



# UNITED KINGDOM

## COUNTRY SCENARIO

### 1. Main definitions and concepts used

The UK is viewed as a pioneer of social enterprise and the associated practices of social investment and social value.

Social enterprises are businesses that trade to tackle social problems, improving communities, people's life chances, or the environment. They make their money from selling goods and services in the open market, but they reinvest their profits back into the business or the local community.

Social enterprises exist in nearly every sector from consumer goods to healthcare, community energy to creative agencies, restaurants to facilities management. SEUK defines social enterprises as businesses that:

- 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
- Are autonomous of the state
- Are majority controlled in the interests of the social mission
- Are accountable and transparent

### 2. Short history of the sector and its developments

Social enterprise has a long history since 1844. Here are the outline of the brief history to date: through Rochdale

**1844:** Rochdale Pioneers: A group of 28 artists in the town of Rochdale, in the north of England established the first modern co-operative business, the Rochdale Equitable Pioneers Society. They decided that by pooling their resources and working together they could access basic goods at a lower price. Since then, there have been growth of whole variety of models and business types.

**1960s + 1970s:** fair trade movement emerged

**1980s:** the term 'social enterprise' began to be used (by co-op movement)

**1993:** Locality (Development Trust Association) was founded

**2001:** Social Enterprise Unit was founded by UK government in Department of Trade and Industry (DTI).

**2002: Social Enterprise UK was founded** (then Social Enterprise Coalition)

**2002:** First national govt. social enterprise strategy developed.



- 2005:** Community Interest Company structure created
- 2006:** Office of Third Sector created (now Office of Civil Society)
- 2006-10:** many social enterprise initiatives taken place
- 2010:** Formation of Big Society (Capital) and social investment
- 2016 to date:** Various Mission-led businesses

Social enterprises have been building resilience against a challenging and uncertain economic and political backdrop for many years. That political and economic landscape has obviously significantly changed in unpredicted ways in recent years. It is now over a year since the referendum to leave the European Union, and much remains unresolved and unclear for individuals and organisations across all sectors.

What is clear is that the referendum revealed divisions within the country: between geographies, between generations, and between the winners and losers of a globalised economy. The need for a model of business that creates opportunities for all, puts people ahead of profit, and operates in the communities others leave behind is greater than ever. The need for resilient, effective social enterprises making the most difference with the resources they have is greater than ever. Since 2005, over 13,000 Community Interest Companies have been founded, and the last five years have seen significant development of social investment to support the growth of this movement.



### 3. Data and figures

Government and our research statistics identify around 100,000 social enterprises in the UK.



These businesses are, together, worth £60 billion to the UK economy and employ 2 million people. This represents 3% of UK GDP, three times the size of the agriculture industry, and 5% of employment – as many jobs as the creative industries sector.

In our recent (2017) State of Social Enterprise survey, we asked social enterprises how many staff they employed, with the number of all staff, both full and part time, shown in Figure 1.

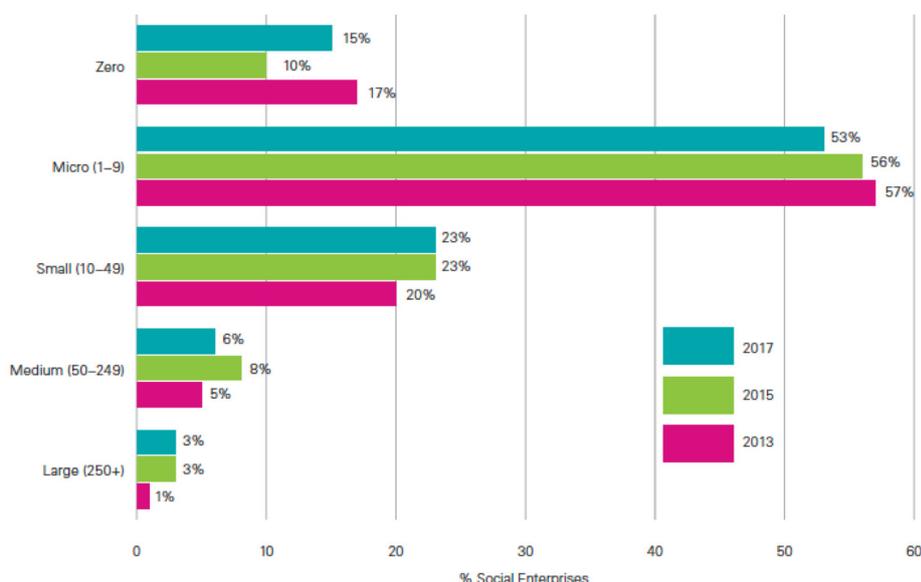


Figure 1: Employees in Social Enterprise  
Source: State of Social Enterprise Report 2017

As is clear from the age and turnover statistics, most respondents are operating at micro- enterprise levels: over half have between one and nine employees.

