

Section 1 Nailing the Jelly

Introduction

Section 1 is called 'Nailing the Jelly' because arriving at commonly agreed definitions about social enterprise is as 'tricky as nailing jelly'. In this section we look at the following key topics:

Topic 1 Social Enterprise – What is it?

When you have worked through this topic you should be able to:

- provide a *definition* of social enterprise
- provide a definition of *a* social enterprise
- explain the key differences between social enterprise and a social enterprise.

Topic 2 The Different Kinds of Social Enterprise

When you have worked through this topic you should be able to:

- describe the *frameworks* of each of the following kinds of social enterprise:
 - employee-owned businesses
 - community businesses
 - credit unions
 - co-operatives
 - development trusts
 - social firms
 - social businesses
 - intermediate labour market companies
- list some of the specific advantages and pitfalls associated with setting up and running some of these enterprises.

Topic 3 The Hallmarks of Social Enterprise

When you have worked through this topic you should be able to:

- list the three *hallmarks* of a social enterprise
- identify the key objectives (*social aim/mission*) which you intend to pursue within your own social enterprise.

Topic 4 The Size and Scope of the Sector

When you have worked through this topic you should be able to:

- describe the *size* and *scope* of the social enterprise sector within the UK
- identify which framework is most likely to be appropriate to support *your* social enterprise.

Topic 5 Suitable Legal Structures for Social Firms

When you have worked through this topic you should be able to:

- explain the difference between an *incorporated* and an *unincorporated* business
- explain the difference between a *company* and a *society*
- explain the difference between a *share company* and a *guarantee company*
- explain the difference between a *charity* and a *co-operative*
- identify the legal structure likely to be most appropriate for your social enterprise.

Topic 6 Sources of Funding

When you have worked through this topic you should be able to:

- describe some of the main sources of funding available to social enterprises
- begin the process of identifying which sources of funding are likely to be most appropriate for your social enterprise.



Resource Finder

Organisation	Website address
Accept Network (information about social firms in UK and Europe)	www.accept-net.org
Access Funds (information about grants)	www.access-funds.co.uk
Association of London government	www.alg.gov.uk
Business Link	www.businesslink.org
Café Direct	www.cafedirect.co.uk
Charities Commission	www.charity-commission.gov.uk
Companies House	www.companies-house.gov.uk
CREATE	www.createuk.com
Day Chocolate Company (<i>Divine Chocolate</i>)	www.divinechocolate.com
Department of Trade & Industry (<i>European Funding section</i>)	www.dti.gov.uk/europe/structural.html
Development Trusts Association	www.dta.org.uk
Forth Sector Organisation	www.forthsector.org.uk
Glasgow Works	www.glasgowworks.co.uk
Goole Development Trust	www.gdt.org.uk
Grants Online	www.co-financing.co.uk
Immune Development Trust	www.idt.org.uk
InfoRurale (<i>information about grants</i>)	www.inforurale.org.uk
j4b (<i>information about grants</i>)	www.j4b.co.uk
Kingsgate Community Association Credit Union Project	www.londoncreditunion.co.uk
National Association for Councils of Voluntary Service (NACVS)	www.nacvs.org.uk
National Lottery & Millennium Commission grants	www.lotterygoodcauses.org.uk
New Deal government scheme information	www.new-deal-innovation.org.uk
Organisation for Economic Co-operation and Development	www.oecd.org
Portsmouth Savers Credit Union Ltd	www.portsmouthsavers.co.uk
ProFunding (<i>information about grants</i>)	www.fundinginformation.org
Social Enterprise Unit	www.social-enterprises.org.uk
Social Firms UK	www.socialfirms.co.uk
South Sheffield Credit Union Ltd	www.solis.co.uk/credit-union
Suma Food Co-operative	www.suma.co.uk
The Big Issue	www.bigissue.com
The Phone Co-operative	www.phoncoop.org.uk
Traidcraft	www.traidcraft.co.uk
UK Fundraising (<i>also Europe</i>)	www.fundraising.co.uk/grants.html
Veggies Food Co-operative	www.veggies.org.uk

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Topic 1 Social Enterprise – What is it?

Before we can consider why social enterprise is important, or how to set up and run a social enterprise, we need to clarify exactly what it is we are talking about. We can do this by looking at some of the many different interpretations and definitions of social enterprise as a concept, and finding common ground for each.

What is social enterprise?

Here are a few examples of some of the ways in which social enterprise has been described:

‘Social enterprise can be seen as a key part of the effort to eradicate social exclusion ...’

Social Enterprise London

‘The building of partnerships to ensure support reaches deprived communities effectively.’

Patricia Hewitt MP, former Minister for Small Business

‘Social enterprise is rooted in a double bottom line ... the art of simultaneously pursuing financial and social returns on investment.’

The Northland Institute

‘We see social enterprise as providing innovative solutions to some of the challenges faced by many communities across the nation.’

Douglas Alexander MP

These statements attempt to describe social enterprise as a concept. But what about the definition of an *individual social enterprise*?

What is a social enterprise?

Again, there are a number of different definitions of a social enterprise.

A social enterprise is:

‘a competitive business, owned and trading for a social purpose [it] seeks to succeed as a business by establishing a market share and making a profit ... [it] combines the need to be successful with social aims’

and

social enterprises are businesses that:

‘emphasise the long-term benefits for employees, consumers and the community’

‘seek to be viable trading concerns, making a surplus from trading’

‘have explicit social aims such as job creation, training and provision of local services. Have ethical values including a commitment to local capacity building. They are accountable to their members and the wider community for their social, environmental and economic impact’

‘are autonomous organisations with a governance and ownership structure based on participation by stakeholder groups (users or clients, local community groups, etc) or by trustees. Profits are distributed as profit sharing to stakeholders or used for the benefit of the community’

Social Enterprise London (visit their website at www.sel.org.uk)

The Linz conference gives the following definition of a *social firm*:

‘a business created for the employment of people with disabilities or other disadvantages in the labour market’ (and) ‘is a business which uses its own market orientated production of goods and services to pursue its social mission.’

