social purpose in the UK.

Successful social enterprises can play an important role in helping deliver on many of the Government's key policy objectives by:

- helping to drive up productivity and competitiveness;
- contributing to socially inclusive wealth creation;
- enabling individuals and communities to work towards regenerating their local neighbourhoods;
- showing new ways to deliver and reform public services; and
- helping to develop an inclusive society and active citizenship.

The Social Enterprise Unit was set up in Autumn 2001, within what is now the Department for Business, Innovation & Skills, to provide a focal point for strategic decision making across Government. Eight Working Groups, involving key stakeholders from the social enterprise community, were established by the Unit, and they have identified the major barriers to growth of the social enterprise sector:

- poor understanding of the particular abilities and value of social enterprise;
- little hard evidence to demonstrate the impact and added value of social enterprise;
- fragmented availability of accessible, appropriate advice and support;
- difficulty accessing and making use of what is perceived to be limited appropriate finance and funding available;
- limited account taken of the particular characteristics and needs of social enterprise within an enabling environment; and
- complexity and lack of coherence within the sector, combined with widely varying skills and knowledge bases.

The Government aim to tackle these barriers and achieve three key outcomes:

- create an enabling environment;
- make social enterprises better businesses; and
- establish the value of social enterprise.

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Business Support and Training

For people many outside the sector, social enterprise is an unknown concept. It is therefore crucial to start by clarifying what is meant by the term.

A social enterprise is, first and foremost, a business. That means it is engaged in some form of trading, but it trades primarily to support a social purpose. Like any business, it aims to generate surpluses, but it seeks to reinvest those surpluses principally in the business or in the community to enable it to deliver on its social objectives. It is, therefore, not simply a business driven by the need to maximise profit to shareholders or owners.

Like any other business, social enterprises need access to good quality business advice and training. They have to meet both financial and social 'bottom lines' and that can cause tensions and conflicts many mainstream businesses do not have to face. The Government is committed to working more closely with training providers, whether public sector or private, to ensure that the level and quality of support for social enterprises available in some parts of the country, and in some sectors, is made available to all.

Finance and Funding

At present, many social enterprises are undercapitalised and struggle to access external finance, particularly when starting up, growing or moving away from grant dependency. Ensuring that appropriate finance and funding is available to social enterprise is key to enabling the sector to develop and grow. It is central to the Government's strategy to encourage social enterprises to move away from grant dependency and towards greater self-financing.

A Social Enterprise can be described as any business owned by a group of people who have a common interest and is trading for a social purpose rather than personal gain. Social Enterprises trade – which means they sell goods and/or services to make money to keep their business on a sound financial footing and may make profits to invest in the

business or to give back to the community.

Social enterprises stand out from other businesses by trading and making profits but doing so for a social purpose and not for personal gain. They try to find innovative ways of earning income and increasing their profits rather than relying solely on grants and donations. Some enterprises employ staff, others have a mixture of paid staff and volunteers. Put simply, social enterprises are businesses that combine the entrepreneurial skills of the private sector with a strong social mission that is characteristic of the social economy as a whole:

- Setting up and running a social enterprise requires energy, skills and expertise to help it succeed;
- Getting as much practical information and advice on all aspects of running an enterprise is vital;
- They also have a clear social purpose such as job creation, or the provision of local facilities such as a sports and social club, or maybe a shop;
- They are owned and managed by the communities they serve. Those involved have a common aim – and a common interest.

Sources of finance for social enterprises include:

- trading income;
- retained profits;
- bank, Community Development Finance Institutions and other loans;
- grants including start-up and capital grants.

You can search for grants for the voluntary and community sector on the <http://www.governmentfunding.org.uk> website.

Loan Finance

A variety of loan finance options are available to social enterprises: from banks and building societies, community development finance institutions and other organisations being supported by Government to provide new forms of 'patient capital' finance. Below are some helpful links on this topic.

Adventure Capital Fund

<http://www.adventurecapitalfund.org.uk/>
The Adventure Capital Fund (ACF) was launched in December 2002 with the aim of delivering a new form of long-term investment into community enterprises. Round 3 opened in summer 2005, offering

Why set up a social enterprise?

- It provides a tangible benefit to the whole community – or specific parts of it like the elderly, young people, or mothers with young children.
- It utilises local skills and life experience.
- It uses a business-like, professional approach.
- It helps unite the community.

patient capital loans and grants. This is a unique partnership between three government departments, several Regional Development Agencies and leading players in the field of social and economic regeneration, all of whom are dedicated to the development of long-term sustainability of community-based enterprises in areas where traditional market forces fail to apply.

Bridges Ventures

www.bridgesventures.com

Bridges Community Development Venture Fund, a £40 million, 50:50 partnership between government and the venture capital industry, was launched in 2002. It aims to supply venture capital finance to firms operating in disadvantaged areas in England. As it operates on a commercial basis, it may not offer funds affordable to all social enterprises.

Charity Bank

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

The Charity Bank can accept deposits that earn social as well as financial returns and a not-for-profit bank, whose sole business is providing affordable finance for charity work.

