

# Module 4 - Money

Understanding and managing social enterprise finances

# Context to Module 4 - Money

Welcome to Module 4 of the 'Becoming a social enterprise: essential business understanding for VCS Boards' learning materials. This introductory section explains the structure of the modules, who these materials are intended for, and who will be learning from them. There is also a key to the symbols used in the modules to aid facilitators.

## Structure of the modules

There are five modules in total, each focussing on a separate issue of becoming a social enterprise. The modules are independent from each other, and do not need to be taught in sequence.

Each module follows the same format: an introduction page to the module, the four topics which make up the module, and a summary at the end which includes a learning checklist and further information resources. After the summary are the reference sheets for the learners, which include a brief synopsis of the entire module and further information resources, as well as any additional learning materials.

## Who should use these materials

The aim of these materials is to give Board Members of Voluntary Community Organisations (VCOs) an understanding of business practice, and help them guide their organisation as it becomes a social enterprise. The materials are designed for trainers who will be facilitating Board Members' learning sessions.

## Who will be learning from these materials

These materials will help Board Members who have little or no experience in business, or who wish to update their understanding and awareness of business. The materials are not designed to provide hard business skills – they will instead give an insight into all the business areas that a VCO will encounter as it becomes a social enterprise. Board Members of any size VCO will benefit from the learning sessions, but they are specifically aimed at Boards of small and medium organisations – local or regional organisations, employing up to 25 staff and with an income of anything from £50 to £500,000. For information about why such organisations are becoming social enterprises, please see the 'Understanding and Using the Materials' pdf.

## Key to learning symbols used



Question(s)



Exercise



Answer(s)



Stop & Think



Case Study

'These training materials were developed and produced by Governance Works Ltd on behalf of the Small Business Service, Social Enterprise Unit'.

# Introduction

Money is the major resource, alongside people, for achieving plans and wider goals. This module will examine the critical issue of money – how social enterprises get it, how they think about it, and what impact different forms of money can have on the organisation and its ways of doing things. The module does not cover in detail money earned through trading – see Module 3 (Marketing) for more information on this.

## This module is split into four sections:

1. Thinking about money
2. Controlling money
3. Where does your VCOs money come from?
4. Being fit for finance

## Learning outcomes

By the end of this module, you will be able to:

- ❖ Explain what is meant by 'full cost recovery'
- ❖ Explain the Board's role in negotiating and managing contracts
- ❖ Describe the financial market for social enterprise
- ❖ Identify the major financial risks that your organisation must understand and manage if it is to be a successful enterprise

- ❖ Outline the different forms of finance available to a social enterprise

## Glossary:

**Cash flow** – money going in and out of an organisation in a set period of time

**Cost recovery** - including all of the costs of producing/doing something in the price charged

**Equity** – money invested in an organisation

## Acronyms:

**SLA** – Service Level Agreement

**VCO** – Voluntary Community Organisation

**VCS** – Voluntary Community Sector

**CDFI** – Community Development Finance Initiative

# Topic 1: Thinking about money

## 1.0 Introduction

All organisations need money at different times and for different purposes. Where there used to be a sharp distinction between the funding sources available to the VCS and the commercial sector, now there is a growing sense of one financial market that is open to all sectors, and Boards of social enterprises must have the knowledge to manage this.

## 1.1 Terminology check

 **How would you define the following terms?**


**Loans:** Money that is borrowed and must be repaid.


**Mortgages:** Money borrowed to purchase a building – usually long term.

**Lease/hire purchase:** A financial arrangement where you can immediately use something while paying for it over a period of time, in agreed instalments.

**Lease:** Paying to use something for a limited time – item is surrendered when the agreed lease period comes to an end.

**Equity:** Money invested into a project or business, often through shares.

 **Where does your organisation get its money from and what form does this money take? For example: grants, loans, SLAs.**

 **Sample answers:**

- ✦ Loans for capital or product development
- ✦ Mortgages for property
- ✦ Lease or hire purchase for equipment
- ✦ Equity for growth and development

 **What percentage of your funds are grants?**

## 1.2 The changing money environment

The funding environment is changing, and VCOs must now look beyond traditional grant funding for income.

The Government's review of the role of the VCS in service delivery placed a greater emphasis on building capacity, sustainability and self reliance within the VCS, a view which is echoed by funders. The VCS is now encouraged to develop funding strategies that include a funding mix of grants, loans, and earned income. In addition, VCOs are being encouraged and supported to make financial returns on their work by selling what they might previously have given away, or utilising assets to generate an income.

