



Guide to Trading and Social Enterprise

Introduction:

One source of income that many voluntary and community sector organisations are considering is earning money through trading.

Some charities are taking on small-scale trading activities, while other organisations with social or environmental goals are setting themselves up as 'social enterprises' from the start.

This guide aims to explain the concept of social enterprise, and provide an introduction to some of the practical issues for both new social enterprises and existing charities and community organisations that want to develop trading as a source of income.

What is social enterprise?

Social enterprises are organisations that:

- Produce goods or provide services to a market (like any business)
- Use the majority of their profits for social and/or environmental goals

Social enterprises use their profits in different ways but a common feature is that they do not use their profits for the benefit of private individuals. Social enterprise is not only about making money, it's also about making sure that trading activities result in social and/or environmental benefits.¹

Note: a confusing aspect of the term 'social enterprise' is that it can be used to describe the type of organisation described above or the trading activities undertaken by charities and community groups. A charitable organisation may get the majority of its income from grants, but a small proportion could be earned through trading – this can be called a 'social enterprise activity'.

Social and environmental aims can be achieved in different ways:

¹ The Department of Trade and Industry defined a social enterprise as:

"A business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners." (Social Enterprise: A Strategy for Success, DTI, July 2002)

1. *By what an organisation produces or the kinds of services they run:* e.g. a co-op running a low-cost nursery for local children; an organisation supporting women who've experienced sexual violence delivers training to raise awareness of the issues.
2. *By how they produce goods or services:* e.g. a fair trade company ensures that the producers receive a fair price for their products and have good working conditions and without damaging the local environment; a women's organisation trains and provides work placements for women ex-offenders in painting and decorating and offers a painting and decorating service
3. *By how they use their profits:* e.g. a charity shop uses its profits (generated through selling donated goods) to run services for people with mental health problems; a women's organisation sells cards and the profits are used to achieve its social aims

Social enterprises may also express their social goals through the way they are owned and run e.g. they may be owned by the workers themselves or by a wider 'community' and have a democratic structure.

Most social enterprises achieve their social and environmental aims in more than one way – by what they do or produce *and* how they do their work.

Social enterprise is an idea or movement, not a tightly defined business model. There is no legal definition of a social enterprise and as a result, there is still a lot of debate – for example:

- Can the John Lewis Partnership be considered a social enterprise simply because its employees own shares in the business?
- Is innocent Ltd (smoothie maker) a social enterprise when only 10% of its profits go back to the 'community'?

Social enterprise is different from businesses with 'Corporate Social Responsibility'. For social enterprises, their social/environmental goals are a core reason for their existence. Private businesses may show some level of social responsibility, but their main aim will always be to increase profit for their shareholders.

Social enterprise is also different from a traditional charity or voluntary and community organisation because earning enough income through trading to at least cover costs is as important as achieving its social goals. For charities the social goal is the most important thing and they will look for grant funding or donations in order to achieve this.

Social enterprise is often said to have a double (or triple) 'bottom line': not only are they aiming for maximum profits, they are aiming for maximum achievements of social and/or environmental goals.

Recently the boundaries have become increasingly blurred as more and more charities and community organisations begin to earn income through trading.

Types of Social Enterprise:

There are many different types of social enterprise:

Co-operatives:

A co-operative is a business which is jointly owned and democratically controlled by its members - and it is the members who are the beneficiaries of the activities of the business.²

[e.g. Account 3, Who Made Your Pants?, Infinity Foods, Magpie Recycling Co-operative]

Credit Union:

A credit union is a cooperative financial institution that is owned and controlled by its members, and operated for the purpose of promoting saving, providing credit at reasonable rates, and providing other financial services to its members. Many credit unions exist to support community development.³

Development Trust:

Development Trusts are involved in the regeneration of local communities, often bringing land or buildings back into use for the benefit of the community.

The Development Trust Association describes them as follows:

“Development trusts are community owned and led organisations.

They use self-help, trading for social purpose, and ownership of buildings and land, to bring about long-term social, economic and environmental benefits in their community. They operate in both urban and rural areas, often in neighbourhoods which have experienced the worst economic decline. They are independent, but work with the public sector, private businesses, and with other community groups. They are community ‘anchor’ organisations, delivering services and facilities, finding solutions to local problems, and helping other organisations and initiatives succeed.”⁴

[e.g. Coin Street Community Builders, Glastonbury Community Development Trust etc.]

Social firm:

A social firm is a business which aims to provide training and employment for disabled people including people with mental health issues. At least 25% of their employees must be disabled and at least 50% of their income must be earned (to be considered a social firm).⁵

[e.g. Solstice Nurseries – a plant nursery employing people with mental health issues, Electroville – an IT support business employing disabled people]

Intermediate Labour Market Companies:

Provide training and work experience for the long-term unemployed; often set up in areas where a traditional industry has closed down. [e.g. Rochdale Intermediate Labour Market Project – provides training and work placements while earning a wage to long-term unemployed people for one year.]

