UNDERSTANDING SOCIAL BUSINESS MODELS IN THE EMPLOYMENT SECTOR

INSIGHTS FOR SOCIAL ENTREPRENEURS

This paper explores common social business models used in the employment sector, and the associated risks and opportunities. Through this we start to create a common language so that social entrepreneurs are better able to develop business models that can both generate income and deliver sustainable social impact.
**FOREWORD**

Long-term unemployment has a significant cost for individuals, society and government. The good news is that there are social entrepreneurs out there providing solutions, many of whom UnLtd are funding. These social entrepreneurs have the potential to transform the employment landscape. The winners from UnLtd’s flagship accelerator the Big Venture Challenge who are supporting people into employment have already collectively secured close to 1,000 jobs for some of the most vulnerable people in our society and with the right support, we believe this is only the beginning.

Yet for these social entrepreneurs, creating a sustainable business model to both generate income and create social impact can be challenging, especially in the early stages.

This was the starting point for our latest findings report, funded by Big Society Capital, in which we explore potential business models for social ventures who are tackling unemployment. The social entrepreneurs behind these ventures come from many different backgrounds, and each has approached the problem in a unique way which reflects their own experiences and areas of expertise. But we have spotted commonalities on how they choose to create social impact while remaining financially sustainable. We have also identified a number of risks and opportunities, which we believe could help others at the beginning of their journey to develop sustainable business models.

Identifying social business models and creating a common language around them is an important first step for the sector. It also means that we are better able to steer social entrepreneurs toward the right model for them. We hope this will act as a valuable starting point to help them create the social impact we all want to see.

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EXECUTIVE SUMMARY

Long-term unemployment has significant social and economic costs for individuals, society and government. Certain social ventures (organisations set up by social entrepreneurs to address social and/or environmental challenges) offer innovative solutions to problems faced by unemployed people. These solutions are delivered in a range of markets in a variety of ways.

In this paper, we explore three common models used by social entrepreneurs to generate income and deliver social impact in the employment space: we call these Social Business Models. In particular, we focus on social ventures supporting the long-term unemployed, and young people not in education, employment or training (NEET).

The models are devised on the basis of:

- How social impact is paid for - whether products and services sold have direct or indirect social impact
- Who is paying - e.g. public sector, businesses, individual consumers
- How they are paying - i.e. through grants, contracts, sales

The infographic overleaf highlights these differences, and demonstrates how they can create social impact in the employment space.

To develop and explore these models, we spoke to social entrepreneurs, investors, and UnLtd Venture Managers (managers who support social entrepreneurs). Using their insights, we are able to examine the financial and social impact risks and opportunities that exist for early-stage social ventures. Here we start to create a common language and better understanding of the models, allowing early-stage social entrepreneurs to develop sustainable business models in an informed way.

Overview of the three models

1. The Impact Seller: social impact is bought directly (often by public sector clients, often in the form of training courses) to improve employability and connect individuals with employment opportunities. Typically, the Impact Seller's sole focus is to help the unemployed back into the workplace.

In the infographic overleaf, Impact Sellers provide people with autism with the training, skills and qualifications they need to find employment. This is how they generate income and deliver social impact.

2. The Impact Employer: the buyer pays for a product or service, where the cost of social impact delivery is factored into operating costs and taken from the operating margin. Impact Employers typically sell to the general public and to other businesses.

In the infographic overleaf, Impact Employers produce and sell chocolates as a way to employ people with autism. Venture success and sustainability depends on their ability to generate sufficient profit to cover the costs of generating social impact over time.

3. The Profit Donor: the venture generates net profit to “buy” social impact elsewhere, i.e. from other social ventures or charities.

In the infographic example, Profit Donors generate profit by making chocolate, and donating all or some of their profit to other projects that support people with autism into employment.
Using the example of supporting people with autism into employment, this infographic highlights the different ways in which social entrepreneurs can create social impact in the employment space.

**WHAT’S MY MODEL FOR CREATING SOCIAL IMPACT?**

- **People with autism struggle to find work**
- **How can I bring this together to make social impact?**
- **There’s a market for chocolate!**

**SOCIAL BUSINESS MODELS**

- **IMPACT® SELLER**
  - I provide training, skills and opportunities for people with autism, and I get paid to do so. Supporting people into employment is my sole focus

- **IMPACT® EMPLOYER**
  - I employ people with autism to make and sell chocolate, whilst providing the necessary training and skills to do so. I sell these chocolates at a sufficient profit to ensure their employment

- **PROFIT DONOR**
  - Our chocolate business allows us to generate sufficient profit to donate to projects that support people with autism into employment

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**KEY INSIGHTS**

Early stage ventures are increasingly opting for the Impact Employer model, where social impact is generated through the sale of other goods or services and the cost of delivering social impact is taken from operating margins.

Balancing financial sustainability and social impact is largely dependent on the market in which the venture is operating, and the margins they are able to sustain over time. Social ventures are more likely to work with those closest to the labour market, where they are able to absorb costs into their operating margins.

In order to be financially sustainable, Impact Employers should consider:
- the industry-specific risks that could influence not only their operating margins, but their ability to sustain ongoing social impact
- social mission lock-in - so as to avoid trade-offs between financial sustainability and delivering social impact
- ways of measuring social impact as part of a longer-term strategy

Impact Sellers are diversifying their income sources, as generating income is becoming increasingly difficult to sustain. The Impact Seller model has potential to achieve strong social impact, but is dependent on public funding priorities to ensure that work is focused on those most in need of support. Impact Sellers that rely on public funding are finding that their income is increasingly unpredictable, and this uncertainty can make it difficult to attract investment. There are often costs of delivering social impact that need to be covered upfront; for example office space, equipment, staff.

In order to be financially sustainable, Impact Sellers should consider:
- developing a model that can either cover operating costs through revenue (e.g. grants) or attracting investment for working capital

- what social impact they can deliver and at what price, as part of contract negotiations
- the potential to diversify away from public contracts - for example selling to buyers in the private sector, which could help improve their appeal to other investors

Some ventures using the Impact Seller model are trying to reduce their reliance on public funding and pursue a hybrid Impact Seller-Impact Employer model instead. These hybrid models have the potential to minimise risk and maximise sustainability, as they are able to both diversify income sources, and deliver impact for the hardest to reach (i.e. those furthest from the labour market). Hybrid models offer opportunities for financial sustainability, but how to structure and govern such ventures is complex. Ventures transitioning to hybrid models need greater clarity and support to diversify income streams.

Social ventures using Hybrid models should consider:
- the implications of the Hybrid model for legal and governance structures
- targeting long-term investment needed to support the long-term development of the venture
- specific investment and/or grants needed to reach those furthest away from the labour market

All early-stage social entrepreneurs offering employment-related services should consider the following:
- how to engage with Corporates as a way to both create employment, and attract additional funding to support those furthest from the labour market
- potential for future funding from the UK Government’s integrated “Work and Health” programme and The Apprenticeship Levy as a way to maximise social impact
- how to articulate social purpose, track performance, and collect evidence of social impact over time
1 INTRODUCTION

Social entrepreneurs work in a number of ways to address long-term unemployment and support young people not in employment, education or training (NEET) back into the workforce.

Social ventures (organisations set up by social entrepreneurs to explicitly tackle a social and/or environmental challenge) operate across a range of different industries and markets, including, but not limited to: retail, construction, hospitality & events management, catering, logistics, information and communication technologies, horticulture, manufacturing, recycling and waste management, domiciliary care, film & media production, and recruitment.