Further, a social enterprise may be:

'any private activity conducted in the public interest, organised with an entrepreneurial strategy but whose main purpose is not the maximisation of profit but the attainment of certain economic and social goals, and which has a capacity of bringing innovative solutions to the problems of social exclusion and unemployment.'

Organisation for Economic Co-operation and Development

As you can see from these statements, there are a number of possible interpretations. However, despite the numerous definitions, people seem to agree that a social enterprise is a business that:

- aims, primarily, to be of benefit to a geographical community and/or community of kind through viable trading activity, or
- aims, primarily, to provide training and employment opportunities for disadvantaged and/or disabled people through viable trading opportunities, or
- aims to be of benefit to the community and also aims to provide training and employment opportunities for disadvantaged and/or disabled people through viable trading opportunities.

Jargon Buster

Linz Conference

Conference, held at Johannes Kepler University, Linz, in 1996, which considered the use of computer-based applications for helping disabled and elderly people.

Social Exclusion

A term used to describe what can happen when people or geographical areas suffer from a combination of linked problems, such as unemployment, poor housing, low incomes, high levels of crime, bad health and family breakdown.

Rural Isolation

A term used to describe the physical and emotional isolation experienced by people who live in rural areas, and who have limited access to employment opportunities, public transport, health care and other public services.

OECD

Organisation for Economic Co-operation and Development. Their website can be found at www.oecd.org

Check Point

Before we move on to consider the various types of social enterprise that can exist, use this check point as an opportunity to think about how you would define (1) social enterprise and (2) a social enterprise.

You may find it useful and helpful to talk to colleagues who are currently involved with either social enterprise as a concept, or with an individual social enterprise.

I would say that social enterprise is:

I would say that a social enterprise is:

You are not here merely to make a living. You are here in order to enable the world to live more amply, with greater vision, with a finer spirit of hope and achievement. You are here to enrich the world, and you impoverish yourself if you forget the errand.

Woodrow Wilson, former President of the USA

Social enterprise is a broad concept, so you probably came up with a definition such as 'communities helping themselves solve problems of social exclusion through business and partnerships'.

Your definition of a social enterprise is likely to be more specific, such as 'an individual business benefiting a local community, and/or employment and training of specifically disadvantaged/disabled people through viable trading'.

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Topic 2 The Different Kinds of Social Enterprises

Despite the fact that the motivation behind each social enterprise is the same – *to support the community and/or help individuals through viable trading activity* – the actual framework of each business can vary enormously. We shall look at the different frameworks for social enterprises; their primary aims; who runs them and for whom. You will then investigate specific local examples of some of the frameworks, to help you begin to decide which framework is likely to be most suitable for your aims and enterprise.

Frameworks for social enterprises

- employee-owned businesses
- community businesses
- co-operatives
- social firms
- credit unions
- development trusts
- social businesses
- intermediate labour market companies



Employee-owned businesses

A social enterprise can be an employee-owned business as the result of:

- the owner of a business wanting to retire, but being unable to find anyone – apart from the employees – willing to buy the business
- a business which is facing financial threats being bought out by the employees, who then work together, often as a co-operative or other similar structure, to turn the business around
- a business being almost totally dependent on the employees' highly specialised skills and knowledge – e.g. in computer software design, or specific consultancy skills
- the owner of the business believing in the value and importance of social enterprise, and the desirability of employee ownership.

Community businesses

A social enterprise is a community business when it:

- operates within a specific and targeted geographical area
- is owned, managed and controlled by the local community within the targeted area
- aims to provide goods or services for the benefit of the local community within the targeted area.

Credit unions

A social enterprise is a credit union when people band together to:

- form a financial co-operative which is owned and controlled by its members
- provide financial services to its members such as
 - paying annual dividends to those members who save with the credit union
 - providing low-cost loans to members who need to borrow money
- provide these savings and loan facilities only to members of the credit union, and no-one else.

Co-operatives

A social enterprise can be categorised as a co-operative when:

- a group of people who share common goals, values and aims get together to run a business which is jointly owned and democratically controlled
- everyone in the business accepts equal responsibility for decision making, participates equally and benefits equally.

Development trusts

A social enterprise is a development trust when it:

- focuses on the environmental, economic and social regeneration of a specific geographic area or community
- seeks to build and maintain partnerships with the local community, and the public, private and voluntary sectors
- is community based and owned, is not operating in order to generate private profit, and its independent and working towards self-sufficiency.

Social firms

A social enterprise is said to be a social firm when:

- it is created for the primary purpose of providing jobs for people with a disability and other disadvantage in the labour market
- it produces goods and/or services which are market orientated, but which are produced or sold in order to fulfil the business' primary social purpose
- more than 25% of its employees are disabled
- more than 50% of the income to the social firm is derived through the sale of goods or services (rather than through grants, donations, etc.)
- it pays at least the full minimum wage to all its workers, regardless of productivity efficiency
- work opportunities are equal between disadvantaged and non-disadvantaged employees.

It has been suggested that social firms should have a maximum percentage of disabled people – 50% – otherwise they are not integrating able-bodied and disabled people.

Social businesses

A social enterprise can be categorised as a social business when it is:

- owned by a charity, a co-operative, a non-government organisation (NGO) or is run as a trust – e.g. Oxfam Trading.

Intermediate labour market company

A social enterprise is called an intermediate labour market company (often referred to as an ILM) when the business is created in order to:

- provide training and work experience either to people with a disability, people who have been unemployed for a considerable length of time, or people who are significantly disadvantaged in accessing the labour market
- provide a supportive training and work experience environment
- act as a springboard into long-term employment.