² See Co-operatives UK www.cooperatives-uk.coop

³ See the Association of British Credit Unions Ltd www.abcul.coop

⁴ See Development Trusts Association www.dta.org.uk

⁵ See Social Firms UK www.socialfirmsuk.co.uk

Social businesses:

A business that is set up to achieve social goals. Investors have their original investment repaid but cannot make a profit.

Trading arms of charities:

A company that is set up by (and linked to) a charity to enable it to trade. Profits from the company are re-invested in the charity for the benefit of the people who use its services. See section on 'trading arms' below

Why is everyone talking about social enterprise now?

Social enterprise is a new term for something that has existed for over a hundred years. The Social Enterprise Coalition gives the example of a workers' co-operative set up in the 1840s in Rochdale to provide high quality affordable food in response to exploitative factory conditions.

In the UK, there was a new interest in social enterprise in the late 1990s due to the coming together of different traditions, including co-operatives, enterprising voluntary organisations and other forms of social business and the development of new types of business with a social or environmental purpose.⁶ As a result:

- In 1998 Social Enterprise London was set up. Its first Chief Executive, Jonathan Bland, is thought to have come up with the term 'social enterprise'.
- In 2002 the Government developed a social enterprise strategy and set up the Social Enterprise Unit
- In 2002 the Social Enterprise Coalition was set up
- In 2005 the Government developed a new legal structure suitable for social enterprises: the community interest company
- The Labour Government promoted social enterprise as a new way to deliver public services - this was part of a wider policy to increase 'third sector' involvement in running public services

How big is social enterprise?

According to the Social Enterprise Coalition⁷ there are:

- 62,000 social enterprises in the UK
- Employing 800,000 people
- Contributing £24 billion to the UK economy

Trading has been an increasing source of income for the voluntary and community sector:

- In 2006/07 earned income (as compared with donated income/grants) represented 51% of income compared to 39% in 2000/01

⁶ See history on Social Enterprise Coalition website www.socialenterprise.org.uk

⁷ Figures from the government's Annual Survey of Small Businesses UK 2005-2007

- Total earned income was £17 billion
- £7.8 billion of this total was earned by delivering public service contracts⁸

The Market:

Social enterprises can sell their products and services:

- To customers in the private sector [individual customers or private businesses]
- To other 'third sector' organisations
- To public sector organisations, by winning contracts to deliver public services through a commissioning and procurement process⁹

As mentioned above, almost half the income earned by the voluntary and community sector through trading came from public service contracts. You might not think of this as trading, but if an organisation is contracted (not given a grant) to provide a service this is considered to be income earned through trading.

With the current recession and the likely cuts to public services, this may become a decreasing source of income. However, the new government is also keen to involve social enterprises, charities and voluntary and community sector organisations in providing public services.

Examples of well known social enterprises:

Café Direct: This is a joint venture of Oxfam Trading, Equal Exchange Trading, Traidcraft and Twin Trading launched in 1991. Producers of coffee, tea and cocoa receive fair price for their produce and jointly own the company with founders and shareholders. In 2004, Café Direct became a public limited company and in 2006 paid its first dividends to shareholders.

Borough Market: A market in south London set up as a charity in 1999 to regenerate the local area, including shops, housing etc.

Divine Chocolate: Originally set up as a co-operative in Ghana, producers receive a fair price for their cocoa and jointly own the company, and benefit from its profits.

Jamie Oliver's Fifteen restaurant: Run by the 15 Foundation charity, the restaurant trains disadvantaged young people (18-24 years old) to be chefs and gain employment in the catering industry.

The Big Issue: Provides income and support for homeless people through sales of the Big Issue magazine and raises awareness of issues for homeless people.

Coin Street Community Builders: A development trust on London's south bank which has developed a derelict site for the benefit of local people – it provides co-

⁸ Figures from NCVO Civil Society Almanac 2009

⁹ See WRC Guide to Commissioning and Procurement www.wrc.org.uk

operative low cost housing and has developed shops, arts, a park, sports, childcare, family support and employment support for local people.

Oxfam's *Unwrapped* catalogue: Run by Oxfam's trading company, Oxfam Trading, the catalogue sells fair trade goods and profits go to Oxfam's charity for the benefit of poor people internationally.

Amnesty International's on-line shop: Amnesty's trading company sells products linked to its human rights cause and fair trade items. Profits go to the charity for its human rights campaigning activities.