Community Development Finance Association

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

The Community Development Finance Association (CDFA) is the UK trade association for community development finance institutions (CDFIs). CDFIs provide finance (most often in the form of loans or equity) to individuals, businesses and organisations that find it difficult to access finance from the formal banking sector.

The CDFA's website includes a comprehensive member directory including those who specialise in providing finance for social enterprises. Each directory entry gives details of the CDFI, the products it offers and how to get in touch with them directly.

Futurebuilders

<http://www.futurebuilders-england.org.uk/>

Following the publication of the cross cutting review of the role of the voluntary and community sector (VCS) in public service delivery in 2002, the Treasury, set up a new investment fund - Futurebuilders - worth £125 million.

The fund has been established to help VCS organisations overcome obstacles to effective service delivery, to modernise the service delivery part of the sector for the long term, and to increase the scale and scope of VCS service delivery.

NCVO Sustainable Funding Project

<http://www.ncvo-vol.org.uk/sfp>

The NCVO Sustainable Funding Project encourages and enables voluntary and community organisations to explore a full range of funding options, in particular generating income from trading goods and services.

Enterprise Finance Guarantee Scheme

<http://improve.businesslink.gov.uk/resource/s/business-support-finder/enterprise-finance-guarantee>

The Enterprise Finance Guarantee (EFG) is a loan guarantee scheme intended to facilitate additional bank lending to viable SMEs with insufficient or no security with which to secure a normal commercial loan. EFG was launched in January 2009 to help viable SMEs obtain the working capital and investment that they need during a time of unprecedented tightened credit conditions. It now aims to help such SMEs seeking finance for investment and growth as the economy recovers.

UK Social Investment Forum

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

The UK Social Investment Forum is the UK's membership network for socially responsible investment. It has over 100 members, including CDFIs, banks, law firms, fund managers and consultants.

Government Funding

Practical advice for business, including information on finance and grants, is available at the Businesslink website - www.businesslink.gov.uk. This site also has an online Grants and Support Directory - details are at: <http://www.businesslink.gov.uk/bdotg/action/gsd?r.s=sl>

The Government Funding website (www.governmentfunding.org.uk) is dedicated to giving the voluntary and community sectors access to grants from various central government departments. Local government funding may also be available to assist your social enterprise.

Community Links Social Enterprise Zone

www.jrf.org.uk/knowledge/findings/housing/734.asp

The UK's first Social Enterprise Zone (SEZ), based in Newham, East London, was established in 1998. It built on the Business Enterprise Zone model, where designated areas are freed from a range of statutory regulations obstructing local economic growth, and applied this principle to community services. The SEZ is a test bed for new policies and services tackling regeneration in deprived areas. Users of public services and front-line workers generate all the ideas. In this study, those involved in running the SEZ report on the lessons from its first years:

In 1998, the Joseph Rowntree Foundation published *Social Enterprise Zones: Building innovation into regeneration*. This proposal, developed by inner city charity Community Links, highlighted the fact that only 2 per cent of public sector resources in Newham were specifically focused on regeneration. It argued that this reflected how successive governments have treated regeneration as *additional* rather than *central* to the main task of providing public services and was detached from those best placed to shape it, namely the people living and working in areas experiencing multiple deprivation.

Setting up a Social Enterprise

There are several legal models for setting up a social enterprise. They include companies limited by guarantee, industrial and provident societies, and companies limited by share. Some organisations are unincorporated and some are registered charities.

You may want to set up your organisation as a limited company. There are three main ways of doing this, you can:

- Register your social enterprise as a company limited by guarantee - the most common type of set-up for organisations in this sector;
- Register your limited company as an industrial and provident society;
- Set up a business by registering your business as a company limited by shares;
- Set up a new type of limited company - the Community Interest Company (CIC), introduced on 1 July 2005. A CIC has exactly the same form as a normal limited company, with its liabilities limited by shares or guarantee, and must be registered at Companies House. The CIC is a new legal form dedicated to social enterprises, businesses that trade for a social purpose and not solely for private profit. CICs are regulated by an independent Regulator of Community Interest Companies, who approves all applications for CIC status to ensure they operate for the benefit of the community.

Social Enterprise Partnership

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

The Social Enterprise Partnership implements infrastructure and systems development, capacity building, research and development for the social enterprise sector in the UK.

They have four main objectives:

- To raise awareness of social enterprise and its contribution to economic activity and social inclusion by demonstrating practical ways to build the sector.
- To improve the performance of social enterprises to ensure a thriving, expanding, community of successful social enterprises in the future.
- To make the social enterprise support system more effective. Without effective support systems there will be no rapid growth in the social enterprise sector.

- To mainstream best practice and innovation within the social enterprise sector to influence national and regional policies and programmes concerning social exclusion and enterprise.

Examples of Social Enterprises

The Eden Project

The Eden Project Limited is an £86m centre in Cornwall, which attracted 1.96m visitors in its first year of operation. It was set up and is administered by the Eden Charitable Trust, a registered charity, which will ensure that commercial surpluses are reinvested in the project to guarantee its future.

