CIPFA The Chartered Institute of Public Finance & Accountancy

Financing social enterprise

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Capital sources

- Shares
- Voluntary income
- Debt finance
- Retained profits
- Creditors?

Grants

- Access varies depending on type of social enterprise
- No repayment unless linked to obligations to fulfil certain requirements
- Number of sources
- Vulnerable to policy changes
- May influence direction of enterprise
- Beware! Requires careful costing and planning

Donations

- Individual giving in 2009/10 £10.6 billion
- One in ten give more than £100 per month
- Could some of your activities attract donations?

Venture philanthropy:

- Improving and enhancing service
- Engaged donors
- More hands on
- Source of advice and experience

Birmingham library

- Library of Birmingham Development Trust
- Independent charity
- Complements council's investment in library
- Trustees drawn from leaders of the community who have a commitment to cultural services
- Recruitment and engagement of influential donors
- Method for partnering with other organisations
- Forum for community input
- Volunteering

Social banks

- Main source of loans for social enterprises is mainstream banks
- Social banks considered ‘Sector friendly’
- Not necessarily cheaper
- May be able to assist in networking
- May recognise differing ownership characteristics
- May be sympathetic to ownership and equity characteristics of social enterprise

Big Society Bank

Supporting existing intermediaries, investing in funds:

- which invest in social enterprises
- to support social finance intermediaries
- to develop new investment vehicles/infrastructure

Social Investment Business

- **Adventure Capital Fund (ACF)**

  Original ACF fund closed but ACF will now manage an endowment comprising the residual assets (£27 million) of the old Communitybuilders fund

- **Social Enterprise Investment Fund (SEIF)**

  Previously providing grants and loans to enterprises working in health and social care. Scope and criteria of the 2011/12 fund under discussion

Bonds

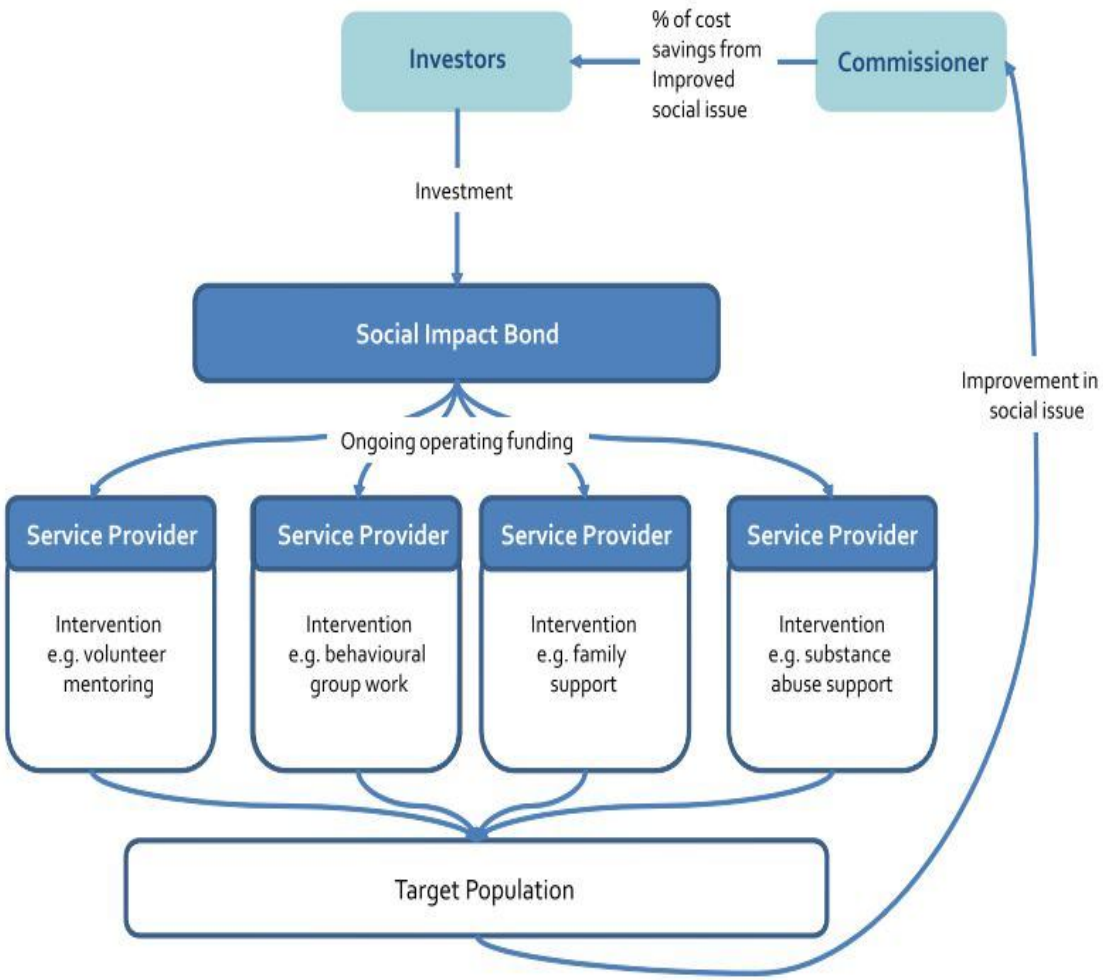
- Usually long term
- Can be issued by companies, industrial and provident societies, trusts
- Interest can be fixed or variable
- Can be source of relatively low interest borrowing
- Need to be confident re meeting interest and repayments at set times
- Wellcome Trust issued 30 and 12 year bonds and raised £775 million