Examples of social enterprise relevant to the women's sector:

Social enterprises work in many different fields including: health and social care, art and design, childcare, sport and leisure, finance and transport. Here are some examples of smaller, less well known social enterprises and charities that do some trading:

Account 3: A women's co-operative providing business development advice, job search and employment related skills training, welfare and legal advice for women in Bethnal Green, London.

Blackburne House: Based in the centre of Liverpool, they provide education, training and consultancy services for women; they also run a café, conference venue, nursery and exercise/health activities and offer office space for women setting up new businesses or social enterprises.

Who Made Your Pants?: A women's co-operative providing English classes, sewing training, advice, information and support for refugee and migrant women in Southampton. The women are trained and employed to make pants for women made from ethically sourced materials.

Heba Women's Project: Originally set up by a group of Bangladeshi women, Heba provides English and IT classes and sewing training for women in Bethnal Green, London. Local designers pay a commission for them to sew samples of their designs; Heba also provides studio space for local women designers and crèche facilities for its trainees.

Edo State Women Association: A charity working in both the UK and Nigeria. In London they provide training workshops, micro-credit and business development support for unemployed people, healthy living activities for women and a youth club; in Benin City they run a nursery, training and education for women and young people and a micro-credit scheme. Their main social enterprise activity is to provide small scale loans to women, using the interest paid to fund their work in both the UK and Nigeria.

Women Like Us: An employment agency based in London matching women wanting part-time or flexible work with employers and providing free and low-cost coaching and training courses for women who want to return to work.

Core Arts: A charity providing support and training for people with severe and enduring mental health issues. They have a trading arm which runs several social enterprises: Core design and Core Horticulture train and employ people with mental health issues in providing graphic design and gardening services; Core Promotions supports the sale of members work and organises club nights and poetry nights; the Crazy Cats n' Dogs Club is a social firm running a fortnightly club night for new performers in Hackney.

Community Recycling Network: This is an umbrella group representing approximately 300 not-for-profit, community-based waste minimisation, re-use and recycling schemes all over the UK.

Advocacy Partners Speaking Up: Runs advocacy services, self-advocacy based projects and resources for people with learning difficulties, physical disabilities and people with mental health issues in several regions in England. One of their social enterprise activities is to train and employ disabled people in providing disability awareness and advocacy training.

The Abbey Centre: A community centre based in Westminster, London, running healthy living activities and life-long learning for local people. It also runs a cafe and hires out conference facilities, training rooms and catering facilities.

Relevance for women's sector:

Traditionally, most women's organisations have relied on grant funding. However, there is less and less grant funding available (and increased competition for grants) and therefore an increasing need to find alternative sources of funding, such as earning income through social enterprise trading activities.

As well as selling goods or services to the public, there are opportunities to sell services to public sector organisations through a commissioning process. Most government funding will now involve commissioning and often, this will involve winning a contract in the same way as a private sector business would.¹⁰

A positive aspect of earning money through trading is that this money is not 'restricted' and can give your organisation greater independence. In other words, your organisation can decide the best way to spend this money in achieving its social/environmental aims. The money is not tied to a funder's requirements as it would be with a grant.

However, if your organisation earns money by providing a public service through a contract, it must meet the terms of the contract and there is unlikely to be any 'profit'. Even in this situation, your organisation can decide how to spend any profit (or surplus) earned.

Many women's organisations have products or services they could sell, even though these may not be immediately obvious! [See section below re: developing

¹⁰ See WRC Guide to Commissioning and Procurement www.wrc.org.uk

trading ideas.] They may also be able to take advantage of business skills among their staff, Board members, service users and volunteers.

Many social enterprise development agencies have noticed that women and people from black and minority ethnic backgrounds are particularly interested in setting up social enterprises, as this is a way to combine traditional business skills with achieving social change. (e.g. approximately 60% of people requesting business support from Social Enterprise London are women.)

It is possible for women's organisations to begin trading on a small scale, instead of trying to earn all their income from trading. Trading can be one source of income among many, including grants from various funders, individual donations, fundraising events, membership fees etc.

However, developing a social enterprise activity is likely to involve acquiring new skills and knowledge, and making changes to the way you work.

Developing trading ideas

You might think that there is nothing your organisation can sell, but most organisations will have hidden talents, skills, or resources that could be developed into trading activities.

It's a good idea to set up a working group, including staff, volunteers, trustees and perhaps service users or people outside the organisation who may have useful expertise or an interest in your organisation. Start by listing as many ideas as possible – be creative! You can consider the practicalities later.

To help you think about trading, there are 4 approaches:

1. Sell something you already do to your existing 'customers'
2. Sell something new to your existing 'customers'
3. Sell something you do already to new 'customers'
4. Sell something new to new 'customers'

It will always be easier to sell something you do already and selling something new to new customers is clearly the most difficult and risky option.

