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A resource guide for the support available to social enterprises

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A GUIDE TO THE SUPPORT PROVISION AVAILABLE TO SOCIAL ENTERPRISES

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A GUIDE OF SUPPORT PROVISION FOR SOCIAL ENTERPRISE

1. INTRODUCTION

This guide has been devised to help and inform social enterprises (or would be social enterprises) of opportunities available in terms of raising funding, accessing business support and training, finding suitable premises, and different legal forms available. In particular, given the importance of funding for any activity, the guide reviews the processes of applying for funding in order to help social enterprises to understand what type of funding is most appropriate. It also provides useful links and a description of funding and training opportunities including a brief description of the nature and objectives of funding bodies. The material presented has drawn heavily on published material on social enterprise (Social Enterprise Coalition in particular) and combined this with desktop research and other resources. Each section of the guide includes relevant website links to further details and more specific information.

2. WHAT IS A SOCIAL ENTERPRISE?

From the review of different documents and other sources, it is clear that there is no a unique definition of social enterprise. This section examines some of the key features of social enterprises. In order of importance, social enterprises might exhibit one of the following key features or a combination of these:

1. Trading

Social enterprises are commonly associated with organisations that are less dependent on grants and more on trading. As a result, they are generally associated with the notion of 'independency' from public funding which can add to the pursuit of a social mission not related to government objectives.

2. Social, and/or environmental objectives

There is agreement that social enterprises are not driven by the need to maximise profit for shareholders and owners but they instead focus on the pursuit of social, community and/or environmental objectives.

3. No-profit making

Social enterprises are also associated with no profit making organisations This is not meant in the sense that they do not generate profit, but in the sense that they reinvest it in the development of the social enterprise (and are in this case controlled by a board of trustees) or distribute it to their members¹.

3. FUNDING FOR SOCIAL ENTERPRISES

3.1. What type of financial support is available to social enterprises?²

Types of finance for social enterprises include grants, commercial finance (debt and equity), and other emerging forms of finance (patient capital, social venture capital, and venture philanthropy).

¹ An example of this is workers' co-operatives and in some ways farmers co-operatives

² SEL (2004) 'Unlocking the potential. A guide to finance for social enterprises', a report from Social Enterprise Coalition

3.1.1. Grants

Grants are often the most appropriate way of funding certain activities, particularly if these have no market for goods or services or to help covering operating costs when a social enterprise is first starting up.

3.1.2. Commercial finance (debt)

Debt finance is usually available in the form of loans. A loan often carries the problem that needs to be repaid, usually with interest. But it also has a number of advantages including:

- It is often made available for a longer period of time;
- It imposes some kind of financial discipline which can be beneficial for growing social enterprises as it forces to plan ahead, cut costs and becoming more efficient;
- It is not tied to specific outputs or not even specific projects. The conditions associated with loans are typically less onerous than grant funding.

3.1.3. Equity

Equity is different to loans, as in exchange for receiving capital, the owner of the organisation transfers part of the ownership of the enterprise. The advantage of equity is that there is no obligation for the social enterprise to repay the amount invested. Equity investors typically look at the growth potential of the organisation. They expect to gain by receiving dividends and/or capital gains realised through the sale of the enterprise or from selling their equity interest to other partners. Equity can help to strengthen an organisation's balance sheet by increasing the cushion that it can fall back on should things not go as planned and can also be used as a collateral to raise loans to mainstream financial institutions.

Advantages include:

- Larger sums can sometimes be obtained and can strengthen the balance sheet;
- No security required;
- There is no contractual agreement;
- A hands-on equity investor can provide the social enterprise with expertise it might lack;

Disadvantages:

- Conflict of interest could arise if investors have a different view about the development of the organisation;
- The legal and ownership structure of the social enterprise can restrict the ability to take equity finance;
- Social enterprises do not always exhibit growth potential or capital gains.

3.1.4. Other forms of capital

The gap between grants and commercial finance is large. Some forms of finance have been devised to bridge this gap, but there are only few instances of such finance currently operating in the UK.

Patient capital

Patient capital providers make long-term investments and in some cases provide additional, ongoing support. Patient capital can take the form of debt such as ten years loan. It can also take the form of a grant or equity which takes a long term view on financial gain. The Adventure Capital Fund is one example of a patient capital provider. It supports community enterprises by giving access to long-term, low interest loans that give the enterprise time to develop its income generating ability (see section 3.5.3; p.9 for more details below).

Social venture capital (type of equity)

Venture capital is traditionally based on equity investment in growing companies. Venture capitalists often seat on the board of director and follow a hands-on investment style. There is little supply of social venture capital in the UK at present because of the difficulty of venture capitalists to make expected financial gains and ownership issues. However, there have been

attempts to create social venture capital funds. For example, Foursome Investments targets organisations with clear environmental and social objectives. In addition, Bridges Community Ventures only invest in 25% most deprived wards of England. Both of these, however, operate on a purely commercial basis and target levels of return similar to traditional venture capital funds.

