

TRADING FOR GOOD:

A report on small and medium-sized social enterprises



Supported by

LLOYDS BANK FOUNDATION 
England & Wales



**Social
Enterprise UK**

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PHOTO CREDITS

All photographs were provided by the social enterprises themselves or from Social Enterprise UK's own photo database.

FOREWORD FROM LLOYDS BANK FOUNDATION FOR ENGLAND AND WALES

At the Foundation we are committed to tackling multiple disadvantage. We've been supporting small and local charities to do just that for over 32 years. We know both directly from our grant holders and through our research that their jobs are getting harder. Small and local charities are seeing demand for their services increase, while the problems people face become ever more complex. At the same time, available funding is harder to find.

To try and tackle funding issues, many charities we fund have explored developing social enterprises. Commissioning this research helps increase our understanding of these social enterprises in tackling multiple disadvantage and builds upon Social Enterprise UK's *State of Social Enterprise* report to focus specifically on those that are small and medium-sized.

Work across the sector has highlighted anecdotally that many small and local social enterprises face similar challenges to those faced by the Foundation's grant holders. *Trading for Good* lets

us explore these links further. It helps us to better understand the role of social enterprises in tackling multiple disadvantage and the similarities and links between social enterprises and more traditional charities – not least the importance of grants in more deprived areas. For the first time it also enables us to establish what has been happening to social enterprises over time, and allow this to inform our approach to tackling multiple disadvantage over the coming years.

While we remain committed to supporting small and local charities, if we are going to collectively and effectively improve the lives of those who are too often overlooked, we need a better understanding of all of the players in this field and how they might complement each other. Because it is only by collaborating both within and between sectors that we will be able to bring about the social change that we so desperately need.

Paul Streets OBE
Chief Executive

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EXECUTIVE SUMMARY

This report was commissioned by Lloyds Bank Foundation for England and Wales to provide insight into the nature and work of small and medium-sized social enterprises: those with a turnover under £1 million. This is the first report of its type to look at these smaller social enterprises in detail, and draws on data from Social Enterprise UK's State of Social Enterprise survey to do so.

Given that a large proportion of social enterprises have a turnover under £1 million, it is important that more is understood about them: the business models they adopt, the make-up of their leadership teams, their aims and objectives, their commercial success and how all of this varies in different organisations, sectors, and geographies. This report aims to build that understanding and evidence base to inform those who seek to fund, support and work with small and medium-sized social enterprises across the country.

10 KEY FINDINGS

1. 31% of social enterprises have a turnover under £50,000, and 86% have a turnover under £1 million.
2. 43% of small and medium-sized social enterprises were established in the last 5 years, but not all smaller social enterprises are start-ups: 35% of social enterprises with a turnover between £250,000 and £1 million are more than 20 years old.
3. Small and medium-sized social enterprises are more likely to be providing goods than larger social enterprises (32% compared to 22%) and more likely to be seeking to have impact through who they employ than their larger counterparts (23% compared to 8%).
4. The smaller a social enterprise is, the more likely it is to be led by a woman or someone from a minority ethnic background; leadership becomes less diverse the larger a social enterprise becomes. In the smallest band,

49% are led by women, and 21% have a BAME leader; in large social enterprises, the figures are 35% and 5% respectively.

5. Small and medium-sized social enterprises are more likely to be focused on improving a particular community and directly working with residents than their larger peers (41% compared to 29%). However, smaller social enterprises are less likely to be involved in public services: for example, only 13% operate in health and social care, compared to 31% of social enterprises with a turnover of over £1 million.
6. 69% of small and medium-sized social enterprises support individuals from disadvantaged groups, and 43% seek to employ them; for example, 29% support individuals with a learning disability.
7. 27% of smaller social enterprises are based in the top 20% most deprived areas, almost double the proportion of similarly sized registered charities (15%).
8. 18% of small and medium-sized social enterprises have the public sector as their main source of income, compared to 39% of those with a turnover over £1 million.
9. European funding and grants play a more significant part in the income mix of smaller social enterprises in the most deprived areas compared to elsewhere in the country. 18% of social enterprises in those areas have income from European sources, compared to 13% in the country as a whole.
10. Profitability rises with size: 47% of small and medium-sized social enterprises made a profit (with 31% breaking even), compared to over 70% of larger social enterprises.

5 CONCLUSIONS & RECOMMENDATIONS

From analysis of the evidence and data in the report, there are initial conclusions to be drawn and these in turn lead to practical recommendations for different audiences. In relation to small and medium-sized social enterprises, some of these recommendations are about awareness of how such enterprises operate, some about addressing challenges they face, and some about recognising their potential to achieve social and economic objectives.

1. Community business, not charity

A greater proportion of small and medium-sized social enterprises are choosing legal structures and identifiers which class them clearly as businesses operating in and for a community, rather than as a registered charity.

>> Foundations and other support organisations need to accelerate their understanding and acceptance of these different models in order to achieve impact.

2. Diversity hits a ceiling

The inclusive leadership of smaller social enterprises is not translating into the same levels of equality at the top of larger organisations. Investing in leadership development could help address this, as well as strengthening governance of smaller organisations.

>> SEUK and partners should track this data and report positive or negative trends. Funders should consider investing in talent and leadership development programmes for leaders of small and medium-sized social enterprises.

3. Working where needed, but getting tougher

Over a quarter of smaller social enterprises work in the top 20% most deprived areas, and over half in the top 40% most deprived. There are some indications, though, that these enterprises are more reliant on grants and public sector income.

>> Foundations, social investors and government should focus efforts on organisations in places which are most likely to be hit hardest by changes in European and public sector funding – these are also the areas with the toughest challenges to solve.

4. Trading to sustain

Small and medium-sized social enterprises earn a significant majority of their income from trading, and profitability levels have remained consistent since 2011: they are more likely to be operating in retail than larger social enterprises, and earning their income from the general public. However, the public sector is the main source of income for only 18%, and smaller enterprises are less successful at earning income from every part of government than their larger equivalents.

>> SEUK and local social enterprise networks should seek to build consumer awareness at a local level through local press, media, events and networking. The Social Enterprise Places network gives examples of how this can develop.

>> Councils and other local public sector agencies should develop strategies to better work with small and medium-sized social enterprises: strengthening social value, undertaking meaningful consultation, using grants, building transparency in contracting, and being proportionate with tendering and monitoring.

5. People at the heart

Over two-thirds of smaller social enterprises support individuals from disadvantaged backgrounds, and almost half seek to employ people from those groups. Supporting these smaller enterprises, who are much more likely to be operating at a neighbourhood level, can be a route to supporting the people who need it most.

>> Central government departments, devolved administrations and local authorities concerned with tackling unemployment, particularly in the groups which are most disadvantaged from the labour market, should incorporate small and medium-sized social enterprises into their planning and programmes.

>> Foundations and social investors focused on employment and support for the most vulnerable should seek to support small and medium-sized social enterprises whose work will often be doing so at a community level.

INTRODUCTION

This report was commissioned by Lloyds Bank Foundation for England and Wales (LBFEW hereafter) to provide greater depth of understanding into the work of social enterprises, particularly small and medium-sized social enterprises. Social Enterprise UK (SEUK hereafter) undertakes the State of Social Enterprise survey biennially, and the data in this report draws from that research between 2011 and 2017, but particularly the most recent in 2017.

Some of the questions this report seeks to provide detail on include:

- how are small and medium-sized social enterprises constituted: what legal structures do they choose and is this changing over time?
- where do they operate (and how large is their sphere of operations)?
- what are the size of social enterprises' leadership teams (and what implications might this have for governance)?
- where does their income come from, and is it changing over time? Is there any evidence of greater sustainability compared to more traditional charity models?
- which groups of people do they seek to support, and what are their main social objectives?

LBFEW are interested in being able to compare small and medium-sized social enterprises to small and medium-sized charities, and to start to build an understanding of any notable differences. In this sense, this work builds on previous research commissioned by the Foundation and undertaken by NCVO and IPPR North¹ in the charity sector. LBFEW are also interested in the groups of people that social enterprises support and seek to employ, and the extent to which these correspond to the Foundation's funding priorities.

SEUK is equally keen to better understand the different segments and sectors of the social enterprise movement, in order to more effectively be able to help organisations of all sizes, types and geographies. This is the first dedicated report looking at small and medium-sized social enterprises in an attempt to inform that work.

1. www.lloydsbankfoundation.org.uk/news/research-and-publications

METHODOLOGY AND SAMPLE

The data used is from the State of Social Enterprise research project, which has a sample base of 1,581, reached through both online and phone surveys. This data set primarily comes from Social Enterprise UK's membership and Buy Social Directory data, and data provided by Co-operatives UK, Locality and UnLtd. The survey is promoted openly via a wide range of networks, including the School for Social Entrepreneurs, the Social Enterprise Mark, and many of the Social Enterprise Places network. The Wales Co-operative Centre, which conducts its own survey with an almost identical question set, also provided its data which was included and weighted to avoid skewing the sample as a whole. The main State of Social Enterprise research is supported by Santander.

The sample selection was based on classifying small and medium-sized social enterprises as those with a turnover below £1million. NCVO classify charities in a similar way – below £10,000 turnover is micro, between £10,000 and £100,000 is small, and £100,000 to £1million is medium. The number of employees in social enterprises is almost directly proportionate to scale.

Of the total sample base in 2017, the proportion of respondents by turnover is as follows:

£0-10,000	12%
£10,001-50,000	19%
£50,001-100,000	16%
£100,001-250,000	19%
£250,001-1million	20%
£1million - 5million	9%
Over £5million	5%

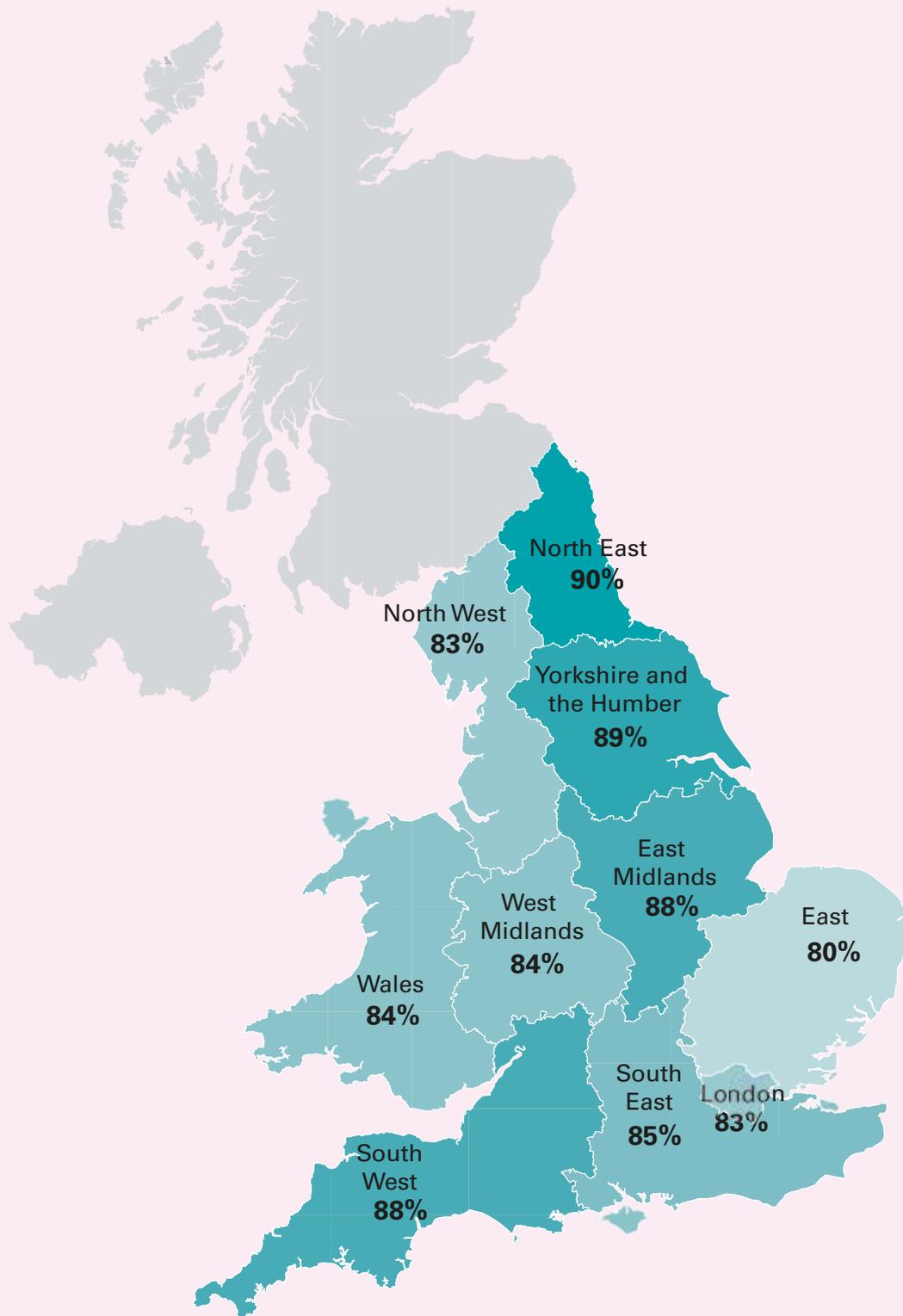
This is consistent with most recent social enterprise surveys: as with mainstream business (and charities), the social enterprise sector has a 'long tail' of smaller organisations. The differences are not quite as stark as the charity data, in which 48.5% of charities have income under £10,000, and only 3.3% have an income over £1m. Here, the equivalent figures are 12% and 14% respectively. Nevertheless, this sample indicates that around one third of social enterprises (31%) have a turnover under £50,000, and almost nine in ten (86%) have a turnover under £1m. This is plotted on the map on page 13.

The comparisons made in this report are primarily between the 'under £1m' band and the 'over £1m' band of social enterprises, or to charity or small business data where benchmarking is appropriate and relevant. Where it is notable or statistically significant, differences between the 'under £1m' bands (for example, between those under £50,000 turnover and those between £250,000 and £1million) are also drawn out.

Some questions on the survey allow multiple responses, so percentages can add up to more than 100%. Sample bases can also vary depending on the specific question (for example, some questions on access to finance are only answered by those who have applied for external finance).

