UNDERSTANDING THE CAPACITY AND NEED TO TAKE ON INVESTMENT WITHIN THE SOCIAL SECTOR

ANALYSIS OF FINANCIAL DATA ON CHARITIES AND SOCIAL COMPANIES

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1. Introduction

1.1. Research background

The UK social investment market continues to develop and establish itself, surpassing the £200 million mark in value. Several leading investor groups have continued to increase the supply of capital to the market. For instance in 2014-2015, Big Society Capital alone saw £195 million drawn down by intermediaries to support charities and social enterprises. This is in addition to significant investments made by charitable foundations, commercial institutions and individual investors.

Government has supported the growth in supply of social investment through further initiatives including the Social Investment Tax Relief, committing £105 million to Social Impact Bonds in the latest Spending Review, and funds attracting private finance into the market (e.g., the Arts Impact Fund or Dementia Discovery Fund). A number of initiatives have also aimed to grow the demand for social investment. This includes Access – the Foundation for Social Investment or the Investment and Contract Readiness Fund supporting social sector organisations’ ability to attract social investment.

It is, however, difficult to assess accurately the scale of current and potential sector engagement with social investment and we are currently heavily reliant on estimates extrapolated from surveys. This is why, in 2015, NCVO was commissioned by the Social Investment Research Council to investigate how social sector organisations engage with social investment. The overall aim of our research is to improve understanding of the social sector’s existing financing arrangements and the role of social investment, using data on the sector’s assets and liabilities. The research also seeks to ‘go beyond the numbers’ where possible to understand more about the profile and characteristics of those who are accessing social investment; about motivations (financing behaviour and decision-making); and about the challenges, barriers and enablers social sector organisations have encountered in engaging with the market.

The financing arrangements of social sector organisations are therefore viewed from three different perspectives that have define the project’s three strands of work:

- An analysis of the structure and finances of social sector organisations examining the sector’s existing financing arrangements and their assets and liabilities
- A literature review on organisations’ financing behaviours from research that has already taken place on the UK social investment market
- Case studies on organisations’ social investment journeys.
Defining our terms

The definitions of social investment and social sector organisations often vary. We set out below what we mean by the different terms used in this project:

**Social investment** is defined in line with the definition used by the Social Impact Investment Taskforce as “investment that intentionally targets specific societal and/or environmental objectives along with a financial return and measures the achievement of both.”

We look at the range of **social sector organisations**, broadly defined as “Impact-driven organisations with partial or full asset-lock. For example: charities that do not engage in trading; charities and membership groups that trade but do not distribute profits; social and solidarity enterprises; cooperatives; and other profit- or dividend-constrained organisations.”

This includes the following types of organisations:

- **Registered charities**: Charities registered with the Charity Commission.
- **Charitable foundations and trusts**: General charities whose primary purpose is awarding grants to other voluntary organisations, institutions or individuals.
- **General charities**: Private, non-profit-making bodies serving persons. This excludes sacramental religious bodies or places of worship as well as organisations like independent schools, government-controlled bodies and housing associations. In this publication we use the term ‘charities’ to refer to general charities. The data analysis in the document is based on this definition.
- **Community organisations**: Organisations that work with a confined local or regional focus. Community organisations may have a legal status or a constitution but there are numerous groups which have neither.
- **Co-operatives**: An autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.
- **Non-governmental organisations (NGOs)**: Organisations working in the fields of global development, social and economic justice and the environment.
- **Not-for-profit sector**: All non-profit organisations including those for private benefit (eg a freehold management company or other body where the benefit is for a defined group), those that are non-commercial (eg housing associations), quangos and other organisations close to government (eg universities).
- **Social enterprises**: Organisations that trade for a social purpose or use their activity to achieve social goals, e.g. co-operatives, community businesses and trading arms of charities.
- **Social companies**: companies with social goals that do not distribute their profits and use a non-profit legal status. The primary legal forms included are Community

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2 NCVO Civil Society Almanac NCVO (2014)
1.2. Aims and scope

The data strand of the research makes use of available data to produce a detailed and robust analysis of the structure and finances of social sector organisations, which will help improve understanding of the sector’s existing financing arrangements. This bespoke analysis aims to help social investment intermediaries and others assess the future demand for social investment and develop well-targeted social investment products. It also intends to help policy-makers better target policy interventions that aim to promote social investment.

The report is split into two main parts. The first focuses on registered charities, using data from the UK Civil Society Almanac, whilst the second uses new data sources to explore wider data on social companies. Policy recommendations are explored in the concluding section.

2. Charities

NCVO’s UK Civil Society Almanac publication provides a comprehensive analysis of the finances of registered charities, focusing particularly on a subset of these based on the "general charities" definition. This definition excludes organisations that are usually covered outside the sector, like independent schools, government-controlled bodies and housing associations. Throughout the document we use the term ‘charities’ to refer to general charities.

The voluntary sector is a large and diverse sector which includes very large charities with tens and hundreds of millions of pounds in turnover, to very small community groups with no income at all. The economic weight of the sector is based in larger organisations - those organisations with more than £10 million income make up 48% of the sector’s total spending (and 46% of its assets) - but the vast majority of charities are small, with 97% of registered charities having income of less than £1 million.

The Almanac is based on data covering the whole of the UK, but chiefly uses population data from the Charity Commission for England and Wales. From this, a sample of 10,000 charities is then taken to provide detailed financial information. This sample uses charities’ annual accounts to provide the financial information, and is stratified to provide a bigger sample of the larger organisations. More detail on the finances of voluntary organisations is available in the UK Civil Society Almanac. The latest edition, the UK Civil Society Almanac 2015, was published in June 2015 and is available from http://data.ncvo.org.uk/.
2.1. Charity incorporation

**Key finding**

20% of charities are incorporated as companies.

The sector is also largely unincorporated. This means that most charities do not have limited liability status and so trustees may be personally liable for any money owed by the charity. This may result in trustees’ unwillingness to accept the personal risk of taking out a loan. However, this is changing. In the financial year on which the latest Almanac is based (2012/13) nearly 80% of charities were unincorporated. As the table below shows, incorporation is much more common for larger charities: over four in five of large and major charities (those with income of more than £1 million) are incorporated.