Whether you are a planning to set up a new social enterprise or you are involved in an organisation that is thinking about earning income through trading, it is important to:

- Build on your strengths, your expertise and/or what you do already
- Research the 'market' – can you sell something that would meet a need?
- Think creatively about all the possibilities, even if they seem like crazy ideas!

Once you've got a list of ideas, then choose a few (no more than 5-10) that you would like to explore further. Then you need to assess how realistic each idea really is; some questions to help you decide are:

- Can you describe the product or service clearly?

- Is the product or service linked to the purpose of your organisation? How will this trading idea help your organisation to achieve its social and/or environmental goals?
Who is the product or service for? What need does it meet?
- Who will pay for the product or service?
[Note: sometimes the people who benefit from the product or service are not the same as the people who pay for it. For example, the people who benefit from a crèche or nursery are children; the people who pay for the service are their parents.
Another example is a healthy living course for women; the people who benefit from the course will be the women who attend; the people who pay for it might be the local Primary Care Trust or Doctor's surgery.
- Are you confident that there are enough people who would be willing to pay for the product or service?
- Do you know how much they would be willing to pay?
- Are you confident that you would be selling a product or service that is not already provided by another organisation or business?
- Do you have any unique advantages over other organisations selling a similar product or service?
- What are the costs of setting up and running this social enterprise?
- How much income could you earn from this social enterprise?
- Do you have the capacity (e.g. skills, knowledge, time, support, etc.) to set up and run this social enterprise?

KEY POINTS:

- It is very important to answer these questions honestly, because there is no point wasting time in developing a trading idea that cannot work.
- It's important to be positive (and even passionate) about your product or service
- Be open and talk to lots of people about your idea, give other people the chance to help you – you never know who can help you and people often want to help if they can see the value of what you want to do. (Of course, you might not want to talk about your idea to potential 'competitors'!)
- The business side is as important as the social side – you must be able to make a profit

You will also need to examine your organisation (honestly) in 4 key areas:

1. What are the implications of trading for your organisation's mission and core values? It very important to make sure that your trading idea fits with the aims of the organisation.
2. How much support for trading is there among your staff, trustees, volunteers, service users etc.? It is very important that everyone in the organisation is kept informed about this work, especially if this is a change of direction for you. It is essential that everyone is committed to developing trading as a source of income.
3. Do you have the skills, experience and capability to take on trading activities?
4. Is your organisation financially stable enough to develop trading?

Planning

Once you have a potentially workable trading idea that your organisation wants to develop, it is important to put together a business (or development) plan. This plan will enable your organisation to look at the following areas in more detail:

1. Clarify specifically why you want to trade and what you want to achieve by trading
2. Analyse your 'market'
3. Analyse the external environment
4. Analyse your finances and costs
5. Understand the skills and expertise you will need
6. Analyse risks

Planning will help you move from the 'ideas' stage to taking action. Thorough planning and preparation will help to ensure that your trading activity is a success.

1. Clarify why you want to trade:

- What (specifically) are your social and/or environmental goals?
- How (specifically) are you going to achieve your organisation's social and/or environmental goals?
- Is the product or service you want to sell related to your organisation's social and/or environmental goals? E.g. a training course to raise awareness of violence against women, a T-shirt with feminist slogans on it
- Will you achieve your social and/or environmental goals through the process of producing a product or running a service? E.g. by paying a fair price to the workers who produce the product, by providing training and employment to women ex-offenders
- Do you simply want to earn a profit to fund your organisation's social or environmental activities?

2. Analyse the 'market':

- Are your products or services needed?
- Are there enough people or organisations to buy them? Who are your potential 'customers'?
- What kind of prices are your 'customers' likely to pay?
- Is there anyone else offering the same product or service? What is unique about you? Do you have any 'competitive advantage' [e.g. higher quality product/service, meeting specific need, quicker or cheaper service, highly trusted, lower costs, higher ethical standards, money is going towards a good social aim]?
- What is your 'marketing strategy'? How will you reach your customers and promote your product or service?

3. Analyse the external environment:

- Are there any economic, social or political trends or changes that might impact on your social enterprise? (e.g. likely impact of recession, cuts in

public services, change of government policy, changes in local population, etc.)

- How can you take advantage of any opportunities?
- How can you minimise the impact of any negative conditions?

4. Analyse your finances:

- How much are your start-up costs?
- How much are your ongoing costs? What is your budget?
- Can you use any of your existing resources e.g. equipment, premises?
- How much would you have to earn to 'break even'?
- How long is this likely to take?
- Can you make a profit? In order to make a profit, how much would you need to charge for your product or service?
- What is your 'cashflow forecast'? How will you make sure that you do not run out of cash?
- Do you have enough money to sustain the organisation while you develop this trading activity?