It is worth noting that, unlike NCVO's Almanac, for example, there is no element of analysis of companies' direct accounts in this survey, so caution is taken in reporting changes in the sample as representative of broader changes in the social enterprise movement. Nevertheless, the sample base has increased with each iteration of the *State of Social Enterprise* report, so the confidence that it is representative has grown.

**PERCENTAGES OF SOCIAL ENTERPRISES THAT ARE SMALL AND MEDIUM-SIZED
ACROSS ENGLAND AND WALES**



1. WHO ARE SMALL AND MEDIUM-SIZED SOCIAL ENTERPRISES?

This section looks at how small and medium-sized social enterprises are constituted, how they describe themselves, and how their models vary. It also looks at their size in terms of turnover and number of employees.

1.1 HOW SMALL AND MEDIUM-SIZED SOCIAL ENTERPRISES ARE LEGALLY CONSTITUTED

As can be seen from Figure 1, 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 same group of social enterprises with turnovers that fall under £10,000 are significantly more likely to be sole proprietors (15% falling to 5% for those between £10,001–£100,000 and dropping to 1% for those above £100,000). This indicates a common route for individuals starting social enterprises: beginning as a sole trader before establishing an organisational structure.

Larger social enterprises (over £1m) are more likely to be CLGs (50% compared to 38%). However, there is also a relationship between size and likelihood of being a CLG for those under £1m: around a quarter (26%) of social enterprises under £10,000 are CLGs compared to 35% of those

FIGURE 1. LEGAL FORMS OF SMALL AND MEDIUM-SIZED AND LARGE SOCIAL ENTERPRISES

	£0 to £1m	Over £1m
Company Limited by Guarantee (CLG)	38%	50%
Registered Charity	18%	33%
Company Limited by Shares (CLS)	15%	15%
Community Interest Company (CIC) CLG	13%	4%
Community Interest Company (CIC) (Unsure which)	6%	4%
Community Benefit Society - BenCom (IPS)	5%	4%
Industrial and Provident Society (IPS) - Bona Fide	5%	3%
Community Interest Company (CIC) CLS	4%	15%
Sole proprietorship	3%	0%
Unincorporated association	2%	0%
Charitable Incorporated Organisation (CIO/SCIO)	2%	*%
Limited Liability Partnership	1%	0%
Limited Company	1%	2%
Don't know	3%	1%
Other	5%	5%

between £10,001–£100,000, 41% of those with turnovers between £100,001–250,000 and 47% of those between £250,001 and £1m. The bigger the social enterprise, the more likely it is to be constituted as a CLG.

Compared to small social enterprises, larger ones are also more likely to be a CIC CLS (15% compared

to 4%); with those over £5m the most likely to be a CIC CLS (26% of those at this scale). This is largely due to the large health and social care social enterprises which spun out of the NHS and local authorities from 2008 onwards, many of whom chose an employee-owned CIC CLS structure.

ANALYSIS

It is clear that 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.

There is a direct correlation between age and turnover: 40% of those over £1m are more than 20 years old; 43% of those under £1m turnover are under 5 years old. However, there is a set of small and medium-sized organisations which have been established for much longer: 35% of social enterprises with a turnover between £250,001 and £1m have been established for more than 20 years, often as companies limited by guarantee. Alongside the start-up wave of new entrants, this reveals a well-established, stable band of smaller social enterprises at a consistent level.

What this means is that simplistic analysis of small and medium-sized social enterprises needs to be avoided: there are many different types of social enterprises, and as many nuances and segments among the movement. Whilst there are correlations between age and scale, not all established social enterprises wish to grow or expand, particularly those with ties to a specific community. Similarly, while there is a dynamic wave of new start-ups, the new innovators should not be the sole focus of attention, when there are resilient, established organisations providing valuable services and goods for many years who may also require support.

1.2 TYPES OF SOCIAL ENTERPRISE

The most common 'type' that small and medium-sized social enterprises identify as is a community business – one-third (34%) describe their organisations as such. As might be anticipated, this is more than double the proportion of large social enterprises who think of themselves as a community business. This is followed by one-fifth (22%) of these small and medium-sized social enterprises describing their organisation as a cooperative.

One in three small and medium-sized social enterprises describe themselves as an organisation that delivers public services, followed by a quarter (23%) that describe their organisation as a regular business that has its impact through who it

employs – this is almost three times the proportion of large social enterprises (8%).

While large social enterprises are also most likely to describe themselves as an organisation that delivers public services (41%), a quarter (23%) are the trading or commercial arm of a charity - twice the proportion of small and medium-sized social enterprises (10%).

When asked if they provide 'mainly goods', 'mainly services' or 'both goods and services', small and medium-sized social enterprises are more likely to be providing goods, compared to their larger peers. 32% provide goods either as a main activity or with services; the figure is 22% for larger social enterprises.

FIGURE 2. HOW SMALL AND MEDIUM-SIZED AND LARGE SOCIAL ENTERPRISES SELF-IDENTIFY

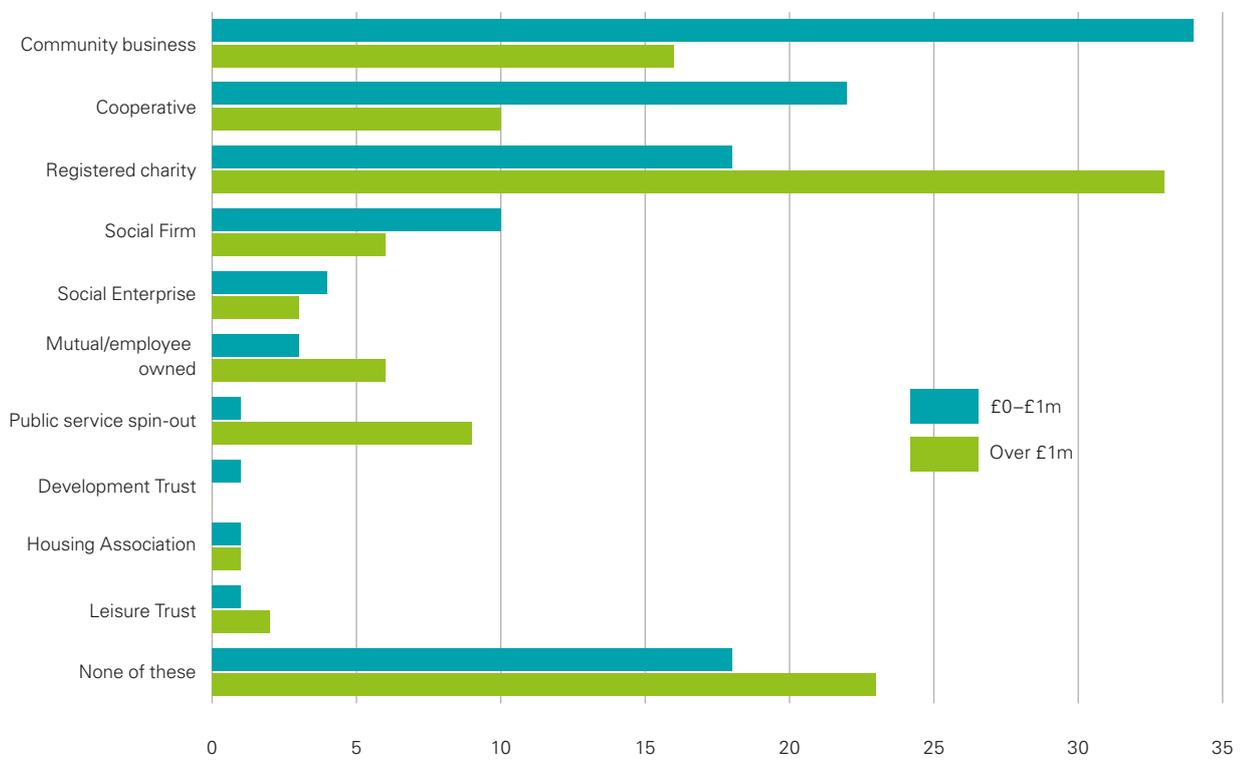


FIGURE 3. TYPE OF SOCIAL ENTERPRISE MODEL ADOPTED

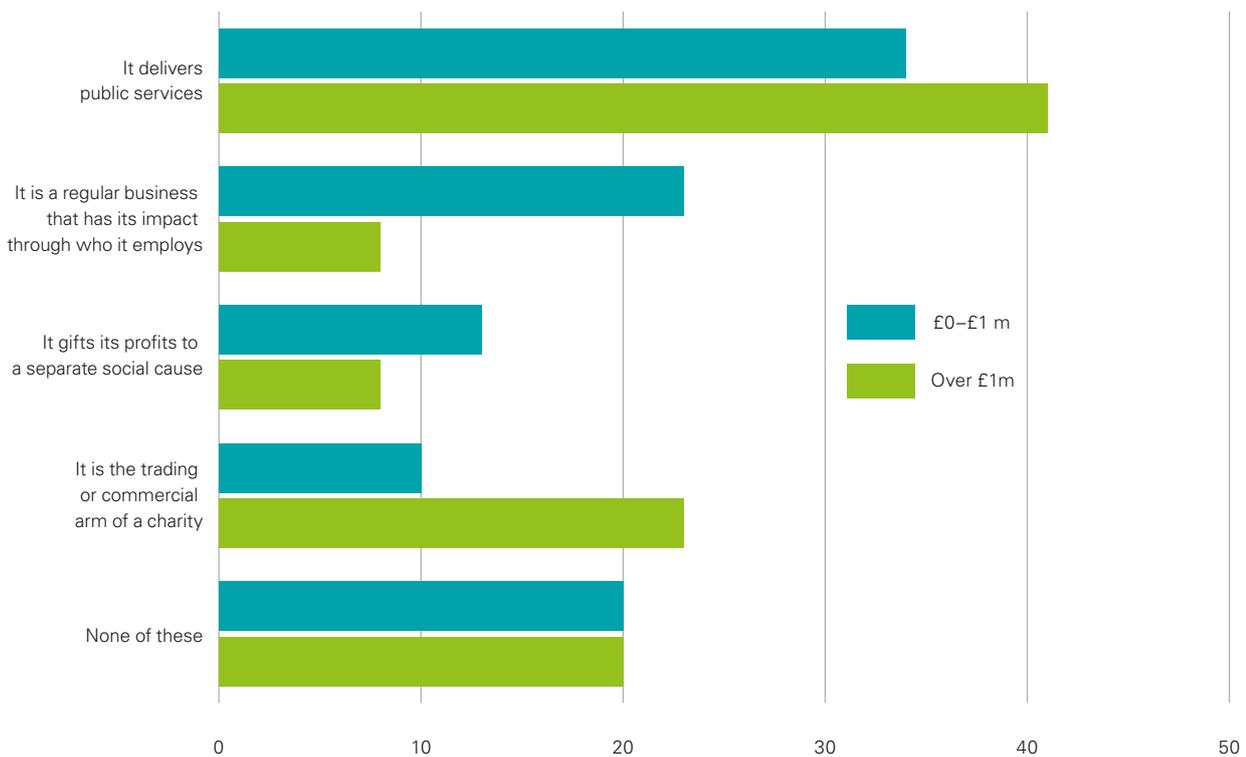


FIGURE 4: PROPORTION OF SOCIAL ENTERPRISES DELIVERING GOODS OR SERVICES

	0 to 1 million (£)	Over 1 million (£)
Mainly goods	18%	12%
Mainly services	67%	78%
Goods and services equally	14%	10%
Don't know/can't say	1%	0%

ANALYSIS

A significant majority of all social enterprises are delivering services to people, though this is even more prominent in larger social enterprises. Small and medium-sized social enterprises are more likely to be producing and selling goods than their larger equivalents. These social enterprises are also more likely to be adopting commercial models which either gift profits to a social cause or have impact through how they employ. This may mark a slight shift in the overall population of social enterprises, as an increasing proportion establish product or retail-based business models.

There is also a noticeably higher proportion of small and medium-sized social enterprises which employ people from disadvantaged groups to have impact. This may indicate a close connection to a particular community, but also may indicate some of the challenges related to achieving scale. Employment-based social enterprises often have a model which requires intensive support for employees; any growth of the enterprise therefore needs to be done in proportion to the capacity of these employees, and also to the organisation's ability to support all of them appropriately. This tends to mean that scale is achieved more organically in this type of social enterprise.

1.3 PEOPLE: LEADERS AND EMPLOYEES OF SMALL AND MEDIUM-SIZED SOCIAL ENTERPRISES

The leadership teams of social enterprises grow with scale: the larger the social enterprise, the more likely it is to have a larger leadership team. On average, small and medium-sized social enterprises have 5 people in their leadership team, compared to 10 for large social enterprises. This

risks in almost direct proportion to turnover and number of employees, as might be expected.

Registered charities and IPS co-operatives tend to have larger leadership teams, with an average of 8.18 and 7.84 respectively. Community Interest Companies have an average leadership team of just over 5.