Incorporation status of charities in England and Wales by income band (% of charities in band)

<table>
<thead>
<tr>
<th>Income band (Income)</th>
<th>Number of organisations</th>
<th>Registered Company</th>
<th>Unincorporated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro (Under £10k)</td>
<td>78,973</td>
<td>9.9%</td>
<td>90.1%</td>
</tr>
<tr>
<td>Small (£10k - £100k)</td>
<td>54,129</td>
<td>17.1%</td>
<td>82.9%</td>
</tr>
<tr>
<td>Medium (£100k - £1m)</td>
<td>21,956</td>
<td>57.6%</td>
<td>42.4%</td>
</tr>
<tr>
<td>Large (£1m - £10m)</td>
<td>4,410</td>
<td>82.3%</td>
<td>17.7%</td>
</tr>
<tr>
<td>Major (Over £10m)</td>
<td>577</td>
<td>86.0%</td>
<td>14.0%</td>
</tr>
<tr>
<td>Total</td>
<td>160,045</td>
<td>21.1%</td>
<td>78.9%</td>
</tr>
</tbody>
</table>

In 2013 a new type of incorporation became available to charities in England and Wales - the Charitable Incorporated Organisation (CIO). This form provides the benefits of incorporation - chiefly limited liability - without having to register with Companies House as well as the Charity Commission. Initial figures for registration show that this form seems to be popular with new charity registrations.

Since registration of CIOs started in 2013, around 34% of newly registered charities are CIOs, 30% are incorporated charities (dual-registered at Companies House) and 37% are unincorporated. This means around two-thirds of newly-registered charities have incorporation of some form. This compares to less than half of newly registered organisations being incorporated in 2012 and 2011.
Increasing levels of incorporation should provide a base for more organisations to be able to access social investment, as the limited liability will enable lenders and the charities themselves to feel more confident when entering into borrowing arrangements.

### 2.2. Charity assets

**Key finding**

Charities’ assets are concentrated in a small number of organisations. The top 1% of asset holders (1,168 charities) hold almost three-quarters of these assets (£70 billion).

In aggregate the voluntary sector is asset-rich. The sector’s total net assets are around £105 billion, including fixed assets of £98 billion. However, these assets are concentrated in a small number of organisations. The top 1% of asset holders (1,168 charities) hold almost three-quarters of these assets (£70 billion), with the Wellcome Trust alone accounting for almost 13% of the sector’s assets. The charities that hold large assets are likely to be foundations such as the Wellcome Trust or the Garfield Weston Foundation, or charities whose operations are based on the assets they own, such as the National Trust.
Data analysis

For many operating charities the asset base of their organisation is small. Around three quarters of charities have no tangible fixed assets (and so do not own any buildings they operate from). When measuring reserves (a different type of assets) the average reserves capacity of charities (excluding grant-making charities) is equivalent to 7 months of expenditure, while our estimates suggest that 20% of organisations have no reserves at all.

One consequence for these asset-poor organisations is that they have reduced prospects for using some social investment vehicles as they do not have assets to provide security when borrowing. This can make borrowing either unachievable, or much more expensive.

2.3. Existing charity borrowing

<table>
<thead>
<tr>
<th>Key finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Charities owe around £3.5 billion in outstanding loans.</td>
</tr>
</tbody>
</table>

The figures from the Almanac provide some evidence of the scale of charities' existing use of loans and other investment vehicles. This is based on detailed analysis of the sector's liabilities, including short term liabilities (due within one year), long-term liabilities and provisions. These liabilities have been classified into one of four main categories, and then into subcategories within these. The main categories are:

- **Bond liabilities.** This is debt investment where charities borrow money from investors for a defined period of time at a variable or fixed interest rate. This category is only seen in a very small number of large charities.

- **Grants committed in advance.** Where grant-making foundations, or other grant makers, have committed to multi-year grant funding arrangements, and so need to account for the money that will be spent.

- **Loan.** This includes secured and unsecured loans, including mortgages. The amount of information available on the nature of the loan does vary, so some loan types are unknown.

- **Not a loan.** This category covers all other types of creditors, including accruals, trade creditors, lease and hire purchase, group and subsidiary activities, taxes owed and others.

The figures suggest that loans amount to around £3.5 billion of the sector's £15.5 billion liabilities, just under a quarter. Loans are highest for medium and large organisations, where loans represent 41% of liabilities. Large organisations (those with income between £1 million and £10 million) have around £1.6 billion in loans, while major organisations (those with income over £10 million) have around £1.2 billion.
Liabilities of UK charities, by income band (2012/13, £ billion)

<table>
<thead>
<tr>
<th></th>
<th>Micro and small</th>
<th>Medium</th>
<th>Large</th>
<th>Major</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bond liability</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>1.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Grants committed in advance</td>
<td>0.1</td>
<td>0.1</td>
<td>0.6</td>
<td>3.6</td>
<td>4.5</td>
</tr>
<tr>
<td>Loan</td>
<td>0.1</td>
<td>0.7</td>
<td>1.6</td>
<td>1.2</td>
<td>3.5</td>
</tr>
<tr>
<td>Not a loan</td>
<td>1.0</td>
<td>0.8</td>
<td>1.7</td>
<td>2.9</td>
<td>6.4</td>
</tr>
<tr>
<td>Total</td>
<td>1.2</td>
<td>1.6</td>
<td>3.9</td>
<td>8.7</td>
<td>15.5</td>
</tr>
</tbody>
</table>

At least three quarters of loans are secured against an asset, including 13% that are mortgages. Smaller organisations are more likely to have unsecured loans, which is likely to reflect the distribution of assets throughout the sector.

Loan types held by voluntary organisations (2012/13, % of loans)

<table>
<thead>
<tr>
<th></th>
<th>Micro and small</th>
<th>Medium</th>
<th>Large</th>
<th>Major</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mortgage</td>
<td>8.9</td>
<td>15.1</td>
<td>8.2</td>
<td>19.0</td>
<td>13.1</td>
</tr>
<tr>
<td>Secured</td>
<td>30.3</td>
<td>42.0</td>
<td>75.4</td>
<td>57.9</td>
<td>62.2</td>
</tr>
<tr>
<td>Unsecured</td>
<td>0.5</td>
<td>27.1</td>
<td>4.5</td>
<td>11.8</td>
<td>11.1</td>
</tr>
<tr>
<td>Unknown</td>
<td>60.3</td>
<td>15.8</td>
<td>11.9</td>
<td>11.3</td>
<td>13.6</td>
</tr>
</tbody>
</table>

Turning to a subsector breakdown, the categories with the largest amount of loans are social services, religion and grant-making foundations. Of the total loan amounts held by all organisations across the sector, 17%, 17% and 15% are held by organisations in these categories respectively. This is likely to reflect the large number of organisations in the social services category and greater holding of assets to secure borrowing against in the religion and foundations categories.