5. Analyse the skills and expertise needed:

- Do your staff, volunteers and trustees have the skills you need? If not, do you need to employ new staff or provide training? [Note: you may need new skills/expertise in order to produce your product or run your service and/or you may need new skills/expertise to run a social enterprise e.g. marketing, financial, legal]
- Will you involve volunteers in your social enterprise? If so, how?
- Do you need to change the way you are working?
- How do you ensure your product or service is high quality?
- Could anyone else help you?
- Where can you get support?

6. Analyse risks:

- What are the potential risks of your trading idea?
- How likely is it that these risks will happen e.g. low risk, medium or high risk?
- How can you avoid or reduce these potential risks?
- Can you try out your trading idea on a small scale to check how well it works before developing it on a large scale?

KEY POINTS

- It's important to prepare well before getting further advice or looking for start up funding. If you think through the details of your idea before you seek advice, you'll get more out of it.
- It's very important to get legal advice if you decide to go ahead – but make sure the advice comes from someone who knows about charities and social enterprise.

Legal issues

There is no single legal structure for social enterprises. Choices about your legal structure will depend on:

- What you're trying to achieve. (What are your social and/or environmental goals and how do you want to achieve them?)
- Who will be involved and how you would like them to be involved. (How much power and control over the social enterprise should they have? If you're setting up a new social enterprise, what role do you want directors to have?)
- The amount, scale or level of trading you're planning to do
- How you plan to start up and raise money for your social enterprise

Specific questions you might want to consider:

- Do you want to be registered as a charity and have access to associated benefits?
- Do you want to be able to have paid staff on your board?
- Do you want to raise money through shares?
- Do you want to work for and run the organisation co-operatively?

KEY POINTS:

- The legal structure must fit the specific needs of your social enterprise (not the other way round!)
- Careful planning must take place before deciding on a legal structure – whether you are setting up a new social enterprise or your organisation is a charity starting up a trading activity.

Many individuals start up social enterprises as 'sole traders' or as a 'partnership' (when 2 or 3 people set up a social enterprise). In this situation, they are self-employed in the same way as you would be if you set up a traditional (private sector) business.

Otherwise, social enterprises usually have one of the following legal structures:

- Unincorporated association
- Company limited by shares
- Company limited by guarantee
- Community interest company
- Industrial and Provident Society

Unincorporated associations:

Many organisations (including charities) start off as unincorporated association with a constitution or set of rules. If a community group is working on a small scale and doesn't have much money this is fine. Under this structure, the individuals who are on the management committee are liable for any debts or contracts the organisation takes on.

So, most organisations consider ‘incorporating’ when the organisation grows to the point where they are:

- Employing staff
- Taking on a lease for premises
- Buying a property
- Taking out a loan or applying for a large grant
- Taking on a large contract

‘Incorporating’ means that the organisation has a legal identity separate from its individual members. This means the company is treated like a person in law – the company is responsible for all contracts, leases, debts etc. while the liability of individuals on the management committee or board is limited [so long as they manage the company well, don’t commit fraud or break the law].

Example: Core Arts started as an unincorporated association with a constitution, but when they grew and began to employ staff, they became a company limited by guarantee.

Company limited by guarantee:

The most common legal structure for charities and social enterprises is either a ‘company limited by guarantee’ or ‘company limited by shares’.

All limited companies will have a governing document called a Memorandum and Articles of Association. This will have an ‘objects’ section which describes the purpose of the company. This is where a social enterprise will describe its social or environmental aims.

Companies are regulated by Companies House.

Many women’s organisations are companies limited by guarantee and also registered charities. In this case their objects must also be charitable (i.e. they must benefit the public as defined by charity law).

In social enterprises, Memorandum and Articles of Association must state that profits will be used for their social and/or environmental aims. For a charitable company, there should also be a section saying that if the company closes down, its assets will go to another similar charity.

- In a company limited by guarantee, all members agree to pay a small amount (usually £1) if the company closes down. Individual members’ liability is limited to £1, so long as they act within the law (and their own governing document).
- A limited company has a Board of ‘Directors’ elected by members; the Directors are usually also members.
- A company must have members and each member has one vote
- Members can be individuals or organisations
- A limited company must register with Companies House

Advantages:

- This structure is quite flexible and easy to set up
- The organisation can apply for some grants (so long as the Memorandum and Articles of Association state that profits will be used for social/environmental goals) and start up funding for social enterprises
- Organisations can register as a charity if they have charitable objects
- If the company is also a registered charity, it will be eligible for the usual tax benefits for charities

Disadvantages:

- A company limited by guarantee cannot have shareholders.
- If a company limited by guarantee is also a registered charity, it will be regulated by both Companies House and the Charity Commission. It will need to meet the requirements of both regulators.

