

Social Enterprise Funding and Finance

This KaMSEN factsheet looks at the financial aspects of setting up and running a social enterprise.

Types of finance

Social enterprises may be funded from a number of different sources. It is quite common for a social enterprise to have a mixed funding profile, but generating trading income is a principle activity. Other ways of generating finance include, loans, equity finance, grants and donations and in-kind contribution.



Own investment

Most businesses also invest some of their own funds in the development of new business and to meet working capital requirements. Any decision about the use of own funds needs to be made in accordance with the organisation's structure, regulations and governance arrangements.

Trading income

All social enterprises generate income from trading goods and/or services for profit or surplus. Trading occurs when an organisation voluntarily undertakes exchanges goods or services with another on a regular basis. In developed economies this is usually for money or credit. There is extensive guidance on what constitutes trading and related tax implications. Examples include a contract for delivery of support services to children and families, selling workshops and training, selling utilities, running a community owned shop.

Loans are often used to meet requirements for working capital. They are usually for large amounts and are often secured on assets of the organisation. Some organisations also arrange bank overdrafts. In addition to the commercial banks there are a number of social banks and lenders.

Equity finance

In the world of finance 'Equity' has come to mean the way in which a 'share' of a business can be allocated to someone in return for their investment. It is distinct from loan finance as loans do not grant, in themselves, any rights of participation in the organisation e.g. give a right to vote in decisions about the affairs of the organisation.

Having a share in a business can confer a strong sense of ownership, although many social enterprises are not structured so as to be able to use a share model. There are a number of different types of shares, including withdrawal shares, transferable shares and preference shares, membership shares, some of which are distinct to particular types of legal structure.

Equity finance is a complex area. For more information about equity finance as a potential financial model for social enterprise see links and contacts below or contact KaMSEN for further information.

Grants

Many organisations with social purpose seek to access grants as one element of their funding model. *Sources include charitable trusts and foundations, BIG Lottery fund, public sector funders and Parish Councils and European finance.*

The advantage of grants is that they do not generally have to be repaid and are very useful for start-ups or project based funding. However, availability of grants varies over time, between areas and sectors. Eligibility criteria are individual to each scheme and may require match funding or to be paid as a loan. Grant schemes are often competitive and take time and resources in dealing both with the application process and if successful with the administration, monitoring and reporting processes. They also tend to be restricted sources of income placing limits on what the money can be used for and also come with requirements as to when and how the money is used.

In-kind contributions

These can be provided in terms of people time or offers of equipment or supplies free or at a reduced cost.

Practical points

- Know all your costs and understand your pricing
- Your legal structure may affect the types of financing available for your social enterprise
- Many social enterprises have a mixed funding profile alongside trading income
- Plan finance short and long term against the detail of what you are going to deliver and how

Links and Resources

Business Link www.businesslink.gov.uk

Simply Finance A comprehensive Guide to the different options for financing a community enterprise Co-operatives UK www.uk.coop

Community shares www.communityshares.org.uk

Community Share and Bond Issues – The sharpest tool in the box

<http://www.communityplanning.net/pub-film/pdf/CommunityShareAndBondIssues.pdf>

Social banks and lenders

Unity Trust Bank www.unity.uk.com

Triodos bank www.triodos.uk

Charity Bank www.charitybank.org.

Cooperative and Community Finance www.coopfinance.coop

Big Invest www.biginvest.co.uk

Community Development Finance Initiative [CDFI] www.cdfa.org.uk

For further information and help

Contact info@kamsen.org.uk to be put in touch with an experienced social enterprise adviser.

Disclaimer

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