Looking at the average amount of loans outstanding by category, housing is the largest category, with a mean average of £116,000. This is likely to reflect the nature of these organisations' work. Other categories with large average loan size include educational charities (£57,000), umbrella bodies (£50,000) and religion (£49,000).

Loans appear to be less common in some large established sectors such as the culture and recreation, community development, environment and international subsectors, all of which have less than 7% of total loans and an average loan size of less than £21,000.
Data analysis

Proportion of all loans and average loan size by subsector, 2012/13

<table>
<thead>
<tr>
<th>Subsector</th>
<th>% of loans</th>
<th>Average loans size (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Services</td>
<td>17</td>
<td>23,300</td>
</tr>
<tr>
<td>Religion</td>
<td>17</td>
<td>49,000</td>
</tr>
<tr>
<td>Grant-making foundations</td>
<td>15</td>
<td>48,300</td>
</tr>
<tr>
<td>Education</td>
<td>11</td>
<td>57,500</td>
</tr>
<tr>
<td>Housing</td>
<td>11</td>
<td>115,700</td>
</tr>
<tr>
<td>Culture and recreation</td>
<td>7</td>
<td>11,600</td>
</tr>
<tr>
<td>Development</td>
<td>5</td>
<td>21,000</td>
</tr>
<tr>
<td>Health</td>
<td>5</td>
<td>31,900</td>
</tr>
<tr>
<td>Environment</td>
<td>3</td>
<td>20,100</td>
</tr>
<tr>
<td>International</td>
<td>2</td>
<td>17,900</td>
</tr>
<tr>
<td>Research</td>
<td>2</td>
<td>27,600</td>
</tr>
<tr>
<td>Employment and training</td>
<td>2</td>
<td>32,400</td>
</tr>
<tr>
<td>Umbrella bodies</td>
<td>1</td>
<td>49,700</td>
</tr>
<tr>
<td>Law and advocacy</td>
<td>1</td>
<td>11,400</td>
</tr>
<tr>
<td>Village Halls</td>
<td>0</td>
<td>1,900</td>
</tr>
<tr>
<td>Scout groups and youth clubs</td>
<td>0</td>
<td>1,300</td>
</tr>
<tr>
<td>Playgroups and nurseries</td>
<td>0</td>
<td>800</td>
</tr>
<tr>
<td>Parent Teacher Associations</td>
<td>0</td>
<td>300</td>
</tr>
</tbody>
</table>

2.4. **Social Investment Tax Relief**

Social Investment Tax Relief is a tax relief available to investors choosing to invest in particular enterprises. Only certain types of “social purpose” organisations are eligible for the tax relief\(^3\). The criteria includes organisations that are charities, community interest companies or community benefit societies. Organisations must not have more than 500 FTE employees, and must not have more than £15 million in gross assets.

These criteria can be best examined using detailed financial data collected by the Charity Commission for England and Wales. This data is only available for organisations with more than £500,000 income, however it is unlikely that many organisations with less than this

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would meet either of the other criteria, so they are likely to all be eligible. The data only relates to those organisations based in England and Wales, so does not include any Scottish or Northern Irish charities that may be ineligible.

Applying these criteria to the data suggests that of the roughly 160,000 registered charities in England and Wales, around 1,900 would be ineligible for SITR. Of these, only 37 would be excluded solely on the basis of their employee totals, with the vast majority ruled ineligible because of their asset base, and 195 organisations meeting both the asset and employee criteria.

Precise estimates for the number of community interest companies and community benefit societies that would be ineligible for the relief are not available using the data gathered below. However, given the relatively small size of these organisations compared to the charity sector, and for community interest companies the relative youth of the organisations, it is unlikely that significant numbers of them would be ineligible for the relief.

3. SOCIAL COMPANIES

3.1. Social companies methodology

3.1.1. Defining social companies

Our data is based on administrative data from Companies House which lists all registered companies in the UK. In order to arrive at a workable definition of a non-profit, "social" sector, this list of companies were filtered.

First, only companies that used a non-profit legal status were included. The primary legal forms included are Community Interest Companies, Companies Limited by Guarantee and Registered Societies (formerly known as Industrial and Provident Societies).

With these organisations selected two further filters were applied. Companies that are also registered charities were excluded to avoid double-counting with the data provided above. A "social" definition was also applied to Companies Limited by Guarantee. This legal form is commonly used by organisations with social goals that do not distribute their profits, but it is also a common legal form for holding companies, and for companies which manage or own the freehold of property on behalf of the leaseholders. These management companies provide private benefit (albeit without distribution of profits) and so were excluded from the analysis.

For both the exclusions described above, the filters used are imperfect. When excluding charities we are reliant on the information collected by the Charity Commission on company number. Experience with this field does suggest that it is patchy in coverage, with some charities entering a trading subsidiary in this field rather than the registered company. This data is also not available for Scottish charities, so deduplication with Scottish charities was only possible through a crude name-matching.
3.1.2. Company population data

A copy of the Companies House register of companies is available to download from Companies House\(^4\). This file is imported into a database containing all registered companies. Using the definitions above, the companies are categorised and potential "social" company types are extracted based on the legal form. These legal forms are identified below.

3.1.3. Obtaining company accounts data from Companies House

Companies House stores monthly accounts data on their website\(^5\) and it is available to download for a period of 12 months after publication. They also store daily archives for 60 days, which contain the previous day's submitted accounts. For the purpose of this project, the most recent 12 months' worth of account data was collected, from March 2014 to February 2015. A process has been set up by which daily accounts pertaining to the period from March 2015 onwards are automatically collected on a rolling basis.

3.1.4. Identifying social companies

Most companies contained in the raw data from Companies House are not of a social nature. The following company categories have been identified as social:

- Community Interest Company (CIC)
- Industrial and Provident Society
- Company Limited by Guarantee (CLG)
  - PRI/LBG/NSC (Private, Limited by guarantee, no share capital, use of 'Limited' exemption)
  - PRI/LTD BY GUAR/NSC (Private, limited by guarantee, no share capital)
- Registered Society
- Royal Charter Company

We only select and retain company accounts that belong to any of the above categories. This is done by reconciling the company data we collect with our internal database that includes company category information. The matching is done based on the company number.

