

CHAPTER ONE

Introduction

A CHANGING SERVICE DELIVERY LANDSCAPE

We do not have an ideological presumption that only one sector should run services: high-quality services can be provided by the public sector, the voluntary and community sector, or the private sector.

Source: *Open Public Services White Paper*, HM Government, 2011

While certainly not the only option, social enterprise is an important element in proposals to reshape public service delivery.

For example, central government is supporting the right for NHS staff to provide services through staff-led social enterprises. The localism agenda supports community involvement and diversification of public service delivery, including encouraging social enterprise and the ‘right to challenge’ existing public service delivery models. The *Open Public Services White Paper* points to a number of government initiatives supporting the development of employee-led mutuals and co-operatives to deliver public services.

Of course, these examples need to be understood within the wider goal of developing a more diverse range of service providers. The White Paper states that ‘*wherever possible, public services should be open to a range of providers competing to offer a better service*’. Social enterprise, then, is a part of a broader process of change in service delivery.

Open public services principles

Choice – *Wherever possible we will increase choice.*

Decentralisation – *Power should be decentralised to the lowest appropriate level.*

Diversity – *Public services should be open to a range of providers.*

Fairness – *We will ensure fair access to public services.*

Accountability – *Public services should be accountable to users and taxpayers.*

Source: *Open Public Services White Paper*, HM Government, 2011

DEFINITIONS

Before looking at the various potential sources of finance available to a social enterprise, it is important to have a clear understanding of what a social enterprise is, as well as the differences between different types of social enterprise. This is essential in order to assess the relevance of each of the main financing options to the different types of social enterprise.

So what is a social enterprise?

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.

Source: *Social Enterprise: A Strategy for Success* (DTI, 2002)¹

In the UK there is no one universally agreed or legal definition of social enterprise, but the above definition is helpful. It was included in a 2002 strategy document on social enterprise produced by the then Department of Trade and Industry. The definition highlights three key characteristics of a social enterprise:

- **undertaking trading (business) activity**
- **social objectives**
- **reinvestment of profits to further the social objectives.**

The Social Enterprise Mark, which is a voluntary scheme, sets out six criteria for recognition as a social enterprise. Three of the six criteria are similar to the three characteristics listed above. The three other criteria are:

- **independence**
- **asset lock** (ie on dissolution, residual assets are distributed for social/environmental purposes)
- **accountability** (ie demonstrate that social and/or environmental objectives are being achieved).

The mark also includes minimum requirements for the percentage of income from trading and the percentage of profits to be reinvested in social or environmental purposes. The general rule is that within 18 months of registration at least 50% of income should come from trading activity (eg fees or sales in return for goods or services) and that at least 50% of profits should be invested in furthering the social objects of the enterprise.

The Social Enterprise Mark

The Social Enterprise Mark was launched in February 2010 and is run by the Social Enterprise Mark Company (a community interest company).

In order to use the mark, an enterprise has to meet a set of qualification criteria, which is assessed by an independent certification panel. Any changes to the qualification criteria are overseen by the board of the Social Enterprise Mark Company.

For more information, see the Social Enterprise Mark website:

www.socialenterprisemark.org.uk

1. www.seeewiki.co.uk/~wiki/images/5/5a/SE_Strategy_for_success.pdf

TYPES OF SOCIAL ENTERPRISE

Social enterprises are not restricted to a particular legal structure. It is possible to identify some types of social enterprise that meet the DTI report definition and Social Enterprise Mark criteria, but that have important differences in regard to:

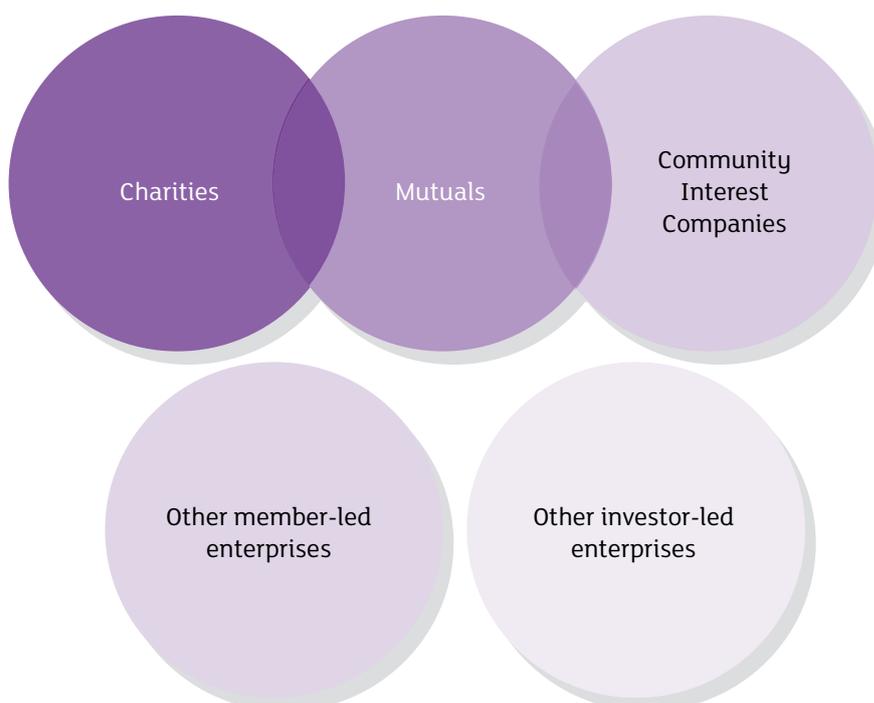
- the main purpose (objectives) of the organisation
- the main beneficiaries of the organisation's activities
- the ownership rights of the members and/or investors in the organisation.

