



The Coutts Guide to Social Enterprise



Foreword

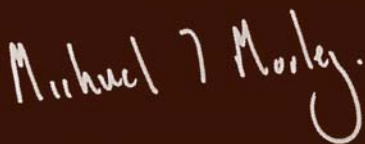
Welcome to the Coutts Guide to Social Enterprise. Created both to offer an insight into this exciting and rapidly growing sector and to mark the launch of the Coutts Social Enterprise Advisory Service, this guide has been produced in conjunction with The Social Enterprise Coalition, the UK's national body for social enterprise.

Some 20,000 entrepreneurs form the largest group of clients at Coutts and through working with them we learn as an organisation what the dynamics and emerging trends are amongst this highly influential group to the UK economy. From this vantage point it is easy to see the growing impact of social enterprise on the economy and our society, and to chart the increasing engagement of the broad enterprise community.

Many entrepreneurs are driven by the sense of giving something back, and philanthropy has long been a part of the Coutts offering to its clients. In recent years though, the act of giving back has taken on a new meaning to many within the UK's fast-growing entrepreneur population. Increasingly we are seeing that many wish to link their philanthropic activities to their business skills and interests.

We have launched our Social Enterprise Advisory Service with the aim of educating our clients about the sector and presenting new and exciting ways for them to get involved, be it through mentoring, investment or even starting a social enterprise. So this guide forms part of our efforts to build greater awareness and understanding, not only among our clients but also in the broader community.

Social enterprise is a dynamic sector, where the expertise and spirit of an entrepreneur can be utilised to create positive and sustainable social impact and we hope that this, our first guide, will give you an insight into the sector and inspire you to get involved.



Michael Morley
Chief Executive, Coutts & Co

Social enterprise and its place in the UK

Simply put, social enterprises use the power of business to address some of society's most pressing challenges. They are a diverse and vibrant group of organisations driven by social and environmental objectives and not limited by size, shape, scope or geography. In the UK, some of the best known include the Eden Project, the Big Issue magazine, Jamie Oliver's Fifteen restaurants and Fairtrade company Divine Chocolate.

As with all businesses, social enterprises compete to provide goods and services, but the difference is that social purpose is absolutely central to what they do, and they often reinvest a majority of their profits back into that social purpose.

For instance, Divine's product is a range of successful chocolate bars found in most supermarkets, but their mission is to empower the Ghanaian farmers who produce the raw cocoa to invest in their communities. More than 40,000 farmers are part-owners of Divine, get financial dividends and have a say in how the company is run. And Divine puts a percentage of its profits back into health and education programmes in Ghana.

Social enterprise is emerging as a distinct and ambitious business sector in the UK. There are around 62,000 social enterprises contributing over £24 billion to the economy each year and employing more than 800,000 people.

Social enterprises operate in almost every sector of British industry including: retail, recycling, arts, employment, health and social care, renewable energy, fashion, sport, housing and education, to name a few.

While a number of social enterprises have been operating for more than ten years, a third began trading after 2004, demonstrating how young the social enterprise sector still is. Despite this, almost 1.3 million people consider themselves to be social entrepreneurs, and this figure looks almost certainly set to grow as social causes increasingly influence purchasing decisions. But like 99.3% of businesses in the UK, the majority of social enterprises operate as small businesses with an average turnover of £175,000¹. Scaling up these enterprises is an ongoing challenge for the entrepreneurs at the helm.

¹ Social Enterprise Coalition, 2009. State of Social Enterprise Survey. Available at: <http://www.socialenterprise.org.uk/data/files/stateofsocialenterprise2009.pdf>

How are social enterprises structured?

Social enterprises are created in many different ways, thereby creating a real diversity of governance and legal structures, professional cultures, and operational scales.

Many are set up by social entrepreneurs - individuals who use their business acumen to address social and environmental challenges in an entrepreneurial way. Rather than relying on traditional philanthropic giving to solve an issue, they use their skills to achieve a more sustainable business proposition – making money through trade or providing services.