3.1.5. Extracting financial information

The financial data for each account is held in a specialised format called XBRL\(^6\), which is based on the XML\(^7\) file type. The amount and type of information held within each account can vary significantly, as it is often left to the discretion of the company submitting their financial records. We have produced software which can successfully pick up financial information, such as assets and income values, as well as contextual information, such as

\(^6\) eXtensible Business Reporting Language, a global standard for exchanging business information
\(^7\) Extensible Markup Language, defines a set of rules for encoding documents in a format that is both human-readable and machine-readable
which financial year the numbers refer to or what units the numbers are reported in. All relevant meta-data is also collected and stored in our database. Once entered into the database, the financial information is classified into categories to allow the production of aggregate financial statistics.

3.1.6. Creating links with other data sources

After creating relevant entries for company accounts in our database, we can identify which companies we already have information on based on different datasets. We are further able to identify companies that are also registered charities and for which financial records are likely to be held by the Charity Commission rather than Companies House. At this stage, geographical information of where the company is registered is added to the data, where available.

Additional financial data was also sought from two sources. Firstly, a sample of the PDF accounts of companies that have returned “Group” accounts (likely to be amongst the largest charities) was obtained via the Companies House beta service\(^8\), from which values for turnover and assets were extracted. This provides improved coverage of the largest organisations, making the income total more accurate. Secondly, open data produced by Co-operatives UK was included to provide some financial context for registered societies\(^9\).

3.2. Population

There are 67,000 active social companies.

Using this methodology, and applying the definitions above, we have identified the following organisations in the population. In this table active and dormant organisations are separated out, depending on the type of accounts most recently returned. Around one in six CLGs we have identified as “social” are dormant, with one quarter of non-social CLGs being dormant.

Number of registered social companies

<table>
<thead>
<tr>
<th>Legal form</th>
<th>Active</th>
<th>Dormant</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIC</td>
<td>10,703</td>
<td>913</td>
<td>11,616</td>
</tr>
<tr>
<td>CLG</td>
<td>46,238</td>
<td>9,463</td>
<td>55,701</td>
</tr>
<tr>
<td>Registered Society</td>
<td>10,724</td>
<td>0</td>
<td>10,724</td>
</tr>
<tr>
<td>Total</td>
<td>67,665</td>
<td>10,376</td>
<td>78,041</td>
</tr>
<tr>
<td>CLG Not Social</td>
<td>33,672</td>
<td>13,398</td>
<td>47,070</td>
</tr>
</tbody>
</table>

\(^8\) [https://beta.companieshouse.gov.uk/](https://beta.companieshouse.gov.uk/)

\(^9\) [http://www.uk.coop/economy2015/access-data](http://www.uk.coop/economy2015/access-data) This data is used under the [Open Data Commons Attribution License (ODC-by v1.0)](https://opendatacommons.org/licenses/by/1.0).
Note that with the exception of larger companies, Companies House data does not include turnover data. The estimates for turnover and assets are therefore derived by applying the median turnover seen by charitable companies to the rest of registered companies, stratified using the type of accounts submitted by the company. The types of accounts submitted by companies vary depending on their size (in terms of employees, turnover and assets); this will give an approximation of the scale of companies, but will not provide an exact figure. Figures for Registered Societies cannot be obtained through this method due to the different regulatory regime that applies to these organisations, instead data from Co-operatives UK is used.

The figures show a group of organisations with significant economic weight – a combined estimated turnover of at least £16 billion, although as a whole they are smaller than the registered charity sector both in number and size. These organisations follow a similar pattern to registered charities, with a small number of large organisations making up a large amount of the economic weight of the sector as a whole. The 213 Community Interest Companies (CIC) that return Full or Group accounts (the largest types) make up an estimated 45% of CICs’ total turnover, while for companies limited by guarantee 6,200 organisations make up 77% of total turnover. These figures are likely to underestimate the true size of the sector, as it is difficult to estimate the turnover of the largest organisations (those returning Group accounts).

A small number of group accounts have been sampled to get an improved estimate of the turnover. Additionally, data from Co-operatives UK has been included to provide a picture of the finances of Registered Societies. Due to the partial nature of these sources (the Co-operatives UK data only deals with members of Co-operatives UK) they should be treated as estimates.

Two organisations are so large that they have been separately identified. The Co-operative Group is by far the largest registered society, and largest social company. Its turnover alone accounts for over one third of the total estimated turnover of social companies identified here. The overwhelming nature of this organisation means we have generally excluded it from our analysis. The other organisation is Network Rail, the company that owns and manages the UK’s railways. For the purposes of National Accounts Network Rail is considered to be a central government agency, and so is not included here.

**Key Finding**

Social companies have an estimated turnover of at least £16.2 billion (not including a further £9.4 billion turnover of the Co-operative Group).
Estimated aggregate turnover of social organisations, by legal form (£ billion)

<table>
<thead>
<tr>
<th>Legal form</th>
<th>Estimated turnover (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CIC</td>
<td>0.5</td>
</tr>
<tr>
<td>CLG</td>
<td>6.5</td>
</tr>
<tr>
<td>Registered Society</td>
<td>9.2</td>
</tr>
<tr>
<td>+ Co-op Group</td>
<td>9.4</td>
</tr>
<tr>
<td>Total</td>
<td>25.6</td>
</tr>
<tr>
<td>Total excluding Co-op Group</td>
<td>16.2</td>
</tr>
<tr>
<td>CLG Not Social</td>
<td>1.6</td>
</tr>
<tr>
<td>+ Network Rail</td>
<td>6.3</td>
</tr>
</tbody>
</table>

3.2.1. National and regional distribution

Key finding

CICs are disproportionately common in the North East and North West. CICs and Registered Societies are less likely than CLGs to be located in London.

A national and regional breakdown of the company types is shown below, along with regional estimates of turnover. These breakdowns are based on the registered address of the organisation, so do not account for the regional activities of national organisations. As might be expected, London dominates the picture, accounting for 26% of the estimated financial turnover of organisations in the UK and 25% of the number of organisations. CICs and Registered Societies are less likely than CLGs to be located in London. Around 20% of CICs are located in the North East or North West, compared to 10% of CLGs and 11% of charities.