Issue re: paying directors:

If the company is also a charity directors cannot be paid staff. Under charity law there must be a separation between trustees - who are legally responsible for the charity - and paid staff; if the company is not a charity, directors can be paid.

Company limited by shares:

The majority of businesses in the private sector will be companies limited by shares. Some social enterprises also have this structure.

The main difference between a company limited by shares and a company limited by guarantee is that this kind of company can issue shares and will have shareholders (investors). A portion of the profits can be distributed to shareholders, but in a social enterprise there will be a limit to ensure that a significant portion goes towards the achievement of social and/or environmental goals.

Generally, the more shares a shareholder has, the more votes and decision making power s/he has. In a company limited by shares, the shareholders are liable – if something goes wrong, their liability is limited to the amount they invested.

Example: the Aspire Group (sells fair trade catalogues and employs homeless and other socially excluded people to do this.) It set up as a company limited by shares to enable it to raise money from commercial investors, but later set up a separate charity that owns all Aspire's shares, so that it can apply for grants and loans from community development financial institutions.

Advantages:

- Can attract investors, because investors can ensure they have greater ownership and control over the company by buying more shares.
- This structure has a greater association with the business world

Disadvantages:

- Companies limited by shares cannot be registered charities
- Usually cannot access grants (unless they are also Community Interest Companies)
- Shareholders with more shares have more control over the company (this might also be an advantage)

Community Interest Company (CIC):

This is a relatively new legal structure introduced in 2005 specifically designed for social enterprises. A CIC is a limited liability company and can be a private company limited by guarantee or by shares, or a public limited company. CICs are regulated by the Community Interest Company Regulator.

A CIC is like other companies but must satisfy a 'community interest test'. This means it has to show that its activities are for the benefit of the community or wider public.

A CIC also has a "lock" on its assets. This means profits cannot be distributed to its members or shareholders except in certain limited circumstances. It also means that all assets must be used for the benefit of the community and if the CIC closes down, its assets must be transferred to another social enterprise.

Currently, most CICs are registered as companies limited by guarantee and therefore, do not have shares or shareholders.¹¹ However, a CIC that is a company limited by shares can distribute a portion of its profits to shareholders (up to a maximum of approximately 35%).

Examples of CIC's: Women Like Us, Women Empowerment Network (Bedford), Women's Art Movement

Advantages:

- This legal structure is associated with social enterprise
- Grant funders recognise the structure (generally) and many allow CICs to apply for grants
- Directors of the CIC can also be paid employees
- CICs can access business start-up funding

Disadvantages:

- There are quite a lot of restrictions on how CICs operate and an annual fee
- CICs do not have any of the tax advantages that charities have
- CICs can have investors but experience so far shows that CICs are finding it quite difficult to attract investors
- CICs cannot register as a charities

¹¹ In 2009, 74% of CICs were registered as companies limited by guarantee and 26% as companies limited by shares. The Voluntary Sector Legal Handbook, Russell-Cooke Solicitors, Directory of Social Change, 2009

Industrial and Provident Society (IPS):

There are two types of industrial and provident society:

1. A co-operative society which trades for the mutual benefit of its own members. Members have equal control over the society, based on 'one member one vote'. Follows internationally agreed 'co-operative principles'.
2. A community benefit society provides services which benefit members of a community, not its own members. Members have equal control over the society, based on 'one member one vote'.

This structure is sometimes considered more democratic and is often used by co-operatives (e.g. worker-controlled social enterprises or businesses, housing co-operatives) or collectives.

IPSs are registered by the Financial Services Authority.

Example: Early Years Centre Roundshaw set up as a community benefit society and registered as a charity. They wanted staff to have the opportunity to be on the board and to have decision making power, and also wanted to be able to apply for grants.

Advantages:

- Democratic decision-making
- Good for co-operatives or self-help organisations where the social enterprise wants to trade for the mutual benefit of its own members
- Community benefit societies can also be registered charities
- Community benefit societies can include paid staff as members of their management committees

Disadvantages:

- If a society does not use model rules (provided by national bodies e.g. Co-operatives UK Ltd., UK Credit Unions, etc.) registration can be expensive (up to £950 in 2011)
- Co-operatives cannot be registered charities
- IPS structure is not widely recognised or understood

Key issues for charities wanting to trade:

If your organisation is already a registered charity and wants to begin trading, it is important to be aware of the law regarding charities and trading.

First of all it is important to check that your constitution or Memorandum & Articles of Association allows your organisation to trade. If not, you may need to change your governing document or consider setting up a 'trading arm' (see below).

Charities do not pay income or corporation tax on their profits so long as their trading activities contribute to achieving their 'primary' charitable purpose, or the work is mainly carried out by the beneficiaries of the charity (called 'ancillary

trading’).