We also asked what proportion of the workforce was made up of women. For 9%, this is their entire workforce, and for 51% it is over half of their workforce.

In addition to asking about current levels, organisations over a year-old were also asked how many people they employed 12 months ago. 12% have increased the size of their workforce from 12 months ago, while 30% have reduced the size of their workforce. The other 56% have experienced no change. This is a noticeable shift from 2015 when 42% had increased their workforce and only 12% had reduced it. Whilst this is only a snapshot, this may indicate organisations being more cautious in the uncertain climate and seeking to reduce their cost base against a challenging economic backdrop. This compares unfavourably with SME employers in the same period: 45% had increased their workforce, 27% had no change, and 28% had reduced its size.

In an age of public sector austerity, globally networked markets and significant social and environmental problems, social enterprise has a substantial contribution to make – in many areas of business or public service delivery or charitable work, the status quo is no longer an option. Social enterprise has some of the answers: combining a sustainable business model with a clear social purpose, working and employing in the most challenging areas, and demonstrating that this can be done in an accountable, fair and inclusive way.



## 4. Legal framework and legal forms of social enterprises

There is a diversity of legal structures available in the UK, with no one structure defining a social enterprise. Subsequently, it is up to each social enterprise to choose the legal form that will best serve their social purpose. Just like for-profit enterprises, social enterprises can become limited companies and be regulated by the government through Companies House. If their social objectives meet certain criteria, they can also register as charities. Social enterprises with co-operative roots are most likely to register as an Industrial and Provident Society (for the benefit of the community). Others are registered as Community Interest Companies, namely a limited company whose social purpose is enshrined and where there is a limit on the amount of profit that can be distributed other than for this purpose.

Small and medium sized social enterprises are most likely to be legally constituted as a company limited by guarantee (CLG) (38%) – more than double the proportion constituted as a company limited by share (CLS) (15%). The second most popular legal status is the community interest company (CIC) – almost a quarter (23%) of small and medium-sized social enterprises adopt this form if all the different variations are added up.

The proportion of social enterprises that are a registered charity decreases as organisations become smaller. 18% of those social enterprises under £1m turnover are a registered charity (of which 12% are also a CLG), compared to 33% with a turnover over £1m. For those with a turnover under £10,000 this drops to 6%. It is worth noting that 2% of small and medium-sized social enterprises have chosen a Charitable Incorporated Organisation, a structural option only available since 2013. This provides the benefits of an independent legal status and limited liability but only requires registration with the Charity Commission.

In general, the longer established and larger organisations are more likely to be a company limited by guarantee, and also a registered charity. For small and medium-sized social enterprises, Community Interest Companies are increasingly the structure of choice; individual social entrepreneurs often begin as sole traders before choosing a legal structure.

The most common legal structures used by social enterprises are in the table below:

Legal structure	Can also be a charity?	Key points	Percentage of social enterprises adopting this structure
Unincorporated Association	Yes	An organisation with no separate legal identity other than its members.	1%
Company Limited by Guarantee (CLG)	Yes	A limited company with no share capital where members act as guarantors (usually for a nominal amount) if the company is wound up.	51%
Charitable Incorporated Organisation (CIO)	Yes	A new legal structure with limited liability which only needs to register with the Charity Commission, not Companies House.	New



Legal structure	Can also be a charity?	Key points	Percentage of social enterprises adopting this structure
Company Limited by Shares (CLS)	No	The standard structure for a for-profit company. The liability of the shareholders to creditors of the company is limited to the capital originally invested.	12%
Industrial and Provident Society (IPS)	No	A legal form of co-operative regulated by the Financial Conduct Authority and adopted by Credit Unions among others.	19%
Community Interest Company (CIC) Limited by Shares	No	A limited company whose social purpose is enshrined and where there is a limit on the amount of profit that can be distributed other than for its social purpose.	17%
Community Interest Company (CIC) Limited by Guarantee	No		
Public Limited Company (PLC)	No	A company limited by shares which can be traded publicly on a stock exchange.	1%

## 5. Participative and/or democratic governance

Amongst social enterprises and many other parts of the voluntary and community sector, there is a strong interest in the democratising potential of forms of mutual ownership and governance. Although social enterprise represents an opportunity to develop and implement alternative forms of democratic governance that are encouraging to the realisation of inclusive (employee) ownership, putting these principles into practice can be far from straightforward. Employee and community/service user ownership and democratic governance are likely to remain indefinable if these principles are not underpinned by innovative organisational cultures, visionary leadership and concrete actions that are in line with the organisation's social mission: it is neither structure nor culture, but rather a mutually reinforcing interplay of the two that matters.



## 6. Sources and bibliography

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