Regional breakdown of social companies, number of organisations and estimated turnover, by legal form

<table>
<thead>
<tr>
<th></th>
<th>Number of organisations</th>
<th>Estimated turnover (£ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CIC</td>
<td>CLG</td>
</tr>
<tr>
<td>East Midlands</td>
<td>697</td>
<td>2,904</td>
</tr>
<tr>
<td>East of England</td>
<td>863</td>
<td>3,995</td>
</tr>
<tr>
<td>London</td>
<td>1,807</td>
<td>15,385</td>
</tr>
<tr>
<td>North East</td>
<td>680</td>
<td>1,290</td>
</tr>
<tr>
<td>North West</td>
<td>1,646</td>
<td>4,581</td>
</tr>
</tbody>
</table>
3.2.2. Age of organisations

**Key finding**

A majority of the financial turnover of CLGs is found in organisations more than five years old.

The data source provides a flag for the incorporation date of an organisation, which allows us to look at their ages. Here the ages have been banded together for ease of analysis. As CIC as a legal form has only been around for ten years, most CICs are young organisations. CLGs are more likely to be older – a majority of the total estimated turnover of CLGs is in organisations more than 5 years old. Registered Societies are in general much older, with the majority of organisations formed between 20 and 50 years ago.

<table>
<thead>
<tr>
<th>Years since incorporation</th>
<th>CIC Orgs</th>
<th>Estimated turnover (£m)</th>
<th>CLG Orgs</th>
<th>Estimated turnover (£m)</th>
<th>Registered Society Orgs</th>
<th>Estimated turnover (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year or less</td>
<td>2,705</td>
<td>0.1</td>
<td>7,614</td>
<td>20.9</td>
<td>281</td>
<td>-</td>
</tr>
<tr>
<td>2 years</td>
<td>2,086</td>
<td>37.5</td>
<td>5,826</td>
<td>405.3</td>
<td>360</td>
<td>-</td>
</tr>
<tr>
<td>3 years</td>
<td>1,704</td>
<td>69.9</td>
<td>6,223</td>
<td>779.4</td>
<td>369</td>
<td>-</td>
</tr>
<tr>
<td>4 years</td>
<td>1,804</td>
<td>102.2</td>
<td>6,706</td>
<td>1,129.8</td>
<td>358</td>
<td>-</td>
</tr>
<tr>
<td>5 years</td>
<td>1,110</td>
<td>78.2</td>
<td>4,289</td>
<td>334.2</td>
<td>244</td>
<td>-</td>
</tr>
<tr>
<td>6-10 years</td>
<td>2,019</td>
<td>197.6</td>
<td>10,461</td>
<td>894.8</td>
<td>474</td>
<td>6.9</td>
</tr>
<tr>
<td>11-20 years</td>
<td>154</td>
<td>25.9</td>
<td>8,930</td>
<td>1,377.2</td>
<td>1,452</td>
<td>1,795.7</td>
</tr>
<tr>
<td>21-50 years</td>
<td>30</td>
<td>8.6</td>
<td>4,500</td>
<td>1,107.9</td>
<td>6,373</td>
<td>5,531.2</td>
</tr>
<tr>
<td>51-100 years</td>
<td>3</td>
<td>0.1</td>
<td>979</td>
<td>340.9</td>
<td>43</td>
<td>59.4</td>
</tr>
</tbody>
</table>
### 3.2.3. Activities of social companies

**Key finding**

CICs and CLGs are particularly active in the fields of education, arts and sport and service activities.

The legal form of an organisation does not indicate what activities they carry out. To do this the Standard Industrial Classification (SIC) codes attached to each organisation are used. SIC codes are designed to represent all sectors of an economy, and so are not always best suited to exploring social or non-profit organisations. The classification system has 24 categories that break down different types of agricultural activity, for example, but only three covering social work. SIC codes are also often automatically applied to companies based on keywords in their name, so may not accurately describe their activities. However, they do give an insight into the kinds of activities that social companies undertake. SIC codes are available for 75% of CLGs and 70% of CICs, but are not available for Registered Societies.

The organisations in our sample work across a large range of areas. The biggest, for CLGs, is "service activities", which is the division for around 9,000 organisations. This category can end up as a catch-all for companies, with a large number having the category "activities of other membership organisations not elsewhere classified" (SIC 94.99). Other types of organisations included here include activities of religious groups and professional bodies, as well as personal service activities.

The second largest group for companies limited by guarantee, and the largest group for CICs is education. 1,600 CICs and 8,100 CLGs use this classification (14% of organisations). A large number of the education CLGs appear to be groups involved in running academies and free schools – these organisations were briefly registered as charities – but there are also a large number of other organisations providing training and educational services.

Another key area for both CLGs and CICs is arts, entertainment and recreation. This category, which is selected by 13% of both CLGs and CICs contains a large number of sports organisations. Many sports clubs use CLG as a legal form, although they can also be registered as Community Amateur Sports Clubs (CASCs).

For CICs the fields of health and social work also figure heavily, particularly when the income of the organisations is considered. 12% of CICs, representing 20% of the income of the sector, are classified in these fields, with around 7% of CLGs.
### Largest SIC categories for Companies Limited by Guarantee

<table>
<thead>
<tr>
<th>SIC categories</th>
<th>Proportion of organisations</th>
<th>Proportion of total estimated turnover</th>
<th>Example organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Activities</td>
<td>16%</td>
<td>9%</td>
<td>Liverpool Society of Chartered Accountants</td>
</tr>
<tr>
<td>Education</td>
<td>15%</td>
<td>21%</td>
<td>The Headmasters’ and Headmistresses’ Conference</td>
</tr>
<tr>
<td>Arts, Entertainment and Recreation</td>
<td>13%</td>
<td>5%</td>
<td>Wrexham Golf Company Limited</td>
</tr>
<tr>
<td>Human Health and Social Work Activities</td>
<td>7%</td>
<td>4%</td>
<td>Somerset Care Limited</td>
</tr>
<tr>
<td>Administrative and Support Service Activities</td>
<td>6%</td>
<td>3%</td>
<td>The Video Standards Council</td>
</tr>
<tr>
<td>Professional, Scientific and Technical Activities</td>
<td>4%</td>
<td>3%</td>
<td>Research Quality Association Ltd</td>
</tr>
<tr>
<td>Information and Communication</td>
<td>4%</td>
<td>1%</td>
<td>The Community Channel</td>
</tr>
<tr>
<td>Real Estate Activities</td>
<td>2%</td>
<td>1%</td>
<td>Kilmersdon Rural Housing Association</td>
</tr>
<tr>
<td>Other</td>
<td>8%</td>
<td>52%</td>
<td></td>
</tr>
<tr>
<td>Not classified</td>
<td>26%</td>
<td>1%</td>
<td></td>
</tr>
</tbody>
</table>