Venture Philanthropy (type of grant)

Venture philanthropists aim to improve the quality, efficiency and effectiveness of the services offered by the organisations that they invest in. They generally offer grants, make fewer but larger grants, over a number of years and provide managerial or technical assistance. There are some examples of this in the UK including WIN (World in Need), SHINE (Support and Help in Education), ARK (Absolute Return for Kids) and Impetus Trust. These organisations support charities, with SHINE and ARK focusing exclusively on children's charities.

3.2. How do I determine the risk profile of my social enterprise?

This section summarises the content of a guide published by social enterprise coalition³. Determining the risk profile of your social enterprise is crucial as it will affect the cost of finance available. Four key elements should be considered including:

- The stage of development of the social enterprise;
- The market in which it operates;
- The management and capacity of the enterprise to carry out its strategy;
- The enterprise's self-sufficiency and/or the sustainability of grant funding.

3.2.1. Stage of development

Financial providers perceive a start-up as high risk. In this case, it is more appropriate for a social enterprise to apply for grant funding. There are, however, some exceptions to this where high risk start-up ventures were set up. Thus, if the social enterprise is a start-up patient capital, PRI loans, and venture capital should be considered. Alternatively, if your social enterprise is more established, debt finance should be considered.

| Start up | Established |
|-----------------|--------------------|
| Patient capital | Debt finance |
| Venture capital | |
| PRI loan | |

3.2.2. Market

A finance provider will also look at the market in which your enterprise operates. A social enterprise needs to consider four key factors: the product/service offered, customers, suppliers, competitors. If your income and/or cash flow are unpredictable due to any of these factors, you will be considered as a social enterprise operating in a high risk market. In such cases, you should consider patient capital and equity as possible funding sources. If you operate in lower risk market debt finance could be considered.

| High risk market | Low risk market |
|-------------------------|------------------------|
| Patient capital | Debt finance |
| Equity | |

3.2.3. Management capacity

If the management of your organisation has a track record in running a social enterprise, finance providers will consider the organisation to be less risky and more predictable than one where there is new management or management that must undertake new tasks to navigate the organisation. While management and the board may have the skills to successfully run a voluntary organisation, those skills may not be deemed sufficient to successfully manage an income generating activity. In addition, in order to put your business strategy into practice,

³ SEL (2004) 'Unlocking the potential. A guide to finance for social enterprises', a report from Social Enterprise Coalition, p.51

you will have to consider whether you have adequate staffing, information systems, equipment and controls.

| SE need to invest to heavily | SE has a proven track record |
|------------------------------|------------------------------|
| Patient capital | Debt finance |
| Equity | |

3.2.4. self-sufficiency and sustainability

The sustainability of a social enterprise has to be considered in line with its social mission and its business model. Some social enterprises may never earn enough revenue to be fully self-sufficient, but because of their social mission they can expect to have continued access to grants that together with earned income, would cover their costs. Some providers of finance to social enterprises have guidelines as to the percentage of income that can be from grant sources. Finance providers perceive enterprises to be higher risk, if there is less predictability associated with the business model perhaps because it is highly dependent on one customer, or because the service provided is not considered necessary on a recurring basis.

3.3. What do finance providers look for?⁴

Essentially, the applicant needs to paint a compelling and realistic picture of its social enterprise. This also needs to fit in with the financial provider's approach and speak their language.

3.3.1. What to expect from different types of lenders?

Grant makers: meet their social or environmental benefits

Lenders: they will concentrate on the worst case scenario and focus on what will happen if the social enterprise is not able to repay. Some lenders, such as CDFIs (Community Development Finance Initiatives) and foundations with PRI loan funds that have social or environmental aims, may also examine these missions in assessing a loan.

Equity: funders seek a return on investment that is balanced with the risk they take. They will look at historical performance an indicator of the future, but they will also focus on what an enterprise can reasonably achieve and what return it will provide, given the operating and financial structure.

- An overview of the funding application process

Once you have identified your potential financial provider, you will need to make an application. The financial provider will in the first instance conduct a **desk review** and may subject the application to an internal decision. If successful, this initial decision will lead to 'due diligence' which is a more thorough analysis highlighting the perceived risks that need to be evaluated and possibly mitigated in the financing structure. This typically includes an **on-site visit** of the enterprise, as well as a more detailed financial and qualitative analysis of information gathered during the on-site visit. If all goes well, the provider will then approve your application for funding.