FIGURE 5: AVERAGE NUMBER OF PEOPLE SOCIAL ENTERPRISES HAVE IN THEIR LEADERSHIP TEAM (INCLUDING: DIRECTORS, NON-EXECUTIVE DIRECTORS AND TRUSTEES)

Turnover band (£)	Average no. in leadership team
0–10,000	3
10,001–50,000	5
50,001–100,000	5
100,001–250,000	6
250,001–1 million	7
More than 1 million	10
0–1 million (average)	5

FIGURE 6: GENDER AND DIVERSITY OF SOCIAL ENTERPRISE LEADERS

Turnover band (£)	% female leader	% male leader	% BAME leader
0 –10,000	49%	51%	21%
10,001–50,000	44%	56%	19%
50,001–100,000	36%	64%	10%
100,001–250,000	38%	62%	15%
250,001–1 million	37%	63%	12%
More than 1 million	35%	65%	5%
0–1 million (average)	40%	60%	16%

What the table above makes clear is that the proportions of small and medium-sized social enterprises run by women or someone from a minority background are high compared to their mainstream business equivalents. Indeed, the smaller a social enterprise is, the more likely it is to have a woman or someone from a minority background as

a leader. Female leadership levels are comparable or slightly behind charity figures, but social enterprises are significantly more diverse in their leadership. Even the low figure (5%) of leaders from a minority background in large social enterprises is higher than the latest charity figure (3%).²

FIGURE 7: AVERAGE (MEAN) NUMBER OF PAID EMPLOYEES IN SOCIAL ENTERPRISES

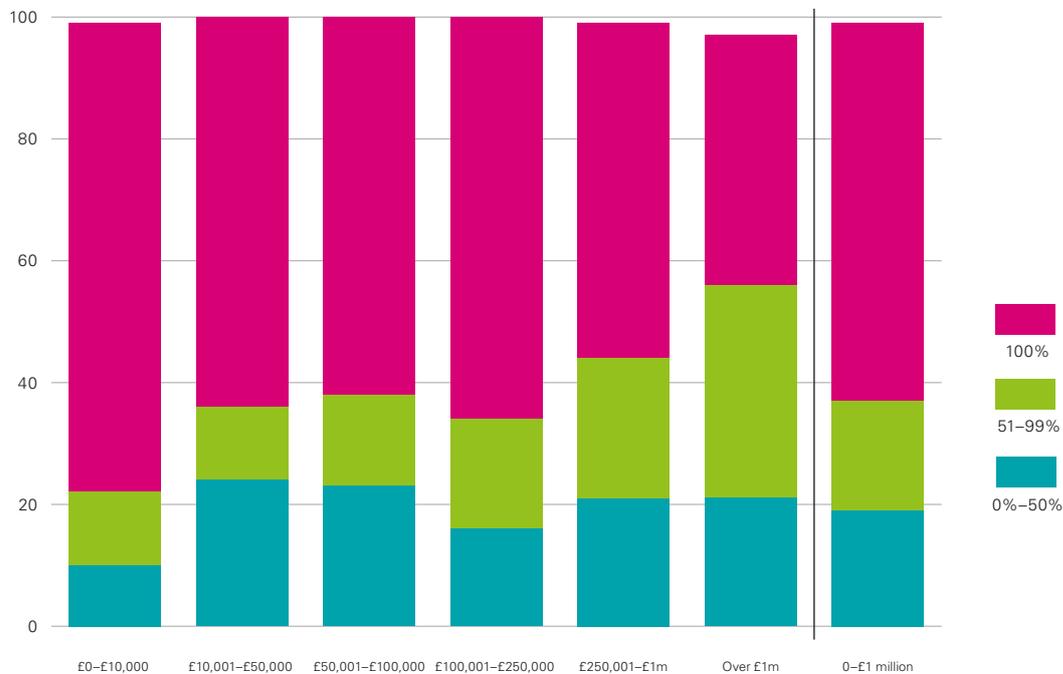
Turnover band (£)	Average number of employees
0 - 10,000	2.63
10,001 – 50,000	2.98
50,001 – 100,000	4.62
100,001 – 250,001	13.91
250,001 – 1 million	15.78
1 million - 5 million	79.12
Over 5 million	700.43
0-1 million (average)	8.62

Overall, three out of five (62%) small and medium-sized social enterprises employ 100% of their staff from the local area where the majority of their activity takes place. Figure 8 shows that, in general, the smaller the social enterprise, the more of its workforce will be drawn from the local area; social enterprises with a turnover of £10,000 or under are the most likely to employ all of their workforce from the local area, with three out of four (77%) doing so.

Indeed, small social enterprises are twenty percentage points more likely to employ 100% of their workforce from the local area compared to large social enterprises (62% compared to 41%, respectively). This is consistent with small and medium-sized social enterprises describing themselves as community businesses, being more likely to operate at neighbourhood or local levels, and aiming to have an impact through who they employ.

2. ACEVO Pay & Equality Survey 2017 - <https://www.acevo.org.uk/news/acevo%E2%80%99s-pay-and-equality-survey-2017-%E2%80%93-good-news-gender-equality-race-final-frontier>

FIGURE 8: PROPORTION OF WORKFORCE DRAWN FROM THE LOCAL AREA WHERE THE SOCIAL ENTERPRISE PRIMARILY WORKS

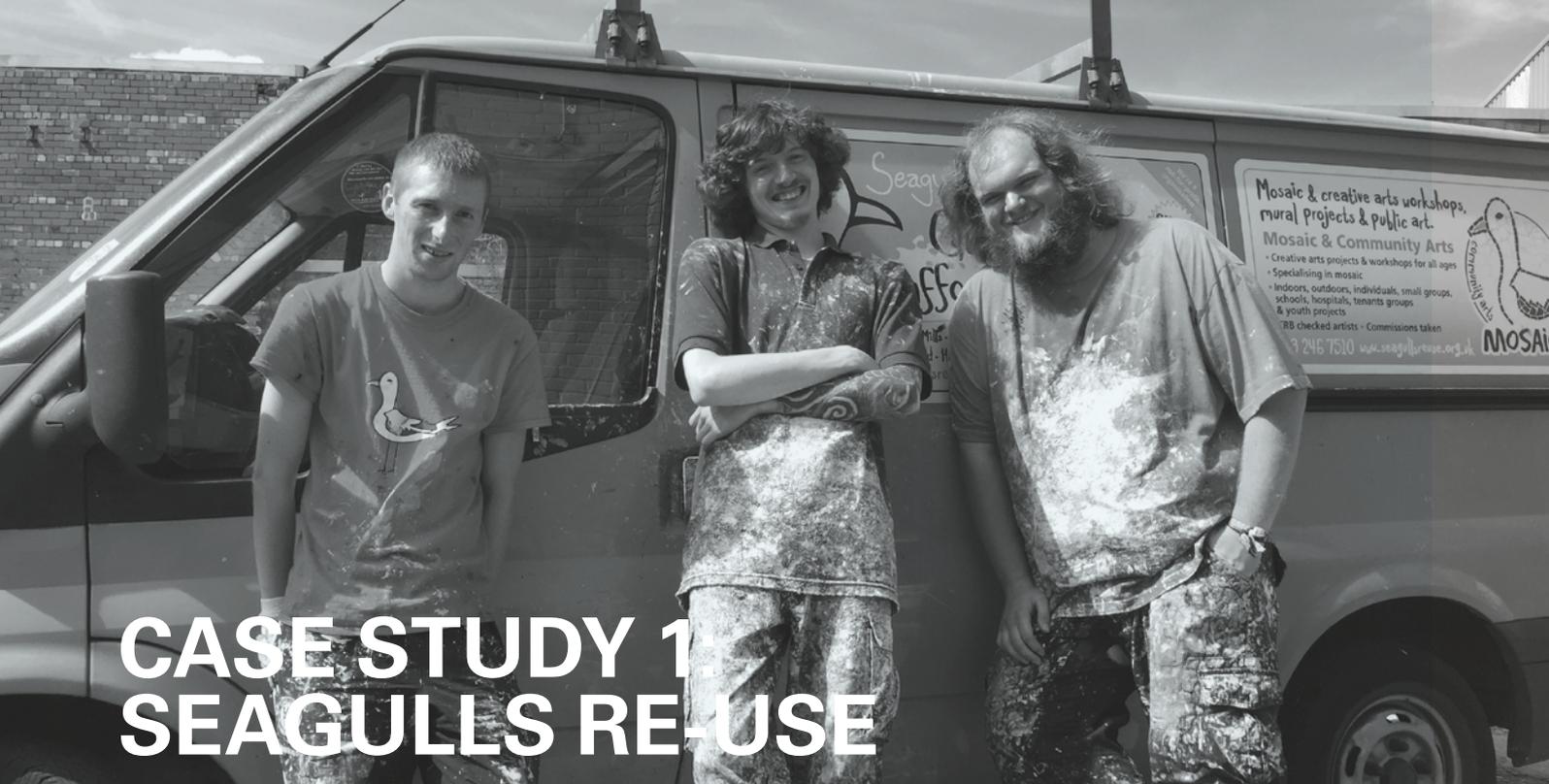


ANALYSIS

Small and medium-sized social enterprises have smaller leadership teams, and this is particularly the case for those using the Community Interest Company structure or who have been more recently established. This may indicate a need to strengthen support on governance and recruitment of non-executives, in line with activity underway in the charitable sector; although smaller numbers of directors does not always mean weaker governance.

Leadership becomes less diverse the larger a social enterprise becomes, meaning that small and medium-sized social enterprises tend to be more representative of the places they work in and the people they work with. This could be an encouraging sign - of a new wave of leaders and organisations entering the movement. But it may also indicate that, as social enterprises become larger, there are barriers and ceilings to leaders who are either not white or not male. Development initiatives to ensure this impressive diversity is replicated throughout social enterprise should be considered.

Employment in social enterprises is in almost direct proportion to their turnover and scale. As a result of their smaller sphere of operations, small and medium-sized social enterprises are even more likely to employ locally and therefore be providing a ripple effect to the local economy through jobs and spending.



CASE STUDY 1 SEAGULLS RE-USE

- > **Community-based business**
- > **Growing organically through retail**
- > **Impact through employment opportunities**

Seagulls Re-Use is an environmental social enterprise which has two main objectives: firstly, reprocessing paint and increasing awareness of reuse; secondly, to provide employment, training and volunteering opportunities to the local community. The organisation has one large store in Leeds and also runs a community arts project, Seagulls Mosaic. Seagulls was started by Cat Hyde and Kate More as a project round a kitchen table in 2001, before becoming established as a company limited by guarantee in 2004. Since then, it has grown steadily both in turnover and the social impact it creates, becoming a well-respected social enterprise in Leeds and one of the largest paint re-use organisations in the country.

“In the last year, Seagulls diverted 370 tonnes of reusable paint from landfill and helped provide affordable paint to 12,000 households”

In 2016-17, Seagulls had its largest impact to date, both environmentally and with the people it works with. On the environmental side, it diverted 370 tonnes of reusable paint from landfill

and reprocessed 178 tonnes for reuse; this also helped provide affordable paint to over 12,000 households. On the social side, in addition to its 12 employees, Seagulls created training and work experience for 50 volunteers who completed over 6,000 hours of work; these volunteers are often from the most disadvantaged local groups, including ex-offenders and young people with learning disabilities.

Overall, Seagulls has reused more than 1,000 tonnes of paint to date, and has a lower carbon footprint by operating locally. Being rooted in the local community also means they can sell cheap paint to local people, usually 75% below retail prices, and target this to benefit those most in need. For example, they promote directly to tenants of social housing and those on low incomes. These customers are crucial to the business: successful trading means higher rates of re-use and more opportunities created for local people. Building on these foundations, Seagulls have expanded their community arts programme (Mosaic) to schools and mental health service providers.

Seagulls started as a voluntary project but has become a true grassroots social enterprise. Built around a strong relationship with Leeds City Council, the organisation's turnover has grown at an average of 34% per year in the last decade, rising to around £300,000 today. Cash sales from individual customers now account for almost half of that total. In that time, the organisation's reliance on non-trading income has fallen from 60-70% to an average of 12% in the past three years.

www.seagullsreuse.org.uk

2. WHAT DO THEY DO AND WHERE DO THEY WORK?

This section looks at the main trading activities of social enterprises, their social objectives, which people they support and employ, and where they work.

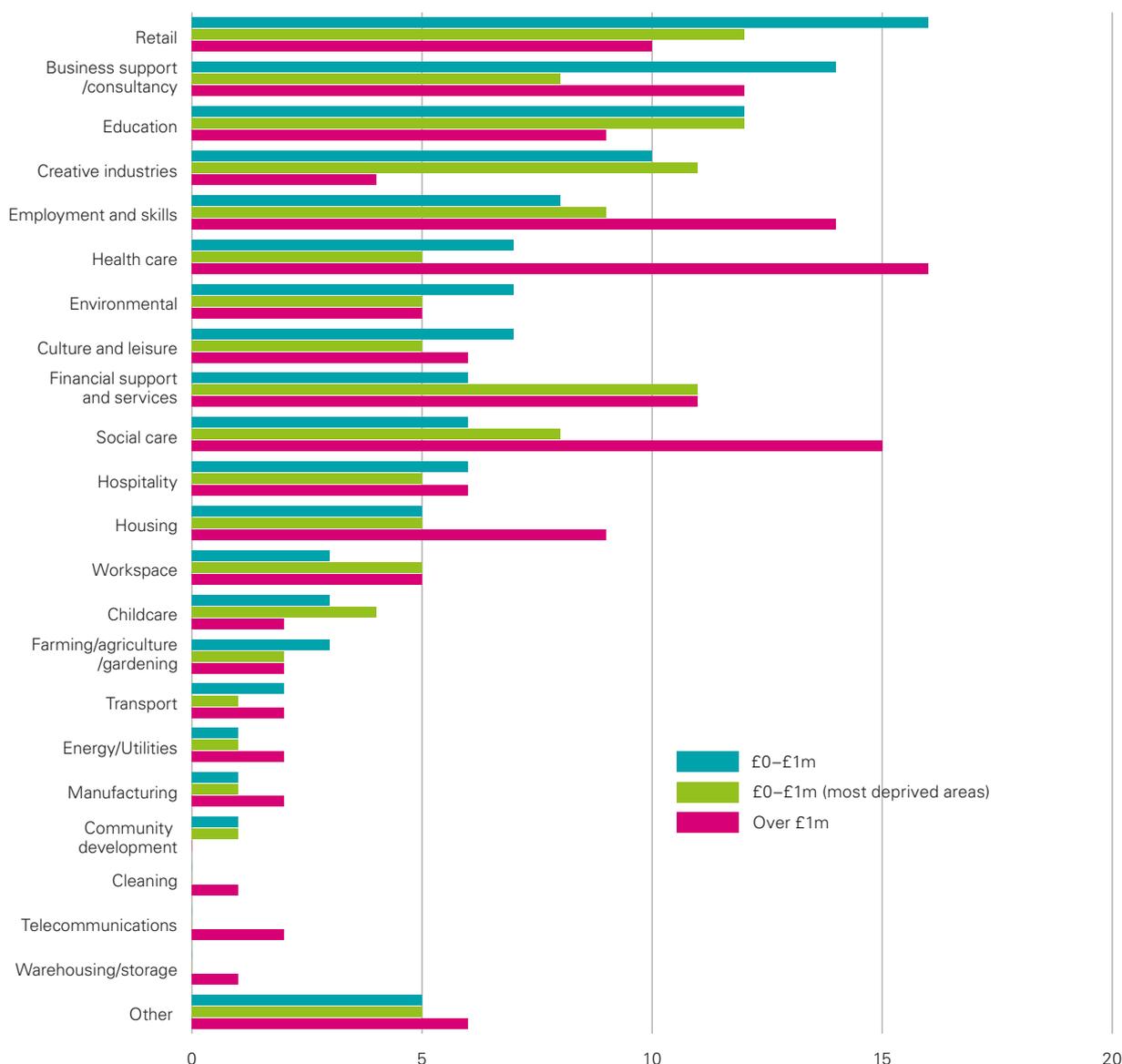
Over nine out of ten (93%) small and medium-sized social enterprises use the majority of their profit to further their social or environmental goals. This is similar to large social enterprises (94%). However, the principal activities undertaken and the social and/or environmental aims of social enterprises are

very diverse. Further, the types of individuals that they seek to support are equally diverse.