However, social enterprises often begin as charities and community organisations which evolve into taking a more entrepreneurial approach to ensure their sustainability and maximise their impact. They find that relying on donations and grants is not satisfactory to ensuring their future as well as their independence. Being a social enterprise is a route whereby they can create their own income to further their social goals.

Other social enterprises are set up by communities who want to take control of a local asset or start a co-operative business. Others have come out of the public sector, taking services that were previously delivered by local authorities or the NHS and moving them into social enterprise. For instance, Central Surrey Health (CSH) was one of the first social enterprises to emerge from the NHS in 2006. CSH was set up by senior staff to be owned by the nurses it employs and to be flexible to respond to the changing needs of their service users. It is one of the pioneering

social enterprises in health care and now has 800 employees and a turnover of over £20 million.

Social enterprises are chiefly identified by what they do, and to some extent, by how they do it, rather than by any specific legal structure. Because of the diversity of the movement, social enterprises use a wide variety of legal forms and there is not any one preferred structure. Like any business, they will decide their structure based on a number of factors, including their industry, scale and governance set-up. In the case of social enterprises, protecting their social mission is another factor they must consider.

However in July 2005, a legal structure was created specifically for social enterprises. A Community Interest Company (CIC) is a form of limited liability company, and one whose numbers have grown quickly. In under five years, over 3,500 CICs have been registered. CICs offer the flexibility and certainty of the company form, but with some special features to ensure they are working for the benefit of the community. A CIC must pass a test to ensure the organisation has a social mission, and all CICs have an asset lock to ensure that their assets are used solely for the benefit of the community. Dividends are capped at 35% of profits and loan interest to investors has a ceiling of 10% of the value of the loan.

Currently, the majority of social enterprises are companies limited by guarantee, with many of those also being registered charities. Some social enterprises are companies limited by shares.

CASE STUDY

Green-Works: a charitable structure with an enterprise mindset

Green-Works was founded in 2000 to tackle the problem of unwanted office furniture being sent to landfill. The company founder Colin Crooks saw an opportunity to create a business that could recycle and reuse this furniture, keeping it out of landfill and creating a number of other social benefits in the process. Starting off with just one van, the company has grown into a £2 million organisation with four franchises operating across the UK.

Green-Works is a social enterprise with a charitable structure. It receives public grants but they account for just 5% of turnover. The company makes most of its money by charging private businesses to take away their unwanted furniture and through sales of the refurbished items.

Like many social enterprises, Green-Works integrates its social objectives into its work in a number of ways. As well as diverting waste from landfill, the company provides employment and training opportunities to individuals from marginalised communities. These include homeless people

and ex-offenders, who they employ to refurbish and sell the recycled furniture. Green-Works has been able to create over 80 jobs in this way. Simply sending the furniture to landfill might have warranted the employment of perhaps two people.

Green-Works sells its refurbished furniture at an affordable price to organisations of all types who are looking to cut their operational costs, and offers a further discount to registered charities. It has redirected furniture to over 5,000 organisations, including schools, charities and small businesses, saving them over £2.5 million in the process. In addition, Green-Works has donated furniture to a range of projects in the developing world including, a school in Sierra Leone and an orphanage in Romania.

Green-Works has been acknowledged as a national leader in its field and was awarded the prestigious Queen's Award for Enterprise 2008 - Sustainable Development.

Founded:	2000
Location:	Wembley, Middlesex
Key business: markets	Recycling, training and employment, retail
Annual turnover:	£2 million
% income from trading (rather than grants):	95%
Number of employees:	60

www.green-works.co.uk



Funding for social enterprise

Finance is the motor for all business development, and that is no different for social enterprises. In fact, evidence shows that social enterprises are as capital hungry as any other businesses. As the demand for a strong, sustainable and socially responsible economy grows, finance for social enterprise is turning into a dynamic and quickly evolving area.

We know that social enterprises are ambitious and looking to grow: 60% of all funding required by social enterprise is expansionary, such as investment for new projects or service development.

Social enterprises finance their organisations in a variety of ways and they often receive some funding through grants. Other forms of finance include commercial finance, which can take the form of debt (generally in the form of loans) or equity (which is permanently invested in the organisation). There are also hybrid instruments that do not fall neatly into one category.

