



## INTRODUCTION TO TRADING



### KEY MESSAGES

#### What is trading and social enterprise?

'Trading' when undertaken by voluntary and community organisations, is often referred to as 'social enterprise'. Both describe the approach taken by organisations wishing to pursue social objectives through selling goods and services, and where surpluses are principally reinvested for that social purpose. The two terms can be, and often are, used interchangeably. We use the term 'trading' to cover both terms.

Some organisations who have adopted a trading and social enterprise approach like to be known as a 'Social Enterprise'. It is a matter of organisational choice since Social Enterprise is not a recognised legal form (unlike a Community Interest Company or Company Limited by Guarantee), but an organisational type.

#### Why trade?

Trading is simply another form of income diversification. Some organisations choose to generate substantial income from trading, while others trade only a little, simply to gain additional funds and diversify their income base.

Trading has many benefits:

- Traded income is unrestricted income;
- Independent income can have a beneficial effect on organisational confidence and self-esteem;
- Trading builds new and refreshes old skills, such as creative marketing and rigorous financial management;
- Trading can help us reconnect with our beneficiaries – it helps us become more market sensitive;
- Trading often affords opportunities to involve service users in service delivery;
- Charging encourages people to value your work – and to turn up when you've made lots of effort organising an event!

#### How should organisations approach trading?

Trading goods and services, is all about merging what your organisation does (its mission) with ways of generating income (the money!). It comes down to four questions:

### 1. What do you have to sell?

What do we have? Think laterally. Assets can come in visible and invisible forms. Nearly all voluntary and community organisations have assets which are either visible (property or equipment and resources) or invisible (highly developed skills, local knowledge and intellectual property) that could, to varying degrees, generate income. Take a hard look at what you've got – and ask if it could be traded.

### 2. Who might buy it?

Trading and social enterprise is not necessarily about charging users – although in some cases nominal fees, or membership dues can be an option. In some cases your potential market may be a third party. For example, a telephone advice line might not be able to charge users, but it may be able to sell its services as a telephone agency (e.g. booking line or helpdesk) for a third party. Similarly, a counselling service for pupils couldn't charge users, but it might contract its services to a school or local education authority.

### 3. Why do you want to trade?

It's important to be clear from the outset why you want to trade. It helps to think about the three Ps – Profit, Product and Process.

**Profit** - Are you going to build an income generator simply to make money to help finance non-earning activities taking place within our organisation? For example, selling charity Christmas cards.

**Product** - Or are you going to build a trading element into a new or existing core service to cover their costs. In which case your income generator will in itself directly advance mission. For example, delivering core services under contract to a statutory authority – the product is the purpose.

**Process** – Or is it the way of working that's important. For example, creating employment for disadvantaged people. It's not what is being made that is necessarily important. Nor is the business created purely to make money to subsidise other social work. Though the business may aspire to become self-financing, the reason for setting it up is the process of creating employment.

Many income generators combine these approaches. The important thing is to be clear why you are developing an income generator - simply to make money, or to advance mission directly through self-financing?

### 4. How are you going to sell it?

Different organisations take different approaches to income generation. Broadly speaking organisations choose to trade goods related to their mission (including contracting and social firms), or goods which are sold simply to generate profit (unrelated trading).

These are each outlined in the key terms section below.

## How can organisations get started?

The first point of call for any registered charity considering trading activity should be the Charity Commission website - [www.charity-commission.gov.uk](http://www.charity-commission.gov.uk). In particular the Commission's publication **CC35, Trustees, trading and tax – How charities may lawfully trade**. This looks at how much a charity can earn before it should consider setting up a trading arm, outlines the issues associated with setting up a trading subsidiary, including Value Added Tax and governance, and many other legal and structural issues associated with trading. Even if your organisation is not registered as a charity the publication is useful reading.



## KEY TERMS

**Hunt for hidden assets** – creative and lateral thinking about an organisation's core skills and attributes with a view to generating ideas for earning income from trading goods and services.

**Mission-related trading** - Mission, or 'core' related trading is selling goods or services directly related to an organisation's primary objectives. It is possibly the most commonly overlooked source of earned income. Yet it flows naturally from what an organisation already does, using the skills and knowledge that sustain the organisation into potential sources of income.

Such trading can take the form of mission-related selling which generates surplus income or which generates income in addition to furthering the organisation's aims; cost recovery where no surplus is made; contracting; or social firms. These variations are explained below.

An example of mission related trading which advances mission directly as a self-financing project is Cambridge based charity, Speaking Up! The organisation develops self-advocacy opportunities for adults with learning difficulties. To generate income they sell training and consultancy services to other social care providers on developing similar self-advocacy projects. This revenue stream grown from core competencies makes money to subsidise non-earning activity within the organisation but it equally advances core mission because Speaking Up!'s trainers are adults with learning difficulties.