1. Making an application

At the application stage, you will probably be asked the following range of documents⁵:

- Memorandum and articles of association
- Three years of audited and management accounts
- Five years of financial projections which should normally include a realistic projection, a worst case, and a best case
- Organisational structure
- CVs of key employees and board members
- Project description

⁴ SEL (2004) 'Unlocking the potential. A guide to finance for social enterprises', a report from Social Enterprise Coalition

⁵ This info might change according to the type of lender

- Business plan and/or strategy

If your organisation has a current account with a bank, then the pattern of cash inflows and outflows can easily be established. In these circumstances, the bank may be able to use its scoring system when considering an overdraft. If your enterprise has borrowed to purchase a building, follow-on finance for refurbishment may only require updates on the financial situation of the enterprise and a valuation of the building used as security. The projections of future financial performance are likely to include an income statement, balance sheet and cash flow statement plus an explanation of the underlying assumptions made to calculate these.

2. Desk review

The desk review might raise some questions that can be answered by providing additional information or with a phone conversation. Additional information may include: a description of the market the social enterprise operates in and any surveys done to test the market; details of bank accounts and banking relationships details of grants and other financial arrangements; invoices or lists of contracts and customers, particularly where sales have been made but cash has not yet been received, and info about major suppliers and amounts owed to them.

3. On-site visit and due diligence

One or more of the finance provider's representatives will visit your social enterprise's headquarters, the site of the project, and possibly other aspects of the operations (including major customers, grant makers and suppliers) depending on the nature and complexity and finance required. This stage includes a qualitative and quantitative assessment of the enterprise⁶. Qualitative aspects will include relationship with finance providers, management skills, governance, operating environment, clients, and mission/strategy. Quantitative aspects will include the detailed examination historical accounts, anticipated cash flow, underlying assumptions to projections, finance need relative to cash flow (debt service coverage), liquidity and working capital, self-sufficiency.

4. Structuring and negotiations

The finance provider will suggest a financing structure which will include the following:

- The amount of funds approved. This might be below the expectation of the social enterprise and depends upon the assessment of the risk and ability to repay the amount
- The length of time
- The product type⁷
- Pricing/interest rate. Interest rate in the case of loan and price per share in case of equity.
- Conditions for drawdown of funds
- Covenants: typical covenants are the provision of quarterly and annual financial documentation etc.

5. Final approval

A contract is being designed highlighting all the terms and conditions. It is important to have a lawyer reviewing the contract to identify potential problems.

3.4. What are the funding sources available to social enterprises?

Finance for social enterprise can be secured through a variety of sources: mainstream banks, Community Development Finance Institutions (CDFIs)⁸, foundations or charitable trusts, UK government and the European Union and sometimes from companies and individuals. These

⁶ SEL (2004) 'Unlocking the potential. A guide to finance for social enterprises', a report from Social Enterprise Coalition

⁷ More info can be found on SEL (2004) 'Unlocking the potential. A guide to finance for social enterprises', a report from Social Enterprise Coalition, p. 28

⁸ A comprehensive list of CDFIs can be found at: <http://www.cdfa.org.uk/cmdirec.php>

institutions and individuals can provide grants, commercial finance, or equity capital and will be discussed in more detail below.

The list below contains information specific to funding access for social enterprises. This does not include more general funding that might be available to mainstream companies. Some social enterprises might be in a position to tap into such funding opportunities. Further to this, the list does not include sector or borough specific bodies that are willing to finance social enterprises, thus this guide should be used in conjunction with other directories in order to find a more comprehensive list of funding sources.

3.4.1. Mainstream Banks

It is important to realise that mainstream banks are generally providing a service that is based on maximising returns. Banks have traditionally offered their services to small and large businesses. Many commentators raised a range of issues about their ability to understand the needs of social enterprises. As a result, if a social enterprise does not easily fall into a business model, it will find it difficult to secure funding from this source. In spite of this, mainstream financial institutions have recently made stronger efforts to improve their understanding and delivery of services to social enterprises. The list below provides details of the range and types of funding available through mainstream financial institutions.

Barclays⁹ will consider local applications from social enterprises with a business current account and at least six months' trading history with the bank. Applications are assessed on the ability to service debt rather than against available security. Debt funding for start-ups is difficult to obtain. Barclays also supports a range of organisations that provide finance for social enterprises unable to access finance from mainstream providers. These include Venturesome, Aston Reinvestment Trust, Charity Bank and London Rebuilding Society.

Halifax Bank of Scotland¹⁰ (HBOS) has a community banking team which specialises in banking for the not for profit sector. This team is specialised in arranging flexible funding solutions to cover the business needs of individual organisations. These include highly competitive rates of interest, and day to day working capital for those organisations wishing to access finance.

HSBC¹¹ offers people who can make decisions at the local level in order to build a lasting relationship with their clients. This group of professionals at the local level are able to draw upon a range of financial services specialists.