**My interest
is in the future ...
because I am going to
spend the rest of my life
there...**

**Charles F. Kettering,
engineer and
inventor**

**We do
what we are, and
we are what we do.**

**Abraham Maslow,
psychologist and
motivational
theorist**



Activity

Find local examples of several of the types of enterprises described above. Talk to people currently involved in each enterprise, about how the enterprises were set up; their aims and framework, and any advantages or pitfalls they have encountered.

Make notes on anything that may be useful to you in helping you set up, plan or establish a framework for your enterprise. You can use the format here for your notes, copying it as many times as you wish.

Enterprise name:	Aim:
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Framework:

Advantages:	Pitfalls:
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My own notes and comments

You will have found some practical examples of how different frameworks suit different aims and communities. Your findings will help clarify your own mind about the type of framework that will suit your enterprise, and pitfalls to be avoided. The next topic contains specific examples of enterprises using different frameworks, some of which you may not have been able to find locally.

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Topic 3 The Hallmarks of a Social Enterprise?

This topic looks at the three essential hallmarks of all social enterprises, and how these are exemplified in practical terms by specific enterprises.

A social enterprise – regardless of whether it is an employee-owned business, a co-operative, a community business or whatever – must:

- 1 have a social aim/mission – e.g. to provide employment opportunities for people with mental health problems
- 2 trade – if the business does not trade, then it is a voluntary organisation
- 3 seek profit – and use the profit to fulfil its social aim/mission.

This loop is illustrated in the diagram below.

Figure 1 – The three hallmarks of a social enterprise



Here are some examples of social enterprises which sell goods and services in order to make a profit, so that they can plough the profit back into the business, and so continue to fulfil their social aim/mission.

Jigsaw Pantry in Accrington, Lancashire, is a **community business** which is managed by a Board of Trustees. The Jigsaw Pantry is a wholefood, vegetarian restaurant which also has its own bakery, and which operates commercial sandwich supply and outside catering services. The profit from the business is used to:

- 1 provide training and employment opportunities for people with a learning disability
- 2 promote healthy eating to the community through the use of fresh, local wholefood and vegetarian products.

Castle Project Print Finishers, a social enterprise in Cambridge, is a **co-operative**. Each employee owns an equal share in the business, and each is entitled to one vote at meetings. Castle Project Print Finishers trades as a business which sells print services and the profit from the business is used to:

- 1 provide paid employment for people with mental health problems and/or learning disabilities
- 2 provide training to NVQ standard
- 3 provide sheltered accommodation.

Speke Community Credit Union, based in Merseyside, came into being when the High Street banks deserted Speke and the only other option for obtaining credit for the Speke community was to borrow money from local money lenders and, of course, pay exorbitant rates of interest. Mike Knight, former Community Development Officer with Warrington Borough Council, gave up his job in order to develop the project. Speke Community Credit Union now has over 2000 members, all drawn from the local community, who are able to save and borrow, secure in the knowledge that their savings are safe, and that they are paying a very low rate of interest on any money loaned to them by the Credit Union.



Heeley Millennium Park in Sheffield is the key project of the Heeley Development Trust, and has been developed in order to achieve a number of community based objectives, including to:

- 1 create new jobs, training places and volunteering opportunities for people in the Heeley district of Sheffield
- 2 undertake a wide range of environmental improvements in the district
- 3 improve the quality of life for people living in Heeley.

Pentreath Print, based in Camborne, Cornwall, is a **social firm** that began life in the psychiatric unit of an NHS hospital. Pentreath Print's key objectives are to provide training and employment opportunities for people with severe or enduring mental ill health, and to develop a sustainable print shop.

Scoobeys in Birmingham is an **intermediate labour market company (ILM)** which was established for the prime purpose of assisting long-term unemployed people back into employment. Scoobeys, which now offers training in IT, Business Administration, Engineering and Catering, was originally funded by an intermediate labour market initiative led by Birmingham City Council.

There
are two worlds ...
the world we measure
with line and rule, and the
world we feel with our hearts
and our imaginations.
James Henry Leigh Hunt,
poet and essayist

Check Point

Look back at each case study and note down:

- its aim(s)
- its form of trade
- how it uses its profit to achieve its aim(s).

Note down the same things for your own enterprise.

The aim(s) of our enterprise are:	Our enterprise's form of trade is:
We will use the profits of our trade to achieve our aims by:	

You should now have a clear aim/aims for your planned or developing social enterprise; know how you will trade, and have decided how you will use your profits to achieve your aim(s). For example:

- 'Our aim is to provide social support and community-based work experience for people with long-term mental health problems.'
- 'Our form of trade is a café run by people with long-term mental health problems.'
- 'Our profits will be ploughed back into the enterprise, and also used to provide community-based counselling for people with long-term mental health problems.'

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Topic 4 The Size and Scope of the Sector

In this topic, we shall look at the size and scope of the various types of social enterprise, so that you will be able to see how your enterprise fits into a larger area of activity happening around the UK (and abroad). Throughout the UK there are numerous social enterprises, which share three key hallmarks of having a social aim/mission, trading, and seeking to make a profit so as to achieve their social aim/mission.

Employee-owned businesses

Demos, the independent think-tank and research institute based in London, estimates that, in the UK, there are around 1600 employee-owned and partially employee-owned businesses, but not all of these can be classified as social enterprises. For example, the John Lewis Partnership is owned by its employees, but is run as a for-profit business, rather than a social enterprise.

Websites to visit

www.demos.co.uk – organisation launched in 1993 to help develop radical solutions to long-term problems.

www.employee-ownership.org.uk – an excellent resource for anyone wanting to know more about employee-owned businesses; this organisation aims to raise awareness of the business opportunities available to small firms under threat of closure.

Go to their website and click on Case Studies to read about how a number of threatened businesses opted for employee ownership.

www.baynet.co.uk/colliery – the employee-owned Tower Colliery, based in Hirwaun, South Wales.

www.ps-refrigeration.co.uk – the Nottingham-based, employee-owned company P.S. Refrigeration Ltd.