2.1. PRINCIPAL TRADING ACTIVITY

The top five principal activities of small and medium-sized social enterprises are retail, business

FIGURE 9: SOCIAL ENTERPRISES' PRINCIPAL TRADING ACTIVITY: SMALL AND MEDIUM-SIZED SOCIAL ENTERPRISES (IN GENERAL); SMALL AND MEDIUM-SIZED SOCIAL ENTERPRISES OPERATING IN THE MOST DEPRIVED AREAS; LARGE SOCIAL ENTERPRISES



support, education, creative industries, and employment and skills. Compared to smaller social enterprises in general, those working in the most deprived areas are more likely to provide financial support and services (11% compared to 6%), as opposed to business support/consultancy (8% compared to 14%), and those operating in retail is also lower. This may indicate that financial inclusion is a more pertinent issue in more deprived areas, and also that retailing is less likely to be viable.

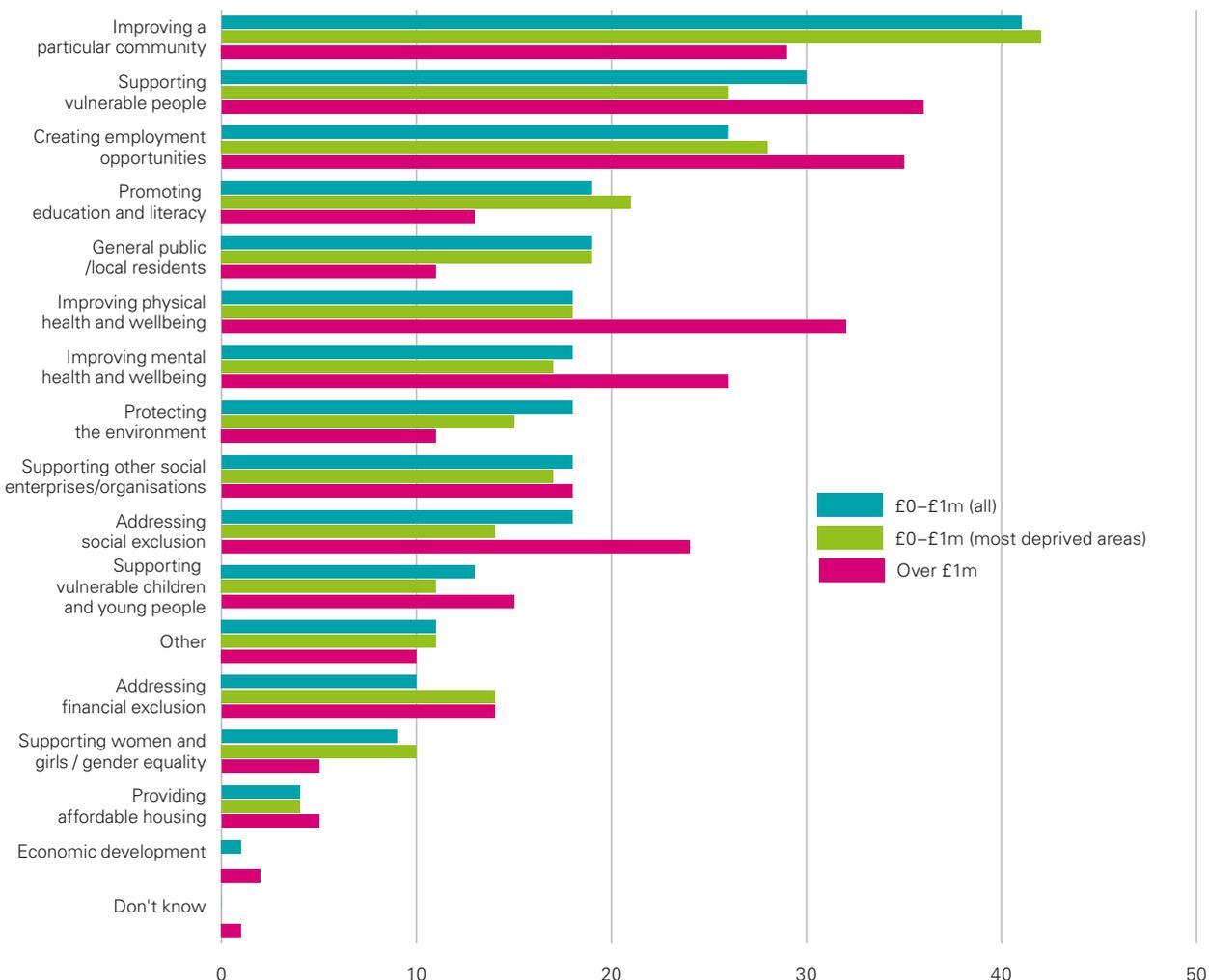
The top principal activities of large social enterprises are more different – only sharing two of the same top five as small social enterprises in general (14% working in employment and skills and 12% working in business support/consultancy): the

top two principal activities undertaken by large social enterprises are health care (16%) and social care (15%). It is noteworthy that both of these activities are primarily public sector services – reinforcing the trend that large social enterprises are more likely to trade with the public sector market.

2.2. MAIN SOCIAL AND/OR ENVIRONMENTAL OBJECTIVES OF SOCIAL ENTERPRISES

The following graph details how social enterprises describe their main social or environmental objectives. It also looks at how this differs between smaller and larger social enterprises, and with those operating in the most deprived areas.

FIGURE 10: MAIN SOCIAL AND/OR ENVIRONMENTAL OBJECTIVES



Further differences between small and large social enterprises became clear when respondents were asked about their main social and environmental objectives. While sharing three of the top five social and/or environmental objectives (improving a particular community, supporting vulnerable people and creating employment opportunities) notably, large social enterprises are more likely to aim to improve physical health and wellbeing and/or mental health and wellbeing, as opposed to

promoting education and literacy or working for the general public/local residents.

This reflects the increased likelihood that large social enterprises trade with the public sector market compared to small social enterprises. Similarly, the increased focus on local communities and residents from small social enterprises reflects the increased likelihood that they identify as community businesses and employ from their local area.

ANALYSIS

Small and medium-sized social enterprises are more likely to be involved in business-to-consumer (B2C) and business-to-business (B2B) activity, in retail and creative industries, for example. They are much less likely to be involved in health and social care (13% compared to 31% of the larger social enterprises) and other public services. This may indicate that working effectively in public services requires scale and capacity, given the complexity of the commissioning landscape and the time required to engage and bid. In short small and medium-sized social enterprises face many of the same challenges as small and medium-sized charities, as detailed in LBF EW's report, *Commissioning in Crisis*.

The same trends can be seen in the main social objectives of social enterprises. Small and medium-sized social enterprises are more likely to be seeking to improve a particular community and to directly work with the general public and residents: as a whole, they are more focused on the communities they work in, and on supporting the people who live and work there, than their larger peers.

2.3. INDIVIDUALS SUPPORTED AND EMPLOYED BY SMALL AND MEDIUM-SIZED SOCIAL ENTERPRISES

As can be seen from Figure 11, 69% of small and medium-sized social enterprises work to support individuals facing disadvantage, and 43% to employ them. This means that over two-thirds of small and medium-sized social enterprises support individuals from one or more of these groups of disadvantage, whilst almost half are actively seeking to employ them.

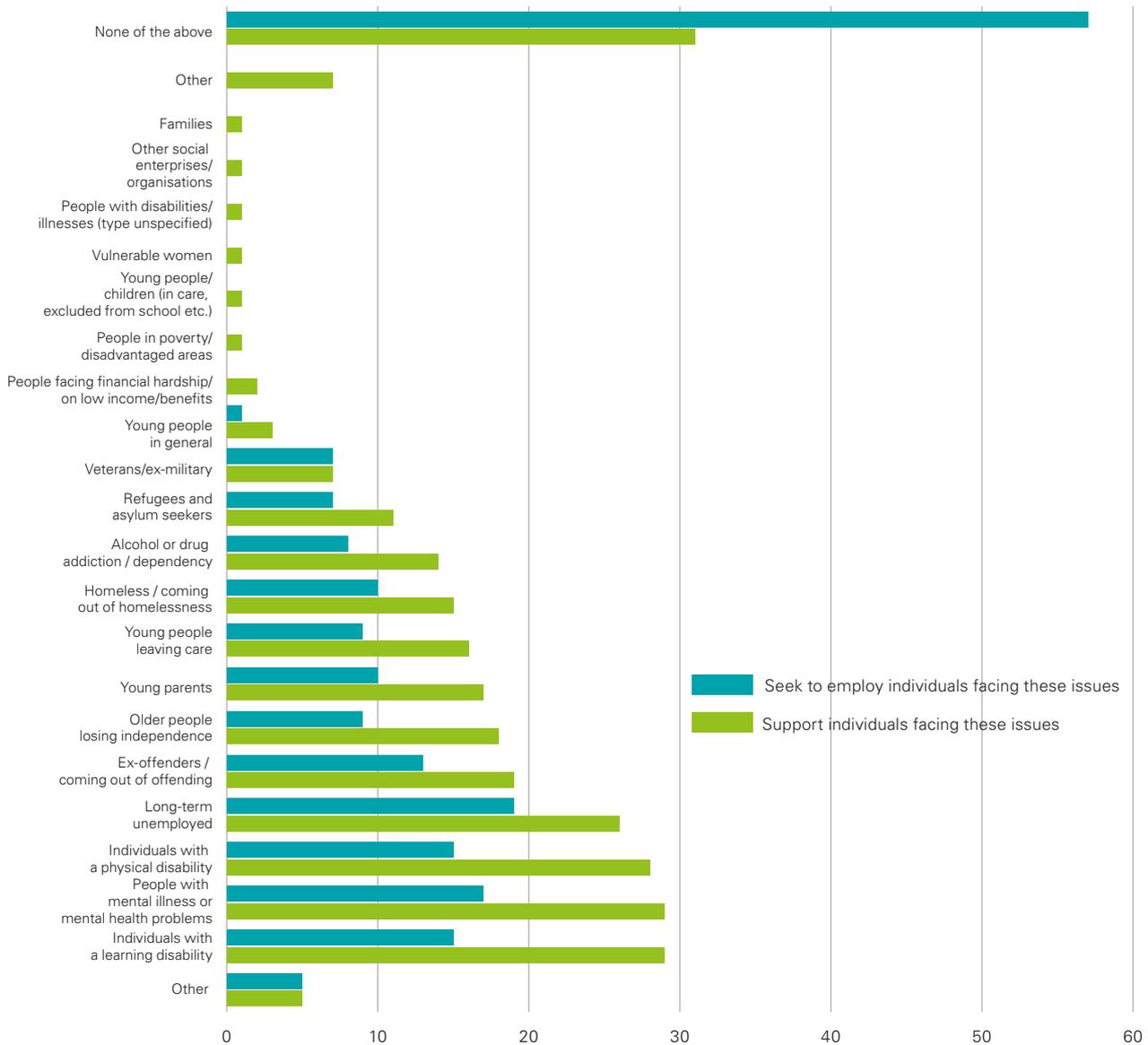
Almost one-third (29%) of small and medium-sized social enterprises work with and support individuals with a learning disability and/or people with mental health issues. This is closely followed by around one-quarter of smaller social enterprises working with individuals with a physical disability (28%) and/or experiencing long-term unemployment (26%). Around one in five (19%) work with ex-offenders.

This is the same top five group of individuals that large social enterprises support – although a higher proportion of large social enterprises work with each group. The biggest difference is the proportion working with ex-offenders; large social enterprises are 12% (31% in total) more likely to work with this group compared with smaller social enterprises.

There is some evidence of regional focus shifting depending on the local context and different needs. For example, London-based social enterprises, of all sizes, are more likely to be supporting those coming out of homelessness; North East-based social enterprises are more likely to work with veterans and those previously in the military.

Many small and medium-sized social enterprises also seek to employ individuals facing the type of issues that their organisation is working to address. Around one in five seek to employ the long-term unemployed (19%) and/or people with mental health issues (17%).

FIGURE 11: TYPE OF INDIVIDUALS SMALL AND MEDIUM-SIZED SOCIAL ENTERPRISES SUPPORT AND SEEK TO EMPLOY



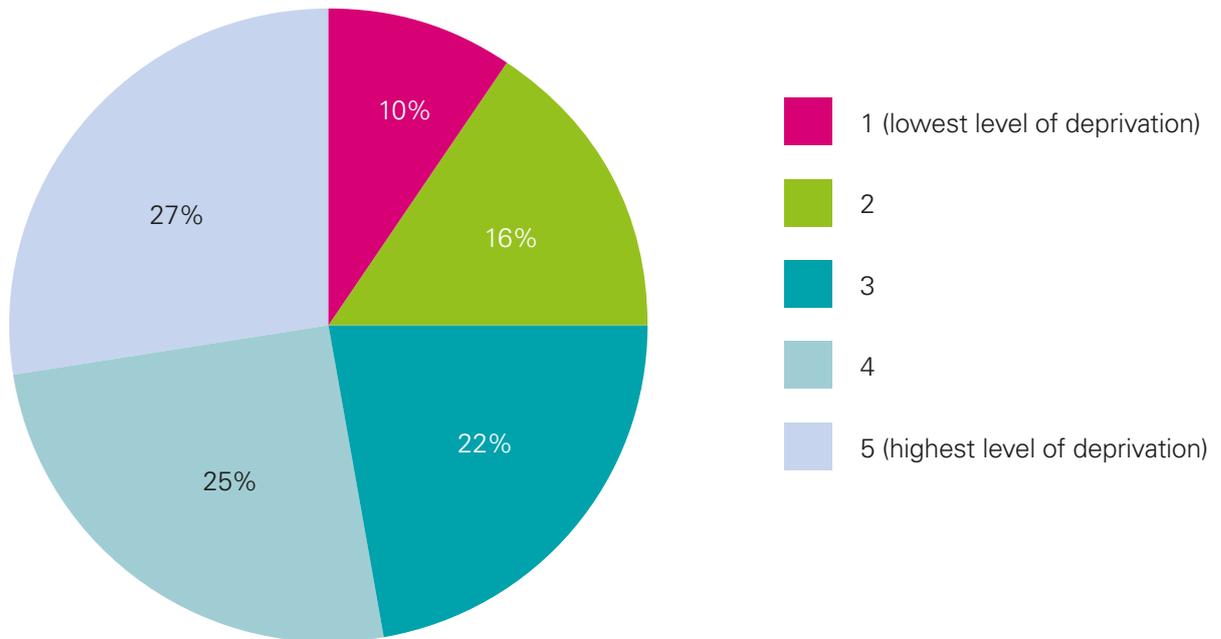
ANALYSIS

It is clear that people are at the heart of the work of small and medium-sized social enterprises. Many state that they seek to have impact through how they employ, and significant proportions are working with different groups of people in society who would not otherwise get the chance. Less than a third do no work at all with one of these groups, and many are not only seeking to support these groups but also to employ them as their growth and scale allows.