Lloyds TSB¹² has been involved in a wide range of projects on both a commercial and semi-commercial basis, providing capital for social enterprises. The bank is also developing alternative forms of financial provision and support for those communities where mainstream financial services have traditionally been considered inappropriate or inaccessible.

Natwest and the Royal Bank of Scotland¹³ have been the most proactive in providing services for social enterprises. This is because, most of their loans support the growth of small businesses and a sizeable half of these are located in the 5% most deprived areas in the country. The bank has a community development Banking unit which is working with the CDFI sector.

Abbey Charitable Trust¹⁴ has some resources for local regeneration projects in particular areas of the country which encourage cross community partnerships. It prefers to fund a complete project and requests must be for something that is suitable for one-off funding. Only

⁹ More details can be found on www.barclays.com

¹⁰ More details can be found on www.hbosplc.com

¹¹ More details can be found on www.ukbusiness.hsbc.com

¹² More details can be found on www.lloydstsb.com/success4business

¹³ More details can be found on www.natwest.com; www.rbs.co.uk

¹⁴ More details can be found on www.abbeynational.com

organisations with charitable status will be considered. The trust does not fund salaries or core costs.

3.4.2. Community Development Finance Institutions¹⁵

CDFIs are independent organisations that provide access to financial services for people and enterprises. CDFIs will only support enterprises that are viable (i.e. can repay their debt), so that the funds can be used to support others in the future.

Big Issue Invest¹⁶ is part of The Big Issue Group of companies and is a specialist finance provider for social enterprises and CDFIs seeking to scale-up. It is led by social entrepreneurs and staffed by social financiers to fund business solutions that create inclusion, opportunity and regeneration. Big Issue Invest is accredited both as a wholesale and retail CDFI and can offer Community Investment Tax Relief to investors. Loans can range from £50K to £500K, and contract financing might range from £500K to £5m.

Social banks

Charity Bank¹⁷ is a fully authorised bank and a registered general charity. Charity Bank offers loans or guarantees ranging from £3K to £400K for non-profit organisations that commercial banks are unwilling to consider or find too onerous to lend to. Charity Bank also offers short-term bridging loans against delayed grants and working capital loans to expand or improve services. It also offers standby commitments to help with match-funding.

The **Co-operative Bank**¹⁸ has a novel approach to sustainability and environmental issues which makes it different from other mainstream financial institutions. It maintains a strong community focus, and provides services to a substantial number of social enterprises, charities and community groups. It works closely with Community Development Finance Institutions to support for social enterprises' activities and development.

Triodos Bank¹⁹ is an ethical bank that offers a comprehensive range of banking services for social businesses, charities and groups. It lends money only to organisations and businesses pursuing positive social, environmental and cultural goals. Typically, the amount of the loan will represent between 50% and 70% of the value of security offered. It also offers savings and current accounts, and overdraft facilities for social enterprises.

Unity Trust Bank²⁰ is a socially responsible bank providing services to social enterprise and other entities. Unity Trust is more likely to consider viable projects of £100K or more. Loans are available for a range of uses including re-finance, expansion, and capital asset purchase.

3.4.3. Other providers

Adventure Capital Fund²¹ (ACF) supports the creation and growth of sustainable community enterprises in England through the provision of patient capital. ACF funds large scale investments and enterprises developing trading activities. ACF is delivered through a partnership of the Development Trust Association, Local Investment Fund, New Economics Foundation and the Scarman Trust.

Three types of investment are available:

- Major investments for asset development: £50K to £400K;
- Seed capital: £15K to 50K
- Working capital: £15K to £50K

Terms and repayment rates are flexible. All those receiving investment or grants can also receive support in developing their business and achieving their social aims. The aims of the applicant need to be in line with the mission and objectives of ACF.

¹⁵ This information mainly draws upon <http://www.cdfa.org.uk/cmframe.php?prmid=4200>

¹⁶ For more info: www.bigissueinvest.co.uk

¹⁷ For more info: www.charitybank.org

¹⁸ For more info: www.co-operativebank.co.uk (specialist charity unit and community directplus)

¹⁹ For more info: www.triodos.co.uk

²⁰ For more info: www.unity.uk.com

²¹ For more information: www.lif.org.uk/adventurecapitalfund

Co-operative Action²² is a charitable foundation and aims to invest in social and co-operative enterprises and is managed by ICOF (Industrial Common Ownership Fund). Finance and financial services are available throughout the UK to businesses that are starting or expanding a co-operative. Loans between £5K and £75K are available for capital equipment, property or business purchase for working capital or against delayed grants.

Esmée Fairbairn Foundation²³ provides loans that fit its priorities and objectives set out in its guidelines. Loans between £10k and £250k are available. The total fund stands at £3m. The foundation lends money where commercial banks would not lend and grant is not suitable.