Community businesses

There are many community businesses throughout the UK. These are generally in disadvantaged urban and rural areas where there may be limited employment opportunities and/or significant socio-economic disadvantage. Some rural community businesses have been set up to establish otherwise non-viable commercial enterprises, particularly in the Islands and Highlands of Scotland.

Community businesses, which focus on providing goods and services, plus training and employment opportunities to members of the local community, can be as diverse as:

- Henham Village Community Shop and Toppesfield Community Shop, both in Essex. These shops were set up by the villagers when it was announced that the villages' last remaining shops – both of which sold general goods and provided post office facilities – were due to close.
- Medcliffe Community Nursery, set up on an estate in the South of England where many of the residents were reliant on state benefits, there was a high proportion of single parent households, and a high rate of unemployment. The community nursery provided accessible and affordable nursery care which, in turn, meant that residents using the nursery facilities were able to move on, and take advantage of training and/or employment opportunities within the area.

Websites to visit

www.henham.org/community_shop.htm – gives full details of how the community shop came into being.

www.ofsted.gov.uk/reports/519/519016.htm – includes the Nursery Education Inspection Report on Medcliffe Community Nursery.



Credit unions

There are currently about 800 credit unions in the UK alone, and many more in at least 80 other countries. It is estimated that, worldwide, there are about 100 million people who are members of a credit union. In a 1999 report, H.M. Treasury commented:

'We feel strongly that the credit union movement can make a positive contribution to increased access to financial services for low income groups, especially in deprived areas.'

Websites to visit:

www.londoncreditunion.co.uk – the Kingsgate Community Association Credit Union Project.

www.portsmouthsavers.co.uk – Portsmouth Savers Credit Union Ltd.

www.solis.co.uk/credit-union – the South Sheffield Credit Union Limited, who proudly report that they have recently made loans to members to enable them, amongst other things, to buy a cooker, mend a roof, enrol on educational courses, go on holiday, pay off other debts, get married and even go to watch Sheffield Wednesday!

Co-operatives

In the UK there are co-operatives of many kinds including:

- **housing co-operatives**, where the members either:
 - own the housing
 - are tenants and manage the housing, which is owned by the local authority or by a housing association, or
 - self-build the housing, and may then either own the houses the members have built, or rent the houses from a local authority or housing association
- **food co-operatives**, where the members may:
 - bulk-buy food at wholesale prices and then provide discounted fruit and vegetables to the community, perhaps by way of a delivery service
 - run a community-based fruit, vegetable and grocery store, open to the community, either on a full-time or part-time basis
- **farming co-operatives**, which are distinct from food co-operatives
- **Telecommunications co-operatives**, (e.g. The Phone Co-operative), where members actually own the telecommunications company and are able to buy services secured in bulk at discount prices
- **restaurant and coffee shop co-operatives**, such as Veggies (website address below)
- **service co-operatives**, which provide care services, community transport services, etc.
- **production co-operatives**, which focus on producing anything from hand-knitted sweaters to candles.

Websites to visit:

www.phoncoop.org.uk – The Phone Co-operative, a co-operative set up to deliver member-owned telephone services to the community.

www.veggies.org.uk – a food co-operative which aims to provide organic food, free from all animal products.

www.milklink.co.uk – a dairy co-operative with 2,700 members, all of whom farm across the south of England, from Cornwall to Kent.

www.dailybread.co.uk – a Cambridge-based wholefood co-operative.

www.eiloart.com/coops – provides a detailed list of housing co-operatives throughout the UK.

Development trusts

It is estimated that there are more than 250 development trusts in the UK, which together have over 19,000 members, employ roughly 1700 people, and have assets of over £160 million.

Some development trusts, such as the Goole Development Trust, focus on the social, economic and environmental regeneration of a specific geographical area; others, such as the Immune Development Trust, focus on working with a specific group or groups of people. In the past IDT described themselves as 'existing to support people with severe health needs'. More recently, the IDT has focused on the needs of people with HIV and AIDS, especially individuals living in the Borough of Islington in London.

Websites to visit:

www.dta.org.uk – the Development Trusts Association.

www.gdt.org.uk – the Goole Development Trust, dedicated to the social, economic and environmental regeneration of Goole.

www.idt.org.uk/menu.htm – the Immune Development Trust, which provides free or low-cost, high-quality complementary and alternative medicine to people with HIV and AIDS. The Development Trust does this under contract to the mainstream healthcare sector, primarily hospices and NHS hospitals.

Social firms

Currently there are about 35 well-established social firms in the UK, plus a further 120 emerging social firms. These are businesses which have the primary social aim of providing employment opportunities for people with a disability. Of the social firms which are currently in existence:

- 60% focus on meeting the needs of people with mental health problems
- 30% focus on meeting the needs of people with a learning disability
- 10% focus on meeting the needs of people with a physical or other disability.

Websites to visit:

www.forthsector.org.uk – the Forth Sector organisation which runs the following social firms: Six Mary's Place – a 3-star guesthouse; Parkview Laundry – a laundry which specialises in duvets and sportswear; Rolls on Wheels – a catering business; Edinburgh Embroidery Services – which specialises in contract embroidery; Ithos – an IT business which specialises in web design and website management.

www.pack-it.co.uk – a social firm, based in Cardiff, which specialises in mailing and database management services.

www.socialfirms.co.uk – a resource for anyone wanting to know more about social firms in the UK.

www.accept-net.org/market/se.htm – provides information about a range of social firms throughout the UK and Europe.

Social businesses

Social businesses are, usually, owned by a charity, an NGO (non-government organisation), or they are run as a special trust. They include high-profile examples, such as *The Big Issue* and *Traidcraft*.