An example of primary purpose trading:

A women’s health charity sells ‘easy-read’ booklets on health issues for women with learning difficulties.

An example of ‘ancillary’ trading:

A refugee women’s organisation trains and employs its service users to run a café.

For small scale ‘non-primary purpose’ trading¹², charities will be exempt from tax within the following limits:

- Small charities with an income less than £20,000 per year can earn up to £5,000 from activities that are not related to their charitable purpose – before they are taxed.
- Charities with income of £20,000-200,000 can earn up to 25% of their overall income
- Charities with over £200,000 income can earn up to £50,000

An example of ‘non-primary purpose’ trading:

Selling greetings cards that have been bought wholesale and making a profit by charging a higher price for the cards.

Value Added Tax (VAT):

Charities have to pay VAT on goods and services just like any other organisation. If they earn income through trading, they may also have to charge VAT to their customers (including public bodies which purchase services under contract).

Your organisation may have to register for VAT if its income for the previous 12 months from ‘taxable business activities’ is above an amount known as the VAT registration threshold. This is currently set at £73,000¹³.

If you are charging for goods or services, these will usually be considered as ‘taxable business activities’, unless they fall within the definition of ‘VAT exempt’ services. It is possible that your services might be exempt if they are education or welfare services but you must get expert advice on this.

If your trading activities are not exempt and your income from trading is above the threshold, your organisation will need to register for VAT. A possible benefit of registering is that you may be able to recover some of the VAT that you pay on goods and services that you buy.

VAT is a complex area, so it is very important to get specific advice from the HMRC (Her Majesty’s Revenue and Customs) or an accountant.

Setting up a ‘trading arm’:

¹² Income from trading could also include activities such as selling donated goods, selling property, income earned through fundraising events or small scale lotteries.

¹³ This was the threshold in April 2011.

Charities may decide to set up a separate trading company or 'trading arm' for two reasons:

1. To carry out non-primary purpose trading that would involve being taxed or increase risk for the charity.
2. To carry out primary purpose trading (which could be done directly) because they prefer to minimise risk. It might be better for their reputation to keep trading activities separate.

KEY POINT

A 'trading arm' is not itself a charity, so it does not have to meet charity law requirements regarding trading. Usually a trading arm is set up as a company limited by shares or a company limited by guarantee.

The charity still controls the trading company and profits from the trading company will be paid to the parent charity. The most common way of doing this is for the trading company to make regular Gift Aid donations to the parent charity.

If your organisation is considering setting up a trading arm, it is important to get legal advice.¹⁴

Financing your social enterprise:

If you are setting up a new social enterprise, you will need to think about how to raise money to get started. There are some sources of funding available for social enterprise, but like grants, it is not easy to secure this money.

Sources of funding may take the form of grants, loans or a mixture of the two. Less common for social enterprise is to raise money from investors, which will also depend on adopting an appropriate legal structure for the organisation. Companies limited by guarantee cannot issue shares and cannot have investors.

The first thing you must do is to develop a business plan (see above). You must have a good idea of how your social enterprise is going to work, how it's going to make money, what your start-up costs and ongoing costs are, and your potential for making a profit. Until you have a clear plan, it is difficult to know which kind of funding will be suitable and you are unlikely to convince a funder to invest in you. Keep in mind that it usually takes about 18 months to set up a business or a trading activity (from the beginning) and during the first year, you are unlikely to make any profit.

To find out more about sources of finance for social enterprise, check:

- Community Development Finance Association: useful 'finding finance directory' on its website – good place to start!
- Social Investment Business (includes Social Enterprise Investment Fund, communitybuilders fund and Adventure Capital Fund)
- London Rebuilding Society

¹⁴ For a clear summary of some of the issues for charities wanting to set up a trading arm, see 'Voluntary but not Amateur', by Ruth Hayes and Jackie Reason, published by the DSC, 2009.

- UnLtd (for individuals with a good social enterprise idea)

See 'Resources' for more details.

If your organisation is an existing charity that is developing a new trading activity, trustees may decide to use reserves to fund the activity to start up. If so, it is essential that the board are clear about the amount they are investing and the charity keeps separate financial records for the trading activity.

If the charity decides to set up a separate trading arm, it may want to invest in the start up of the trading activity by making a loan or purchasing shares. If so, it is very important to ensure that the organisation's governing document allows it to make investments, and that the organisation follows the requirements of charity law.