One factor that differentiates social enterprises is that they will generally be looking to provide potential investors with a 'blended return', including both a financial and social, or environmental contribution. This is another draw for entrepreneurs, who rather than just giving money away, want to see a sustainable business with viable returns. While social enterprises may form a small part of their investment portfolio, it is the area in which they often show the keenest interest.

Recent financial developments in the sector include:

- The Coalition Government has stated that it plans to use funds from dormant bank accounts to establish a 'Big Society Bank'. This will provide new finance for neighbourhood groups, charities, social enterprises and other non-governmental bodies.
- Big Issue Invest expects to raise £10 million from a fund dedicated to investing in social enterprises that combines the pursuit of profit with the wider social aims of serving disadvantaged or vulnerable people.
- Social Finance, the London-based social investment organisation, has launched the first Social Impact Bond. This is a financial instrument designed by Social Finance to raise capital for investment in the social sector. Financial returns to investors will be based on improved social outcomes.
- The Bridges Social Entrepreneurs Fund, run by Bridges Ventures, has used an innovative 'social loan' to support HCT Group with its further expansion. HCT Group has recently raised £3 million out of a total £5 million fundraised from the Bridges Social Entrepreneurs Fund and the Futurebuilders Fund to allow the expansion of its fleet of 250 vehicles and its staff of 500.

These developments serve to address some of the barriers social enterprises face, including lack of access to appropriate finance, lack of clarity about equity for social enterprise and the fact that aspects of the social investment market are underdeveloped.

CASE STUDY

HCT Group: a social enterprise at scale, and growing

HCT Group is an established and expanding transport company that shows how a thriving, commercial business can be run with a social mission at its core. HCT delivers more than 10 million bus journeys each year; in addition to local authority services in London and Yorkshire, HCT runs eight red bus routes for Transport for London (TFL), where it is consistently rated among the best for reliability.

HCT's turnover has grown by an average of 25% in each of the past five years and now exceeds £25 million. Some 98% of HCT's income is generated from contracts won through competitive tender in the open market, mostly against the private sector:

The profits from their commercial transport services are ploughed back into the communities they serve. For

example, HCT provides community minibuses that help community groups, older people and adults with physical and learning disabilities, to get out and about. HCT also invests in projects designed to give both its employees and those from the communities in which it operates access to new opportunities. This includes training the long term unemployed with the skills needed for rewarding careers in the transport industry.

Dai Powell, CEO of HCT Group says: "HCT's social goals are the driving force of the company, but you have to be an enterprise first, because if you don't make a profit, you can't fulfil that social mission. Being a social enterprise means that we can be profitable, socially focused and accountable to the people we want to help the most."

Founded:	1983
Location:	London and Yorkshire
Key business market:	Transport
Annual turnover:	£25+ million
% income from trading (rather than grants):	98%
Number of employees:	550

www.hctgroup.org



The impact

Though they are incredibly diverse, social enterprises are the same when it comes to their core values: all are driven to make a positive change through business and entrepreneurship. This can lead to what is termed within the sector as a triple bottom line - a social and/or environmental return along with a financial one.

There is considerable evidence on the ground from social enterprises and their communities of what has been achieved: second chances for excluded young people; steady jobs and support for men and women coming out of prison; industrial waste re-used and kept out of landfill; health care that empowers the frontline staff and community ownership of local assets for the dedicated use of the people.

Measuring this kind of return is described as social impact reporting and is still a developing field; robust data describing the social enterprise sector's collective impact in social and environmental as well as financial terms is currently lacking. While this is frustrating for many entrepreneurs who get involved with social enterprise, the fact that they are working closely with a particular business means they are best placed to see the impact first hand. To enable this, it can be important to consider supporting causes of which you have greater knowledge.

However, many social enterprises are beginning to write impact reports that aim to quantify these kinds of accomplishments. There are some tools available, such as social return on investment (SROI) which social enterprises can use to put financial value on impacts that do not have market values.