Websites to visit:

www.bigissue.com/intro.html – The Big Issue – the magazine written by professional journalists and sold on the streets by Big Issue Vendors, all of whom are homeless.

www.traidcraft.co.uk – the Traidcraft organisation focuses on fair trade – paying fair wages for products sourced from suppliers around the world.

www.cafedirect.co.uk – Cafedirect, another fair trade organisation, sells coffees and teas produced by small growers around the world.

www.divinechocolate.com – the Day Chocolate Company, a fair trade company which is also a co-operative of small-scale Ghanaian chocolate growers.

Nothing happens ... unless first, a dream.
**Carl Sandberg,
American poet**

Intermediate labour market companies

The primary aim of an ILM is to provide paid work plus high quality training plus help with personal development and job search skills. Research, carried out in September 2000 by Bob Marshall and Richard Macfarlane, found that, in the UK, there are 65 ILM companies which, combined, are able to offer training and work experience to around 9000 people per year. It was also found that in many programmes, at least two-thirds of the participants move into permanent employment after completing the ILM programme.

Websites to visit:

www.glasgowworks.co.uk – Glasgow Works, an ILM that contracts with local voluntary bodies, colleges and companies to set up and run small-scale projects which provide training and employment opportunities for long-term unemployed people. These projects include: support for disabled people at work; link workers for the black and ethnic Asian communities; advice and support for homeless people.

www.furnitureresourcecentre.com – the Furniture Resource Centre, a company which supplies high-quality furniture to landlords (often public) in areas where the social fabric is in decline, thus seeking to stimulate housing occupation in areas where otherwise significant voids or 'no go' areas would arise.

www.createuk.com – CREATE, an ILM which provides training and employment in the repair and refurbishment of household appliances, which are then sold on to the community at very reasonable prices.

www.new-deal-innovation.org.uk – provides information about the New Deal government scheme. Go to the site and click on ILMS to gain information about the ILM network.

Jargon Buster

Emerging social firm/social enterprise

A business which requires a high level of subsidy but which is aiming, in the long term, to become a fully fledged social firm/social enterprise.

NGO – non-government organisation

Examples of NGOs: Amnesty International, Doctors of the World, European Human Rights Foundation, Global Policy Forum, Greenpeace.

Activity

Look back over the variety of enterprises suggested or illustrated within each framework in this topic.

- Try to find up to three frameworks that could support an enterprise of your type. Be imaginative about what could be done within each framework.
- Research the individual enterprises that are like yours, or the general websites given for each of your chosen frameworks. (Your local library should be able to help with free access to the web.)
- For each one, note down any similarities with your own enterprise, and how, if at all, you think each of these frameworks could support an enterprise like yours.
- Now choose the framework that you think would best support the aims of your enterprise.

If you are running a nursery, for example, you could have chosen to investigate a community business (such as the Medcliffe Community Nursery); the service co-operative (for a service providing nursery care); and a development trust (for a nursery helping mothers with HIV or AIDS).

You could have chosen the Medcliffe website, the Co-operative Group website (www.co-op.co.uk) and/or the Development Trusts Association website.

Check Point

Think about your research findings in Topics 2 and 3 and in this section. You should now be in a position to decide on the framework that would best suit your enterprise, its business and its aims.

The framework we have chosen for our enterprise is _____

We think this framework is best suited to our enterprise because:

- 1 _____
- 2 _____
- 3 _____

(You might have only one main reason for choosing this framework above the others. You may also find that your enterprise fits two frameworks at the same time.)

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Topic 5 Suitable Legal Structures for Social Firms

This topic will take you through the various legal structures appropriate to a social enterprise. Having worked through this topic, you should be able to make informed choices about which structure would best suit your enterprise.

To incorporate or not?

If a social enterprise chooses to become incorporated, then it has to become registered at Companies House in the same way as any other incorporated business that wishes to trade in the open market.

Before completing the forms to become a registered company, and obtaining a Company Number, any social enterprise must first decide whether to be:

- incorporated
- unincorporated.

Incorporated businesses

- An incorporated business is one that is made into a body. This means that the business is a separate entity for legal and taxation purposes.
- The most important implication of incorporation is that if the business fails, the individuals who set up and own the business may not be liable for all of its debts.
- The owners have limited liability, because the business and its owners (whether shareholders or members) are separate.
- An incorporated business will have Ltd or Limited after the trading name (or plc, if it is a public limited company – the least likely option for a social enterprise).
- The financial cost of registering an incorporated business can be £300, plus an annual fee. Incorporated businesses have to keep careful records, including details of all directors. This information has to be public knowledge.
- Most social enterprises feel that the protection afforded by incorporation outweighs the disadvantages

Unincorporated businesses

- An unincorporated business is one that is not separated from its owner(s)
- The most important implication of being an unincorporated business is that, if the business fails, then the owners of the business are liable for its debts.
- The financial saving, lack of public scrutiny and payment of an annual fee may not justify the lack of financial protection.
- The lack of incorporation can be a disadvantage when applying for loans, grants, etc.

Websites to visit

www.companies-house.gov.uk – detailed information about what is involved in incorporation. The Companies House website includes guidance booklets, frequently asked questions (FAQs), forms, and information about products and services.

www.euro-social-economy.org.uk/icom.htm – ICOM (The Industrial Common Ownership Movement), an organisation whose primary purpose is to promote the democratic control and ownership of enterprises by the people who work in them.

www.ermis.co.uk – Social Firms UK, an organisation created to provide information, news, resources and points of contact for people wanting to learn more about social firms in the UK.

A sole trader or a partnership?

If a social enterprise decides not to incorporate, the next step is to work out whether to be a sole trader or a partnership. This decision may be made for you: for example, if you are running the business on your own, you will by definition be a sole trader, but if two or more people could be involved, you have to consider whether or not to form a partnership.