Social Impact Bond

- *… a form of outcomes-based contract in which public sector commissioners commit to pay for significant improvement in social outcomes (such as a reduction in offending rates, or in the number of people being admitted to hospital) for a defined population*

Social Finance website

Social Impact Bond Structure



Source:

Social Finance website

‘Quasi equity’

- A wide range of instruments described as ‘quasi-equity’. Two examples:
- **Returns linked to gross revenue**

  Investor entitled to a specified percentage of gross annual revenue
- **Returns linked to incremental revenue**

  Investor is entitled to a specified percentage of revenue above a certain threshold level and/or certain categories of income

Retained profits

- Profits generated over a number of years that have not been distributed
- Over time, can build into a substantial source of capital for a social enterprise
- Important source for mutuals, including co-ops
- Develop reserves strategy and policy
- Check guidance and requirements

Shares

- Patient capital?
- Can encourage investment by members
- Can be method for rewarding members
- Different shares, different ownership/control rights
  - Ordinary
  - Member
  - Preference
  - External/internal
- Different share characteristics

Co-op member shares

- Voting rights typically one member one vote
- Dividends often linked to the level of day to day transactions between the member and the co-op
- Shares are not usually transferable
- The shares are typically issued to the member by the co-op at a set ('par' or 'nominal') price
- The shares are redeemed by the co-op
- The shares provide limited or no rights to the residual assets of the enterprise

Managing member shares

- Often member shares have limited transferability
- The social enterprise will both issue shares to members and redeem shares to members
- In such situations the enterprise needs to develop a plan for managing the flow of capital in and out

Tower Colliery

- Company limited by shares – Co-operative
- Employee buy out
- Employees pledged £8,000 each from redundancy
- £2m raised by 239 miners
- Mine reopened 1995 - closed in 2008
- Employees own 350 acres

Bromley Healthcare

- Company limited by shares & CIC
- 800+ delivering community health services
- Staff and local GPs all have shares
- Cannot trade shares
- Cannot own more than one share each
- Board of directors
- Council of governors
- Community Forum

Sunderland Home Care Associates

- Company limited by shares
- Shares distributed to employees in two ways:
- Annual free allocation linked to salary
- Annual sale

Care and Share Associates

To summarise

- Choice of organisation structure affects financing options
- New sources and types of finance debt
- New developments in philanthropy
- New developments in income linked to outcomes and impact
- Opportunities to use share issues
- Need strategy and model for managing shares
- Need strategies and policies for developing reserves

For more information

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