### Loans

Notably many funders are in turn changing the ways in which they deliver funds to the sector. Some traditional charitable trusts are offering loans alongside their grants programmes. In addition, a number of Community Development Finance Initiatives (CDFIs) have developed loan funds designed specifically for the VCS and social enterprise sectors.

### Service Level Agreements

One significant change in the funding of VCOs has been the creation and take up of Service Level Agreements (SLAs).

National and local government is giving increasing importance and recognition to the role of the VCS in delivering services at a community level, and as a result, funding agreements are increasingly being formalised with the VCS through SLAs. The SLA is a contract for the delivery of specific services, such as care for the elderly or provision of play services for children.

SLAs place an emphasis on performance targets and outputs and relate these to payments and payment schedules, and they provide an agreed framework for the delivery of a wide range of public services.

### Trading for income

The VCS does not have a history of trading, but this is changing rapidly. Module 5 page 17 describes in detail the restrictions on charities, but generally speaking just because an organisation is a charity or 'not-for-profit' does not mean it cannot charge for goods or services.



If you are in a VCO that is thinking of trading, or if your organisation is already engaged in trading, are/were there any concerns expressed about the concept of trading? If so what were they?

## 1.3 Ideas come first

If an organisation is to stay focussed on its objectives and remain in control of its work, then it is essential that it regards and uses its money as a tool to achieve its chosen objectives. All too often VCOs have had to adapt their ideas around the money that is available, to fit into the criteria of funding bodies.

As one social enterprise KCY Services Ltd, in Leicester notes:

*"Many people create projects that fit very specific grant criteria in order to obtain the funds they really need for their core work. We have taken a different approach in that our grant applications are sectoral or themed to an area of work the co-operative wishes to move into" (KCY Services Ltd – quoted in Social Enterprise Partners 2004)*

Using grant money is a very good way of achieving objectives – both social and business. However, this form of money is only one option, and an over-reliance and dependency on grants can leave the organisation vulnerable. Money is a resource to help achieve results – it is the ideas and objectives that should lead the organisation, not the money.

## 1.4 Thinking about income

VCOs have, until recently, largely depended on grants for funds. Organisations have tended to operate by calculating the costs of delivering and managing activities, and then seeking grants from funders to cover costs.

Within a social enterprise, however, the focus is on the income (sales) as this is where the funds come from to cover costs. These sales are also expected to:

- Provide a profit or surplus for investing in new projects and ideas
- Fund general growth of the organisation
- Provide sufficient funds at times to cover cash flow needs
- Provide reserves for times when the organisation may experience problems

Income is also a demonstration of the confidence that the customers (those paying for a service) have in the product or service. If sales fall and income falls, then this is a key indicator that the organisation is getting something wrong with regard to the needs of its target customers/clients.

One finding of the DTI report 'Lending to the Social Enterprise Sector'<sup>1</sup> was that many social enterprises do not distinguish between grants and contracts for services within their financial statements. Even though some money is 'trading income', it is shown on the financial statements as a grant. The report went on to point out that 'being able to analyse where the money comes from as separate income sources is essential for building self sufficiency and stability'.



Does your organisation differentiate between grants and money received through SLAs or other trading contracts?

## 1.5 Questions of income

The Board of a social enterprise must have a detailed understanding of its income.

As well as examining the annual accounts, Boards must also know the right questions to ask.



What questions do you need to ask about your organisation's income and when do you need to ask them?

<sup>1</sup> Lending to the Social Enterprise Sector, DTI Small Business Service, 2004



How many customers/clients have we had or are we expecting to have?

How much has each customer/client spent and how many items did they buy?

How much is each customer/client expected to spend and how many items are they expected to buy?

When does the money come in – compared to when the service was delivered? (cash flow)

How long are we prepared to wait for the money to come? (debt control and cash flow issues)

Is there any danger that some of the money will not come in? (provisions for bad debts)

Is our income this month, quarter or year more or less than the last month quarter or year and if so why?

How have the sales projections been calculated and what assumptions were used as the basis of the calculations?

## 1.6 Attitudes to money

Thinking of the Board and senior management of your organisation, how would you characterise their attitudes towards how money comes in and how it is managed?



What are the organisation's attitudes towards money?

How does money come in - form and timing?

How is money managed?

## Topic 2: Controlling money

### 2.0 Introduction

Attitudes are a key factor when developing financial plans and strategies. These attitudes will shape how things are done, when things are done and who does what.



What negative attitudes/thoughts could hinder financial planning?



Sample answers:

**Fear of finance** – not understanding the terms, systems or ways in which financial information is presented.

**Fear of asking questions** – not asking the questions needed to test things out and make sure that the assumptions applied to financial plans are appropriate.