A sole trader	A partnership
<ul style="list-style-type: none"> ● This is the simplest business form and is the main form of business for self-employed individuals. ● The business is run by a single person, but that person may employ other people. ● This business form is suitable in situations where one person is clearly in charge of the business, making the important decisions and directing the business as a whole. ● The advantages of operating as a sole trader are: <ul style="list-style-type: none"> – simplicity, especially when it comes to preparing accounts – privacy, as financial statements do not have to be published – cheapness – it avoids the expense involved with other business forms, e.g. drawing up a partnership agreement. 	<ul style="list-style-type: none"> ● The legal form of partnership is often used by small businesses owned by two or more people. It is suitable for people forming a business relationship in common with a view to making a profit. ● A partnership is not a separate corporate entity (in the way that a limited company is), but is a collection of individuals jointly carrying on business. ● Partnerships are covered by statutory rules, mainly by the Partnership Act 1890. This Act is less demanding than the Companies Acts (which governs limited companies – see below). ● Partnerships are generally easier and cheaper to operate than limited companies. ● Partnership agreements may require the remaining partners to 'buy out' partners who leave or retire.

Activity

How suitable for your business is the option of being unincorporated?

If you are thinking of choosing this route, you should:

- 1 talk to a range of other people who are involved with social enterprise, and get their views
- 2 get professional advice from a lawyer and an accountant
- 3 think long and hard about this option (especially the risks and liability involved)
- 4 think about whether you would operate as a sole trader or as a partnership.

A company or a society?

If a social enterprise decides to become incorporated (and include Limited or Ltd in the name), the next decision involves choosing whether to be a company or a society.

A company	A society
<ul style="list-style-type: none"> ● A company is owned by its shareholders or guarantors (see below), although the amount they invest may be nominal (e.g. £100 in shares or £1 in guarantees). ● A company has limited liability, so its owners will NOT be liable for all of the debts incurred by the business. ● A company is likely to be cheaper to set up and easier to manage than a society. ● Accountants, lawyers and banks tend to be more familiar with companies and company law. ● Information on establishing and managing a company may be easier to understand and more readily available. ● Some organisations which provide loans and/or other financial support prefer to deal with a company. ● Social firms and trading co-operatives are, generally, companies. 	<ul style="list-style-type: none"> ● Societies have no shareholders. It is only the contributors to the society (known as its members) who own it. ● A society has limited liability and members will not be liable for any debts incurred by the business. ● A society is likely to be more expensive to set up and harder to manage than a company. ● Accountants, lawyers and banks tend to be less familiar with societies and society law. ● Information on establishing and running a society is less readily available than for companies. ● Some organisations which provide grants prefer to deal with a society. ● Credit unions and large wholesale and retail co-operatives are, generally, societies.

Websites to visit

www.abcul.org – Association of British Credit Unions, gives information about credit Unions in the UK.

www.co-opunion.coop/ – The Co-operative Union, the organisation which co-ordinates, informs and advises co-operatives throughout the UK, and speaks on their behalf.

www.euro-social-economy.org.uk/icom.htm – The Industrial Common Ownership Movement (ICOM), the organisation which promotes the democratic control and ownership of enterprises by the people who work in them.

www.friendlysocieties.co.uk/index.htm – contains links to many of the UK's friendly societies.

Activity

If you are thinking about becoming a society, contact:

The Friendly Societies Commission

c/o Insurance and Friendly Societies Division

Financial Services Authority

25 The North Colonnade

Canary Wharf

London E14 5HS

Tel: 0171 676 9540

Fax: 0171 676 0059

A share company or a guarantee company?

Many social enterprises choose to register as a company rather than establishing a society. This is because a company is more flexible, more convenient and easier to launch and administer. Having decided to register as a company, a decision has to be made whether to be a share company or a company limited by guarantee.

A share company

- A share company can be either:
 - a private company
 - a public company.
- A private share company is one where each person invests to buy a share of the company. The liability for debt for each shareholder is pro-rata to the number of shares held. The debt liability of each shareholder cannot exceed the amount invested.
- A public share company may decide to trade its shares on the Stock Exchange, and anyone can buy shares in the company. The management board may decide to pay its investors a dividend pro-rata to the number of shares held. However, some public companies also sell shares in the company via ethical investment, where the public may choose to buy shares to support a particular cause or belief, and are not seeking a dividend – e.g. The Industrial Common Ownership Fund – a public company.
- A public company may find it easier to raise commercial finance than a private company.

A company limited by guarantee

- A company limited by guarantee can only be a private company.
- In a private guarantee company, there are no shareholders, but instead the company is run by members who guarantee an agreed amount, per individual, towards the debts of the company should the business fail. The amount each member guarantees is often just £1.
- A company limited by guarantee will find it more difficult than a public share company to borrow money from commercial financial sources. It may not have difficulty raising money via grants and source finance from both government and European sources.

If all economists were laid end to end ... they wouldn't reach a conclusion.

George Bernard Shaw, playwright

Activity

If you are thinking about becoming a company, go to www.companies-house.gov.uk to find out more about registering your social enterprise as a company.

A charity or a co-operative?

Charities are usually guarantee companies, though they are often societies. Equally, a co-operative may be a society, but is often a company limited by guarantee.

A charity

- If a social enterprise wishes to register as a charity, it must agree its charitable objectives. The regulations which encompass these objectives may inhibit the trading activities of the charity. This tension can be overcome by separating what the charity does under its charitable objectives from how the enterprise trades. It is not uncommon for a charity to have an associated trading organisation which covenants its profit back to the charitable organisation. However, as neat as this may seem at first glance, it does present its own difficulties, not least in the area of accurate financial planning.
- A charity is run by a management board of trustees. Trustees cannot be paid. Employees of a charity cannot be trustees. As such, they cannot be involved in decision making. However, if the charity has a trading arm, (normally a company limited by guarantee), the employees of the trading arm may be on the management board, and take part in the decision-making process.