The implications are significant for any organisations seeking to tackle problems of unemployment, and an associated lack of opportunity and job creation, particularly in the most deprived areas of the country (see 2.4 below). Small and medium-sized social enterprises are clearly a route to supporting these groups of people, in the places in which they live, and in creating opportunities and employment for them.

2.4. WORKING IN AREAS OF DEPRIVATION

FIGURE 12. WHERE SMALL AND MEDIUM-SIZED SOCIAL ENTERPRISES OPERATE BASED ON AREAS OF DEPRIVATION



While the social and/or environmental objectives of social enterprises are diverse, the majority operate in areas of greater need – 52% are based in the top 40% most deprived areas, and 27% in the top 20% most deprived areas. This further speaks to many social enterprises’ focus on improving their local communities and supporting the people who live there.

Overall, the more deprived the area, the more likely you will find social enterprises operating there. This is similar across all social enterprises, regardless of turnover size (large or small). This contrasts with charities overall, in the sense that they are much more evenly spread across the country and, specifically, smaller charities are actually much more likely to be in less deprived areas than larger charities: as NCVO’s Navigating Change report makes clear:

small charities are more likely to be located within less deprived areas, whilst large charities are more likely to be located in more deprived areas...[This] partly reflects the rural-urban split of small and large charities, as areas of high poverty

also tend to be associated with higher levels of urbanisation. The large number of very small, or micro, charities also includes many community organisations such as village halls and parent teacher associations which are not generally associated with deprivation or poverty alleviation.³

Overall, around 15% of small and medium-sized charities are based in the top 20% most deprived areas, almost half the proportion of equivalent sized social enterprises.

There is little difference between smaller and larger social enterprises when it comes to an urban and rural split. In all turnover bands of respondents, the proportion of urban social enterprises is between 75% and 80% (with rural social enterprises between 20% and 25% of the sample). Only at the very largest scale of social enterprises (with over £5m turnover) do we see a notable shift: at that size, 92% are based in an urban area.

3. www.ncvo.org.uk/images/documents/policy_and_research/funding/financial-trends-for-small-and-medium-sized-charities-ncvo-lloyds-bank-foundation-2016.pdf

FIGURE 13: SOCIAL ENTERPRISES' GEOGRAPHICAL SPHERE OF OPERATIONS

	0-10k	10-50k	50-100k	100-150k	250k-1m	1m-5m	5m+	Under 1m (average)
Neighbourhood/ locally	27%	26%	25%	25%	26%	11%	4%	26%
A local authority	11%	9%	3%	11%	8%	8%	9%	8%
Several local authorities	9%	5%	7%	9%	7%	12%	14%	7%
A region (e.g. West Midlands)	12%	16%	21%	15%	19%	18%	11%	17%
Several regions	3%	5%	4%	4%	3%	13%	9%	4%
England	14%	4%	10%	8%	8%	4%	11%	8%
Wales	1%	11%	12%	8%	9%	10%	11%	8%
Europe	3%	2%	3%	4%	0%	2%	2%	2%
Internationally	12%	15%	7%	9%	11%	8%	8%	11%

The table above shows the sphere of operations of social enterprises by turnover band. As might be expected, the small and medium-sized social enterprises are significantly more likely to be operating at a neighbourhood or local level: on average, over a quarter (26%) work at that level, and over a third (34%) operate at a neighbourhood or across just one local authority. The average figures by comparison for the larger social enterprises over £1m turnover are 8%

(neighbourhood) and 9% (one local authority) respectively.

The figures for those operating at national or international level is probably higher than expected (particularly for the micro-enterprises below £10,000 turnover), but this is most likely explained by the use of online platforms and applications which can be downloaded or accessed anywhere.

ANALYSIS

While the levels of social enterprises being based in deprived areas remain higher than both small business⁴ and charities⁵, the overall proportion has been slightly declining in recent years: from 38% in 2011 to 28% in 2017. The same is true for small and medium-sized social enterprises. This may be an indication that social enterprise is becoming more established and known about – in short, more are being set up everywhere. Or it may be an indication that running a business is becoming more difficult in deprived areas – as we see in section 3, smaller social enterprises operating in the most deprived areas are most likely to be reliant on grants and on public sector trading for their income. Put simply, market-based solutions are more difficult in areas of market failure.

Small and medium-sized social enterprises are much more likely to be operating at a neighbourhood or local level than their larger counterparts. This data supports what tends to be heard more anecdotally: that smaller organisations have better reach into communities and, at times, a better understanding of those communities' needs. This is arguably a function of scale, rather than type of organisation: a £100m charity or £100m social enterprise will potentially struggle as much as a £100m business to incorporate local insight and knowledge and achieve reach into communities in the way that smaller organisations can.

4. www.gov.uk/government/publications/small-business-survey-2016-businesses-with-employees

5. data.ncvo.org.uk/a/almanac16/geography-2 // www.ncvo.org.uk/images/documents/policy_and_research/funding/financial-trends-for-small-and-medium-sized-charities-ncvo-lloyds-bank-foundation-2016.pdf



CASE STUDY 2: DESIGNS IN MIND

- > **Set up to support a specific group of people**
- > **Operating primarily in one local authority**
- > **Retail at the heart of the business model**

Designs in Mind CIC is a small social enterprise based in Oswestry in Shropshire. Adults living with mental health challenges join the studio as a member of the team; making and designing commissioned artwork and products for retail. All the skills needed to participate are taught: in textiles, glass, ceramics, wood, wire, but most importantly everyone learns to work within a group. Through this work, they are finding ways to live life, challenging mental health stigma and the culture of low expectation that surrounds its makers.

“60% of the adults referred to Designs in Mind have been involved in planning, decision-making and business development; 75% have increased their confidence to do more in daily life”

In 2016-17, Designs in Mind worked with 56 adults referred through mental health services, held

almost 300 making and design workshops, and involved 170 participants from the local community. Fourteen of these volunteers have contributed over 3,000 volunteer hours. Of the adults they work with, two have moved on to full employment and one into volunteering; eight have joined the executive committee as members.

The improvements in people’s mental health are considerable. Measured using the Warwick Edinburgh Wellbeing Scale, 95% of members who participate had improved wellbeing. 75% reported that they had more confidence to do more outside of Designs in Mind, not least because 60% of them had been involved in planning, decision-making and business development activities. As one member puts it, “Although I am never going to be the same person as before my breakdown, coming here has opened other options up to me. I do a lot more out and about now: I can go to the shops. I take my son to school now on my own which I could never do before. My life has expanded, it has opened up.”

Designs in Mind continues to innovate commercially, despite its size, making projects increasingly from recycled materials and starting a new retail homeware brand, Jolt. They aim to diversify their income in this way, growing the percentage that is earned or traded. In the past year, support from Shropshire Clinical Commissioning Group amounts to almost half of the organisation’s income (45%), with earned income responsible for another third (35%), and other grants making up the final 20%.

www.designsinmind.co.uk

3. HOW DO THEY MAKE MONEY?

This section looks at how small and medium-sized social enterprises earn their income, the main sources of that income, the specific role of public sector income, and any differences in the most deprived areas.

A significant majority (87%) of small and medium-sized social enterprises derive at least half of their income from trading activities; the other 13% are those whose business model fluctuates around the 50% earned income mark, or those who are at an earlier stage and still proving their model can work. Nevertheless, this is a strong performance; in fact, the average small and medium-sized social enterprise generates 84% of their total income from trading, almost on a par with their larger counterparts (89%).

3.1. SOURCES OF INCOME

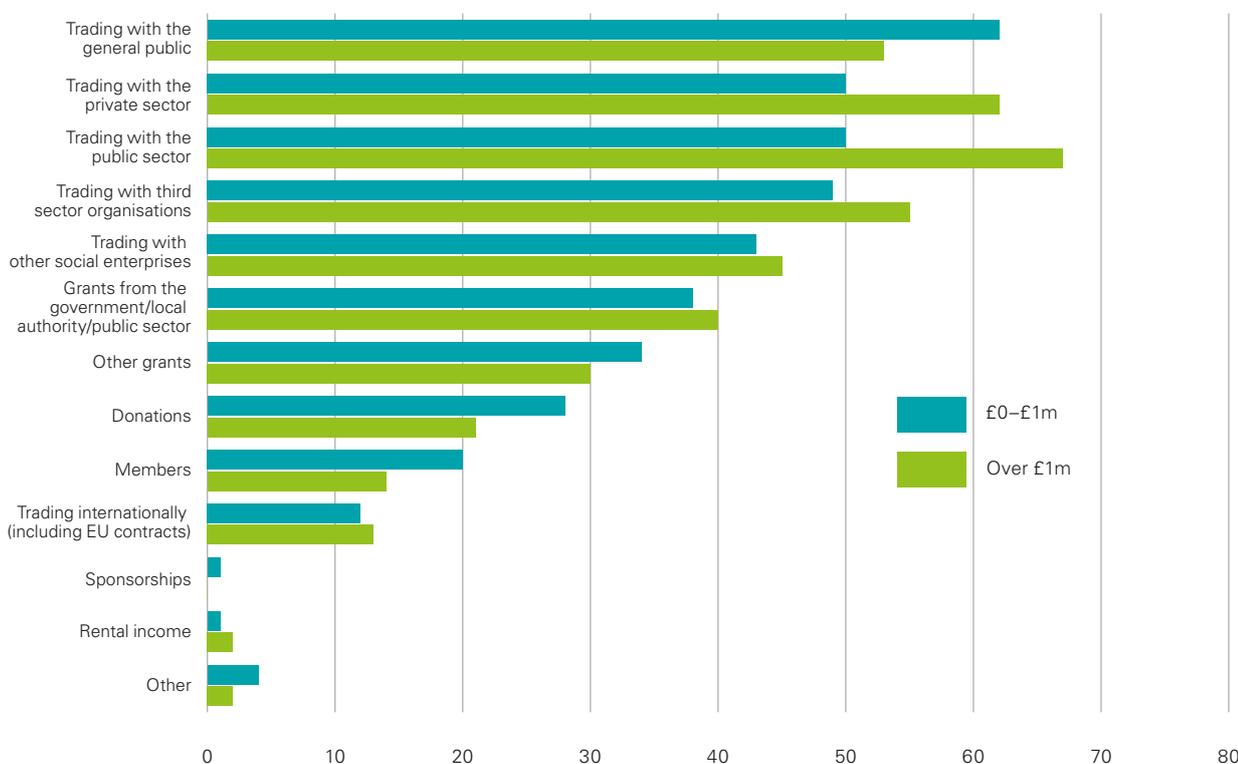
The two tables opposite look at the income of small and medium-sized social enterprises

compared to their larger counterparts. The first looks at all sources of income that a social enterprise receives, regardless of how much or how little. The second looks at the main or primary source of income of the social enterprise.

The most common source of income for small and medium-sized social enterprises is from trading with the general public (62%). This is followed by trading with the private sector, public sector and with the third sector – around half of all small social enterprises trade with at least one of these three markets.

When looking at the main (primary) source of income for small and medium-sized social

FIGURE 14: ALL SOURCES OF INCOME FOR SMALL AND MEDIUM-SIZED AND LARGE SOCIAL ENTERPRISES



enterprises, the ranking is broadly similar: trading with the general public is the most common main source of income (28%); followed by trading with the public sector (18%) and private sector (14%).

For three-quarters (76%) of small and medium-sized social enterprises, their main source of income makes up over half of their total income. Indeed, for almost one-third (29%), their main source of income is their only source of income. Depending on what this source of income is,

this could mean that a significant proportion of social enterprises are in financially vulnerable positions – especially those that are dependent on a low number of contracts or one or two main customers.

To try and understand potential vulnerability in more depth, the main income sources of small and medium-sized social enterprises in the top 20% most deprived areas can also be examined.

FIGURE 15: MAIN SOURCE OF INCOME FOR SOCIAL ENTERPRISES BY TURNOVER BAND

Turnover in £	0-10k	10-50k	50-100k	100-150k	250k-1m	1m-5m	5m+	Under 1m average
Trading with general public	28%	29%	22%	30%	30%	29%	6%	28%
Trading with private sector	13%	13%	15%	16%	14%	19%	14%	14%
Trading with public sector	10%	16%	21%	16%	22%	28%	59%	18%
Members	9%	7%	8%	7%	9%	3%	*%	8%
Grants from public sector	9%	10%	6%	5%	6%	6%	7%	7%
Trading with third sector	8%	11%	8%	8%	4%	6%	9%	8%
Other grants	7%	5%	6%	3%	5%	1%	1%	5%
Other	5%	3%	2%	4%	5%	2%	0%	4%
Trading with social enterprises	4%	2%	5%	3%	1%	1%	0%	3%
Trading internationally	4%	1%	1%	1%	2%	1%	0%	2%
Donations	2%	1%	1%	1%	1%	1%	0%	1%

FIGURE 16: MAIN SOURCE OF INCOME FOR SOCIAL ENTERPRISES IN TOP 20% OF AREAS OF DEPRIVATION BY TURNOVER BAND

Turnover in £	0-10k	10-50k	50-100k	100-250k	250-1m	1m+	Under 1m average
General Public	29%	20%	18%	20%	31%	11%	23%
Public Sector	24%	22%	15%	23%	28%	46%	23%
Private Sector	4%	12%	16%	22%	8%	24%	14%
Third Sector	15%	10%	10%	6%	6%	6%	8%
Grants from Public Sector	8%	12%	12%	8%	0%	9%	8%

What is clear from this additional analysis is that the public sector plays an appreciably larger role in the most deprived areas. Overall, for all social enterprises under £1m turnover, it provides the main source of income for 31% (as either trading or grants), compared to 25% of small and medium-sized social enterprises as a whole. This is particularly the case with the smallest enterprises under £100,000 turnover, where the public sector plays a more significant role as an income source.

