

Factsheet

11: Social enterprise

“Social enterprises exist in the space between traditional charity and mainstream business.” Social Enterprise UK 2017

Social enterprises are businesses which have a clear social and/or environmental mission, which generates the majority of their income through trade and reinvest the most of their profits to tackle the problems they were set up to address.

Recent research has shown: “There are around 100,000 social enterprises, contributing £60bn to the UK economy and employing 2m people.” The Hidden Revolution report 2018 from Social Enterprise UK.

Social enterprises have **no legal identity or definition**. It is a **concept** that has become increasingly popular since the 1990s and a model which is encouraged by the government.

What makes a social enterprise?

- Whilst there is no single definition of a social enterprise, some key traits have been identified for what a social enterprise consists of, which include:
It has a **social mission** written into their company (it exists in order to tackle some kind of disadvantage or cause e.g. social, environmental or economic)
- It **earns over half its own income** through trading activities (as with any businesses, they compete to deliver goods and services)
- Any **surplus is reinvested** towards achieving their social mission (their social mission is at the heart of what they do)
- It is **not privately owned** (unlike private businesses which are driven to make profit for their shareholders or owners, a social enterprise incorporates economic, social and environmental aims)
- They are **transparent** in how they report their social impact and how they operate

The government defines social enterprise as “a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners”. (A guide to legal forms for Social Enterprise, BIS 2011). The government encourages social enterprise because it is a way of encouraging sustainable growth in the economy as well as meeting social and environmental priorities.

What makes them so good?

“For many social enterprises, being sustainable – in every sense of the word – enables them to become more independent and reduce any dependency on public grants.” The Social Enterprise Ambassadors

Whatever they do, social enterprises do it differently from a conventional business because they are driven by their social and/or environmental purpose and they are focused on the community they serve.

For voluntary and community groups, a social enterprise is also a good model for diversifying income and earning money (either through trade or by winning contracts to deliver public services).

What legal structure would you have?

In theory, any organisation that trades for a social or environmental purpose can claim to be a 'social enterprise', because it is a 'concept' rather than a 'legal form' in itself. This has caused much confusion among charities and businesses.

However, a new legal vehicle was set up in 2005 in the form of a **Community Interest Company (CIC)**. CICs were set up to address the lack of legal status for non-charitable social enterprises across the UK. CICs vary in size and operate in many industries, including health and social care, renewable energy, retail, recycling, sport, housing and education.

Essentially CICs are normal businesses or companies. They are commonly established as companies limited by guarantee (CLG), but sometimes as companies limited by shares (CLS). However, they have some unique and important **additional features** to safeguard their social mission. Limited companies are regulated by **Companies House** but CICs also have their own **CIC regulator**. When applying to the CIC regulator a Community Interest Statement needs to be included as part of the application and each year a Community Interest Company Report needs to be submitted with the annual returns.

In 2014 the Co-operative and Community Benefit Societies Act came into force to replace the 'industrial and provident society' legal form with two new legal forms:

- co-operative society
- community benefit society

The Big Issue, The Eden Project, and the fair-trade chocolate company Divine Chocolate are all well-known examples of social enterprises

Community Benefit Societies and **Co-operative Societies** perform similar functions of a social enterprise.

Co-operative Societies are formed primarily to benefit their own members, who will participate in the primary business of the society. Whereas **Community Benefit Societies** must be run primarily for the benefit of people who are not members of the society, and must also be in the interests of the community at large.

They are both registered and regulated by the Financial Conduct Authority (FCA). You should think carefully about what legal structure is most appropriate for your aims and objectives. Making the right choice of legal structure for a social enterprise is crucial and you should

Key Words

Social Enterprise – a business that is driven by a social or environmental purpose, reinvesting any profits back into that purpose or the community

Community Interest Companies (CIC) – a common legal structure for social enterprises

seek advice on it, because it may affect the **support and funding** that you have access to in the future.

What about registered charities?

Whilst some charities claim to be a social enterprise and are often thought of as the best means for achieving social purposes, they are not always the best vehicle for a social enterprise.