Translating social value into monetary value is still a pioneering field, and not unexpectedly, there is a fair amount of debate around it. While the goal of social impact reporting is for any organisation to be able to measure their social and environmental outcomes, the reality is that it can be time consuming and complex, particularly for small companies. Additionally, as it is such a young field, external recognition of it is currently lacking.

Fresh Pastures CIC is a social enterprise that provides milk to schools as well as educating young people on healthy living, good dietary planning, environmental issues, social inclusion, and equal opportunity disability awareness. They have used an SROI approach to influence commissioning criteria to include environmental, education and employment issues. In an SROI impact mapping exercise, they identified that there would be a social return of 59p for every £1 of contract deliverable in the form of environmental, education and employment benefits.

Other impact measurements

Some of the results that social enterprises achieve are difficult to measure, but life-changing. For instance, Sunlight Development Trust in Gillingham is a community owned social enterprise that works with and for the local citizens, particularly the most excluded. When 15 year old Billy was brought to Sunlight by a neighbour, he was suffering abuse at home and beginning to self-harm. Sunlight offered him support and counselling, and helped social services place him with a foster family, but did not stop there.

Because it came out in counselling that Billy was interested in becoming a chef, Sunlight arranged for him to volunteer a few hours a week in their café's kitchen. When he turned 16, Sunlight arranged a placement at a vocational college for three days a week and work at Sunlight's café on the other two days.

He has now completed his second year at college, was given an award for the most improved student in his year and was one of the Sunlight team who served a meal to the Prime Minister and MPs at Number 10 Downing Street in November 2009.



Photographer: Grainger Laffan

CASE STUDY

Hill Holt Wood: reaching excluded young people in a rural setting

Hill Holt Wood is a social enterprise set in an ancient woodland on the border of Lincolnshire and Nottinghamshire, which educates and trains excluded youth in a unique rural setting.

In addition to delivering a variety of countryside services to local communities, including litter collection, countryside management, and gardening, Hill Holt Wood is contracted to provide alternative full-time education to excluded young people aged 14-16.

Karen Lowthrop, CEO of Hill Holt Wood says: "The District Council doesn't work with us because we're a social enterprise but because we're doing the best job. For the under 16s, we've had a rolling, three-year contract with them which we've won three times in a row."

Their results are hard to dispute: Hill Holt Wood's E2E (Entry to Employment) groups for 16-18 year olds have a 65% progression into further education, work or training. The national average is 47%. For year 11s at Hill Holt Wood there is a 100% progression rate into further education, work or training. Hill Holt Wood also runs training schemes for unemployed

young people and young offenders who learn skills in eco-construction, the manufacturing of products such as wooden furniture to sell, and the installation of water purification systems. The woodland is off the national electricity grid and so the team also makes its own energy.

Recently, Hill Holt Wood and West Lindsey District Council successfully bid to participate in the Future Jobs Fund scheme. This £1 billion national fund promises to create up to 150,000 jobs nationwide and is primarily aimed at 18-24 year olds who have been out of work for nearly a year. Hill Holt Wood provided 42 'Earn While You Learn' places as part of the council's successful £600,000 bid, giving young people valuable work skills and experience.

Karen Lowthrop says their work with the council delivering services is key to their success: "Winning contracts is about being able to prove ourselves and the sustainability of what we do."

Founded:	2002
Location:	Lincolnshire/ Nottinghamshire
Key business markets:	Young people, employment, environment
Annual turnover:	£830k
% income from trading (rather than grants):	70%
Number of employees:	26

www.hillholtwood.com



Hill Holt Wood Ranger

The Coutts Social Enterprise Advisory Service

In recognising the interest of entrepreneur clients in social enterprise, and in building on the philanthropy services we already offer, Coutts has now launched an advisory service for clients wishing to find out more about getting involved in the sector. The service brings together a panel of advisers from key organisations involved in the social enterprise sector; who will support clients with further advice on how to get involved in the following areas specifically:

- investing in, or making grants/charitable donations to social enterprises,
- giving 'in-kind' support by way of volunteering time or services,
- starting a social enterprise, and
- engaging more social enterprises in their supply chain.