### Largest SIC categories for Community Interest Companies

<table>
<thead>
<tr>
<th>SIC categories</th>
<th>Proportion of organisations</th>
<th>Proportion of total estimated turnover</th>
<th>Example organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>14%</td>
<td>7%</td>
<td>London Learning Consortium Community Interest Company</td>
</tr>
<tr>
<td>Arts, Entertainment and Recreation</td>
<td>13%</td>
<td>6%</td>
<td>Wiltshire and Swindon Sport CIC</td>
</tr>
<tr>
<td>Human Health and Social Work Activities</td>
<td>12%</td>
<td>20%</td>
<td>City Health Care Partnership CIC</td>
</tr>
</tbody>
</table>
### Data analysis

<table>
<thead>
<tr>
<th>Service Activities</th>
<th>6%</th>
<th>4%</th>
<th>Lincolnshire Community Land Trust CIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative and Support Service Activities</td>
<td>6%</td>
<td>4%</td>
<td>Womancare Global Trading CIC</td>
</tr>
<tr>
<td>Information and Communication</td>
<td>5%</td>
<td>3%</td>
<td>Social Impact Lab Community Interest Company</td>
</tr>
<tr>
<td>Professional, Scientific and Technical Activities</td>
<td>5%</td>
<td>3%</td>
<td>Communities for Renewables C.I.C.</td>
</tr>
<tr>
<td>Real Estate Activities</td>
<td>1%</td>
<td>1%</td>
<td>Inclusion Housing Community Interest Company</td>
</tr>
<tr>
<td>Other</td>
<td>9%</td>
<td>53%</td>
<td></td>
</tr>
<tr>
<td>Not classified</td>
<td>30%</td>
<td>1%</td>
<td></td>
</tr>
</tbody>
</table>

### 4. Social companies - financial data

Aggregate financial data was produced for a sample of non-profit companies using the methodology described above. There were some significant limitations in the availability of data that limits the scope of the analysis. After analysing the returns available, a large sample was only available for CLGs with "total exemption small" accounts. These companies are likely to be smaller; data from charitable companies suggests 50% of these accounts have a turnover between £5,000 and £95,000, and around 11,200 accounts were available.

Additionally, in the "full" and "total exemption full" accounts categories, around 50 and 246 accounts were available. These are not large samples, but will allow for some exploration of the finances of these organisations. “Full” accounts have a median turnover of £700,000 and "total exemption full" are around £75,000, meaning these categories represent larger organisations than "total exemption small".

The lack of accounts available is likely due to the Companies House data processes, and the fact that only a proportion of companies are currently submitting data electronically in XBRL format. As electronic submission becomes more widespread we would hope to be able to widen this data collection. A particular disappointment was the lack of data for Registered Societies, although as they are not regulated by Companies House (though they do appear on the Register of Companies) this is not unexpected. Finding large scale data about these organisations is very difficult, which means their finances are largely unstudied. Data is available, but not analysed in depth here, from Co-operatives UK.
The available data has been processed to provide results for these three account types (Full, total exemption full and total exemption small). Estimates from the turnover of organisations suggest that these company types account for around 70% of the economic weight of companies limited by guarantee. Assets and liabilities data suggests these organisations have net assets of around £4.4 billion (compared to over £100 billion for charities), after accounting for liabilities of £4.2 billion. These organisations' fixed assets are worth around £3.6 billion; around 80% of these assets are tangible fixed assets (property), with the remainder being investments. Current assets are worth £4.9 billion, with the two largest categories being cash in hand and at the bank (£2.2 billion) and debtors (£2.7 billion). The majority of liabilities are short-term; £3.4 billion compared to £0.8 billion long-term liabilities.

Overall these organisations appear to be generally solvent, with relatively healthy levels of assets compared to liabilities. The average "debt ratio" for these organisations (total liabilities divided by total assets) is around 40%, while the "current ratio" (current assets divided by current liabilities) is 1.8\(^{10}\). However, these aggregate figures mask a complex picture for individual organisations. Around 20% of our sample have liabilities that are larger than their assets.

---

\(^{10}\) Note that the denominator for how the debt ratio is displayed differs from the current ratio – the debt ratio is liabilities divided by assets, the current ratio is assets divided by liabilities. The debt ratio shows the organisation’s debts as a proportion of their assets, with a higher percentage meaning a more risky organisation. The current ratio shows the number of times that the organisation’s current assets can cover their current liabilities, with a lower number indicating higher risk.
4.1. **Assets and liabilities by subsector**

Using the SIC classification shown above; we can examine the finances of organisations by subsector. This analysis highlights a category which was not prominent in the analysis of the population – financial and insurance activities. This category includes organisations such as Co-operative and Community Finance\(^{11}\), which provides loan finance to people and businesses.

<table>
<thead>
<tr>
<th>Estimated assets and liabilities of companies limited by guarantee, by subsector (£million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Category</strong></td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Financial and Insurance Activities</td>
</tr>
<tr>
<td>Service Activities</td>
</tr>
<tr>
<td>Education</td>
</tr>
<tr>
<td>Arts, Entertainment and Recreation</td>
</tr>
<tr>
<td>Human Health and Social Work Activities</td>
</tr>
<tr>
<td>Administrative and Support Service Activities</td>
</tr>
<tr>
<td>Professional, Scientific and Technical Activities</td>
</tr>
<tr>
<td>Information and Communication</td>
</tr>
<tr>
<td>Real Estate Activities</td>
</tr>
<tr>
<td>Other</td>
</tr>
<tr>
<td>Not classified</td>
</tr>
</tbody>
</table>

\(^{11}\) [http://www.coopfinance.coop/use-our/about-us/](http://www.coopfinance.coop/use-our/about-us/)
The chart below shows the debt ratio and current ratio across these subsectors. Categories with a higher current ratio have fewer current liabilities compared to their current assets, while those with a lower current ratio have greater current liabilities. The opposite is true for the debt ratio.

