

# **Social Enterprise UK Business Rate Review Consultation Response**

## **Social Enterprise UK**

Social Enterprise UK was established in 2002 as the national body for social enterprise in the UK. We are a membership organisation. We conduct research; develop policy; campaign; build networks; support individual social enterprises; share knowledge and understanding; support private business to become more socially enterprising; and raise awareness of social enterprise and what it can achieve.

## **Social Enterprises**

Social enterprises are businesses driven by social or environmental objectives whose surpluses are reinvested for that purpose in the business or in the community. They operate across a wide range of industries and sectors from health and social care, to renewable energy, recycling and fair trade and at all scales, from small businesses to large international companies. They take a range of organisational forms from co-operatives and mutuals, to employee owned structures and charitable models. Our members come from across the social enterprise movement, from local grassroots organisations to multi-million pound businesses that operate across the UK.

The Department for Business Innovation and Skills' "very good fit" definition for social enterprise suggests 70,000 social enterprises, employing 1 million people contributing £24bn to UK's economy.

## **Questions for consultation:**

6 How can government use business rates to improve the incentive for local authorities to drive local growth?

8 What other local incentives should the government consider to further incentivise business growth? We understand these questions to concern the balance between national and locally-set rates.

Question 12: What is the impact of the business rates system on the competitiveness of UK businesses? Are there any particular impacts on SMEs?

Question 15: What evidence and analysis should the government take into account when evaluating the impact of and any changes to the range of reliefs and exemptions present in the business rates system?

## **Our analysis:**

### **Background**

“The government places great value on the ability of social enterprises to improve communities, people’s life chances and the environment by combining business practices with social purpose. Social enterprises are more likely than commercial businesses to be based in deprived areas, reinvest their profits into those local areas employ those furthest from the labour market, and to use innovative approaches to tackle social problems”<sup>1</sup>

There are around 180,000 regulated social sector organisations, such as charities, community interest companies and community benefit societies with a combined annual income greater than £39 billion and workforce of more than 800,000 people. Additionally, there are an estimated 180,000 enterprises delivering social outcomes that do not take a regulated social form; around 6% of small businesses are social enterprises. These enterprises employ 1.5 million people and turnover c. £120 billion per year.

Social enterprises operate in a fast growing and relatively newly recognised space which overlaps with traditional business, charities that trade, public sector spin outs/arms-length organisations and not-for-profit organisations. Social enterprises take many forms in legal and revenue structure and there is no legal definition of the sector for the purposes of tax relief.

### **Level playing field with charities**

Currently, charities (organisations which are either registered with the Charity Commission, or which otherwise qualify as charitable under English and Welsh law) and CASCs (clubs which are registered under as such under the Corporation Tax Act 2010), are eligible to receive two types of rate relief: mandatory relief, and discretionary relief.

It used to be so simple. People donated to charities and charities spent the money on their charitable purpose and businesses made profits. Now we have a situation where increasing numbers of charities trade, businesses have charitable arms, social enterprises reinvest their profits into their social and/or environmental mission. The test for mandatory charitable rate relief has the benefit of clarity, but it is increasingly distant from the reality of the shape of today’s Third Sector.

The principle behind mandatory charitable relief should surely be whether an organisation has a community or charitable purpose, not whether an organisation is a registered charity.

Social Enterprise UK believes that the current test for mandatory relief should be the whether the organisation has a community or charitable purpose, an asset-lock and reinvest 51% or above of its profits/surplus into its community or charitable purpose.

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<sup>1</sup> HM Treasury *Social investment tax relief: enlarging the scheme*  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/329284/Consultation\\_Social\\_investment\\_tax\\_relief.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/329284/Consultation_Social_investment_tax_relief.pdf)

## **Anomalies**

This has led to some understandable anomalies in the ways that our members have been treated: a social enterprise which reinvests 100% of its profit into its social mission and is delivering high value outcomes for the public sector might not receive discretionary business rate relief in one local authority and might not in another, or might find what they pay is reviewed by the same local authority.

Taken together, this has led to confusion, not least from social enterprises, about what they are and are not entitled to. As one member responded:

“In our previous address...we were granted [discretionary] 80% relief in line with charitable status, however this has been reviewed by the council and we are now informed that the highest rate relief we can achieve is 60% in line with the discretionary relief guidelines. Our application for this is currently being processed and we are currently liable to 100% rates charges.”

Another member responded:

“The current level of business rates is a significant burden on our social enterprise, and effectively removes money that our society would reinvest into community benefit.”

## **Flexibilities**

We have [previously published](#) a resource for Local Authorities on how individual councils can better use business rates to deliver economic and social value.

The Localism Act 2011 gives the ability of local authorities to offer discounts. What analysis we undertaken from data kindly supplied by the LGA suggests that the take up and application of this power has been extremely variable.

As the consultation notes, there are a limited number of circumstances where local authorities and organisations (eg BIDS) have the ability to increase local revenue streams. Social Enterprises UK recognises the sensitivity of this, but believes that is worth exploring whether councils should have the power to introduce a limited levy, for example on businesses which are less economically, socially and environmentally productive than the norm.

## **Our Recommendations**

### **1: Mandatory “charitable purpose” rate relief**

The Government develop a test for determining “charitable purpose” rate relief goes beyond the narrow, and out of date, and unfair definition. The likely key tests would revolve around whether an organisation has an asset-lock and reinvest 51% or above of its profits/surplus into its community or charitable purpose.

### **2: Retain and improve local discretion**

The Government retain an element of local discretion but that local authorities' discretionary policies are developed in partnership across the council in line with wider strategic objectives, conscious of the short, long and medium term impact, are fair and principles-based, are underpinned by a consistent decision making process, and - importantly- are transparent and appropriately resourced.

### **3: Align discretion with Primary Authority Partnerships**

That local discretion is aligned with the Government's approach to regulation: the notion that where an organisation has had to apply for discretionary relief by at least two local authorities it may form a primary authority partnership<sup>2</sup> in relation to what discretionary relief it is entitled to.

### **4: Give Local Authorities limited ability to apply a rates levy**

That Local Authorities have a *limited* ability to apply a levy (to complement the power under the Localism Act to offer discounts) in some circumstances.

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<sup>2</sup> BIS Primary Authority Nurturing Partnerships for Growth

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/396388/pa-overview.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/396388/pa-overview.pdf)