In addition to the advisory service, Coutts will be hosting a series of 'education days', which provide an interesting introduction to the sector and some of the entrepreneurs and organisations that are part of it. Coutts will also be holding 'speed networking' events at which potential investors will have the opportunity to meet Social Enterprises requiring investment funding.

The service will be delivered by our 3 panel members:

- Clearly So, the leading social business, enterprise and investment website in the UK, which provides access to 600 leading social businesses looking for investment.
- School for Social Entrepreneurs which has supported over 700 social entrepreneurs with its educational programmes and will be able to provide clients with opportunities to support a social entrepreneur through the SSE programme as well as mentor early stage entrepreneurs, and
- UnLtd, the leading provider of support to UK social entrepreneurs who offer the largest such network in the world, resourcing over 1,000 individuals each year through its core Awards programme and supporting tens of thousands more via direct engagement and partnership awards initiatives.

For more information on the service and these events, please visit www.coutts.com/entrepreneurs.

Getting involved in social enterprise

Investing in social enterprise

Ron Sheldon is a Managing Director of Advent International, one of the world's leading private equity firms, and has 30 years of experience in the field. When he turned 60, he decided he wanted to give something back in a truly meaningful way.

Ron met with Nigel Kershaw OBE, CEO of Big Issue Invest (BII) and Group Chair of The Big Issue about getting involved with social enterprise opportunities through them, and has over the past two years worked on the establishment of a £10 million Social Enterprise Investment Fund. This is the first commercially structured fund of its kind, which will provide growth capital to social enterprises, and financial and measured social returns to investors. Through this, BII is pioneering a new asset class in which social impact creation is a defining feature.

Eric Lonergan is a hedge fund manager, author and has become a founding investor in BII's Social Enterprise Investment Fund. For him, his investment is about making that lasting impact. "I am more interested in the social return – the financial return is just one aspect of the investment. It's partly about adjusting how we see profit, which is an important indicator of a business's viability, but not the only valuable output."

Mentoring a social enterprise

In July 2009 Jessie Joe Jacobs was crowned Sunday Times Social Entrepreneur of the Year for her work in setting up A Way Out, a charity that delivers services to vulnerable women and young people at risk of violence, drug dependency or poverty. Her prize was £100,000 and a year's business mentoring from Kavita Oberoi, founder of Oberoi Consulting and one of the UK's most successful female entrepreneurs.

Kavita's expertise was sought in a range of areas but it was her advice to seek a continuous income stream for the organisation that has had the biggest impact. Success in this area would ensure the sustainability of the organisation, secure its future and fund its growth.

A Way Out is now working on a new social impact measurement system to licence to other businesses. If successful this initiative will secure the organisation's future and help it on its way to becoming a social enterprise with national reach.



Engaging social enterprise in the supply chain

Blue Sky Development & Regeneration is almost certainly the only company in the country where you need a criminal record to get a job. Established as a social enterprise in 2005 by regeneration charity Groundwork Thames Valley, it has taken on more than 250 employees in its first four years, all of whom are ex-offenders.

Blue Sky works in the grounds maintenance and recycling sectors for local authorities, their maintenance and waste contractors, and for housing associations and private companies. Their contractors, including Veolia Environmental Services, are full of praise for the company, its employees and services.

The first team of eight Blue Sky staff employed by Veolia was put to work at five cemeteries in Ealing providing landscaping and burial services for Ealing Council. The success of this first contract led to the employment of further Blue Sky teams across Veolia's waste management services. All employees receive six month placements and some have since been offered full time employment with the company.



Photographer: John Cairns

Starting a new social enterprise

Matt Johnson has been an entrepreneur all of his working life. After graduating from Liverpool John Moore's University in 1997, he established Mando Group with co-founding director Ian Finch. Mando Group is now one of UK's leading digital agencies helping organisations to communicate more effectively online.

In 2003, Matt met one of Liverpool's social enterprise leaders, Claire Dove, CEO of Blackburne house (and now chair of the Social Enterprise Coalition) a social enterprise that works to place women into work in traditionally male-dominated fields.