**Fear of failure** – Fear of failure can stop Boards taking even calculated risks to go after opportunities.

Some VCOs, particularly those with charitable status, can be over-cautious about the restrictions of the Charities Act. This is often as a result of not fully understanding what they can and can't do. This can stifle creativity and innovation in the organisation.

### 2.1 Being in control of costing

The VCS has not traditionally needed to analyse costs and calculate price. When 100% of funds come from grant sources, there is often little need to know how much it costs to produce or deliver a service, other than an annual budget that is based on the previous year's costs.

The danger of this is that the organisation has no way of knowing how much each element of its work/services is costing, how it could cut costs if it needed to or how to calculate whether something was costing more than it should.

### 2.2 Calculating costs

All organisations operate within a competitive environment, and whilst it is important to understand our costs, the actual price charged will often be calculated on what the market will bear.



### Case study:

The 'Carers Association' has been established for over 10 years. It provides support for carers through a range of services: advice and signposting on welfare rights, respite care, health care and other support; a helpline for emergencies; and social events and opportunities for meeting other carers.

Historically, the Carers Association has drawn its funds through grants from the Local Authority, and annual applications to small charitable trusts. In the last year, the Local Authority has said it wishes to agree a Service Level Agreement (SLA) with the Carers Association. Charitable grant funders are also asking the Carers Association to consider issues of sustainability and questioning how it will manage funding over future years.

The organisation recognises that there are advantages to having a contract. They commented that previously they have always felt they had to 'go cap in hand' every year to request a grant, and sometimes found it difficult to convince the Local Authority officers that they were doing a good and worthwhile job. The Association feared that the SLA would mean that they were 'working for the Local Authority' but they did, however, want a more professional funding arrangement.

One major challenge was ensuring that the SLA would take account of the full costs of delivering the service. There was a fear that the contract might require the organisation to continue to seek charitable grant funds to cover shortfalls in the 'price' negotiated. The Carers Association decided to review its position as a pre-cursor to any negotiations with the Local Authority.

## 2.3 Money challenges

**As part of its review, the Carers Association recognised that they faced four key 'money challenges':**

- ❖ Clients expect services to be free or heavily subsidised, as most of them are on low incomes.
- ❖ The Board and staff were used to raising grants to cover costs and did not see how they could suddenly introduce more realistic charges to the Local Authority.
- ❖ There were no systems in place for calculating the full costs of delivery as this had never been done before.
- ❖ Historically the organisation had no concept of 'price'.

### The Board agreed the following:

- ❖ To undertake an exercise to identify the exact costs of providing their services including the costs of management and other overheads.
- ❖ Services to clients would continue as free or subsidised, and the organisation would seek charitable grants for services that are additional to those provided for in the SLA.
- ❖ The SLA must be based on 'full cost recovery' and they will negotiate on that basis and be prepared to provide justification for all costs.
- ❖ Any contract to deliver for any other organisation must be on a 'full cost recovery' basis.
- ❖ A full cost analysis must be undertaken when introducing any new service or activity and evidence for how these costs will be recovered must form part of the plan.



## Case study part 2:

The manager of the Carers Association says she no longer needs to convince the Local Authority that the organisation is doing a good job, as they have agreed targets and outputs and these are measured and form the basis of regular reports.

The Board now feels that it can take a longer view and plan ahead rather, than working on a year by year basis. However, they do recognise that there is a risk that the Local Authority could change its priorities and decide that the services The Carers Association provide will no longer be funded by the authority. This is a risk that is continually monitored and considered by the Board when looking at financial plans.

The Board feels that as a result of the decisions they have taken, they have a greater role in monitoring and evaluating the contract and planning for the future. Before, they simply relied on the staff to send out funding applications, with the Board having little knowledge of the detail of the funds requested and what they would be used for.

The Board feels that it can now engage in a process of business planning that is based on setting and achieving targets and securing the required level of funds to cover all costs and deliver a quality service.

## 2.4 Cost recovery

Cost recovery means including all of the costs of producing/doing something in the price charged.

**This may seem very simple but some organisations find this a difficult thing to do because:**

- ❖ They do not have a clear understanding of all of their costs.
- ❖ They do not have systems in place for analysing costs.
- ❖ They feel that they cannot pass on the full costs to the users/customers.
- ❖ They feel that passing on the full costs would make them uncompetitive.

Calculating the full costs of developing and delivering your service or product is critical. These costs need to be accurate and take into account factor such as inflation or expected additional costs (such as wages increases) when you are negotiating a contract, as making an error can be very costly to the organisation.



**Does your Board receive information on and consider issues of costs as well as price when discussing a new product or service?**

**What is the attitude of the Board with regard to passing on the full cost to the customer or client?**

All VCOs have money challenges and identifying them is the first step in resolving them.