Using these three criteria highlights key differences which impact on the range and nature of financing available to a social enterprise. Based on the three differences, the following types of social enterprise can be identified:

- charities that trade
- community interest companies
- mutuals (including co-operatives)
- other member-led organisations
- other investor-led organisations.

There is some overlap between these types. For example, some leisure trusts are mutual organisations (registered with the Financial Services Authority as community benefit societies) and many of these are also exempted charities. So some leisure trusts are both mutuals and charities. Similarly, some co-operatives register as community interest companies (CICs) and so they are both mutuals and CICs.

Main types and overlaps



These overlaps are because mutuals are member-based organisations and both charities and CICs can be structured to include a membership that elects the governing body. The above

diagram also takes account of the fact that a charity cannot be a CIC and a CIC cannot be a charity. It is an important difference that can impact on the range of sources of finance available to each.

Chapter three provides further information on each of the above social enterprise types and looks at differences between them and how this impacts on their access to various sources of finance.

USING THIS PUBLICATION

This publication aims to be a resource for people working in or with social enterprises and for those who may be considering setting up a social enterprise. It will prove useful for managers and officers involved in commissioning services or looking at new service delivery models.

It is structured so that it can be either read as a whole or dipped into for information on specific areas.

Chapter two provides an introduction to different types of finance and their applicability to various types of social enterprise. Not all social enterprises have access to the same sources of finance.

Chapter three describes the five main types of social enterprise, based on differences in relation to social purpose, ownership and main beneficiaries of the enterprise. Relevant legal structures for each type are also identified. The chapter looks at the access to financing that each of these types of social enterprise has and points out where their access differs.

Chapters four to twelve provide more information on each of the main types of finance available. Some of the chapters focus on new and developing areas; for example, chapter six looks at venture philanthropy, while chapter nine looks at social impact bonds.

Where it is appropriate, the chapters also consider how the legal structure of the social enterprise impacts on its particular sources of funding.

Chapter thirteen summarises the financing options open to different types of social enterprise and provides some questions to consider on these options.

Most chapters include a summary and a list of resources and sources of further information. These are to be found at the end of each chapter. Additional resources not linked to a particular chapter are included towards the end of the publication, in chapter fourteen.

SUMMARY

- In a changing service delivery landscape, social enterprise is seen as one option for public service delivery.
- A key difference between a social enterprise and an investor-owned business is that the social enterprise will be balancing social goals with financial sustainability.
- A social enterprise:
 - generates at least 50% of its income from trading
 - has a social purpose written in to its governing document
 - reinvests at least 50% of its profits in furthering social or environmental goals.

- A social enterprise registered with the Social Enterprise Mark will also:
 - be independent
 - have some form of asset lock with restrictions on ownership/property rights
 - be accountable for its social purpose.
- Based on differences in ownership, social purpose and beneficiaries, the five types of social enterprise are:
 - charities that trade
 - community interest companies
 - mutuals (including co-operatives)
 - other member-led organisations
 - other investor-led organisations.
- This publication looks at the various types of financing available to social enterprises and how these types match up to the different types of social enterprise.

RESOURCES

Business Link

Information on social enterprise

www.businesslink.gov.uk/bdotg/action/layer?topicId=1077475650

Opening public services website

Information and resources, including case studies, on open public services initiatives

www.openpublicservices.cabinetoffice.gov.uk

Social Enterprise UK

Represents a wide range of social enterprises, regional and national support networks and other related organisations

www.socialenterprise.org.uk

Social Enterprise Mark

Social enterprises have to meet a set of qualification criteria in order to qualify. The process is overseen by an independent certification panel to ensure fairness and consistency

www.socialenterprisemark.org.uk