Key Definitions

Social ventures are organisations set up by social entrepreneurs that explicitly tackle a social and/or environmental challenge. They come in many forms of legal structure, but must have social impact as a priority. They have a social mission and seek to fulfil it by running a sustainable business.

Source: UnLtd, 2015

Social business models refer to how a social venture generates income and creates positive social impact. They are influenced by the buyer (i.e. who is paying), their method of paying (e.g. through a contract or sales), and whether the buyer is directly or indirectly paying for social impact.

Source: UnLtd, 2014

Social investment is the use of repayable finance to achieve a social, as well as a financial, return. It can be used to help social ventures develop and deliver new or existing activities that generate income. Revenue funding allows an organisation to deliver defined outputs or outcomes, whilst capital investment provides finance to build an organisation’s long-term ability to achieve its social mission. There are three main types of social investment: (1) debt finance (2) equity finance (3) quasi-equity finance.

Source: Big Society Capital, 2015

The Social Need

Long-term unemployment has significant social and economic costs for individuals, society and government.

- In December 2015 there were 1.69 million adults aged 16 plus who were unemployed in the UK [1], 488,000 of whom had been unemployed for over 12 months. This represents an unemployment rate of 5.1% (ONS Labour Market Statistics, Feb 2016).

- In particular, young people aged 24 and under face the most difficult challenges securing full-time employment. Despite an overall fall in unemployment in the UK over recent months, unemployment for the youngest workers remains high, with 853,000 young people not in employment, education or training - NEET (ONS NEET Statistical Bulletin, Feb 2016).

- Adults over 50, ex-offenders, ex-service personnel, the homeless, certain ethnic minority groups, and people (mainly women) who require job flexibility to fulfil caring responsibilities also face particular disadvantages in the labour market.

- Since the beginning of 2008, the unemployment rate for people with disabilities has been consistently higher than for non-disabled people (TUC, 2015). Of the estimated 7 million people of working age with disabilities, 3.2 million are in employment (45.7%), 420,095 are currently unemployed (5.9%), and 3.4 million are economically inactive (48.4%). (ONS Labour Market Statistics, Feb 2016).
Social business models are shaped by three factors:

- **Buyer** – who is paying for social impact?
  UK central Government, Local Authorities, Charitable Foundations, other businesses or individual consumers.

- **Method of purchase** – how is the buyer paying?
  Through grants, contracts, sales, employability services, donations or sponsorship.

- **How social impact is purchased** – directly or indirectly?
  Social impact can be directly purchased, or indirectly through the sale of other products and services.

It can be difficult for early-stage social entrepreneurs offering employment-related services to create sustainable social business models. We identified that lack of shared understanding and common language about the risks and opportunities of the social business models is a challenge that early-stage social entrepreneurs are facing.

To address this difficulty, UnLtd conducted research to explore the social business models used by social entrepreneurs offering employment-related services for the long-term unemployed and young people that are NEET. We spoke to social entrepreneurs, investors, and UnLtd Venture Managers who support social entrepreneurs.

This paper provides key information for social entrepreneurs to help them understand the risks and opportunities of different social business models. Using examples, we create a common language and shared understanding of social business models, showing how they create social impact while being financially sustainable. Thus, social entrepreneurs are better placed to make informed decisions about business strategy, investment planning and risk management, ultimately ensuring sustainable business models that deliver maximum impact for unemployed people.

This paper also provides insights into potential investment opportunities for the different business models.

**THE RESEARCH APPROACH**

This paper brings together findings from desk research, analysis of UnLtd datasets, a series of interviews with social entrepreneurs and investors, and insights from Venture Managers at UnLtd.

- **Selected UnLtd data**. The sample includes data from 35 UnLtd Award Winners funded through the Big Venture Challenge, offering employment-related services for the long-term unemployed and young people who are NEET.

- **Interviews with social entrepreneurs**. Interviews carried out with 11 social entrepreneurs operating offering employment-related services for the long-term unemployed and young people who are NEET. The social entrepreneurs were selected on the basis that they represented the breadth of social ventures working in this area in terms of engagement with beneficiary groups, legal/corporate structures, geographical location, and profitability. These represent more mature social ventures and recent turnover figures ranged from around £300,000 to £27 million.

- **Interviews with investors**. Five investors were interviewed, including three Social Investment Finance Intermediaries, an angel investor, and a global impact investor. Interviews were designed to generate an understanding of investments made to date in social ventures offering employment-related services, and get a general sense of the opportunities for social investment in this sector.

- **Interviews with UnLtd Venture Managers**. Venture Managers at UnLtd, who support social entrepreneurs directly with their ventures, were interviewed through informal one-to-one interviews and group facilitation sessions where emerging findings were discussed and additional insights gained.

We integrate data from a small sample of social ventures, where the data quality was high, to gain insight into social business models. We focus on social entrepreneurs supported by UnLtd, and use case studies to provide in-depth insight into the social business models they use, and their associated risks and opportunities. We have also referenced relevant literature and current practice to inform the analysis presented in this paper (see the Appendix for more information about the research approach). We do not claim that the sample is representative of the sector, a sector-wide analysis of social business models is an area for future research.
2 CHARACTERISING SOCIAL BUSINESS MODELS

Characterising social business models helps create a common language and insight into the difficulties social entrepreneurs face in providing employment-related services. Creating such shared understanding helps us to identify associated risks, challenges and opportunities (Section 3).

With this information, social entrepreneurs will be better able to develop sustainable business models that deliver maximum impact for unemployed people.

Social ventures working with the long-term unemployed and young people that are NEET use three main social business models:

1. Impact Seller Model
2. Impact Employer Model
3. Profit Donor model

These models were developed using relevant literature and current practice, and then refined using data from this research. The models are devised on the basis of:

- how social impact is paid for (i.e. whether products and services sold have direct or indirect social impact),
- who is paying (e.g. public sector, businesses, individual consumers etc.),
- and how they are paying (i.e. through grant, contract, sales). Behind each of these three factors is a range of different options, and a social venture may contain a variety of them. For example, a venture may have multiple buyers, including businesses and individual consumers, using different means to pay for the social impact.

THE IMPACT SELLER MODEL

Delivering social impact is at the very core of the Impact Seller model, where the buyer directly pays for the social impact generated by the social venture. For example, a Local Authority (the buyer) directly pays a social venture to deliver employability training for young people who are NEET (social impact), through a contract (the method) that is part of a programme targeted at a specific demographic or geographical area.

Buyers are predominantly public sector agencies supporting programmes that address unemployment. At national level, this includes the Skills Funding Agency and the Department for Work and Pensions, and at local level this includes National Health Service (NHS), trusts, and Local Authorities. They often pay for social impact through grants or contracts managed via primary service providers.

Impact Seller Case Study: London Learning Consortium

London Learning Consortium (LLC) is a Community Interest Company, limited by guarantee, providing learning and skills programmes aimed at helping individuals find routes into employment. It either subcontracts delivery to its consortium members or directly delivers using its own staff teams. Consortium members are drawn from voluntary and community sector learning providers. In 2014/15, 51% of LLC learners came from some of the most economically deprived boroughs in London, 53% had educational qualifications below Level 2, 36% had no qualifications at all, and over half came from ethnic minority backgrounds.

Social Business Model: Impact Seller

• Buyer: Skills Funding Agency (SFA).
  The London Learning Consortium (helping individuals develop skills and gain work or qualifications) receives funding through contracts with the Skills Funding Agency (SFA). The SFA pays for the delivery of courses designed to help people gain skills, employment and formal qualifications. Training is delivered in community classroom settings, online, or on trainee and apprenticeship programmes.