Futurebuilders is a £125m fund to help voluntary and community sector to delivery public services. The fund is not yet operational but will provide finance in three key areas: physical asset, intangible assets (knowledge and skills, research, and evidence base), development funding (i.e. one-off resource spend).

Industrial Common Ownership Finance²⁴ (ICOF) provides loan finance to co-operatives, employee-owned businesses and social enterprises. It raises money primarily through the issue of public shares and lends it for projects with a social purpose and collective benefit.

Local Investment Fund²⁵ (LIF) provides finance to community enterprises that are economically viable, but unable to raise sufficient funding through conventional sources. The aim is to help organisations to build sustainability and independence from grant funding. Loans are provided for working capital or capital expenditure and amounts range from £25K to £250K. It is now called the Social Enterprise Loan Fund (TSELF) and has in total invested about £7m in the development of social enterprises across the regions.

Venturesome²⁶ is a risk capital fund worth £5 million. Their focus is on building the social investment market and on demonstrating that the risk capital model can be beneficial for charities and other voluntary sector organisations. The finance can be used to develop income generating activities, to meet a shortfall in funding until fundraising is complete and to provide working capital. Loans and equity arrangements range from £20K to £200K.

3.4.4. Some Larger Regional and Local Funds

London Rebuilding Society²⁷ provides financial support and advice to social enterprises and lends to organisations that are investing in their own communities but find it difficult to raise finance through mainstream banking routes. Loans range from £500 to £50K.

HBV Enterprise²⁸ has a long track record of financing start-up, micro and small enterprises as well as social enterprises. There are no restrictions on the enterprises supported provided the applicant can evidence viability through a robust, up-to-date business plan, and is unable to raise finance from commercial sources such as banks. It currently offers loans to enterprises in seven London Boroughs; Hackney, Camden, Islington, Barnet, Enfield, Haringey and Waltham Forest, starting from £3,000 up £25,000 over a maximum term of five years. It also offers a wide range of enterprise support services including training, advice, and managed office space to start-up and existing enterprises.

Each year, **One London**²⁹ (created by the Greater London Enterprise) provides finance to over 100 businesses across London that have been turned down by their bank, either to help

²² For more info: www.co-op.co.uk

²³ For more info: www.esmeefairbairn.org.uk

²⁴ For more info: www.icof.co.uk

²⁵ For more info: www.lif.org.uk and www.tself.org.uk

²⁶ For more info: www.venturesome.org

²⁷ For more info: www.londonreguilding.com

²⁸ For more info: www.hbv.org.uk

²⁹ For more info: www.one-london.com

them get started or to grow. Clients are assisted by their enterprise agency and all borrowers receive a business mentor. In addition to Start Up (to £7,500) and Growth (£20,000) loans, we offer up to £40,000 under the SFLG (Small Firm Loan Guarantee), mezzanine loans up to £250,000 in London's Objective 2 areas, and larger growth (£75,000) and non-residential property loans (£250,000 or £100,000 for profit distributing organisations). Clients may also receive pre-finance support from the LDA Access to Finance Programme.

Breakthrough³⁰ was set up by Community Action Network and Permira (private equity firm) to provide strategic support and growth capital to selected established social enterprises to help them scale up their businesses.

3.4.5. Government funding³¹

In order to find general information about government funding, an online portal for the social economy sector has been set up.

Awards for All³² is a Lottery grants scheme aimed at local communities. It awards grants of between £500 and £5,000 in a simple and straight forward way. It can fund projects that enable people to take part in art, sport, heritage and community activities, as well as projects that promote education, the environment and health in the local community. The scheme can provide finance between £500 and £5,000. Sometimes quite small sums of money can have a big impact.

In April 2007, the Department of Health has introduced a **Social Enterprise Investment Fund**³³ (SEIF) of £100 million over a four year period (£63 million capital and £27 million revenue from 2008/09 to 2010/11). SEIF is designed to support the delivery by social enterprises of health and social care services and products in England. Funding is provided for start-up and longer term investment for social enterprises aiming to become financially self-sustainable. SEIF can offer finance for start-up costs (up to £20K) as well as loans, loan guarantees, grants and equity capital or a mixture of these. There is no minimum loan but the upward limit is £10m.

3.4.6. Corporate Social Responsibility?

Corporate Social Responsibility can be a potential source of funding for social enterprises. In particular, multinational companies allocate a significant amount of money into initiatives that benefit society at large. Social enterprises can be a delivery arm of such multinational companies which would provide funding and advice to social enterprises. However, this potential has not been yet discussed within the mainstream literature.