Resources:

USEFUL BOOKS AND GUIDES:

National Council for Voluntary Organisations (NCVO):

- The Good Guide to Trading: Getting Ready for Enterprise, by Atul Patel and Rosalind Oakley, NCVO, June 2009
[costs £25, but WRC has a copy in our library]
- Sustainable Funding Project: Guide to Trading
[Can be downloaded from NCVO website or WRC has a copy in library]

Social Enterprise London Guides:

- Social Enterprise in the Third Sector
- The Social Enterprise Starting Point Guide
- Keeping it Legal: Legal forms for social enterprises [a bit out of date as it does not include Community Interest Companies, but good overview]
- Climbing the Ladder: step by step finance for social enterprise

[All available free from their website]

Social Enterprise Coalition:

- Keeping it legal: a guide to legal forms for social enterprises
- Unlocking the potential: a guide to finance for social enterprises
- Healthy business: a guide to social enterprise in health and social care
- Black, Asian and Minority Ethnic social enterprises – the business of opportunity and empowerment

[Cost £10 each or £6 for members]

Directory of Social Change (sells a range of useful publications):

- Voluntary but not Amateur: a guide to the law for voluntary organisations and community groups, Ruth Hayes and Jackie Reason, DSC, 2009 [WRC has a copy of this book in its library.]
- Social Enterprise in the Balance, Cathy Pharoah, Duncan Scott & Andrew Fisher, CAF

SUPPORT ORGANISATIONS

Business Link www.businesslink.gov.uk;

Business Link Helpline

0845 600 9 006;

Social Enterprise section of website:

<http://www.blondon.com/SocialEnterprise/SocialEnterpriseHome.aspx>

Free business advice and support service - has two advisors in London who specifically support people interested in setting up social enterprise. Also, lots of useful information and resources on its website.

Community Action Network www.can-online.org.uk

Provides low cost shared office space, support and investment for social enterprises.

Development Trusts Association www.dta.org.uk

Membership organisation for development trusts.

FEAT Project www.featproject.org.uk (part of Urban Inclusion)

Provides advice and support for Black, Asian and minority ethnic women who want to set up social enterprises (mainly in the East London boroughs near the Olympics site, but may support others too.)

National Council for Voluntary Organisations www.ncvo-vol.org.uk

Runs the Sustainable Funding Project which runs training and provides guides to trading. The main NCVO website also provides lots of useful resources regarding charities and trading.

Social Enterprise London www.sel.org.uk; Email: info@sel.org.uk;

Phone 020 7022 1920

Provides resources, support, training and networking for those interested in social enterprise in London.

Social Enterprise Coalition www.socialenterprise.org.uk

National organisation representing and supporting social enterprise. Produce some useful publications.

Red Ochre www.redochre.org.uk

Provides consultancy, organisational support and training to third sector organisations and public bodies. Has a specific project advising and supporting people from Black, Asian, minority ethnic and refugee backgrounds to set up social enterprises. Also provides free mentoring and advice to start-ups and new organisations.

School for Social Entrepreneurs www.sse.org.uk; Phone: 020 8981 0300

Provides training and support for people interested in setting up social enterprises.

Women's Resource Centre www.wrc.org.uk

We run free training courses on social enterprise for women's organisations and can provide some support to women's organisations which are considering trading as a new way to earn income. Books and guides on social enterprise available in our resource library.

FINANCE

Adventure Capital Fund www.adventurecapitalfund.org.uk

Provides a mixture of loans and grants along with mentoring and business development support for social enterprise.

Community Development Finance Association www.cdfa.org.uk

The cdfa is a network of Community Development Finance Institutions (CDFIs). "CDFIs are sustainable, independent financial institutions that provide capital and support to enable individuals or organisations to develop and create wealth in disadvantaged communities or under-served markets."

See their 'Finding Finance' page which helps you find sources of funding in your area.

Co-operative and Community Finance www.icof.co.uk

Provides loans to co-operatives, employee owned businesses and social enterprises.

London Rebuilding Society www.londonrebuilding.com

Provides loans to social enterprises in the greater London area.

The Social Investment Business www.socialinvestmentbusiness.org; Telephone enquiry line 0191 2615200

Manages several funds providing loans, grants and support to social enterprise:

- Social Enterprise Investment Fund (specifically health and social care)
- Communitybuilders Fund
- Adventure Capital Fund

The Social Enterprise Loan Fund www.tself.org.uk

Provides loans to social and community enterprises (between £25,000 and £250,000). Also has links to regional community investment funds that provide loans.

UnLtd www.unltd.org.uk

Provides grants, loans and support to individuals who want to develop social enterprise ideas.

Venturesome (part of Charities Aid Foundation) www.cafonline.org

Provides investment loans to charities and social enterprises (between £20,000 and £350,000)

CHARITIES AND TAX INFORMATION

HM Revenue and Customs www.hmrc.gov.uk

HMRC Charities Helpline

You can contact the Charities Helpline on Tel 0845 302 0203 (open from 8.00 am to 5.00 pm, Monday to Friday).

Charity Commission www.charity-commission.gov.uk

See their guide CC35: 'Trustees, Trading and Tax: How charities may lawfully trade'