• Method of Purchase: Contracts.
  The SFA contracts predominantly operate on a Payment by Results basis and the learning and skills programmes are free for people to access.

• Social Impact: Direct social impact.
  The SFA pays for the delivery of courses designed to help people find routes into employment, and is therefore directly paying for social impact. Income generated by offering other learning opportunities contributes to delivering this social impact. At present, income from other learning opportunities represents around 5% of LLC’s total income, in contrast to the 95% that comes from SFA.

Figure 1 Impact Seller Case Study: London Learning Consortium
THE IMPACT EMPLOYER MODEL

In this model, the buyer is paying for a product or service where the cost of social impact delivery is factored into operating costs and margins - for example, a café selling coffee and food employing people with physical disabilities or mental health difficulties. The cost of social impact delivery is taken from the operating margin, and it may or may not be possible to pass these increased costs on to the customer.

In the Impact Employer model buyers include: the general public, other businesses, and Corporates. They tend to pay for social impact by purchasing other products and services, the buyer may or may not be aware that they are paying for the cost of social impact.

Impact Employers indirectly create social impact by delivering a product or service offering either employment opportunities and/or employability services for the long-term unemployed and young people that are NEET. Additionally, Impact Employers often provide training opportunities and other employability services.

Within the UnLtd dataset of early-stage social ventures, 28 of the 35 are operating a predominantly Impact Employer model6, with little or no income from public funds7. Two of the social entrepreneurs we interviewed are also predominantly using the Impact Employer model (see Figure 2 for a case study example).

Impact Employer Case Study: Severn Project

The Severn Project CIC produces high-quality salad leaves and herbs at its urban farm in Bristol. Through this business it recruits people who face significant barriers to the workplace. Since 2010 the Severn Project has supported over 600 people in recovery from substance misuse issues, offending behaviour and poor mental health through a range of volunteering opportunities, workshops, placements and employment opportunities.

Social Business Model: Impact Employer

• **Buyer:** Business to Business.
The largest customer group are local catering businesses; the Severn Project also sells to the retail and wholesale markets.

• **Method of Purchase:** Sales.
Cafés and restaurants buy directly from the Severn Project, which also sells directly to individuals and to wholesalers.

• **Social Impact:** Indirect Social Impact.
All customers are buying a range of fresh salad and herb products. The social impact that is delivered is being paid for out of operating costs.
THE PROFIT DONOR MODEL

In this model, the social venture generates net profit to “buy” social impact elsewhere. Social impact may be purchased from Impact Seller, Profit Donor models, or other charities - for example, a restaurant donating its profits to a charity delivering employability training to ex-offenders. Customers of Profit Donors include the general public, other businesses, Corporates and governments. Profit Donors create social impact through donations, grants or sponsorship, and therefore indirectly contribute to social impact (see Figure 3 for a case study).

None of the ventures in the UnLtd dataset used the Profit Donor model, although one of the social entrepreneurs interviewed had adopted a partial Profit Donor model. As very few start-ups would be in a financial position to donate their profits, Profit Donors are likely to be more established businesses. With limited data available on the Profit Donor model, we focus the rest of this paper predominantly on the Impact Seller and Impact Employer models.

Profit Donor Case Study: Recycling Lives Ltd

Recycling Lives Ltd provides commercial recycling and waste management solutions for Local Authorities and large businesses. With profits from the business they have established a charity, Recycling Lives UK, offering accommodation, education, training and work experience to homeless, ex-offenders and long-term unemployed individuals, with the dual aim of helping them back into full-time work and finding them a place to call their own. In order to generate additional income, it runs Recycling Lives Café which provides catering placements for residents.

Social Business Model: Partial Profit Donor

- **Buyer:** Businesses and General Public.
  Customers pay for the commercial recycling and waste management services offered by Recycling Lives Ltd.

- **Method of Purchase:** Sales.
  Consumer sales from Recycling Lives Ltd, which provides donations from profit generated by commercial activities.

- **Social Impact:** Indirect.
  Consumers directly pay for the products and services offered by Recycling Lives UK and are therefore indirectly pay for its social impact.

Figure 3: Profit Donor Case Study - Recycling Lives Ltd

3 BALANCING RISKS, FINANCIAL SUSTAINABILITY, AND SOCIAL IMPACT

This section examines the relationships between risks, financial sustainability, and the cost of delivering social impact associated with the different models. The risks and opportunities are summarised in Table 1, with the risks outlined in further detail below.

A better understanding of the risks and opportunities should help early-stage social entrepreneurs to make informed decisions about how to generate income and how to best deliver sustainable social impact.

To gain further insight into the sustainability of the different models, we mapped out the cost of delivering social impact and gross margins for a sample of 7 Impact Sellers and 28 Impact Employers in the UnLtd dataset, and then linked this to the investment data we hold on these ventures. Assessments were based on the financial information provided by the social ventures and the knowledge of Venture Managers. Table 1 summarises the key trends, risks and opportunities the data produced.
### Trends

<table>
<thead>
<tr>
<th>Impact Seller</th>
<th><strong>Opportunities</strong></th>
<th><strong>Risks</strong></th>
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| • Changes in the public sector are creating uncertainty.  
  • Market consolidation and complex supply chain favours larger organisation.  
  • Smaller organisations may be surviving, but limited evidence of scaling. | • UK government support and opportunities available, for example the spending review focus on employment and mental health.  
  • Ventures may be able to access funding for particular groups, thus reaching those furthest away from the labour market.  
  • Economies of scale - more opportunities for larger organisations.  
  • Larger organisations are able to contract directly with government.  
  • Able to use evidence of social impact to attract other sources of income. | • Uncertainty of government contracts make financial planning difficult and present challenges for attracting investment.  
  • The nature of government “payment by results” contracts can compromise the quality of services and lead to mission drift.  
  • Upfront costs and capital must be met by business – e.g. infrastructure, recruitment.  
  • Beneficiaries and social impact significantly shaped by policy and/or policy changes.  
  • Costs of measuring and monitoring social impact.  
  • Risk to investors if social ventures don’t meet targets. |

<table>
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<tr>
<th>Impact Employer</th>
<th><strong>Opportunities</strong></th>
<th><strong>Risks</strong></th>
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| • New social ventures are opting for this model to reduce risks associated with Impact Sellers. | • More options for generating income, therefore more sustainable funding.  
  • Autonomy in selecting beneficiaries and deciding what social impact looks like.  
  • Ability to absorb costs of delivering social impact into pricing for products and services.  
  • Investors reported that they feel comfortable investing in this model. | • Risks are industry specific, so this model is not a sustainable option for all businesses.  
  • Exposed to price fluctuations in the particular industry.  
  • Additional costs of delivering social impact can render venture less competitive than other commercial ventures.  
  • Risks to investors if costs of delivering social impact increase.  
  • Limited incentive to capture social impact - impact is not always valued by buyers or investors.  
  • Limited evidence of social impact may be a barrier for ventures trying to scale and attract investment. |

<table>
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<th>Hybrid models</th>
<th><strong>Opportunities</strong></th>
<th><strong>Risks</strong></th>
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| • Impact Sellers moving towards Impact Employer model, creating hybrid models. | • Increased options for generating income, therefore more sustainable funding.  
  • Ventures may be able to access funding for particular groups, thus able to reach those furthest away from the labour market. | • Risks are industry specific, so this model is not a sustainable option for all businesses.  
  • May be exposed to price fluctuations in the particular industry.  
  • Complex corporate structures are difficult to manage financially and operationally.  
  • Limited incentive to capture social impact - impact is not always valued by buyers or investors.  
  • Limited evidence of social impact may be a barrier for ventures trying to scale and attract investment. |
RISKS AND OPPORTUNITIES FOR IMPACT SELLERS

Larger and more established social ventures offering employment-related services tend to operate using the Impact Seller model, relying on public sector contracts and funding streams. The nature of social impact created by Impact Sellers is significantly shaped by policy and/or policy changes, which can limit the autonomy of Impact Sellers wishing to target particular beneficiaries. Data from our interviews suggest that social ventures can also use this model to sell to the private sector, though evidence of its effectiveness was limited.