In addition, analysis of all sources of income for small and medium-sized social enterprises in the most deprived areas reveals a similar pattern. Overall, in the top 20% most deprived quintile, 56% receive some income from trading with the public sector, and 43% from grants from the public sector. This compares to 50% and 38% for all small and medium-sized social enterprises across England and Wales.

3.2. FOCUS ON TRADING WITH THE PUBLIC SECTOR AND PRIVATE SECTOR

Compared with large social enterprises, the common sources of income, and their respective proportion to the total income of the organisation,

are fairly similar for small and medium-sized social enterprises. However, there are a couple of noteworthy differences: large social enterprises are most likely to trade with the public sector (67%), followed by the private sector (62%) – making large social enterprises 17% and 12% more likely to trade with these markets, respectively, than small social enterprises.

Figure 17 further illustrates that there is a general relationship between the size of a social enterprise and the likelihood of it trading with the public sector and/or private sector. In particular, the larger the social enterprise, the more likely it is trading, and dependent, on the public sector market. Over one-third (39%) of large social enterprises state that their main source of income is from trading with the public sector – making them twice as likely to derive their main source of income from this market compared to smaller social enterprises (18%).

It is also notable that social enterprises of all sizes in the top 20% most deprived areas tend to be more reliant on trading with the public sector. The proportion working in these areas who receive trading income from the public sector is

FIGURE 17. SOCIAL ENTERPRISES TRADING WITH THE PUBLIC SECTOR AND PRIVATE SECTOR



6 percentage points higher (56% compared to 50%) for smaller social enterprises, and 7 percentage points higher for larger social enterprises (74% to 67%).

Moreover, for small and medium-sized social enterprises working in the most deprived areas, while the general public is still the most common source of income (60%), the gap between general public income and public sector income is not as pronounced as it is for smaller social enterprises overall (a difference of 4% compared to 12%).

This is further reflected in terms of the main source of income for small social enterprises, where public sector income increases to 23% for those working in the most deprived areas (compared to 18%), and general public income decreases to 23% (from 28%).

Smaller social enterprises working in the most deprived areas are also more likely to have grant funding as a source of income, be that government based (43%) or from other organisations (40%).

ANALYSIS

Overall, these differences again seem to reflect the poorer local economies in highly deprived areas, where generating income from the general public is not as easy or lucrative as in more affluent areas. In turn, this means there is a higher reliance on other markets, particularly the public sector, and grant funding. Small and medium-sized social enterprises as a whole are significantly more likely to be earning their income from the general public than their larger counterparts, and much less likely to have the public sector as their main source of income.

It is interesting to note that, though 33% of these smaller enterprises describe their model as delivering public services, it is the main source of income for only 18% of them. In the simplest interpretation of the data, this may indicate that public sector money is not flowing to all those delivering public services, especially smaller organisations.

The shift to earning income from retail and the general public may therefore be part of a trend for social enterprises to actively seek different sources of income away from the public sector. This is consistent with the business models indicated in the first section (commercial businesses which have impact through who they employ or giving away profits) and the higher proportion of those producing goods. It is also consistent with anecdotal evidence of social enterprises seeking to diversify their income sources to build their overall resilience.

3.3. FOCUS ON GOVERNMENT INCOME

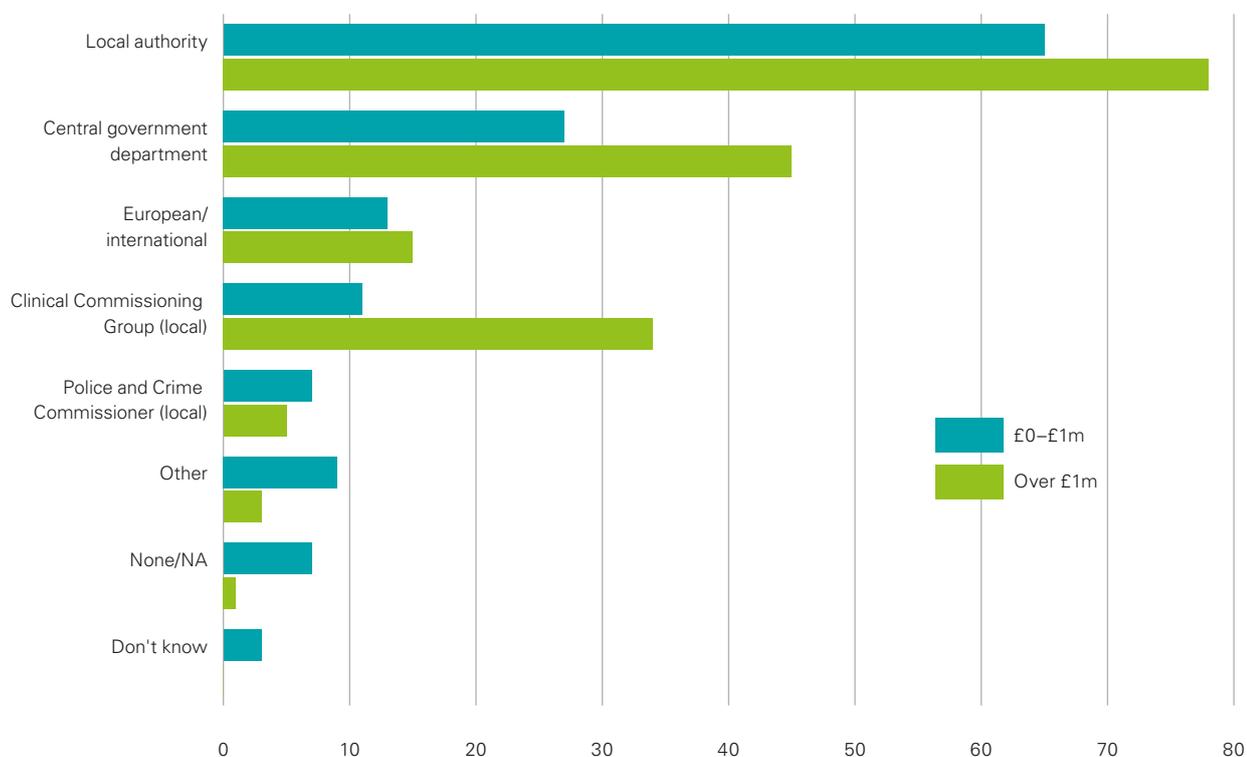
Small and medium-sized social enterprises that receive funding from the government/public sector – either as earned income, investment or grants – are most likely to do so from local authorities. In fact, more than twice the proportion receive funding from local authorities rather than a central government department (65% compared to 27%, respectively).

This is similar for large social enterprises, but the proportions are that much higher: with three-quarters (78%) accessing funding from local authorities and 45% from central government. They are also three times more likely to get funding from their local Clinical Commissioning Group

(CCG) compared to small and medium-sized social enterprises (34% compared to 11%, respectively).

There are some regional differences too: social enterprises based in the North as a whole were less likely than average to report that their income came from a central government department (20%). In the most deprived areas, the figures show that small and medium-sized social enterprises are less likely to receive funds from their local CCG (just 7%), but they are more likely to be receiving funding from European sources (18% compared to 13% for all). They are also even less likely to be getting funding from central government (19% compared to 27% for all).

FIGURE 18: PROPORTION OF SOCIAL ENTERPRISES RECEIVING DIFFERENT TYPES OF GOVERNMENT/PUBLIC SECTOR INCOME (TRADING AND/OR GRANTS)



ANALYSIS

The picture here is consistent with anecdotal evidence that smaller social enterprises struggle to get engaged with public sector commissioning, both because of the way contracts are structured and because of their own capacity restrictions.

There are also a number of areas which should cause concern for smaller social enterprises in the most deprived areas: European funding plays a more significant role in these areas (it is currently allocated partly based on criteria of disadvantage and deprivation), whilst central government plays less of a role. The long-term picture is uncertain: but if European funding stops in its current form, it is likely that it would be organisations that are more reliant on this funding, such as social enterprises operating in deprived areas, who would feel the effects most keenly - unless that were to be replaced by similarly redistributive policies and programmes by central government.

It is also notable that public sector trading and grants play a more significant role for smaller social enterprises in the most deprived areas. This highlights the challenges of establishing business models with the private sector and the general public in areas with higher levels of poverty and lower levels of income and the importance of grants, especially in supporting organisations in more deprived areas.

3.4. PROFITABILITY

FIGURE 19: PROFITABILITY OF SOCIAL ENTERPRISES BY TURNOVER BAND

Turnover in £	0-10k	10-50k	50-100k	100-150k	250k-1m	1m-5m	5m+	Under 1m (average)
Made a profit	28%	38%	52%	54%	57%	71%	76%	47%
Made a loss	33%	23%	17%	22%	22%	16%	7%	22%
Broke even	39%	39%	31%	24%	21%	13%	17%	31%

As this chart makes clear, levels of profitability are significantly higher in large social enterprises than in the small and medium-sized cohort. Profitability increases in direct proportion to turnover with only 7% of the largest social enterprises making a loss. At the other end of the scale, the micro social enterprises are often testing out and developing their business model as a new start-up, which is reflected in their lower levels of profitability: however, still two-thirds (67%) broke even or made a profit even at this very smallest level.

This data is not precisely comparable with charity data, but NCVO's research has demonstrated that overall, on average, charities below £500,000 have made a deficit and that the picture is most stark for those under £100,000.⁶

Interestingly, although based on a much smaller sample in each turnover band⁷, the small and medium-sized social enterprises in the top 20% most deprived areas appear to be at least as profitable as social enterprises of similar sizes in other parts of the country. This may reflect the stark reality that there is little flexibility and less family, friends or other support to help subsidise losses or prop up ailing business models; in short, these enterprises have to make money from the start to survive.

93% of small and medium-sized social enterprises use the majority of the profit they make to further their social or environmental goals. The largest number of those who answered 'no' to this question were those under £10,000 with much younger business models and structures (13% of this group).

FIGURE 20: PROFITABILITY OF SOCIAL ENTERPRISES IN TOP 20% MOST DEPRIVED AREAS

Turnover in £	0-10k	10-50k	50-100k	100-150k	250k-1m	1m-5m	5m+	Under 1m (average)
Made a profit	42%	41%	51%	55%	56%	74%	76%	51%
Made a loss	13%	17%	20%	22%	18%	18%	12%	19%
Broke even	45%	42%	29%	22%	26%	8%	12%	30%

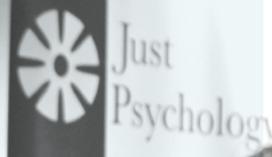
ANALYSIS

One aspect of the 'promise' of social enterprise is that it is more sustainable (in the financial sense) than more traditional charitable models. There is some evidence in this data that this is the case, even for the smallest social enterprises. Their overall levels of profitability are higher than their small charity equivalents, and there is evidence in the link between age and turnover and profitability that the more established a social enterprise becomes, the more likely it is to have built a sustainable, resilient business model.

Levels of profitability increase notably with scale, mirroring the pattern that is seen in charities. For social enterprise, as with charity, there is a challenge for the larger social enterprises to work with, partner, collaborate and support their small and medium-sized peers who may not be as financially robust but are equally commercially-minded, and offer greater reach and diversity.

6. p.33; Navigating Change www.ncvo.org.uk/images/documents/policy_and_research/funding/financial-trends-for-small-and-medium-sized-charities-ncvo-lloyds-bank-foundation-2016.pdf

7. Between 34 and 72 social enterprises in each of the small and medium-sized bands (below £1m)



CASE STUDY 3: JUST PSYCHOLOGY



- > **Delivering services to the public**
- > **Mixed income: government, grants, trading**
- > **Working with the most vulnerable**

Just Psychology is a Community Interest Company (limited by guarantee) based in the North West of England, established in April 2011 by Dr Iyabo Fatimilehin, a clinical psychologist with over 20 years' history of working in NHS child and family psychology services. It provides evidence-based and effective interventions that address the psychological and mental health of all children and families, with a focus on cultural competence, cultural diversity and social justice; the organisation has a particular expertise with Black Asian and Minority Ethnic (BAME) children and their families. Its interventions aim to improve their mental wellbeing, but also improve the accessibility and appropriateness of services.

The activity of Just Psychology includes direct therapeutic advice, training, legal work, as well as events and work in schools. In 2016-17, for example, the organisation undertook therapeutic work with 17 parents and five children, including a parenting group at a women's refuge; they also delivered Family Group Conferences with 78 families including 90 children and 409 adults (of which 55% were unemployed). 46% of the children involved were at risk of being 'looked after'.

“Just Psychology recruit and train local people from minority backgrounds as ‘Cultural Consultants’ to improve the accessibility of services”

The legal and community work of the organisation spreads even more widely. Court assessments and reports, focusing on the incorporation of a cultural perspective in expert witness work, supported individuals with African Caribbean, Bangladeshi, Ghanaian, Indian, Iranian, Nigerian, Roma, Somali and White British backgrounds. The organisation is also working to recruit and train local people from minority backgrounds as 'Cultural Consultants' to improve both understanding within the system and also accessibility of services.

Just Psychology had income of just over £178,000 in the last financial year, and made a small profit on its activities. Funders and supporters include Big Lottery Fund (Awards for All), Manchester Clinical Commissioning Group and the Seedbed Community Christian Trust. Earned income comes from conferences and a varied range of training and consultancy.