Matt and Claire decided to team up to create a new social enterprise that would sit within Blackburne House and bring together the joint expertise of those in their teams. Six months later, Brava Design was created. It is now one of the UK's leading social enterprises specialising in web and graphic design for small to medium enterprises and third sector organisations.

On the difference between running a business and running a social enterprise Matt comments: "There are the obvious top level business outcomes, which need to be achieved, e.g. profitability and sustainability, but there's also what I guess people call the triple bottom line, where our focus was around helping and attracting female design talent within the industry, which is notoriously difficult to get initial opportunities to work in."

Social Enterprise Key Contacts

Big Issue Invest

Big Issue Invest is a specialised provider of finance to social enterprises or trading arms of charities that are finding business solutions to create social and environmental transformation. Part of The Big Issue group of companies, it is led by social entrepreneurs and experienced social financiers.
www.bigissueinvest.com

CAN

CAN supports social entrepreneurs to scale up their businesses and maximise their social impact by providing award-winning, high-quality, flexible office space and leveraging social investment with strategic business support to the third sector.
www.can-online.org.uk

CIC Association

The CIC Association is a membership organisation representing the interests of Community Interest Companies (CICs). The CIC legal structure was introduced as a legal form under the Companies Act 2006 to provide the option of a legal structure specifically for social enterprise.
www.cicassociation.org.uk

Clearly So

Clearly So is an online marketplace for social business & enterprise, commerce and investment.
www.clearlyso.com

Co-operatives UK

Co-operatives UK unites, serves and represents co-operative enterprises in the UK. A co-operative organisation itself, it works to build a stronger, more successful movement for all.
www.cooperatives-uk.coop

Development Trust Association

The DTA is a network of community practitioners. They help people set up development trusts, and help existing trusts learn from each other and work effectively. The DTA also seek to influence government and others at national and local level, to build support and investment for the movement.
www.dta.org.uk

Investing for Good

Investing for Good is a specialist provider of impact investment services to private banks, asset managers and foundations. Uniquely, they focus on investments that deliver positive social and environmental impact as their core goal.
www.investingforgood.co.uk

School for Social Entrepreneurs

The School for Social Entrepreneurs (SSE) provides training and opportunities to enable people to use their creative and entrepreneurial abilities more fully for social benefit. SSE supports individuals to set up new charities, social enterprises and social businesses across the UK.
www.sse.org.uk

Social Enterprise Coalition

The Social Enterprise Coalition is the UK's national body for social enterprise representing a wide range of social enterprises, regional and national support networks and other related organisations.
www.socialenterprise.org.uk

Social Enterprise Ambassadors

The Social Enterprise Ambassadors are leaders of some of the country's most successful social enterprises and some of the most inspirational social entrepreneurs in the country. They are passionate about their work and keen to share that passion to inspire others to use business to tackle social and environmental issues.
www.socialenterpriseambassadors.org.uk

Social Enterprise Mark

The Mark identifies businesses that meet defined criteria for social enterprise. The Mark offers consumers a recognisable logo that represents enterprises working for social and environmental aims, trading to benefit people and the planet.
www.socialenterprisemark.org.uk

Social Finance

Social Finance's ambition is to transform the ability of the third sector to respond to society's changing needs by enabling greater access to a variety of investment instruments. It will lay the foundations for a social investment bank as recommended by the Commission on Unclaimed Assets.
www.socialfinance.org.uk

Social Firms UK

Social Firms UK is the national support organisation for the development of the Social Firm sector in the UK. Social Firms are a specific type of social enterprise set up specifically to create good quality jobs for people disadvantaged in the labour market.
www.socialfirmsuk.co.uk

SROI Network

The SROI Network is a membership organisation with a focus on finding ways for organisations to better understand and then manage the social value they create. To find out more about SROI visit their website.
www.thesroinetwork.org

UnLtd

UnLtd is the leading provider of support to UK social entrepreneurs, operating a unique model by investing directly in individuals and offering a complete package of resources; from funding between £500 and £15,000 to ongoing advice networking and practical support.
www.unltd.org.uk

If you would like more detailed information about Coutts range of services please visit www.coutts.com/entrepreneurs

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