Impact Sellers highlighted a number of risks:

Risk 1: Insecurity of operating in public sector markets. Impact Sellers are often reliant on government contracts to pay for social impact. Therefore, changes in public sector markets and cuts to public spending have implications for the financial sustainability of Impact Seller models. To date, budgets for the employability, training and further education sectors have been subject to government spending cuts, with the Adult Skills Budget, for example, reduced by 11% to £2 billion between 2015 and 2016 (Pearson, 2015).

Risk 2: Payment by results contracts. Public sector contracts often involve fixed prices and “payment by results” (PBR) contracts, whereby the government pays service providers for positive results in employment-related services (such as an increase in the number of people moving into employment).

“‘The prices [of services] are dictated by the public sector in terms of what they will give you. We can’t negotiate on that price, so in both Scotland and England they give you a set amount per outcome because it is all payment by results.’”

Social Entrepreneur

Social entrepreneurs face a number of challenges linked to PBR contracts. They highlighted restrictions in determining social impact and choosing target beneficiaries, and the limitations on the price they can charge for the services they deliver. These factors influence both the ability to deliver social impact and financial sustainability in the long-term. Consequently, social entrepreneurs reported that such contracts restrict what they do and compromise their social impact, which can lead to mission drift.

“‘It is definitely a cloud that hangs over you, the payment by results. My view is that a lot more needs to be given up front to mitigate the risk. There’s far too much outcome-based pressure. With the people we work with, we can’t always guarantee the results required, because people have other issues in their lives. Sometimes it is a bit too cut throat and you lose the essence of the charitable mission. It becomes a case of no, no, we need to do X, Y and Z because we need that money. You lose your soul a bit, which we’re not a fan of doing because we believe in the charity and we believe in what we do.’”

Social Entrepreneur

Additionally, supporting the hardest to reach - the long-term unemployed and young people that are NEET - is often expensive. PBR contracts might encourage Impact Sellers to provide services for those closest to the labour market, as the cost of delivering social impact for those individuals is lower. Contradictorily, PBR contracts can also provide incentives and additional support to Impact Sellers to target those furthest away from the labour market. In order to take advantage of opportunities, social entrepreneurs should be aware of public sector funding priorities and understand the operating margins for different contracts, as limited margins or contract restrictions can act as a barrier to delivering social impact for those furthest away from the labour market.

Risk 3: Complex multi-supply chain models hinder smaller organisations. Social entrepreneurs raised concerns that it is increasingly difficult for small social ventures to scale or replicate the Impact Seller model, and that larger organisations are better able to take advantage of opportunities in public sector markets. They sited challenges with the complex supply chains for employment-related services as a problem, where large primary service providers manage a network of sub-contractors. This can make it difficult for small organisations to compete; being a sub-contractor to another organisation, who is also likely to be a sub-contractor, puts pressure on the operating margins. Public sector contracts often require organisations to have a certain amount of capital in the bank in order to demonstrate cash flow, making it difficult for smaller social ventures to be eligible. Additionally, smaller social ventures may not be able to easily access the high levels of working capital needed to cover operating costs, which can create problems for planning and staff retention.
parents, or are successful at accessing main revenue sources are schools and preventative work with NEETs, where their size and ability to diversify income sources. This is illustrated in the quote below:

“We would need between £0.5m to £0.75m investment for cash flow management, and to cover working capital requirements. This would enable us to bid for more contracts and ensure that, whilst we’re waiting for those to new projects to come on-stream, we can carry on with growing the rest of the business.”

Social Entrepreneur

Figure 4 Insights from an Impact Seller and the need for working capital.

WHAT DOES THIS MEAN FOR IMPACT SELLERS?

Due to the risks associated with public sector funding cuts, PBR contract restrictions, and the complex multi-supply chains, Impact Sellers face a number of challenges in the current market. Our analysis shows that the financial sustainability of ventures using the Impact Seller model depends on their size and ability to diversify income sources. This is illustrated in the quote below:

“Social ventures in this group are either accessing funding from specific markets with higher margins than in the payment by results employability market, i.e. preventative work with NEETs, where their main revenue sources are schools and parents, or are successful at accessing

employability contracts due to an understanding of how to navigate the market or because they are large enough to contract directly with DWP.”

UnLtd Venture Manager

For Impact Sellers, sustainability is determined by balancing the price with the cost of producing the goods or delivering the service. Fixed prices and PBR may result in a downward pressure on gross margins. In such situations, ventures may opt to deliver less work within the same margin, leading to reduced social impact (this depends on the nature of the contract). If ventures need to produce certain results and margins are too low, the venture will be unable to generate enough income to be financially sustainable.

Measuring social impact and collecting evidence is often the influence of public sector funding contracts, where specific key performance indicators are used to measure success. Common indicators include: the number of service users recruited, number of qualifications completed, and the number of people supported into employment. This means that Impact Sellers have a good understanding of their social impact and are able to provide evidence of that impact. However, collecting this information can be resource intensive.

Impact Sellers should consider:

• developing a model that can either cover operating costs through revenue (e.g. grants) or by attracting investment for working capital
• what social impact they can deliver and for what price - and include this as part of any contract negotiations
• the potential to diversify away from public sector contracts - for example, selling to buyers in the private sector, which could help attract new investors

Through this research we also identified potential investment opportunity for Impact Sellers:

Attract investment for working capital. Access grant funding has enabled Impact Sellers to cover operating costs and reach those furthest away from the labour market. At the same time, there are examples where investors have provided working capital or bridging loans for Impact Sellers, for example in the case of Street League. Four of the five investors we interviewed emphasised how the current challenges in the public sector market, discussed above, make it very difficult to assess the sustainability of Impact Seller models. Impact Sellers should carefully consider their need for investment and/or other ways of covering operating costs.

RISKS AND OPPORTUNITIES FOR IMPACT EMPLOYERS

At UnLtd we are seeing a rise in the number of early-stage ventures who are opting for the Impact Employer model, where delivering social impact is included in the operating costs. A diverse range of social ventures of varying sizes, and operating in different industries, are currently using the Impact Employer model. Impact Employers have more options for generating income, and are therefore potentially more financially sustainable. They also have autonomy in how they select their beneficiaries and how they measure social impact, both of which are likely to vary depending on the business.

Impact Employers highlighted a number of risks:

Risk 1: Vulnerability to industry-specific risks.

Social entrepreneurs and UnLtd Venture managers highlighted that much of the specific risk relates to the particular industry in which the social venture is operating. Prices charged depend on the conditions of the market into which they are selling their goods or services. Evidence from interviews suggests the Impact Employer model is sustainable as long as ventures can integrate the costs of delivering social impact into the pricing of products and services, though this is heavily influenced by the industry in which the venture is operating.

Risk 2: Trade-offs between financial sustainability and social impact.