Whilst charities can trade to pursue their social aims (and public benefit), few are hugely successful at generating income in this way. This might be because many serve to address issues of inequality and work on a voluntary basis where the primary aim is to offer support to those who need it. Charities have added tax benefits and schemes such as Gift Aid, to ensure that their focus is socially and environmentally driven rather than by profit.

CICs work slightly differently and have some **key advantages over charities**, including:

- Greater flexibility in terms of activities
- No trustees and no trustee control
- Directors who can be paid a salary, although this is regulated (basic charity law means that charities have to have volunteer trustee boards)
- Light touch regulation, but no tax incentives (they are less heavily regulated than charities)
- Fewer reporting requirements and administration – (a charitable company has to complete the Charities SORP, for example)

As directors of a CIC can be paid a salary, its founders can retain strategic control of the enterprise by sitting on the board as paid directors. Since there is also less bureaucracy and fewer regulations, CICs may also be in a better position to win public sector contracts, as their social purpose gives them preference over commercial companies. As their social purpose is protected, CICs are also increasingly successful in attracting the kind of grant-funding traditionally restricted to charities, although majority of traditional grant-givers will not fund CICs.

What are the other additional features of a social enterprise?

The following is taken from the CIC Regulator's website:

- An asset lock, which is inexpensive and easy to set up as it's a provision written into the CIC's articles of association which acts as a means of making sure that any assets are retained by the CIC and not transferred away from it
- Statutory provisions that prevent the members of the CIC removing the asset lock by special resolution
- Regulation to ensure the CIC maintains its asset lock and provides benefit to the community it was set up to serve
- Checks and balances provided by CIC legislation
- A community benefit report open to public scrutiny

- Transparency of directors' remuneration and use of assets
- Legal protection from demutualisation and windfall profits being paid to directors and members

Could you use it to earn your own salary?

A CIC has a '**lock**' on its assets which prevents profits from being distributed to its members or shareholders other than in certain limited circumstances. It also means that all assets must be used for the community purpose or if they are sold, open market value must be obtained for them and the proceeds used for the community purpose. In addition, if the CIC is wound up, its assets must be transferred to another, similarly asset-locked body. Although directors may be paid, the profit-lock ensures that a reasonable portion of the profits are reinvested in the enterprise (which is already the case with charitable organisations).

How would I start up?

There is a range of investment opportunities available to help set up and grow a social enterprise including commercial finance such as loans and equity, as well as other types of finance such as patient capital, social venture capital and venture philanthropy. Some grant funding maybe available to assist with setting up. However, once up and running, a social enterprise should be able to sustain itself mainly through trading activities. If it relies on traditional grant funding or public donations to fund its activities, it is not a social enterprise. Start by doing your research and using the links below to find out more about how it works, then seek further guidance and support from a local support organisation or network. To find out more on social investment visit the Good Finance website, it's a collaborative project to help improve access to information on social investment for charities and social enterprises.

How could I make it work?

To be successful, a social enterprise needs two key things. Firstly it needs **something to sell** (either directly to consumers or under contract e.g. to a local authority). Secondly it needs a **market** with enough demand and buying power for the social enterprise to generate a sustainable level of income and trade.

You might have an excellent idea for a social enterprise, but struggle to find something that can generate enough profit whilst meeting your social or environmental aims. The first things a social enterprise needs is a very strong business case, including a well researched idea, a clear understanding of the potential market, some good advice and support to help you on your way. The School of Social Entrepreneurs provides a range of training to support to CICs.

There is also the Social Enterprise Mark that certifies businesses which have proven social and environmental outcomes to their work.



Where to go next:

- To find out more about social enterprises visit the Social Enterprise UK website: www.socialenterprise.org.uk
- Social Enterprise UK has a useful publication called: Start Your Social Enterprise – The Social Enterprise Guide 2018: www.socialenterprise.org.uk/start-your-social-enterprise
- To find out more about the CIC regulator: www.gov.uk/government/organisations/office-of-the-regulator-of-community-interest-companies
- To find out more about Community Benefit Societies visit: www.uk.coop
- For more information about Good Finance visit: www.goodfinance.org.uk
- For more about the School for Social Entrepreneurs visit: www.the-sse.org
- For more on the Social Enterprise Mark visit: www.socialenterprisemark.org.uk

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