It has already had a considerable social and economic impact on the local community, employing 600 permanent staff, of whom 95% were recruited locally and 50% were previously unemployed. Employment ages range from 16 - 77, in areas including retail, marketing, education, catering and horticulture. In addition to attracting new visitors to the area, it is estimated that the Eden Project has already created 1,700 FTE (full-time equivalent) jobs in the South West. It also plans to provide a business support unit for SMEs operating in the area of environmental sustainability, thus contributing to wealth creation in Cornwall which is recognised as one of the poorest regions in the European Community. The Eden Project also seeks to be a model of best practice for other businesses.

Aspire

Aspire, a company limited by shares, is one of the UK's most innovative social enterprises and has challenged traditional approaches to tackling homelessness. Started by two university graduates in 1999, Aspire creates full-time employment for rough sleepers and other homeless people. They operate a fair-trade catalogue service and in just over two and a half years have employed over 150 homeless people. Over 60% have moved on to other areas of full-time work and many, thanks to their guaranteed salary, are renting private accommodation. Aspire employees can now be found working in restaurants, hotels, factories, bars, call centres, warehouses, car parks, offices and building sites.

Characteristics of a Social Enterprise

Social enterprises:

- produce goods or provide services to achieve their goals and financial self-sufficiency
- have social aims such as employment and training - or provision of services - particularly for disadvantaged groups
- often have a democratic management style with different stakeholders taking part in decision making, eg employees, users of the social enterprise or specially appointed trustees
- often report on their social, environmental and economic impact
- principally reinvest profits in the business or in the community to further their social aims.



Bulky Bob's

Bulky Bob's was launched in June 2000 and is a unique partnership between the Furniture Resource Centre and Liverpool City Council.

Every working day of the year, Bulky Bob's call at more than 200 homes in Liverpool to collect unwanted items of furniture. These are then sorted, and goods in reasonable condition are sold on at low cost to people in need. White goods – fridges, freezers, cookers – are handed over to Create, where formerly long-term unemployed staff in training contracts refurbish the products and sell them on.

In the words of Mike Storey, the Council Leader, "with Bulky Bob's we are showing how a new social business can genuinely join things up. Residents get a much improved and reliable collection service. Families in need get decent cheap furniture. Unemployed people get jobs in collecting, sorting, recycling and selling. Everyone wins in this new way of doing the city's business.":

- trading to provide (or cross-subsidise) social or environmental goods or services (for example, the trading arms of some charities); and
- using processes or ways of working that have a significant social benefit (for example, co-operatives, social firms and fair trade organisations).

Reclaim – Sheffield

Reclaim is a plastics recycling specialist based in Sheffield employing people with learning disabilities and mental health problems.

A pioneer in the plastics recycling arena, Reclaim has initiated a plan to develop a cluster of recycling businesses in the city, tapping into the inner city location's access to both the incoming workforce and the outgoing product.

The Arts Factory

Arts Factory is an independent development trust established by local people in the Rhondda Valley. They are developing, in conjunction with United Utilities Green Energy, a £10m wind farm development project. The aim of the development is to create new work and provide employment opportunities. They are currently hoping to develop an environmentally friendly small business park, which will also be home to a garden centre, a learning centre for sustainable living, a café, a crèche and a gym. Local people join the Arts Factory as members for £1 per year and then have free access to all the services it delivers, including 'Ready for Work', a specialist jobs search service, and other activities at the Arts Factory facilities at Trerhondda.

The Circus Space

One of the top three circus schools in Europe, the founders of The Circus Space have customised a huge derelict former power station in Hackney. The organisation runs degree courses as well as private training and ensures all its operations are commercially viable. The Circus Space has been an active contributor to the creative buzz that now dominates parts of East London. It is also an important anchor of the social community, having recently initiated an extensive programme for local young people. The group's turnover growth of 380% in the last five years is further evidence of its Europe-leading performance.

Credit Unions

Credit unions are financial co-operatives that provide their members with affordable loans, the opportunity to build wealth through saving and a range of insurance products. Overwhelmingly, the members of credit unions are on below average income. There are currently over 650 credit unions in Great Britain, with a combined membership of over 300,000. Examples of 'live or work' credit unions serving the whole of their community are found in Leeds, Edinburgh and Lothian, Telford, Walsall, Wakefield, Tower Hamlets, Southwark and elsewhere.

Further Information

You can find out about Community Interest Companies on the CIC website:

<http://www.bis.gov.uk/cicregulator/>

You can read about national occupational standards for social enterprises at the Social Enterprise Partnership website:

<http://www.sepgb.co.uk/centralprojects/0000009485103710d/index.html#00000095a50fe2103>

You can search the Business Support Register at the Social Enterprise Coalition website:

<http://www.sepgb.co.uk/members/memberlist/query.php>

You can read about social enterprises on the Social Enterprise Coalition website:

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

This publication is for general interest - it is always essential to take advice on specific issues.

We believe that the facts are correct as at the date of publication, but there may be certain errors and omissions for which we cannot be responsible.

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