But Mission Related Trading may also be used purely as an income generator. For example, an organisation that works with young offenders has collaborated with a large accountancy firm. The accountancy firm undertakes value-for-money audits of local youth justice services and draws upon the national voluntary organisation's expertise in the field. In this instance, mission related trading is undertaken purely to make money: there is no mission benefit derived from trading other than that profits help finance non-earning aspects of the centre's work.

Both examples are forms of Mission Related Trading in that they are developed from existing core competencies. Often Mission Related Trading will involve the sale of an organisation's know how and expertise – its intellectual property.

**Contracting** - Contracting involves generating income by providing goods or services outlined in a contractual agreement between your organisation and a service purchaser. This may also be called a service level agreement. It is particularly suitable for organisations involved in some form of service delivery work such as health, social care, education or similar provision where services could conceivably be purchased by a local authority or other public sector agency.

**Social firms** - For some organisations, the 'route in' to social enterprise arises from the nature of what they do. Organisations whose aims is to create real jobs and training opportunities for people marginalized from the labour market, or who seek to deliver high-quality, affordable services beyond the inclination of the free market and the ability of state intervention often function as social firms. One example is The Big Issue which provides work and training opportunities for the homeless and uses trading to pay for itself by selling advertising space. Another example is Six Mary's Place, a hotel in Edinburgh which generates income the same as any hotel, but which employs people with disabilities thus offering them development through viable work and training.

**Unrelated trading** - In practice some organisations find it more difficult to combine what they do with generating income. For example, a helpline for bullied school children might find it harder to use their core work to generate income, whilst a community arts theatre might easily be able to think about ways in which it can sell acting courses, old posters, or art work displayed in the foyer.

In such instances organisations might consider unrelated trading. In other words, selling goods and services which may have little relation with the organisation's core aims, but which will generate profit which can be used to subsidise their core work. Well known examples include charity shops and charity Christmas cards. In practice the types can overlap and merge into one another. It's also the case that different approaches favour different types of organisation.

Income generation is no magic answer. But we all have more than we think – assets of both the tangible (equipment, property) and intangible (skills, information) sort that can be turned into a products sold to raise income. Indeed, United States pioneer Jerr Boschee claims that in twenty years of promoting income generation he has yet to meet a 'non-profit' that is void of income generating potential all together – it's just a matter of being creative!



## INTRODUCTION TO PUBLIC SERVICE DELIVERY



### KEY MESSAGES

#### Why undertake contracts for public service delivery?

Public service delivery is one of the options available to voluntary and community organisations (VCOs) who are looking to diversify their income base. The voluntary and community sector (VCS) has a long history of delivering public services, but in recent years government policy has seen this role expand and its vision is that the voluntary and community sector is at the heart of reforms to improve public services.

#### Benefits of Public service delivery:

- In some instances, it can be a way for the VCS to transform the quality of services offered to its beneficiaries
- The scale of the public sector is huge, allowing many opportunities
- The length of contracts tends to be longer than grant funded income
- Contracts can, and should, be negotiated, allowing VCOs more flexibility
- Contracts are legally binding *for both parties*, putting the purchaser and contractor on the same level
- Prompt payment and transparency are expected.

#### Organisations should ensure:

- That they have sufficient resources available to manage the accountability and reporting requirements of managing the contract
- That terms and conditions are favourable and these should be looked at closely by a legal professional and negotiated
- That the contract helps the organisation to meet its mission, is consistent with their terms and conditions and meets the needs of their beneficiaries
- That they know the purchasing organisation well, including its operating systems and there is a match between each others' mission.

#### What does the operating environment look like?

Although often spoke of as though it is a single entity, the public sector is not one homogenous body. It is a series of sub sectors and includes:

- Central government departments and agencies (e.g. Department for Education and Skills, Home Office, Learning and Skills Council, National Offender Management Scheme)
- The NHS and local Primary Care Trusts
- Local Authorities (including unitary, county, metropolitan, borough, district, city, and town and parish councils)
- The UK Police and Fire Services
- Universities and colleges.

There is no standard approach to public sector procurement. Each public body or agency will have developed its own internal rules and procedures. Because the public sector spends taxpayers' money, it is subject to controls on how it conducts its purchasing. Anything it buys must be of benefit to the public, and it must provide the best possible value for money. Purchasing also has to be done in a fair and open way. There are UK and European laws that define how things must be done and these processes can make it more difficult for smaller VCOs to get involved; but not impossible.

### Types of agreement – Grants, SLA's and Contracts

In reaching agreements to provide services, VCOs encounter grants, service level agreements and contracts.

- Grants are subsidies for the operation of the VCO in meeting its purpose and objectives and are subject to the European State Aid regime and its regulation of competitive law.
- Service level agreements set standards and specify levels of service without any commitment to use the agreement.
- Contracts specify service requirements, and make clear what and how a service is to be delivered, and for what payment.