One of the major challenges with this model is that, along with all the risks other businesses face, they often have to absorb costs that their competitors (i.e. commercial ventures) don’t experience. Production costs and pricing of products and services are shaped by the industry in which the social venture is operating, and the desired social impact – some impacts will be cheaper and easier to deliver than others.
Creating social impact depends on the financial sustainability of the business. The additional costs of delivering social impact can render a venture less competitive than other commercial ventures. This is a particular challenge for Impact Employers with low profit margins. Therefore, one of the key determining factors of the success of the Impact Employer model is their understanding of operating costs, the cost of delivering the desired social impact, and ensuring they achieve the right balance between the two (see Figure 5).

Risk 3: Limited incentive to measure and communicate social impact.
Social entrepreneurs believe that social impact is not always valued by buyers or investors. In our sample, this meant that some social entrepreneurs were reluctant to allocate significant time and resources to measuring social impact unless there was a clear business case. In the long term, this could prove to be problematic for social entrepreneurs wishing to attract investment to scale their ventures, as they will have limited ability to provide robust evidence of social impact. Therefore, limited evidence of social impact may act as a barrier to diversifying income, attracting investment, and scaling in the long term.

“It adds a whole host of other risks, such as you’re not necessarily always getting the best staff. There can be issues around retaining people, around people actually coming to work. Staff turnover is very challenging in terms of cost and resource. Then there’s the actual training, the level of hands-on training can bump up the cost significantly.”

Investor

Market insights from Miss Macaroon
Miss Macaroon manufactures French macaroons for corporate, wholesale and individual customers. The profits from macaroon sales are used to provide in-house training and employment opportunities for young people not in education, employment or training, with a specific focus on young people leaving care and probation services.

Miss Macaroon has purposely selected a market offering high margins so that they can effectively cover the cost of delivering social impact. Operating in a high value luxury market, however, may be seen as a transient consumer trend, which in turn could have significant consequences for the sustainability of the business and the social impact it delivers. They recognise the risks associated with a high value luxury item and are putting plans in place to ensure their social impact will not suffer if the current consumer-led trend for macaroons ceases.

Social Business Model: Impact Employer
- **Buyer:** B2C – Individual Consumers and B2B – Business Consumers
- **Method of Purchase:** Sale of Products and Services
- **Social Impact:** Both direct and indirect. Miss Macaroon provides courses for ex-offenders and care leavers, and provides employment for the graduates of the programme.

Figure 5 Market insights from Miss Macaroon
WHAT DOES THIS MEAN FOR IMPACT EMPLOYERS?

We are seeing a rise in social ventures using the Impact Employer model. Our analysis shows that financial sustainability depends on the ability to balance operating margins with the cost of delivering social impact (Figure 6), and in-depth understanding of the market in which they are operating. This is because the cost of delivering social impact is not aligned with the cost of producing the goods or delivering the service; it is an additional cost incurred by Impact Employers.

For Impact Employers, prices are dependent on the conditions within the market they are selling their goods or services. This potentially allows for greater flexibility around the price charged for products and services than is currently the case for Impact Sellers. However, it can also create an upward pressure on operating margins, which in turn leads to a reduced net profit that other commercial ventures in the same industry will not face. If the social venture is able to charge a high enough price for goods or services, then increased costs can be offset.

“...In a more mature business, with more mature revenue streams, you can almost off-set the cost because you are profitable and you use your profits to cover this. If you’re in a start-up position, the costs pre-profit are very difficult to cover without somebody saying ‘we will cover the cost of your social impact’. So without training grants or subsidies it becomes a very difficult balancing act for the organisation to offset that extra cost.”

Investor

The majority of Impact Employers in our sample are operating in low margin industries and they have therefore identified that the cost of delivering social impact needs to be kept low (blue circle in Figure 6). Examples of these industries within the UnLtd dataset are warehousing and storage and construction businesses. The beneficiaries these social ventures work with are typically not those furthest from the labour market. This reduces the cost of delivering the social impact, often making it easier to integrate the delivery of social impact into the operations of the business.

Figure 6 BVC Impact Employers: Mapping cost of delivering social impact against gross margin

- Are unlikely to receive investment in the near future.
- Have recently closed an investment round.
- Are in investment negotiations and are likely to close within next six months.
Impact Employers should consider:

- the industry-specific risks that could influence operating margins and the ability to sustain social impact
- social mission lock-in to avoid trade-offs between financial sustainability and delivering social impact
- ways of measuring social impact as part of a longer term strategy
- potential to access grants to target the “hardest to reach”

Through this research we also identified a potential investment opportunity for Impact Employers:

**Early-stage investment.** Some of the more established Impact Employers have received investment and are not currently looking for more, which reinforces the argument that early stage Impact Employer social ventures need opportunities for investment, typically in the region of £50,000-£200,000.

**HYBRID MODELS AS A WAY TO MANAGE RISKS AND OPPORTUNITIES**

We observed a trend amongst Impact Sellers to try and reduce their reliance on public funding and pursue a hybrid Impact Seller-Impact Employer model. Social ventures using this model are able to diversify their income sources to ensure sustainability. They often have multiple buyers, including public sector agencies, Local Authorities, individual consumers and other businesses. Social impact can be both direct and indirect, and it is paid for using a variety of methods, including contracts, sales and donations, depending on who the buyer is (see Figure 7 and Figure 8 for case studies).

Hybrid Case Study: Northern Pinetree Trust

Northern Pinetree Trust (NPT) provides business start-up information, advice, guidance and coaching for people who wish to move into self-employment. They also offer access to loans to help individuals start a business. Operating in the North East of England since 1996, NPT offers its services to a wide range of clients facing significant barriers to employment, or who are long-term unemployed. Their main source of funding was through public sector funding. However, in 2011 NPT formed a wholly-owned subsidiary trading company offering business incubator space, and all profit is gifted back to the charity. They are in the process of pivoting their model with the breakdown of their revenue now approximately 80-85% European and UK Central Government funding, and 15-20% B2B. The business incubator is currently operating at around 90% capacity and, as they look to the future, they see scope to expand the business incubator to generate more earned income. Training remains a key focus for Northern Pinetree Trust and they continue to use social enterprise as the vehicle for the development of their participants.

**Social Business Model: Hybrid Impact Seller - Impact Employer**

- **Buyer:** UK government, European Funds, Businesses
- **Method of Purchase:** Sales and contracts.
- **Social Impact:** Direct and indirect.
WHAT DOES THIS MEAN FOR SOCIAL VENTURES USING HYBRID MODELS?

Ventures using the Impact Seller model are trying to reduce their reliance on public funding and pursue a hybrid Impact Seller-Impact Employer model. Two of the largest social ventures in the UnLtd sample (in terms of turnover in financial year 2013-14), are already using a hybrid model and looking at ways to increase the percentage of revenue they generate through the sale of goods and services. In doing so, they will be able to continue to reduce their reliance on revenue generated through public funding.

Other Impact Sellers discussed steps they have recently taken to pursue a hybrid Impact Seller-Impact Employer model to increase social impact. For example, The Work People developed a recruitment consultancy business to enhance their social impact offering a route to employment for those accessing their employability support services.

Some of the risks for Impact Seller and Impact Employer models also apply to the Hybrid model. For example, risks relating to the complex multi-supply chain models for Impact Sellers and the vulnerability to industry specific risks for Impact Employers.