4.2. Distribution of assets and liabilities

Like registered charities, the assets of social companies are not distributed evenly. Looking just at the largest sample of CLGs in the "Total exemption small" category, and limiting to only those accounts with more than £10,000 assets (to limit to companies with a more significant asset base) produces a sample of 5,883 companies. The heat map below compares the assets of these companies with the liabilities they have.
The colours in the heat map represent the concentration of companies in each segment – the darker the colour, the higher the concentration. Generally the liabilities of these CLGs are in proportion to their assets. The overwhelming majority (70%) of companies in our sample have assets in the range of £10,000 to £100,000 and most (60% of them) hold liabilities under £100,000. Larger companies, with assets in the range of £100,000 to £1 million, hold liabilities comparable or lesser to their total assets. 24% of them have liabilities of less than £10,000 or none.

### 4.3. Outstanding mortgages

<table>
<thead>
<tr>
<th>Key finding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social companies with mortgages have an average turnover of around £400,000, compared to £85,000 for those without.</td>
</tr>
</tbody>
</table>

The data from Companies House does include information on the number of outstanding mortgage charges that individual organisations have against them. This may give an indication of their borrowing, if only focused on a specific purpose. The figures indicate that around 4,100 organisations have at least one outstanding mortgage, around 6% of organisations (excluding Registered Societies for whom no information was available).

The figure is larger for CLGs (6.5% of organisations) than for CICs (2.4%), which may reflect the number of housing associations and related organisations that have CLG status. The
Data analysis

... figures indicate that organisations with mortgages are likely to be larger – those with mortgages have an average turnover of around £400,000, compared to £85,000 for those without.

<table>
<thead>
<tr>
<th>Mortgages outstanding</th>
<th>CIC</th>
<th>CLG</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>11,337</td>
<td>52,289</td>
</tr>
<tr>
<td>1</td>
<td>209</td>
<td>1,953</td>
</tr>
<tr>
<td>2</td>
<td>39</td>
<td>748</td>
</tr>
<tr>
<td>3</td>
<td>11</td>
<td>275</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
<td>147</td>
</tr>
<tr>
<td>5</td>
<td>2</td>
<td>85</td>
</tr>
<tr>
<td>6</td>
<td>1</td>
<td>52</td>
</tr>
<tr>
<td>7</td>
<td>5</td>
<td>45</td>
</tr>
<tr>
<td>8</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>9</td>
<td>3</td>
<td>21</td>
</tr>
<tr>
<td>10 or more</td>
<td>3</td>
<td>66</td>
</tr>
</tbody>
</table>

5. Conclusion

The data presented in this report gives a picture of the size and scope of "social" organisations in the UK. The picture for data is variable. For charities, including those that are also registered as companies, there is a wealth of data available from both Charity Commission data and that collected by NCVO for the UK Civil Society Almanac series. The new data presented in this report relates to other social companies, and is more limited. Companies House have opened up a wide range of their data, including the register of companies and the accounts of some companies, which is much more than was previously available freely. However, the limited nature of the data (particularly in terms of the companies covered) also limits its usefulness.

For the first time, we have been able to make an estimate of the number and size of "social" companies in the UK. Here we have defined social companies as non-profit companies, including companies limited by guarantee, community interest companies and registered societies. These companies share common values and characteristics: they are limited in the profit they can distribute and they have social aims.

Our estimate for the size of this sector is that there are around 67,000 active organisations across the three types, with an estimated turnover of at least £16 billion. This estimate of turnover is at the lower bound of what we would expect as there are a number of omissions from the dataset, notably registered societies and larger organisations.
Data analysis

The data presented here shows the wide range of activities that these organisations carry out, and notably how they differ from charities and other non-profit organisations. These organisations particularly work in health, education and sporting activities, and have a strong presence outside London and the South of England.

6. Policy and practice implications

The ability for organisations to borrow depends largely on having revenue to repay a loan and in many cases assets to provide security for lenders. The report makes findings on both these areas, which have implications for social investment demand.

6.1. Charities

This report confirms that 160,000 charities hold £3.5 billion in loans against a fixed asset base of approximately £64 billion, the majority of which is secured or mortgages. At first glance, this would suggest the sector has significant scope for further borrowing. For SIFIs and other investors, identifying which organisations may in future come forward to seek investment is important for designing products and anticipating demand. There are a number of considerations to be made.

Firstly, the rate of incorporation. Most charities are small and this report confirms that many are unincorporated – meaning that the risks to trustees of taking on (particularly unsecured) debt would likely be considered unacceptable. The rate of incorporation is increasing though, with two-thirds of new charities choosing an incorporated form. Secondly, the concentration of assets. The majority of the sector’s assets are held by the largest organisations. These are the organisations most likely to already borrow – often in the form of mortgages from high street lenders or other secured lending. Conversely, three-quarters of all charities own no fixed assets and so are not able to borrow on these terms: those that would wish to borrow will require unsecured lending. The third consideration is revenue growth. Many charities would argue that their ability to sustainably increase revenue is constrained – not just due to limited assets and access to capital, but more notably by the recent decrease in government funding streams and flat levels of public donations. Those organisations that are increasing revenues at present are almost entirely doing so through earned income, emulating other types of social enterprises. All of these factors can serve to narrow down the field of charities that are likely to seek investment.

The next dimension to consider is the size of investments that are likely to be sought. The data on proportion of loans and average size shows that in some sub-sectors such as social care, of those organisations borrowing, there are a large number with smaller loan sizes. This could indicate that organisations are either in need of loans smaller than have generally been available, or have been unable to secure larger ones (for example due to a lack of sufficient assets to secure larger loans). The highest average outstanding loan amount by sector (housing) is £116,000, which is considerably lower than lower bound of loan provision.
Typically available from SIFIs at economical interest rates (around £250,00012). The next largest average loan sizes are around £50,000-60,000, again indicating demand for smaller loan sizes.

The Access Foundation will be funding the development of smaller loan products (under £150,000) by SIFIs using £45m of blended capital starting in 2016. The extent of demand for these products by charities (and social companies) is not clear yet, but will be a useful indicator for confirming this analysis.

Other dimensions that affect charities’ demand for social investment are covered in more detail in the literature review supporting this report. This includes concerns about the long lead-in times for organisations seeking investment (a constraint for those that might wish to) and philosophical concerns about the use of charitable resources (a reason why others do not wish to).