4. BUSINESS SUPPORT FOR SOCIAL ENTERPRISES

4.1. Range of business support and training services available to social enterprises

A range of different specialist support providers are available including:

- Specialist social enterprise support organisations. Many of these serve particular geographic or sectoral groups and offer a range of business support services;
- Sector specialist organisations (e.g. Development Trust Association or Co-operatives UK) operating at national and regional level;
- Mainstream business support e.g. Business Link.
- Colleges, further/higher education bodies and training organisations;

³⁰ For more info: <http://www.can-online.org.uk> and <http://www.permira.com>

³¹ For more info: www.governmentfunding.org.uk

³² For more info: www.awardsforall.org.uk/england/index.html

³³ For more info: www.dh.gov.uk/socialenterprise

- Public sector bodies e.g. Regional Development Agencies (RDAs), local authorities and county councils;
- Commercial support e.g. solicitors, accountants and consultants.

This list attempts to include a wide range of business support and training providers but some words of cautions are necessary. Although some of these organisations provide a very useful service to social enterprises, others - in particular Business Link - have been criticised for their lack of understanding of the specific business support and training needs of social enterprises. Similarly, there are question marks about some organisations that tend to consider social enterprises as conventional businesses and claim that they provide support for them.

4.2. Advice for start up social enterprises

For 25 years, **East London Small Business Centre**³⁴ has helped people start and run small businesses in East London. To date tens of thousands budding entrepreneurs have contacted us to explore the possibility of starting up, and every year over 300 budding entrepreneurs take the plunge. Our services are free of charge when starting up and mostly free or highly subsidised thereafter. As well as helping new businesses we also provide help and support to existing small and micro businesses. Businesses we help survive longer than the national average.

Stridingout³⁵ is a pan London organisation that provides a range of services for people who want to set up a social enterprise.

Innovation Central³⁶ is based in Camden and helps people to transform their ideas into a viable business proposition. This also includes potential social entrepreneurs. The organisation can offer up to £3.5K towards the cost of producing a business plan.

The **Greater London Enterprise**³⁷ provides advice and general help to people who are thinking of setting up a business. GLE social enterprise experts are ready to assist with all aspects of setting up and developing a social enterprise or locate appropriate advice if required.

The **Greenwich Co-operative Development Agency**³⁸ (GCDA) encourages and supports potential community entrepreneurs to put their ideas into practice. The approach creates ownership of the proposal amongst all involved and commitment to the long-term sustainability of the enterprise.

Business London (Enterprise Central)³⁹ provides this free course is designed to help people like you to think about starting your own social enterprise - covering the full range of opportunities presented in business through becoming a social enterprise.

The same organisation also offers a free introduction to the world of social enterprise - what they are, what they have done, what they are doing, and how they directly benefit the communities in which they operate.

4.3. Advice on raising finance

Profunding⁴⁰ offers up to date news and information to all those involved in raising finance for social economy organisations.

³⁴ For more info: www.goeast.org

³⁵ For more info: <http://www.stridingout.co.uk/>

³⁶ For more info: <http://www.innovationcentral.co.uk/InnovationCentral/>

³⁷ For more info: <http://www.gle.co.uk/onelondon/startup/index.php>

³⁸ For more info: <http://www.gcda.org.uk>

³⁹ For more info: <http://www.setas.co.uk/course>

⁴⁰ For more info: www.fundinginfo.org.uk/profundinghome.html

The Sustainable Funding Project (NCVO)⁴¹ – encourages and enables social economy organisations to explore and exploit a full and diverse range of income and finance options to develop a sustainable mix of funding.

Red Ochre⁴² provides a workshop to equip participants with the information and understanding to develop sustainable income and reduce dependency on grants. It examines trading and Social Enterprise, raising investment capital through loans, investments, venture capital or grants, as well as collaboration and partnership. Participants will understand the risk of over reliance of grant income, the why and when to consider earning income commercially, what is necessary to access these resources, and the impact this may have on your organisation.

4.4. Training opportunities

The Social Enterprise Partnership⁴³ (SEP) is working with the Institute of Leadership and Management (ILM) to make available two new social enterprise training products—the **ILM Level 5 Award** in Knowledge of Social Enterprise, and a new training course in **Understanding Social Enterprise**.

The south East London Community Foundation has announced its **Community Learning Chest**⁴⁴ grant programme is now open to applications. Individuals and community based organisations (with an income of less than £50,000) are able to apply for up to £5,000 of funding to develop learning initiatives. Applications can be made at any time. In addition, the Foundation runs a number of other grant making programmes to promote neighbourhood renewal and regeneration initiatives.

The **Central London Enterprise Consortium**⁴⁵ runs a programme which will provide expert advice, training and information to anyone wishing to start or grow a small business. Trained business advisers across central London are being supported to provide specialist social enterprise support by Coin Street Community Builders, one of the country's leading social enterprises, and Social Enterprise London, the specialist support agency for social enterprises in London.