Social entrepreneurs using the Impact Seller-Impact Employer model highlighted an additional risk:

Risk 1. Although Hybrid models offer opportunities for financial sustainability, how to structure and govern social ventures can be complex. Moving from an Impact Seller model towards an Impact Employer model requires a very different mind-set and level of management. Social entrepreneurs face the challenge of bringing internal capabilities and skills up to speed. Social ventures transitioning to a hybrid model may need support to diversify income streams, understand the implications for governance and legal structures, and how to translate this into a business strategy.

“I guess the biggest problem is balancing or satisfying our core objective which is training and supporting those most disadvantaged, and being ambitious enough to attract a whole new revenue stream. It is almost like you have to run two businesses.”

Social Entrepreneur

“One benefit, but also a risk, is that we’re very diversified so we have lots of different revenue streams which is helpful as it keeps all the balls in the air. But this is a very complex model to manage from a financial perspective.”

Social Entrepreneur

Street League: Insights on diversifying income sources to reach those furthest away from the labour market

Street League uses football and dance fitness to engage young people and lead them on a course to employability. They run 14-week programmes, which include 100 hours of work experience with an employer. Anyone who is 16 to 24 and not in education, employment or training can attend for free. They currently operate in 13 cities across England and Scotland and their turnover in 2015 was £4.6m. They operate a predominantly Impact Seller model and over the past five years Street League has moved towards a Hybrid model, which includes the delivery of Central Government payment-by-results contracts. This transition has been aided by a number of investments including a grant-loan mix investment, other loans and grant investment based on a payment by results contract. Corporate funding now accounts for approximately 30% of their total income and is seen to bring added value to their work beyond a purely financial basis, enabling them to work with those deemed further away from the labour market.

Social Business Model: Impact Seller-Impact Employer

- **Buyer:** UK Central Government and Corporates
- **Method of Purchase:** Payment by results contract, grants, loans, and sponsorship
- **Social Impact:** Direct

The Hybrid model may not be appropriate for all industries, but findings suggest that Hybrid models have the potential to minimise risk and maximise sustainability because they are able to both diversify income sources, and deliver impact for the hardest to reach (those furthest from the labour market).

Social ventures using hybrid models should consider:

- the implications of the Hybrid model for legal and corporate governance structures
- targeting long-term investment support for the long-term development of the venture
- attracting specific investment and/or grants to reach those furthest away from the labour market
In this paper we have identified and explored social business models, and drawn on different perspectives to examine the risks and opportunities related to the different models. We have started to create common language and better understanding of the models, so that early-stage social entrepreneurs are better placed to develop sustainable business models.

We want to use this common language and shared understanding to support social entrepreneurs to make informed decisions about business strategy, investment planning and risk management and ultimately deliver maximum impact for unemployed people. We suggest that these models could help social entrepreneurs in other sectors wishing to develop sustainable business models. Therefore, this is a key step for the sector, and provides a basis for further research into social business models and the potential for social investment.

To conclude the report, we look ahead to briefly outline a number of wider opportunities that early-stage social entrepreneurs offering employment-related services may consider, including how to reach those furthest from the labour market, social investment, and measuring social impact.

**HOW TO REACH THOSE FURTHEST FROM THE LABOUR MARKET**

Social entrepreneurs have developed innovative ways to support long-term unemployed and young people that are NEET into employment. However, unemployment is a complex social issue, and challenges remain around how social ventures can reach the most vulnerable (i.e. those furthest away from the labour market). This paper suggests that targeted corporate funding, grants and policy incentives may provide a way to support social entrepreneurs.

**Corporate engagement**

Corporate employers are increasingly recognising the importance of diversity in the workforce. Hiring individuals from a range of backgrounds not only benefits the company’s reputation, but can also lead to increased productivity. Social entrepreneurs may be able to attract corporate funding as demonstrated by Street League (Figure 8), which now accounts for approximately 30% of their total income. This funding enables them to work with those deemed further away from the labour market. Social entrepreneurs may consider engaging with Corporates as a way to create employment opportunities and to attract additional funding.

**Policy incentives**

In 2015, the UK Government announced a new “Work and Health Programme”. Although the details have yet to be finalised, it signifies a move towards closer integration between the health and work sectors and a renewed focus on supporting people with disabilities to return and remain in employment.

For Impact Sellers and social entrepreneurs using Hybrid models, this closer integration could lead to future funding opportunities, and may also provide a way for Impact Employers to work with some of the hardest to reach individuals.

The Apprenticeship Levy, to be introduced in April 2017, is also designed to encourage employers to invest in people by providing formal training. This policy incentive may offer another way of supporting social ventures offering employment-related services to those furthest from the labour market.

**SOCIAL INVESTMENT**

Although this paper is aimed at early-stage social entrepreneurs, it may also contain useful insights for other stakeholders, e.g. supporters of social entrepreneurs and social investors.

In 2014, the UK Government created a Social Investment Tax Relief (SITR) to encourage investment in the social sector. Research indicates that employment, training and education is currently the most popular type of social investment in the UK and that social investors are keen to engage with social entrepreneurs addressing unemployment. Through this research we identified two potential investment opportunities for social entrepreneurs offering employment-related services:

1. **Working capital investment for Impact Sellers.** Access grant funding has enabled Impact Sellers to cover operating costs and reach those furthest away from the labour market. At the same time, there are examples where investors have provided working capital or bridging loans for Impact Sellers, for example in the case of Street League (Figure 8). To take advantage of this opportunity, Impact Sellers need to carefully consider their need for investment and/or other ways of covering their operating costs.

2. **Early-stage investment for Impact Employers.** Some of the more established Impact Employers have received investment and are not currently looking for more. This reinforces the argument that early stage Impact Employers need opportunities for investment, typically in the region of £50,000-£200,000.

**IMPORTANCE OF MEASURING SOCIAL IMPACT**

To ensure long-term success and to take advantage of any social investment opportunities, social entrepreneurs must be able to articulate their social purpose, track their performance and collect evidence over time. It is, however, difficult to measure the social impact of employment-related services using a single measure. Employment figures do not reflect the progress that individuals have made, nor capture the type and quality of jobs (for example, the long/short term nature of employment, or the distance towards the labour market that an individual may have travelled).

The Scottish Government has worked with partners to develop an “Employability Pipeline” for organisations to identify and then support people with different needs to move towards employment. Social entrepreneurs may be able to use this framework to measure social impact for those furthest away from the labour market in a way that takes into account distance travelled as well as employment status. Further work may be needed to develop this into a UK-wide framework that is integrated into employment-related public sector contracts and policy incentives.
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A. OUR RESEARCH APPROACH

To guide the study, Big Society Capital identified five key research questions:

1. What are the sustainable business models used by social ventures operating in this space?
2. What are the macro-trends affecting social ventures and these models, and what are the risks to these business models?
3. What are the different routes to scale that might be appropriate for social ventures using these different business models?
4. What is the demand for investment (both current and potential) from those social ventures?
5. What are the current barriers to use of social investment in this market and how might these barriers be overcome?

The study draws on desk research, analysis of existing datasets held by UnLtd, a series of interviews with social ventures and investors, and insights from Venture Managers at UnLtd.

The UnLtd dataset consists of 35 Award Winners operating in the area of employment in relation to the long-term unemployed and young people that are NEET\(^1\). These Award Winners have received funding and support through the Big Venture Challenge and so the social ventures represent a pre-selected sample based on programme criteria. The dataset consists mainly of information submitted at the time of applying to take part in the programme, and includes financial records for the year prior to application along with three-year financial projections. For those Award Winners who have already completed the programme, the dataset also contains additional monitoring and exit data.