A co-operative

- A co-operative can be either a share company, a company limited by guarantee, or a society. The overriding principle of a co-operative is that its ownership and control rests with its members.
- A co-operative is defined by the following co-operative principles:
 - 1 membership is open to all who qualify
 - 2 co-operatives are managed by the members, or by the persons elected to do so by the members, on a one-vote one-member principle
 - 3 capital invested only has a limited return
 - 4 profits belong to all the members, who decide on profit distribution
 - 5 co-operatives should have a social aim in addition to a commercial one
 - 6 co-operatives should help each other
 - 7 co-operatives should work to become sustainable.

Websites to visit

www.charity-commission.gov.uk – the Charity Commission details how to go about registering as a charity and how to obtain a registration application pack.

www.social-enterprises.org.uk – some interesting case studies relating to social enterprises that are co-operatives.

www.suma.co.uk/aboutus.html – read about how one man, in the front room of his own home, began selling rice and lentils to his community, and how, from such small beginnings, his enterprise developed into a co-operative which is now the multi-million pound business, SUMA Wholefoods.

Activity

If you are thinking about achieving **charitable status** for your social enterprise:

- 1 talk to other people who have achieved charitable status for their social enterprise and find out, from them, the advantages and disadvantages
- 2 talk to a lawyer and an accountant to find out the legal and financial implications of charitable status
- 3 visit the website at www.charity-commission.gov.uk
- 4 talk to organisations which are registered charities, but which also have a trading arm.

If you are thinking about forming a **co-operative**:

- 1 talk to other people who are running social enterprises as co-operatives and find out, from them, the advantages and disadvantages
- 2 talk to a lawyer and an accountant to find out the legal and financial implications relating to co-operatives
- 3 contact ICOM, Holyoake House, Hanover Street, Manchester M60 0AS.
Tel: 0161 246 2900, e-mail: icom@icom.org.uk

ICOM is the Industrial Common Ownership Movement and can provide specialist legal advice relating to co-operatives and other structures suitable for social enterprises.

When you have read through this topic and researched the various choices, use Figure 2 to help you clarify your choices.

Figure 2

START POINT

- 1 Taking into account the needs of your own planned or emerging social enterprise, is it better for you to become an **unincorporated** or an **incorporated** business? Choose your route from the two options below.

UNINCORPORATED

If you decide that your social enterprise should be **unincorporated**, move on to question 2 below.

INCORPORATED

If you decide that your social enterprise should be **incorporated**, move on to question 3 below.

- 2 If you decide that your social enterprise should be **unincorporated**, will your social enterprise operate as a sole trader business or as a partnership?

A SOLE TRADER

As a sole trader, you will become personally liable for any debts the business incurs, if the business fails.

A PARTNERSHIP

If you and your colleagues are to be partners in the business, then you will become personally liable for any debts the business incurs, if the business fails.

- 3 If you decide that your social enterprise should be incorporated, will your social enterprise be a **company** or a **society**?

A COMPANY

If you decide that your social enterprise should be a **company**, move on to question 4.

A SOCIETY

If you decide that your social enterprise should be a **society**, move on to question 5.

4 If you decide that your social enterprise should be a company, should it be a share company or a guarantee company?

A SHARE COMPANY

You will have to decide whether your social enterprise is to be:

- a **private** share company with Limited or Ltd in the name, or
- a **public** share company with plc in the name.

A GUARANTEE COMPANY

Is your social enterprise to be a company that is limited by **guarantee**?

5 Do you want your social enterprise to achieve **charitable status** or be a **co-operative**?

Hell, there are no rules here ... we're trying to accomplish something.
Thomas Alva Edison,
 inventor

Check Point

Using Figure 2, confirm your choices here. Tick only one box for each relevant question.

- | | | |
|-----------------------------------|---|------------|
| 1 Our social enterprise is to be: | unincorporated <input type="radio"/> | move to Q2 |
| | incorporated <input type="radio"/> | move to Q3 |
| 2 Our social enterprise is to be: | a sole trader <input type="radio"/> | |
| | a partnership <input type="radio"/> | |
| 3 Our social enterprise is to be: | a company <input type="radio"/> | move to Q4 |
| | a society <input type="radio"/> | move to Q5 |
| 4 Our social enterprise is to be: | a private share company <input type="radio"/> | move to Q5 |
| | a public share company <input type="radio"/> | move to Q5 |
| | a limited guarantee company <input type="radio"/> | move to Q5 |
| 5 Our social enterprise is to: | have charitable status <input type="radio"/> | |
| | be a co-operative <input type="radio"/> | |

You should now be able to see a full legal structure for your enterprise.

Section 1 Nailing the Jelly

Topic 6 Sources of Funding

Funding is a key issue for every social enterprise. A social enterprise is expected to (1) have a social aim, (2) trade, and (3) seek profit. However, particularly at the start of trading, most social enterprises will rely to varying degrees on grants and other sources of funding to support the realisation of their social mission. This topic will take you through some of the main sources of funding available to help set up new social enterprises.

Note: funding is a huge topic and there is a vast array of sources of funding available. This topic does not attempt to be comprehensive, but concentrates on a few of the main sources of funding and provides illustrations of some of the schemes available.

These are some of the main sources of funding available to a social enterprise:

- central government funding
- local government funding
- European Union funding
- National Lottery funding
- trusts and foundations funding
- initiative and regeneration funding
- Landfill Tax Credit Scheme.

Central government funding

There are currently numerous central government funding Area Based Initiatives (ABIs), such as Sure Start, New Deal for Communities, Community Champions and Health Action Zones. Picking your way through the maze of central government funding opportunities can be time consuming and exhausting. Fortunately, there are a number of organisations who are willing and able to provide, free of charge, information that may be helpful.

Websites to visit

www.fundinginformation.org – a comprehensive source of funding information.

www.access-funds.co.uk – provides funding information which is updated daily.

www.j4b.co.uk – provides useful information about identifying the grants which could be right for you.

www.businesslink.org – provides information about grants for social enterprises, and also has telephone numbers and addresses for Business Links around the country.

www.inforurale.org.uk – provides links to information about grants.