The **Inner City Entrepreneurs' Fund**⁴⁶ exists to provide financial support to London's inner city businesses in a key area for growing companies' workforce and management training and skills development. Grants ranging from £1,000 to £10,000 are available to eligible companies. Although the type of training is not prescribed by the Fund, the applying company needs to demonstrate how the training is crucial for the development and sustainability of its business.

Setas is the Social Enterprise training and support consortium. Its website hosts a considerable amount of information on training and business support for social enterprises⁴⁷.

5. SECURING PROPERTY AND PREMISES

The importance of premises for businesses in general and social enterprises in particular is well known. Premises can be used in a variety of ways in order to generate income and in the long run would help to become less dependent on grants. In practice, the key initial problem is

⁴¹ For more info: www.ncvo-vol.org.uk/sfp

⁴² For more info: <http://www.setas.co.uk/course>

⁴³ For more info: www.sepgb.co.uk

⁴⁴ For more info: www.selcf.org.uk/grants.htm

⁴⁵ For more info: www.enterprisecentral.co.uk

⁴⁶ For more info: www.neweconomics.org/gen/m2_i4_ic100.aspx

⁴⁷ <http://www.setas.co.uk/index.asp>

to identify the right premise and find the finance to purchase or lease⁴⁸. At this stage, it is crucial to seek professional advice from a property sales or letting specialist and a solicitor.

A variety of funding bodies examined above (sec.3) offer grants to purchase or lease premises that can be used for a variety of purposes. The Esmée Fairbairn Foundation, for example, grants loans to purchase and refurbish premises. Local authorities and English Partnerships are other sources can offer other sources of accommodation⁴⁹. The London Development Agency and Business Link for London are also able to provide information about suitable premises for social enterprises. In addition, some organisations such as CAN (Community Action Network) might provide or help to find suitable office space.

For social enterprises operating in the Health & Social Care sector, support for the purchase of premises might be offered by the NHS. The Estatecode guidance for NHS Trusts and Primary Care Trusts (PCTs) on the Department of Health website gives information about the leasing or the sale of NHS assets. It includes information about town planning, all aspects of leases, management of property and sales of land and buildings. In addition, the PCT might also offer grants to assist in the acquisition or improvement of non-NHS premises⁵⁰.

6. LEGAL FORMS FOR SOCIAL ENTERPRISE

What are social enterprises' common legal forms and their associated benefits?

Social enterprises can take a variety of forms and legal structures (see also the table in the page below). The legal status of the organisation may affect how you can use different types of finance. It is therefore useful to examine the limitations that different legal structures impose on the use of debt or equity finance. Many social enterprises are structured as **companies limited by guarantee** as this is the most widely used structure for a registered charity. The main issue for these companies is that they cannot raise equity through issuing shares.

Many social enterprises are registered as **Industrial Provident Societies (IPS)**. There are two types of IPS: **community benefits societies and co-operatives**. Community benefit societies provide services for the community rather than individual members⁵¹. On the other hand, co-operatives run for the mutual benefit of their members, with any surplus usually being ploughed back into the organisation to provide better services and facilities.

An IPS has borrowing powers and can also raise equity by issuing shares. An IPS community benefit society can be recognised as a charity and be exempt from registration with the Charity Commission. However, a cooperative usually finds it difficult to gain charitable status, which limits its access to grants. Where there are no shareholders and the members give a 'guarantee' to cover the company's liability. In these companies, profits are generally reinvested back into the company⁵².

A new company form, the **Community Interest Company (CIC)** was introduced in 2005. CICs are able to borrow, and CICs limited by shares will be able to raise equity (with a capped return). CICs have all the flexibility and certainty of the company form, but with some special features to ensure they are working for the benefit of the community⁵³.

⁴⁸ The Royal Institution of Chartered Surveyors and the Law Society on www.lawsociety.org.uk

⁴⁹ More info on www.englishpartnerships.co.uk

⁵⁰ For more information: <http://www.nhs.uk/England/AuthoritiesTrusts/Pct/Default.aspx>

⁵¹ for more info http://www.fsa.gov.uk/Pages/Doing/small_firms/MSR/Societies/index.shtml

⁵² More information is available from Companies House at: <http://www.companieshouse.gov.uk/> and <http://www.cooperatives-uk.coop/live/welcome.asp?id=1003>

⁵³ For more info see: 'Keeping it legal: legal forms for social enterprises', by Bates, Wells and Braithwaite and Social Enterprise London (www.socialenterprise.org.uk/finance)

Charitable Incorporated Organisation (CIO): a new form which will only be available to charities. Members and managers of a CIO will be protected from the financial liabilities of their organisation. It will be easier for people dealing with a CIO to assess any potential credit risk, benefiting both the body and those dealing with it⁵⁴.

Whilst these are the most common legal forms of social enterprise, there are others less common forms including **trusts** and **unincorporated associations**. These two legal forms have particular disadvantages in terms of personal liability. For more information see the table below.