The UnLtd data was complemented by interviews carried out with 11 social ventures operating in the field of employment and focused on young people that are NEET and/or the long-term unemployed. An online search was carried out to identify potential social ventures operating in the relevant field - this resulted in a list of over 130 social ventures. Data was then collected from the website of each social venture. The data collected was influenced by a review of existing social enterprise typologies and represented the different factors that might have an impact on the social revenue models pursued. These different factors were then used to reduce the sample to 20 social ventures. Following this refining process, financial data for each of the 20 social ventures was sought via Companies House. The final step was to invite social ventures to participate in an interview. The chosen interview sample thus encompassed the breadth of social ventures working in this area in terms of engagement with beneficiary groups, legal/corporate structures, geographical location, and profitability.

A telephone or in-person interview was carried out with a member of the senior management team from each of the 11 SSOs between August and September 2015. The interviews helped to gain an in-depth understanding of the purpose of each organisation, their choice of business model, their successes and challenges with regards to social impact to date, their journey to scale and future growth plans, and investments received to date.

In addition, interviews were carried out with five investors during the same period. Three of these were with Social Investment Finance Intermediaries, one was with an angel investor, and one was with a global impact investor. The interviews sought to gain an understanding of investments made to date in SSOs operating in the field of employment, and focused on young people that are NEET and/or the long-term unemployed, while providing more general reflection on the opportunities for social investment in this sector.

The insights of Venture Managers at UnLtd, who work specifically with early stage social entrepreneurs seeking to scale their ventures, were solicited.
through informal interviews and group sessions designed to facilitate reflection of emerging findings.

In terms of the desk-based research, a range of typologies exist within the literature that seek to make sense of the different ways in which SSOs deliver their social mission. These range from macro typologies of social enterprises through to specific typologies of organisations operating in the area of long-term unemployment. We have drawn from the relevant literature and current practice to inform the models presented in this report. The macro typologies included Alter’s (2008) seven-fold model that describes how social programmes and business activities are integrated; the three organisational models put forward by the Schwab Foundation for Social Entrepreneurship (2012) that focus on the means by which organisations generate income; and three-fold typology of social business models operating in the UK proposed by the UnLtd’s Venture Team (Design Council, 2014). Specific typologies proposed in relation to work integration social enterprises operating within Europe (Spear & Bidet, 2005), and social enterprises engaging with the homelessness sector in the UK (Teasdale, 2010; McKenna, 2013), have also been drawn upon. The most relevant model to date, however, is that produced by Petrick (2013) for Social Venture Fund. Petrick investigated the potential investment opportunities in the area of long-term unemployment in France, Germany, Switzerland and the UK. She identified four business models adopted by social enterprises in this context. The latest version of the ‘Living Map of Job Innovators’ produced by NESTA (n.d.) has also served as a useful source of information in terms of the different thematic ways in which innovators are seeking to support people into work, and the different beneficiary groups currently being supported within the UK.

Limitations to the research approach

It is worth noting that whilst the data sources allow us to identify emerging trends, it has not been possible to carry out systematic, detailed financial analysis of the diverse business models in operation. Firstly, long-term unemployment and young people that are NEET are social issues and not a “market”. Social ventures addressing these issues are operating across different industries and markets and so financial analysis would involve comparing financial data from the construction industry, with luxury food markets, with recruitment markets - comparisons that would not have been meaningful. Secondly, the financial data is commercially sensitive, and the inclusion of detailed financial analysis could compromise the competitiveness of the social ventures taking part in the research. Accordingly, the level of financial data social ventures felt able to share differed across our samples. In light of these considerations, detailed financial data on the social ventures is not included within the report.

APPENDIX

B. CURRENT UK GOVERNMENT FUNDING STREAMS
B. CURRENT UK GOVERNMENT FUNDING STREAMS

i. The Work Programme
The Work Programme, launched in June 2011, is the largest government employment scheme anywhere in the world (ERSA, 2012). With 18 prime contractors managing a supply chain of around 800 subcontractors from the private, public and voluntary sector, the programme aims to support people who are long-term unemployed, or at risk of becoming long-term unemployed, to find sustainable work. The programme incentivises organisations to create jobs, paying them almost entirely for their results. By June 2015, just over 1.7 million people had joined the Work Programme since its launch and 459,370 individuals had found sustained employment of at least three or six months whilst on the scheme (DWP, Sept 2015). Around 1.2 million people had completed their allotted two years on the scheme and, of these individuals, around 70% returned to Jobcentre Plus.

ii. Work Choice
Work Choice is a voluntary specialist employment programme introduced in October 2010 by the Department for Work and Pensions (DWP) to help disabled people with specialist support needs find work of 16 hours or more per week. The programme provides individuals with pre-work support such as personal skills development, in-work support and longer-term in-work support to help them progress in their job. Between October 2010 and August 2015, 89,020 individuals had started the programme, of which 74,430 (42%) had found employment (DWP, Aug 2015a).

iii. Skills Funding Agency
The Skills Funding Agency (SFA), sponsored by the Department for Business, Innovation & Skills, provides funding to the Further Education sector to deliver apprenticeships, traineeships, qualifications and skills in order to equip people of all ages with the skills they need for employment. Funding is administered through a number of streams, including the National Careers Service, the Adult Skills Budget, Offenders’ Learning and Skills Service (OLASS), Community Learning, and 24+ Advanced Learning Loans. In 2014-15, the SFA had a budget of £4.3 billion. Statistics published by the SFA (June 2015) show that of the 2.93 million adult learners (aged 19+) participating in further education in 2013/14, 581,900 learners (20%) benefited from support for the unemployed. These are defined as those learners reporting that they were in receipt of Employment and Support Allowance - Work Related Activity Group (ESA WRAG), Jobseeker’s Allowance (JSA) or Universal Credit (if unemployed and looking for work).

iv. DWP Innovation Fund
The DWP Innovation Fund was launched in 2012 as a three-year pilot and aimed at supporting young people, aged 14 and over at risk of disadvantage, to re-engage with education training and employment. The fund uses a “payment by results” model, paying providers for outcomes linked to employability such as improved attitude towards school, improved behaviour and entry-level qualifications. It was commissioned over two rounds via an open competition, which resulted in 10 Social Impact Bond (SIBs). The total investment from external investors is around £10m and the total maximum payments for outcomes amount to £28.4m. The DWP specified a maximum amount they were willing to pay per outcome, which represented a proportion of the benefit savings associated with moving a young person into work. Figures released in August 2015 by the DWP showed that up to the end of March 2015, 18,000 young people had started participating in Innovation Fund projects and 21,500 outcomes had been achieved.

v. Youth Engagement Fund
The Youth Engagement Fund is a £16 million “payment by results” fund that seeks to build on the DWP Innovation Fund. It aims to help disadvantaged young people aged 14 to 17 to participate and succeed in education or training. The funding is provided through four SIBs and in March 2015 the four winning bidders were announced.

vi. Social Outcomes Fund
The £20 million Social Outcomes Fund was set up by the Cabinet Office in November 2012 to provide a ‘top-up’ contribution to outcomes-based commissions (Payment by Results or SIBs) that are designed to deal with complex and expensive social issues. In March 2015, the government announced the Social Outcomes Fund would provide £2.5 million to support three additional SIBs - people with long term health conditions, mental illness and children in care. Just over £1.3 million will support a SIB to help 2,250 people with severe mental illness into employment. People who sign up to the programme will get tailored support to help them find and maintain a new job through Social Finance, a leading social investment intermediary.
Social Impact Bonds were first introduced in the UK around 2010 to raise investment from private investors to fund interventions to improve social outcomes, which in turn result in savings for the public sector. It is a “payment by results” system that operates over a fixed period of time but does not offer a fixed rate of return. The outcomes are predefined and measurable. If social outcomes improve, a public service commissioner will pay the investors for their investment. If no success is determined, investors stand to lose their investment. As of April 2015, there are 31 Social Impact Bonds operational in the UK.