Local government funding

As with central government funding, there are many local government funding initiatives which can be accessed by social enterprises. Probably the best places to start looking for information about local government grants are the following.

Websites to visit

Your own local authority offices, details of which you will find in your local telephone directory.

www.nacvs.org.uk – the National Association for Councils of Voluntary Service (CVS).

www.alg.gov.uk – the Association of London Government, which has an annual budget of around £27 million to provide grants throughout the London Boroughs.

European Union funding

A social enterprise can apply for European Union funding either as an individual enterprise (depending on how it is structured), or as a member of a consortium. The sources of funding which are most relevant to social enterprises are:

- 1 European Regional Development Fund (ERDF) – which is aimed at business growth and economic regeneration
- 2 European Social Fund (ESF) – which is aimed at both unemployed and employed people in developing skills and providing training opportunities, in addition to support for business, particularly small and medium sized enterprises (SMEs).
- 3 A whole range of targeted programmes, many transnational in nature. An introduction to these sources can be obtained from www.europa.eu.int

Note

- ERDF funding is not available to all areas of the UK.
- ESF funding is available under Objectives 1, 2 and 3. Objective 3 funding is available to all areas of the UK. Objective 1 and Objective 2 funding are targeted European Social Funds, which are available only in designated Objective 1 and 2 areas.

ESF co-financing

The management and administration of the European Social Fund is moving rapidly during the funding cycle 2000–06 towards a position of co-financed status. In effect, this means that social enterprises can make an application to a CFO – a Co-Financing Organisation. The CFO will, from their own public sources, provide not only the European Social Fund monies (up to 45%) but also, in cash, the 55% match funding requirement.

Co-financing organisations vary across the country, but prominent in this field are local LSCs – (Learning and Skills Councils) and the employment service.

Websites to visit

www.esfnews.org.uk – to access links to your regional government websites and the European Social Fund.

www.dti.gov.uk/europe/structural.html – the DTI's overview of European Union Funding.

The Voluntary Sector European Funding Advice Officers are the best people to ask about EU grants, and they are available at:

North East	www.esfvon.org.uk
North West	www.nwnetwork.org.uk
East Midlands	www.cefet.demon.co.uk
West Midlands	www.wmeuronet.co.uk
South East & South West	www.savage-europe.org.uk
Eastern region	www.cover-east.org
London	www.lvstc.org.uk

Note: The Voluntary Sector European Funding Advice Officers are an appropriate source of help for the non-income element of social firms, but will not be an appropriate resource for wholly trading organisations.

National Lottery funding

The best place to go for information about National Lottery and Millennium Commission grants is www.lotterygoodcauses.org.uk/ as this is a gateway to all of the relevant websites which provide funding information.

Note

Lottery funding is not available to co-operatively structured organisations.

Trusts and foundations funding

To access a comprehensive list of grant and funding websites go to www.fundraising.co.uk/grants.html

Initiative and regeneration funding

There are many examples of 'Initiative' funding – in fact, many people in the community and not-for-profit sector complain of being 'initiated to death'. Regeneration funding is a huge and complex subject and many social enterprises join local partnerships to benefit from regeneration funding. The Phoenix Fund is one example drawn from very many targeted particularly at social enterprise development.

The Phoenix Fund

The Phoenix Fund was created to address some of the recommendations set out in the Policy Action Team report Enterprise and Social Exclusion which was published by H M Treasury in November 1999, and is designed to encourage entrepreneurship in disadvantaged areas.

The Phoenix Fund currently includes:

- a Development Fund to promote innovative ways of supporting enterprise in deprived areas (England only)
- a pilot network of volunteer mentors through the Business Volunteer Mentoring Association (England only)
- a Challenge Fund to help resource Community Development Finance Institutions – CDFIs (England only)
- a community Development Venture Fund to create a venture capital fund for small and medium enterprises in disadvantaged communities (parts of England only)
- loan guarantees to encourage commercial and charitable lending to CDFIs (parts of England only)
- City Growth Strategies designed to encourage towns and cities to develop and implement strategies which put enterprise and business at the heart of regeneration
- The Development Fund for Rural Renewal (England only).

Websites to visit

www.sbs.gov.uk/phoenix/ – details of the initiatives included in The Phoenix Fund, plus links to Maria Kenyan at the Small Business Service, Social Inclusion Unit; Robert Brennan at the Investment Directorate, Small Business Service; Mark Hambly at the SBS Investment Directorate Level 2.

www.co-financing.co.uk – for help and advice from professionals with backgrounds in economic development, regeneration and external funding.

Landfill Tax Credit Scheme

Projects that may qualify for funding under the Landfill Tax Credit Scheme may include those that are involved in:

- land reclamation
- pollution reduction
- research, development and education on waste issues
- the restoration of buildings and parks within ten miles of a landfill site.

There is currently (2002) much debate regarding the future of the scheme. A lot of pressure is being applied for it to become more accountable for outputs generated as a result of funding support.

Note

There is a need to provide about 11% of the resources of a landfill tax credit scheme application from sources other than the scheme.

Websites to visit:

www.entrust.org.uk – ENTRUST (the Environmental Trust Scheme Regulatory Body), the organisation that regulates the Landfill Tax Credit Scheme; you can also request information from information@entrust.org.uk



Activity

Make a record of names, addresses and other useful information you have gathered from the websites we have highlighted. Later on, when you start to prepare your funding applications, you will find the notes you make now will be an important resource.

Name	website/email	Address	Telephone	Other information

Check Point

Tick the relevant boxes:

I have identified possible sources of start-up funding and/or non-traded subsidy from:

- central government funding
- local government funding
- European Union funding
- National Lottery funding
- trusts and foundations funding
- initiative and regeneration funding
- Landfill Tax Credit Scheme
- Other sources I have discovered (specify):