### Areas of opportunity

The findings suggest a number of areas which are likely to offer opportunities for the development of social finance – charities with higher “investability”. These suggested areas are based on the following assumptions and evidence:

- **Charities need to be at least a certain size to take advantage of social investment** (both as a function of how their size affects their work and their consequent need to borrow, and the availability of investment products under a given size)

- **Charities with fixed assets are in a stronger position to take on investment**

- **Charities that have incorporated (either as a company limited by guarantee, or as a charitable incorporated organisation (CIO)) are better placed to take on the risk of investment**

- **Larger charities have a range of social investment opportunities available to them, and are better placed to take advantage of them.**

Taking into account these assumptions, we would point to incorporated charities in the £100,000 to £1 million income range who own tangible fixed assets (likely to be the building they operate in) as being a group with the potential for investment. Clearly the circumstances of individual organisations and their potential or need for investment will vary greatly. Nonetheless these organisations form a core of possible investees.

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The diagram below places these organisations within the sector as a whole. The diagram splits up all 160,000 charities by a number of characteristics. Each square in the grid represents around 40 organisations. The colour shading indicates their size, the thick line shows incorporation (organisations below the line have some form of company incorporation), while hatching shows those organisations with tangible fixed assets. The red area shows charities matching the criteria above, which subject to the assumptions made represents the subdivision of charities likely to have the greatest demand for secured lending. 9,300 charities are in this group, with a total income of £3.9 billion.

Looking in more detail at the 9,300 organisations in this category, we can use NCVO’s ICNPO classification to look at the kind of activities they undertake. Organisations working in social services (who form the largest group of all charities) also dominate the organisations identified here. Organisations working in culture and recreation also form a large group with the potential for investment.

<table>
<thead>
<tr>
<th>Category</th>
<th>Income</th>
<th>Organisations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Services</td>
<td>822.6</td>
<td>1,944</td>
</tr>
<tr>
<td>Culture and recreation</td>
<td>647.7</td>
<td>1,610</td>
</tr>
<tr>
<td>Law and advocacy</td>
<td>354.7</td>
<td>775</td>
</tr>
<tr>
<td>Religion</td>
<td>257.1</td>
<td>703</td>
</tr>
<tr>
<td>Health</td>
<td>296.6</td>
<td>668</td>
</tr>
<tr>
<td>Development</td>
<td>203.4</td>
<td>536</td>
</tr>
</tbody>
</table>
The data on social companies does not yet allow a similar breakdown for those organisations. There will be differences between the size and profile of the charity sector and social companies that mean any comparisons are imperfect. Small to medium sized social companies are more likely to be recently established and therefore still growing, whereas in the charity sector, smaller organisations may have been small for some time and have no plans for growth. The potential demand for investment among smaller social companies may therefore be greater than among smaller charities. Social companies are by definition also more likely to be incorporated in a form that grants their directors limited liability.

In general terms however, a similar sectoral profile could be expected for social companies as for charities; many small organisations and a small number of large organisations. The graph above estimates that only around 10% of the charity sector’s total turnover is held by the charities likely to have the most demand for social investment. As is the case for charities, social companies likely to both want and be able to take on investment will be only a small proportion of all social companies.

### 7. Social companies

Previous estimates of the number of social enterprises have largely been based on survey evidence or self-reporting by companies. This report sets out a new approach to using Companies House data to identify a group of social companies – distinct from charities (in as far as it is possible to de-duplicate records) - that are limited in profit distribution and have social aims. Using this dataset of 67,000 social companies offers the possibility of developing new financial analyses – of their income, spending, assets and liabilities.

Further research would be needed to consider how much investment social companies could sustainably support, and therefore provide some realistic estimates of how much the social investment market can be expected to grow. However, this report makes some pertinent findings that would need to be taken into account in any future estimations.

Firstly, regarding the population of social companies. As in the charity sector, the report finds that a majority of social companies’ £16 billion turnover is concentrated in larger organisations. To calculate a sustainable level of borrowing for social companies, it would therefore be sensible to consider a smaller population of larger organisations and the share of turnover that they hold.

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Secondly, regarding the current level of social companies’ liabilities. At present, these companies’ liabilities (as measured for CLGs) are largely in proportion to their assets. This measure may indicate a limit to the amount of further liabilities social companies are able to take on, or the type of activity the investment will be taken on for. For example, using investment to fund asset purchase and development would keep assets in proportion to liabilities, but using borrowing primarily for business development (for example to scale up for contracting) would shift the proportion of assets to liabilities in favour of the latter.

Another indicator of this limit are the subsector debt ratios, which vary considerably but are generally healthy (ie below 50%). Commercial lenders using this criteria generally consider ratios above 1.25 to represent an acceptable level of risk for lending. The breakdown by subsectors gives an indication of which may have a greater capacity to borrow. The total average debt ratio of around 40% suggests that as a whole social companies may have an upper sustainable borrowing limit of around twice of what it currently borrows (borrowing beyond which would cause the ratio to go above 100%).

8. Recommendations

For SIFIs and the investment community as a whole, the findings outlined above should help to better identify organisations that may be in a position to seek social investment. This may enable government and investors to target policy and practical actions, for example to increase supply of smaller loan sizes and shorten application timescales.

These findings could also be used to help better target communications, particularly with the charity sector. For organisations that are not in a position to consider investment, the perceived ‘hype’ around social investment as a cure-all and major area of government intervention can be a source of frustration at a time when many are experiencing financial pressures.

The findings are based on new sources of data and methods, but there are still limitations in the data available to analyse these organisations. Two gaps in the data stand out – machine-readable data on the largest companies and the data available on registered societies. The latter would benefit from the release of data on the FSA’s Mutuals Register13.

There is a limit of course to how much these data can help explain the rate of development of the social investment market. Other external factors are likely to drive demand – particularly the commissioning environment for public services.

Once many social organisations reach a certain size, it becomes difficult for them to continue growing without developing their income from government. Lower government spending and continuing challenges for voluntary sector engagement in commissioning will limit the ability of many organisations (both voluntary sector and private) to generate the revenue

13 https://data.gov.uk/data-request/fsa-mutuals-register
stream required to repay borrowing. On current trends, voluntary sector income from government contracts will decrease without further policy action.

However, there are opportunities for some subsectors. With an increase in the volume of assets being sold by local government in the coming years, this could lead to an increase in borrowing demand where voluntary organisations see opportunities to use these assets for service delivery or income generation. Those organisations that are already in a robust financial position will be best placed to take on further liabilities, so once again, it may be those that already have ready access to capital from other sources that see the greatest potential for further investment.