Public procurement is about establishing contracts between public sector organisations (PSOs) and, in this case, VCOs. The procurement rules and procedures lead the PSO into a contractual agreement for the purchase of services. The contract specifies the services and the basis for delivery and payment. The agreement will determine for the VCO how it will provide services that meet the PSO's specified needs.

### How should organisations approach public service delivery?

Like trading, public service delivery is all about merging what your organisation does (its mission) with the right contract. Because a contract is a legally binding agreement, choosing the wrong one can have serious implications for your organisation. Bidding for a contract can be a lengthy and expensive process, so good research and planning are essential.

Firstly, organisations should know **what they have to sell**. This includes knowing the value of their service, any added value that they can offer and knowing exactly what their beneficiaries want.

Managing the contract process is very different to managing a grant funded programme and organisations must ensure that they have the **right skills and resources**. These include:

- Access to specialist services (e.g. legal and financial)
- An experienced contract manager

- Marketing
- Negotiating skills.

They then need to **find a buyer** for their services. VCOs wishing to generate income by selling their services under contract need some understanding of who the potential purchasers for their services might be, and how those purchasers go about finding and choosing providers.

Useful starting points for searching for information on purchasers include:

- Local partnerships, VCO committees and local strategic forums, especially those involving public sector representatives.
- Approaching a public sector organisation (PSO) directly.
- Internet searches to research and understand unfamiliar ideas and concepts.
- Individual PSO websites for further information on their procurement strategy.
- Contact the procurement department within the relevant agency you are interested in working with and obtain a copy of their written guidelines
- Local and national priority needs and service plans
- Inspection reports, which highlight key issues and failures in both public service and procurement practice. These can be used to inform service design.

Organisations should understand the drivers for public sector organisations and in this way they can add extra value and improve their chances of working with them. Key issues to be aware of include:

- **Value for money**- often means lowest price, as long as the contractor delivers the right quality and performance. But sometimes it can mean adding value by offering the PSO more than was asked for, even if this means the price is a little higher.
- **Affordability and sustainability**- PSOs are under pressure to become more efficient, which means making money go further. Services must also be sustainable, and VCOs must think about how they can give confidence about how they can develop a service over the whole life of the contract.
- **Efficiency**- the search for efficiency also means that many PSOs are joining together to purchase services.
- **Community benefits**- VCOs are well placed to help PSOs achieve their national, regional and local vision of improving quality of life for all. This is a key element of what VCOs may be best able to offer.

Organisations also need to understand the **procurement process** and what is required of them at each stage. A handout of a typical procurement process is included.

There is also a **regulatory framework** that VCOs should be aware of. This includes *Best Value* and *EU procurement rules*. Organisations should also be aware that each individual public sector organisation will have their own procurement rules.

## How can organisations get started?

**Charity Commission** - The first point of call for any registered charity considering contracting should be the Charity Commission website. In particular, the Commission's *Policy Statement on Charities and Public Service Delivery* which can be found under the 'guidance for charities' section of their website. This sets out the key issues trustees need to take into account if their

organisation is to take on a greater role in public service delivery. A copy of the statement is available from [www.charity-commission.gov.uk](http://www.charity-commission.gov.uk)

Another Charity Commission publication CC35, *Charities and Trading*, looks at legal and structural issues associated with trading and is also highly recommended.



## KEY TERMS

**Procurement** is the whole process of buying goods and services, from initial advertising through to appropriate contracting arrangements.

**Public sector procurement** is the purchase of goods and services by a public sector organisation- e.g. a local authority or a PCT

**Value for money** is defined as the optimum combination of whole life costs and quality to meet the users' requirements. Government procurement policy requires all public procurement decisions to be based on this criteria

**Commissioning** is the process of assessing the needs of people in an area, considering how best and by whom those needs can be met, and then planning the provision of services

**Contracting** for voluntary and community organisations involves earning income from payment of goods and services delivered according to the terms set out in a contract between an organisation and a third party known as a purchaser

A **Contract** is a legally recognised, and hence legally enforceable, promise or set of promises made between parties. The essence of a contract is an agreement setting out the arrangements whereby one party provides a service (or goods) to the other in return for payment

A **Tender** is a written bid outlining a supplier's desire, capacity and plan of how to deliver a piece of work, service or supplies. Exact contents will be determined by the requirements outlined in the service specification and must demonstrate how a supplier will meet these requirements

**Tendering** is the process of bidding for, and negotiating a contract

**Best Value** is a formal requirement for local authorities. It aims to ensure that public services are responsive, efficient, of high quality and tailored to local need. It demands a shift from considerations of cheapest price towards an evaluation of 'value for money' based on a balance of price *and* quality. It requires a duty of continuous improvement in services and increasing emphasis on delivering outcomes that will improve community well being, without prescription of how this can be achieved.