⁵⁴ The Business Link website has more.
<http://www.businesslink.gov.uk/bdotg/action/detail?type=RESOURCES&itemId=1077476119>

LEGAL STRUCTURES FOR SOCIAL ENTERPRISE AT A GLANCE

| Legal structure | Summary: most typical features | Ownership, governance and constitution | Is it a legal person distinct from those who own and/or run it? | Can its activities benefit those who own and/or run it? | Assets "locked in" for community benefit? | Can it be a charity and get charitable status tax benefits? | Differences in the law as it applies in Scotland or Northern Ireland? |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|---------------------------------------------------------------------|-----------------------------------------------------------------------|
| Unincorporated association | Informal; no general regulation of this structure; need to make own rules. | Nobody owns: governed according to own rules. | No: can create problems for contracts, holding property and liability of members. | Depends on own rules. | Would need bespoke drafting to achieve this. | Yes if it meets the criteria for being a charity. | No specific differences. |
| Trust | A way of holding assets so as to separate legal ownership from economic interest. | Assets owned by trustees and managed in interests of beneficiaries on the terms of the trust. | No: trustees personally liable. | Trustees/ directors no, unless trust, court or Charity Commission permit. | Yes (if trust established for community benefit). | Yes if it meets the criteria for being a charity. | No, subject to differences between English and Scots trust law. |
| Limited company (other than Community Interest Company) www.companieshouse.gov.uk | Most frequently adopted corporate legal structure; can be adapted to suit most purposes. | Directors manage business on behalf of members. Considerable flexibility over internal rules. | Yes; members' liability limited to amount unpaid on shares or by guarantee. | Yes (but no dividends etc to members if it is a company limited by guarantee). | Would need bespoke drafting in articles (which could be amended by members). | Yes if it meets the criteria for being a charity. | Scotland: no. Northern Ireland: separate but similar legislation. |
| Community interest company (CIC) www.cicregulator.gov.uk | New "off-the-peg" limited company structure for social enterprise with secure "asset lock" and focus on community benefit. | As for other limited companies, but subject to additional regulation to ensure community benefits. | Yes; members' liability limited to amount unpaid on shares or by guarantee. | Yes, but must benefit wider community as well. Can pay limited dividends to private investors. | Yes, through standard provisions which all CICs must include in their constitutions. | No, but can become a charity if it ceases to be a CIC. | Scotland: no. Northern Ireland: legislation not yet in place. |
| Industrial & Provident Society (IPS) (Co-operative) www.fsa.gov.uk/Pages/Doing/Info/MSR/ | For bona fide co-operatives that serve members' interests by trading with them or otherwise supplying them with goods or services. | Committee / officers manage on behalf of members. One member, one vote (regardless of e.g. sizes of respective shareholdings). | Yes; members liability limited to amount unpaid on shares. | Yes, but should do so mostly by members trading with society, using its facilities etc, not as a result of e.g. shareholdings. | Would need bespoke drafting in articles (which could be amended by members). | No – would have to be constituted as community benefit type of IPS. | Scotland: no. Northern Ireland: separate (but similar) legislation. |
| Industrial & Provident Society (IPS) (Community Benefit Society (BenComm)) | Benefit community other than just own members and have special reason not to be companies. | Like Co-op type, but new legislation provides option of more secure form of asset lock. | Yes; members liability limited to amount unpaid on shares. | Must primarily benefit non-members; asset lock applies. | Yes (asset lock only survives dissolution if new statutory form of asset lock adopted). | Yes if it meets the criteria for being a charity. | Scotland: no. Northern Ireland: legislation not yet in place. |

Source: www.businesslink.gov.uk/Taxes_and_Returns_files/LegalStructures.doc



7. OTHER USEFUL LINKS AND DOCUMENTS

Bank of England (2003) '**The financing of social enterprises: a special report by the Bank of England**'. Available on http://www.bankofengland.co.uk/publications/financeforsmallfirms/financing_social_enterprise_report.pdf

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Department of Health (2007) '**Welcoming social enterprise into health and social care: A resource pack for social enterprise providers and commissioners**'. Available on http://www.dh.gov.uk/en/Publicationsandstatistics/Publications/PublicationsPolicyAndGuidance/DH_072928

Pearce, J (2003) '**Social Enterprise in Anytown**', published by the Calouste Gulbenkian Foundation

Social Enterprise Coalition (2004) '**Unlocking the potential. A guide to finance for social enterprises**', published by the Social Enterprise Coalition

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Social Enterprise London (2003) '**Keeping it legal: legal forms for social enterprises**', by Bates, Wells and Braithwaite and Social Enterprise London. Available on <http://www.sel.org.uk/docs/Keeping%20it%20Legal.pdf>

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