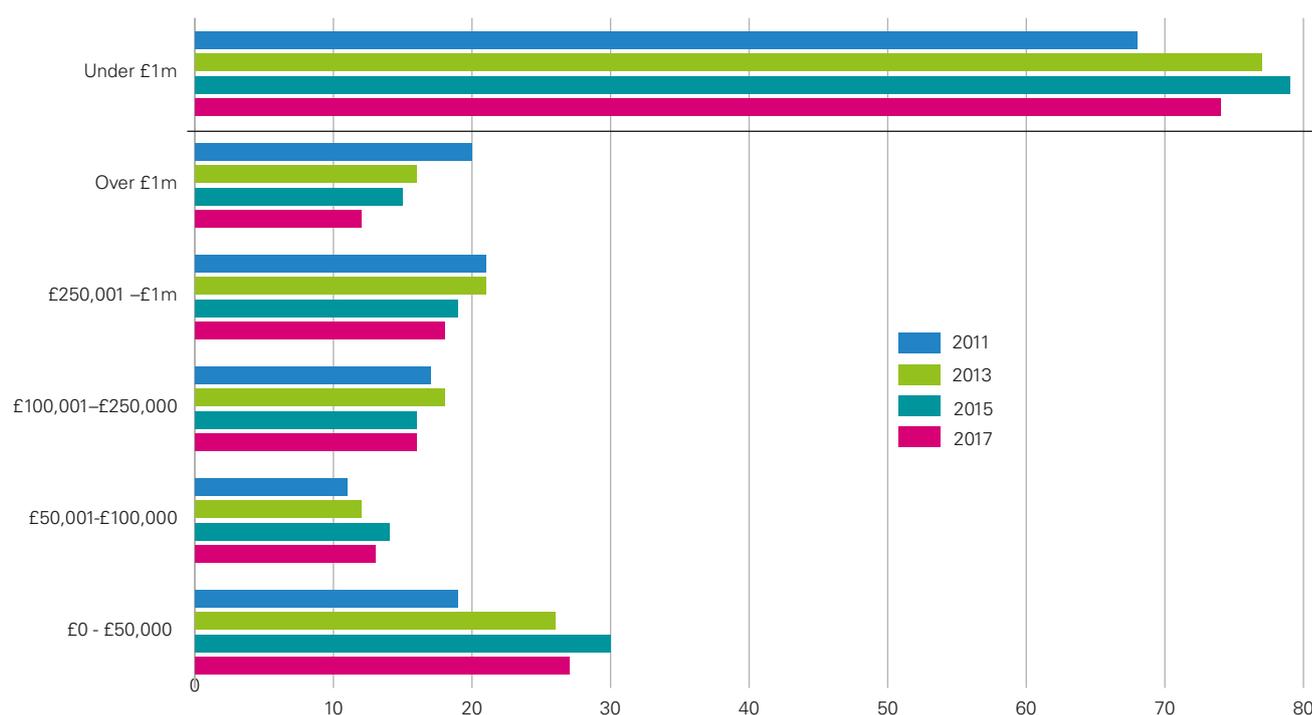
www.justpsychology.co.uk

4. WHAT HAS CHANGED OVER THE YEARS: 2011-17

This section looks at how the income picture for social enterprises has varied over time, by year and by region. This draws on data from the last four State of Social Enterprise surveys, from 2011 to 2017.

4.1. INCOME SIZE

FIGURE 21: SOCIAL ENTERPRISES' INCOME SIZE: 2011-2017



NB – a proportion of social enterprises responding to the survey each year do not know their turnover, so figures above and below £1m turnover do not add up to 100%

Overall, the proportion of organisations whose turnover is under £1m has increased over the past six years – rising from around two-thirds (68%) of social enterprises in 2011 to more than three-quarters (77%) in 2013, and remaining around that proportion since (79% in 2015 and 74% in 2017).

This corresponds with a slight decline in the proportion of social enterprises with turnovers over £1m in the same six-year period – decreasing every year this survey has been taken, from one in five (20%) in 2011 to just over one in 10 (12%) in 2017.

This shift in the make-up of the social enterprise population is reflected in the median income, which also shows a steady reduction across this period: £240,000 in 2011, £187,000 in 2013, £151,000 in 2015, and £125,000 in 2017.

4.2. INCOME FOR SOCIAL ENTERPRISES IN AREAS OF DEPRIVATION

FIGURE 22: SOCIAL ENTERPRISE INCOME SIZE BY DEPRIVATION INDEX: 2011-2017

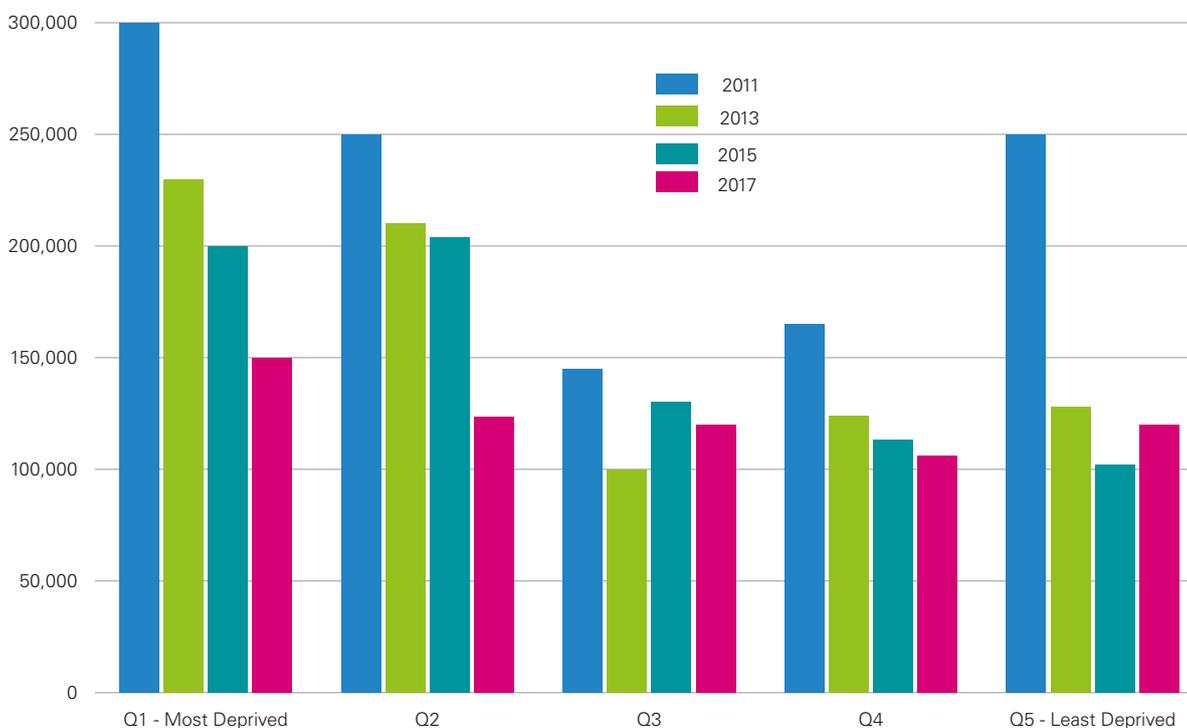


Figure 22 shows that the overall decrease on average in social enterprises' income size, over the past 6-year period, is reflected in areas across all levels of deprivation. Every quintile, from the most deprived (1) to the least deprived (5), shows an overall decrease from 2011 to 2017, reflecting the growth in newer and smaller social enterprises across the whole country.

Despite the overall decrease in median turnover, social enterprises based in the most deprived quintile have continued to have, on average, higher annual incomes compared to those based in lesser-deprived areas. It is noticeable, though, that the differences between social enterprises operating in different quintiles of deprivation is less pronounced in 2017 than it was in previous years.

4.3. INCOME ACROSS THE UK

In 2017, social enterprises based in the East and South East are likely to have slightly higher-than-average annual incomes compared to those based

in other regions. The average incomes of social enterprises based in the other regions are all below the national average of £125,000. This is largely about the proportions of small and medium-sized social enterprises in each region. Average income does not necessarily indicate 'success' by one region over another – for example, the West Midlands has previously been identified as having a start-up rate second only to London for social enterprise, which could well mean it has a lower average annual income overall.

4.4. HOW INCOME VARIES BY LEGAL AND ORGANISATIONAL FORMS

Social enterprises that are both legally constituted as a CLG and registered as a charity are the most likely to be on higher-than-average annual incomes - £475,000 compared to the average social enterprise £125,000). One in four (25%) of these social enterprises have incomes over £1m – the highest proportion of any legal or organisational form.

FIGURE 23: AVERAGE SOCIAL ENTERPRISE ANNUAL INCOME BY REGIONS: 2013-2017

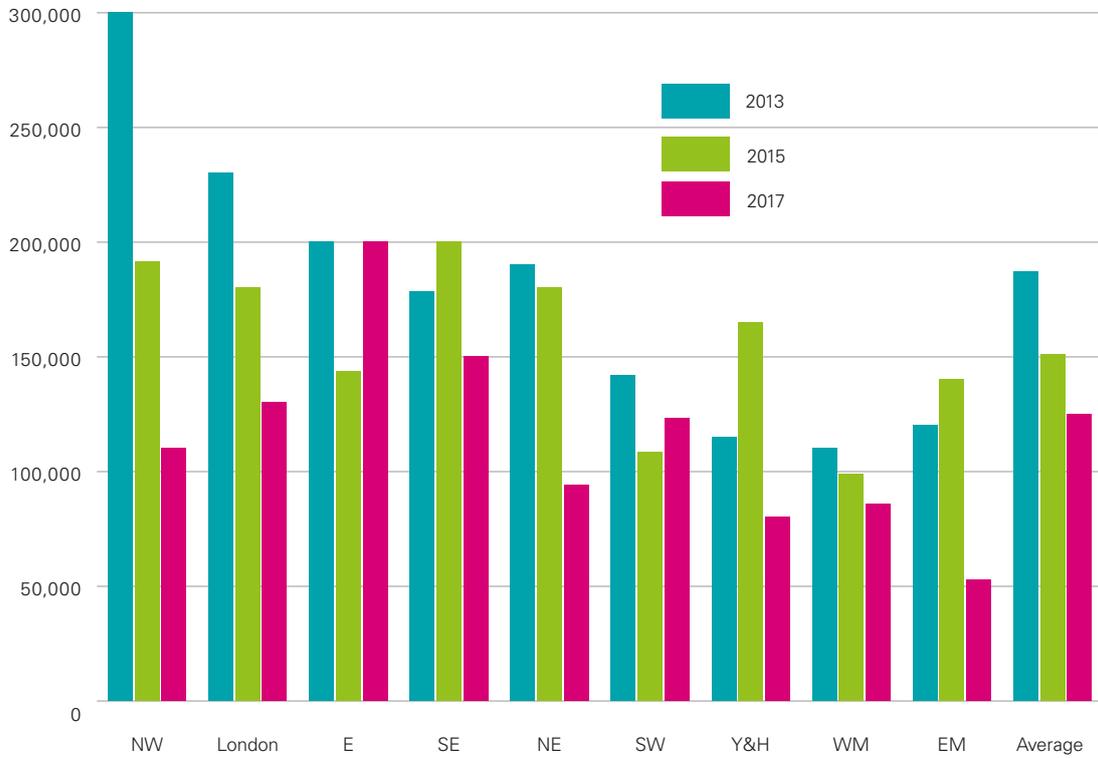
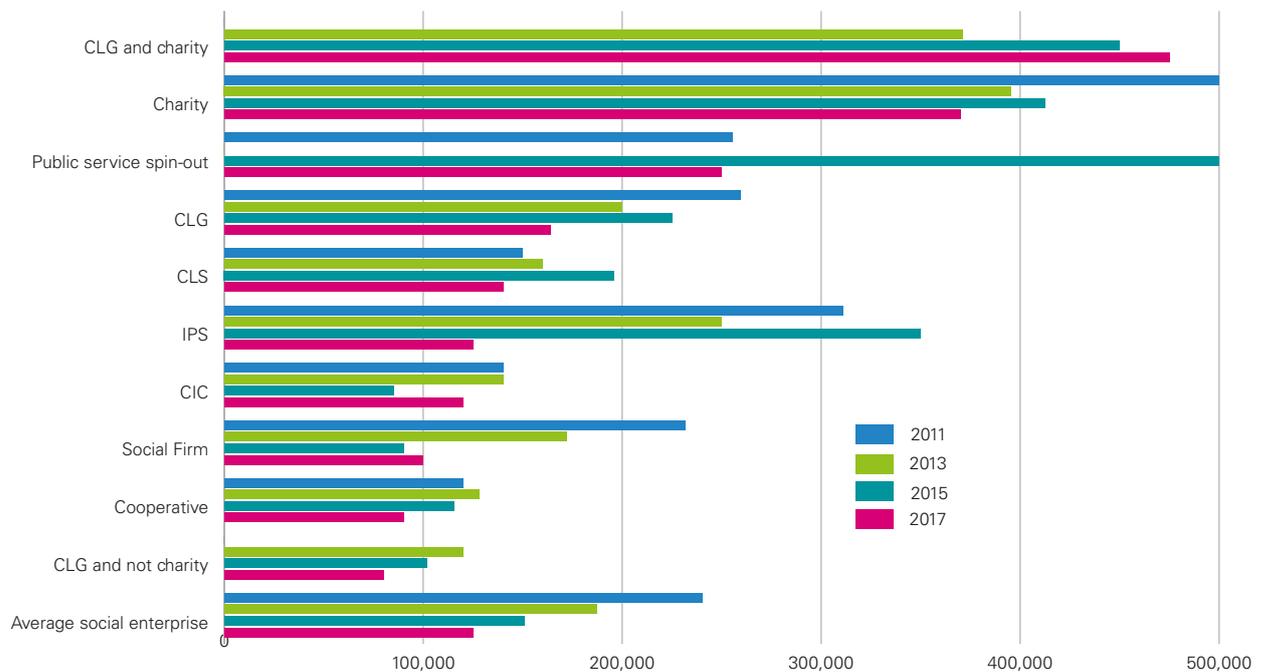


FIGURE 24: AVERAGE ANNUAL SOCIAL ENTERPRISE INCOME BY LEGAL AND ORGANISATIONAL FORM: 2011-2017,



Indeed, of all the legal and organisational forms, overall, being a registered charity is strongly associated with higher incomes. With the exception of public sector spin-outs in 2015, in every year this survey has been taken since 2011 registered charities report the highest average annual incomes of all legal and/or organisational forms.