Social Impact Bond Mechanism

Financial returns dependent on outcomes

The European Structural and Investment Funds (ESIF) are the EU’s main funding programmes for supporting growth and jobs across the EU. In operation from 2014 to 2020, there are three funds; the European Regional Development Fund (ERDF), the European Social Fund (ESF) and part of the European Agricultural Fund for Rural Development (EAFRD).

ERDF supports research and innovation, small-to-medium sized enterprises, and the creation of a low carbon economy. The total European Regional Development Fund for the 2014-2020 funding period is €3.6bn. In the UK, the ERDF is managed by the Department for Communities and Local Government (DCLG). ESF focuses on improving employment opportunities, promoting social inclusion and investing in skills by providing people with the help they need to fulfil their potential. It is managed by the DWP and the total fund for the 2014-2020 funding period is €3.15bn. One of the investment priorities for ESF in 2014 to 2020 is to promote the sustainable integration into the labour market of young people, in particular those who are NEET. This will be reinforced by the new Youth Employment Initiative (YEI). The YEI is worth €6 billion across the EU, of which €3 billion is additional money provided through a dedicated youth employment budget, and €3 billion is ESF money. At the UK level, the YEI equates to around £170 million. The initiative will target funds at regions with youth unemployment rates above 25% in 2012. There are five areas in the UK that will be eligible. In addition, a small amount of the YEI money will be directed to four smaller regions in England where youth unemployment rates are high. EAFRD helps rural businesses to get started, grow and expand, improve knowledge and skills, and is managed by the Department for Environment, Food and Rural Affairs (DEFRA). In England, Local Enterprise Partnerships (LEPs), private sector-led partnerships between local authorities and local businesses, have been given direct influence over most of the ESIF money. LEPs have worked with local partners to develop investment strategies to use the funds to promote growth and jobs in their local areas. These local strategies form the structure of the ESIF programme and LEPs play a role in many aspects of the management of these funds, including five seats on the ESIF Growth Programme Board.

viii. The Specialist Employability Support (SES) Programme

The Specialist Employability Support (SES) programme is designed to ensure that people with disabilities across the UK will benefit from specialist employment support, with a focus on helping those who need the most support to either enter work or to move closer to the labour market. The scheme is expected to support 1,700 individuals on an annual basis, help 1,250 people with disabilities into jobs over the course of an initial two-year contract, and is intended to offer more choice in how people access support. SES went live in September 2015 and is provided through six separate contracts and a network of more than 70 specialist organisations. Each of the six providers offers national coverage and people are given the choice of two types of support: (1) intensive, end-to-end employability support provision, and (2) ‘start back’ support catering to those whose needs can be met by other DWP provision but who first require extra support to prepare them to access such provision (DWP, March 2015). According to the Invitation to Tender (DWP, n.d.), the balance of scoring in the evaluation of bids was heavily weighted in favour of quality (80%) over price (20%) in recognition of the nature of the customer group being supported. The payment model for SES places an emphasis on the outcomes achieved for the individual and comprises of three payments: (1) a service fee (50% of the contract...
value); (2) a short job outcome fee; and (3) a sustained job outcome fee.

ix. Building Better Opportunities

Big Lottery Fund is matching funds from the European Social Fund (ESF) 2014-2020 to provide joint investment in local projects tackling the root causes of poverty, promoting social inclusion and driving local jobs and growth. The funding will be delivered in 38 Local Enterprise Partnership (LEP) areas in England according to local priorities and will support projects ranging from improving employability for the most disadvantaged, helping those with multiple and complex needs, to improving financial literacy. LEPs and the LEP area European Structural Investment Fund (ESIF) Sub Committees have made decisions about how much of their ESF allocation to devote to this strand of work, meaning that the amount of funding varies widely across different areas.

The funding is grant-based rather than contract-based and is intended to offer a route to European funding for organisations that may have found it difficult to access it in the past. Payments are made on the basis of the actual costs incurred rather than on a unit cost or payment by results basis. The funding can only be used to fund projects where the participants are legally resident in the UK and able to take paid employment; unemployed or economically inactive; or aged 15 -29 who are NEET or at risk of becoming NEET. Projects working with people who are already in employment or who are already receiving support cannot be funded. Most of the funding opportunities are designed to suit partnership working, and up to £50,000 is available to help applicants to develop detailed project plans if they are invited to stage two of the application process.

The first round of funding opportunities ran from June 2015 to August 2015 with 71 funding opportunities in 25 of the 38 LEP areas, totalling a £175 million investment. A total of 325 stage one applications were received for projects launched in this first round. The second round ran until the end of November 2015. There were 61 new opportunities in 18 of the 38 LEP areas, totalling a £132.6 million investment. Further funding opportunities are expected to be available in early 2016.

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For a detailed description of the models and case study examples, see Section 2.

The Apprenticeship Levy will be a levy on UK employers to fund new apprenticeships. The levy will be charged at a rate of 0.5% of an employer’s pay bill. Each employer will receive an allowance of £15,000 to offset against their levy payment.

Big Venture Challenge (BVC) is funded by the Big Lottery Fund and delivered by UnLtd to support social entrepreneurs with access to business support, connections and match funding to help them raise investment and deliver social impact at scale.

The data was compiled from 38 UnLtd Award Winners; however, two of the social ventures from the dataset were included in the 11 social entrepreneurs interviewed and so they have been excluded from all BVC analysis so as to avoid duplication of data. With the third social venture there was insufficient data to include it within the analysis.

This is based on the sample used in this piece of research; it is not representative of the sector.

17 of the 35 social ventures are using an Impact Employer model with no income from government revenue sources and a further 10 receive less than 30% of their income from public funding.

As the number of Impact Sellers within the sample is very small, we can only report indicative findings.

The data in the chart relates to 28 of the 35 social ventures in the UnLtd dataset. Social venture’s financial data submissions were assessed by Venture Managers, on a case by case basis. Margins: Low 0%-10%; Medium >10%-20%; Medium 20-50%; and High > than 50%. Cost of delivering social impact: Low, unskilled work, semi-skilled work or work with people already close to labour market; Medium, unskilled work with people further from the labour market or skilled work with people closer to the labour market; and High, skilled work and/or support for people very far from the labour market.

The Apprenticeship Levy is for UK employers to fund new apprenticeships. The levy will be charged at a rate of 0.5% of an employer’s pay bill. Each employer will receive an allowance of £15,000 to offset against their levy payment.

Scottish government, online: http://www.employabilityinscotland.com/employability-pipeline/the-employability-pipeline/.

ICF GHK (2013) reported that employment are training is one of the largest outcomes invested in at 14% and when investors were asked about their attitude toward preferred geographies or cause areas for making social investments by SIRC (2014), employment, training are education was the most popular target area.

The dataset actually consists of 38 UnLtd Award Winners operating in the area of employment in relation to the long-term unemployed and young people who are NEET; however, two of the social ventures from the dataset were included in the 11 social ventures interviewed and so they have been excluded from all BVC analysis so as to avoid duplication of data. With the third social venture there was insufficient data to include it within the analysis.

No breakdown of these outcomes from the list of defined outcomes is provided so at present it is difficult to assess the extent to which young people are being supported into ‘sustained employment of 26 or more weeks’.