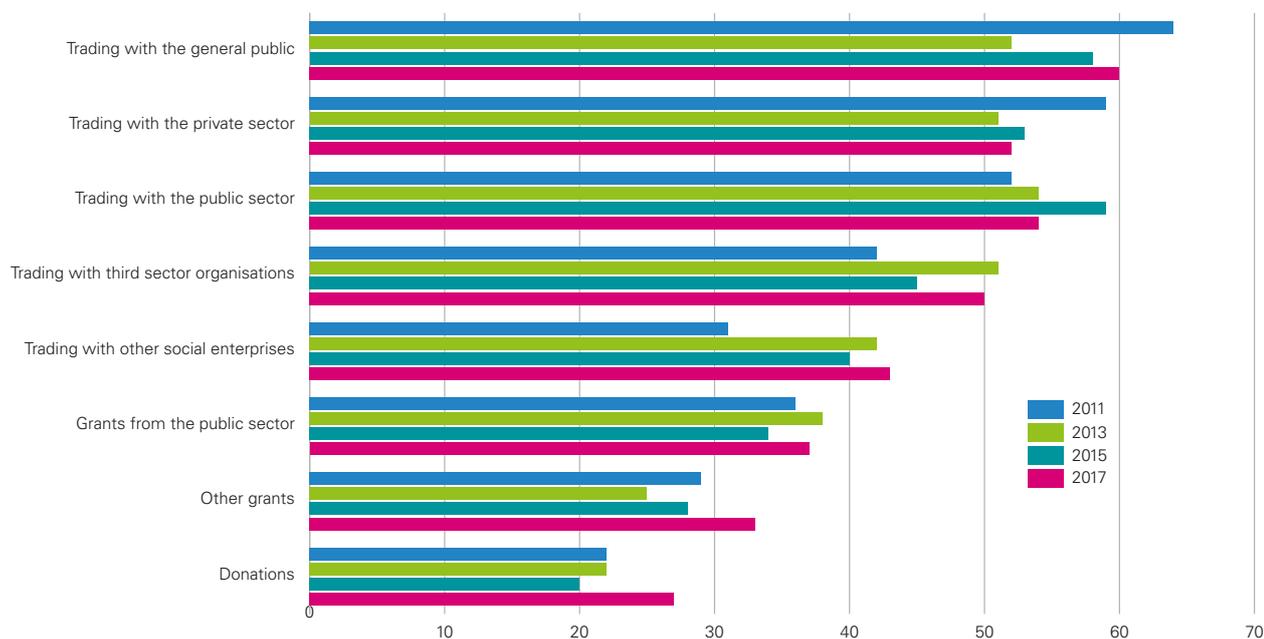
This largely seems to correlate with the number of years an enterprise has been operating, which is proportionate to both number of employees and size of turnover. In addition, it may also in part reflect the ability of organisations with charitable status to more easily access funding, tax reliefs, or attract donations.

4.5. TRADING INCOME

The majority of social enterprises in 2017 – around three-quarters (74%) – generated at least three-quarters of their total turnover from trading activities. This is similar to 2015 (73%) and 2013 (72%), and continues a gradual rise since 2011 (68%).

This corresponds with a small overall decrease over the six-year period of the proportion of social enterprises with between a quarter and a half of their turnover generated from trading activities: from around one in six (16%) in 2011 and 2013, to around one in 10 in 2015 (11%) and 2017 (12%).

FIGURE 25: PROPORTION OF SOCIAL ENTERPRISES GENERATING ANY INCOME FROM SOURCES 2011-2017



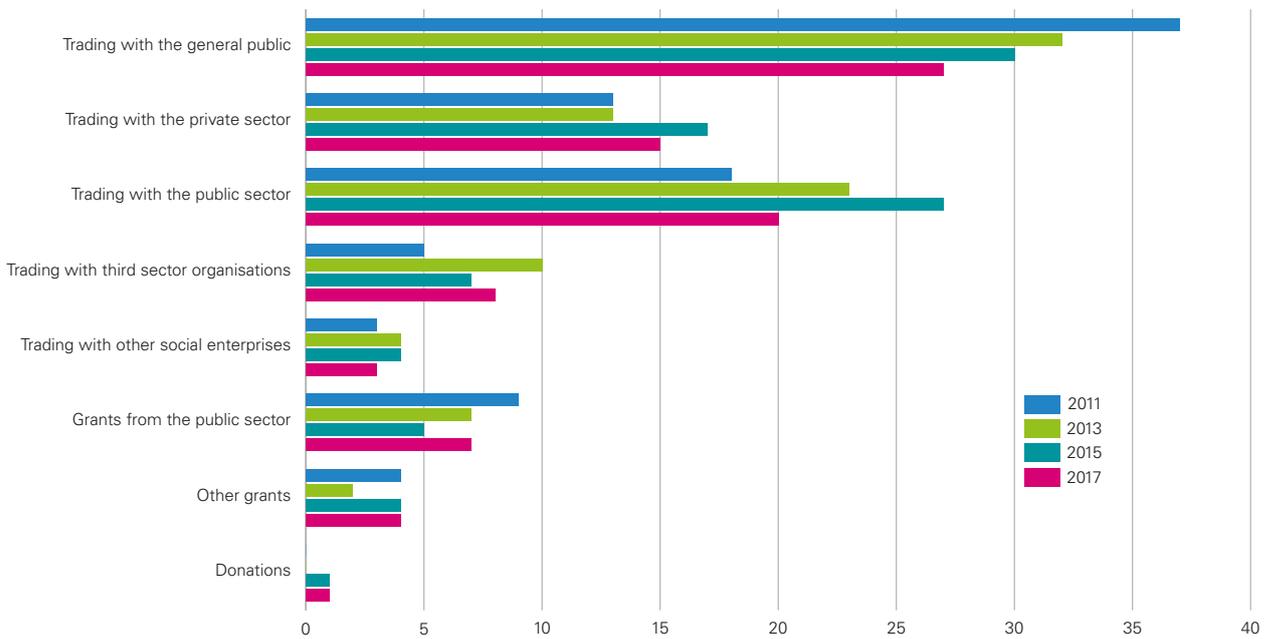
Over the past six-year period, there have been no significant fluctuations in the main sources of income for social enterprises. The general public has been the main source of income and the most common

source, with the public sector behind it – the public sector has consistently been the main source for larger organisations (and therefore provides most income by volume of different markets).

More than half the organisations surveyed (52%) generate income through trading with the private sector; this has been fairly consistent since 2011, (49% in 2011; 51% in 2013; 53% in 2015), whilst trading with the broader third sector has fluctuated

between 40% and 50%. There has been a notable increase in social enterprise inter-trading (from 31% in 2011 to 43% in 2017) which may reflect in part Social Enterprise UK's 'Buy Social' campaign, which focuses on using supply chains.

FIGURE 26: MAIN/PRIMARY SOURCE OF SOCIAL ENTERPRISE INCOME: 2011-2017



In terms of social enterprises' main, or primary, source of income, the largest proportion has consistently been from trading with the general public – it has been the primary source of income for at least one in four social enterprises since

2011. The public sector has remained relatively consistent in second place, though it is the main source of income for a considerably higher proportion of the larger organisations.

ANALYSIS

The period between 2011 and 2017 has seen a growth in the number of small and medium-sized social enterprises, which has changed the nature of the population of the social enterprise movement. This has meant a reduction in the median income across all regions of the country. Excepting the public sector spin-outs, it is the longer-established companies limited by guarantee and registered charities which have the largest income.

The rise in start-up activity can be attributed partly to dedicated support, particularly the School for Social Entrepreneurs and UnLtd, which have given grants and support to thousands of social entrepreneurs since 1998 and 2002 respectively. The availability and ease of registering as a Community Interest Company has also likely been a factor. This is all alongside a broader awareness of social enterprise, and societal trends towards entrepreneurship, self-employment, meaning and purpose in work, and ethical consumerism.

What these two data sources on trading income demonstrate is that social enterprises are increasing their levels of commerciality: trading as a percentage of income is increasing over time, and there are fewer enterprises with lower levels of trading activity than in previous years. This may reflect changing external circumstances: for example, there are fewer local authority grants available, and competition for grants is fierce as soon as organisations move beyond a start-up stage. Trading conditions are difficult, but social enterprises of all sizes are showing their commitment to business, and their ability to trade in all sectors and with a variety of customers.

CASE STUDY 4: PAPERWORKS



- > **Longer-established charity and company limited by guarantee**
- > **Organic growth through mix of private and public sector income**
- > **Business established to support specific groups of people**

Paperworks is a social enterprise which provides work preparation, training and support to adults with learning, physical and mental health-related disabilities. It does this by providing skills and support in a functioning print and print finishing business, which has expanded into mailing services, information pack assembly and 'pick, pack, despatch' services.

“Commercial growth has allowed Paperworks to increase the number of trainees being supported, as well as doubling its number of employees”

The business turns over around half a million pounds a year, and around 15 to 20% of this comes from grants and donations, with the rest earned from social care-related income and from commercial trading of the main business. This

income has grown organically over time, from £160,411 in the financial year ending March 31st 2012 to £474,493 in the year ending March 31st 2016: a trebling in size. Customers of Paperworks include school uniform suppliers, stationery sellers, and large companies like Boots.

Paperworks has its impact through who it trains and employs and provides part-time training based around each individual's abilities for as long as is appropriate. They seek to recognise that for some trainees they are the place of work whilst for others they are a stepping stone into employment elsewhere. At the heart of their model is building skills, confidence and independence in order to help people maximise their potential. Its commercial business growth has allowed it to double the number of employees since 2013, but also increase the number of trainees being supported at any one time from 30 to 60. The enterprise delivers 100 training sessions a week and now has a waiting list.

Originally established in 1994 as a company limited by guarantee, Paperworks became a registered charity in 2000. It now has 15 employees across two sites in Harrogate and Leeds. Alongside work within these urban environments, Paperworks also has a rural outreach programme to try and support those who may be isolated in environments outside towns and cities.

www.paperworks.org.uk

5. CONCLUSIONS & RECOMMENDATIONS

This report is the first dedicated report to look at small and medium-sized social enterprises as a separate cohort of organisations. What it reveals are the clear differences between smaller and larger social enterprises: the sectors they operate in, the business models and legal forms they choose, and their commercial viability.

Five of the key emerging findings, with accompanying recommendations, follow:

1) COMMUNITY BUSINESS, NOT CHARITY

A greater proportion of small and medium-sized social enterprises are choosing legal structures and identifiers which class them clearly as businesses operating in and for a community, rather than as a registered charity.

>> Foundations and other support organisations need to accelerate their understanding and acceptance of these different models in order to achieve impact. This can range from removing technical barriers (eg. supporting only registered charities) through to more proactive targeting of social enterprise to achieve specific aims and objectives.

2) DIVERSITY HITS A CEILING

Leadership of small and medium-sized social enterprises is more diverse and representative of the communities it serves than in their larger counterparts: in terms of gender and ethnicity. At present, this inclusive leadership is not translating into the same levels of equality at the top of larger organisations. Investing in leadership development could help address this, and also help strengthen governance of smaller organisations with smaller teams.

>> SEUK and partners should track this data and regularly report any positive or negative trends. Funders should consider investing in talent development programmes, and leadership development for leaders of small and medium-sized social enterprises.

3) WORKING WHERE NEEDED, BUT GETTING TOUGHER

Small and medium-sized social enterprises are more likely to be working in the most deprived

areas than either small business or charity peers. Over a quarter work in the top 20% most deprived areas, and over half in the top 40% most deprived. There are some indications, though, that smaller social enterprises working in these areas are more reliant on grants and public sector income, and there is a decline in the proportion working in these areas overall. This should help organisations think more clearly about where support is targeted.

>> Foundations, social investors and government should focus efforts on organisations in places which are most likely to be hit hardest by changes in European and public sector funding – these are also the areas with the toughest challenges to solve.

4) TRADING TO SUSTAIN

Even the smallest social enterprises earn a significant majority of their income from trading, and profitability levels have remained consistent since 2011. What is notable amongst the smaller social enterprises is a strong focus on commerciality from the start: a greater proportion are building business models that gift profits away or have impact through how they employ. This means they are more likely to be operating in retail or creative industries than larger social enterprises, and earning their income from the general public. This may be because other markets are more difficult to enter: though a third of smaller social enterprises describe their model as ‘delivering public services’, it is only the main source of income for 18%, and they are less successful at earning income from every part of government than larger organisations.

>> SEUK and local social enterprise networks should seek to build consumer awareness at a local level through local press, media, events and networking. The Social Enterprise Places network gives examples of how this can develop.

>> Councils and other local public sector agencies should develop strategies to better work with small and medium-sized social enterprises: strengthening social value, undertaking meaningful consultation, using grants, building transparency in contracting, and being proportionate with tendering and monitoring.⁸

5) PEOPLE AT THE HEART

Small and medium-sized social enterprises may have smaller workforces, but improving the lives of the most vulnerable is at the heart of their work. Over two-thirds work with and support individuals from disadvantaged backgrounds, and almost half seek to employ people from those groups. This focus on the people in their communities is also evident from their stated objectives: the

two most commonly stated are to 'improve a particular community' and to 'support vulnerable people'. Supporting these smaller enterprises, who are much more likely to be operating at a neighbourhood level, can be a route to supporting the people who need it most.

>> Central government departments, devolved administrations and local authorities concerned with tackling unemployment, particularly in the groups which are most disadvantaged from the labour market, should incorporate small and medium-sized social enterprises into their planning and programmes.

>> Foundations and social investors focused on employment and support for the most vulnerable should seek to support small and medium-sized social enterprises whose work will often be doing so at a community level.

8. These replicate many of the recommendations for commissioners contained in Commissioning in Crisis.

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We are the national body for social enterprise. Our members come from across the social enterprise movement – from local grassroots organisations to multi-million pound businesses, as well as the private and public sectors. Together with our members we are the voice for social enterprise. We believe that social enterprise is our best chance of creating a fairer world and protecting the planet.

Join us and support our work.

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