**Can you identify any key money challenges in your own organisation?**

**What are they?**

**Who do they represent challenges for?  
For example: the Board, staff, funders.**

## Topic 3: Where does your organisation's money come from?

### 3.0 Introduction

Many of the funds previously earmarked for business can now be accessed by VCOs and social enterprises. Small business advisers are increasingly understanding the social objectives, legal frameworks and operating environment of the social enterprise and VCO sectors. Even high street banks have recognised a market in the VCS and are making efforts to understand the needs and respond to them.

#### Where is the money?



Using a mindmap, develop a map of money sources available to your social enterprise. This can include local, regional or national sources. Try to include sources of commercial loans, subsidised loans (less than commercial rates) and grants. When thinking about banks try and include at least one 'social bank'.

#### Loans and mortgages

Commercial loans and mortgages are a feature of any high street, and it is possible for social enterprise to access these. However, banks loans and mortgages are almost always secured against buildings (guaranteed) and this would need to be taken into consideration.

Loans and mortgages are available from both traditional commercial lenders and through a range of social banks and Community Development Finance Institutions (CDFIs). These organisations can offer more flexibility when agreeing terms than the average 'high street' lender, and they have loans that are specifically designed for those sectors.



Has your Board ever taken loan finance?

What are the key points your Board considered or would have to consider before taking loan finance?

## The DTI report on Lending to Social Enterprise found that:

- ❖ Many social enterprises do not have a clear understanding of commercial bank funding.
- ❖ In many cases, trustees of social enterprises are reluctant to take on debt finance.



To what extent do the findings of the DTI report, characterise your organisation?

## Equity investment

Equity investment is investment which is more or less permanent (meaning that it is difficult for the investor to withdraw), and may receive a variable return (dividends) depending on the profitability of the business. Shares are the most common type of equity investment mechanism, though there are others. Equity investment has two important advantages over loan capital (also known as debt finance):

- ❖ Investors cannot simply demand their money back. It is only repayable under certain predetermined circumstances, often on the winding up of the business. Loans, by contrast, must be repaid according to an agreed schedule, frequently over a relatively short period of time. For this reason equity is sometimes referred to as 'patient capital'.
- ❖ Whereas interest must be paid on a loan whether the business is flourishing or not, equity only receives a return (commonly a dividend) if the business is showing a profit – and can therefore afford it.

The private sector position is that the return on investment is unlimited, provided the profits are there to finance it. This is unacceptable in a sector where social returns are equally or more important than financial returns. Therefore some formula must be devised for limiting the return to investors. There are a number of successful examples of social enterprises that have used relatively conventional ways of raising finance – equity issues via a Public Limited Company (PLC), for example – while staying true to their social enterprise principles.

Any social enterprise considering an equity investment programme must decide whether or not these investors are to become voting members of the enterprise. It is quite possible to design non-voting equity, but this may not be so attractive to potential investors. If investors are to be admitted as voting members of the enterprise, then some strategy may be needed to prevent the social enterprise from becoming entirely investor-driven and having its social goals diminished.

## The two key questions for Board Members with regard to finances are:

- ❖ Will we be looking for some form of long-term equity investment?
- ❖ If so, shall these investors become voting members of the enterprise?

Many with a background in the grant-aided sector may instinctively shy away from the idea of shareholders, dividends and the like. However, the value of long-term, patient capital can be enormous – many businesses take years to become profitable, and many fledgling social enterprises have been crippled by debt finance. Both the discipline of having to account to shareholders and the support and trust received from them can be potential positive spurs to a Board. For more information on the changing relationships between Board Members and their stakeholders, please see Module 5 page 9.

## Topic 4: Fit for finance

### 4.0 Introduction

Regardless of what type of funds the social enterprise will seek, the Board and organisation as a whole must be ready to enter into funding arrangements with third parties.

The concept of 'being fit for funding' can be split into eight areas:

#### 1. Be clear about what your organisation needs

This includes how much money you need, when it is needed, and in what form it will come into the organisation. This could include short term overdrafts to cover cash flow, or it could be a longer term loan to make a major purchase or support the development of a new project.

#### 2. Be clear about your financial parameters

All too often those seeking funds are not prepared for questions about interest rates or repayment terms. A Board should think this through before approaching funders so that they can be confident in their negotiations.

#### 3. Be clear about how you will use the funds

If a social enterprise is seeking funds from an external source, it must be clear about how the funds will be used. This is often expressed within a business plan or some other planning document that can demonstrate how the funds will be used and who they will benefit.

#### 4. Be clear about your ability to repay

Financial forecasts are the most common tool for calculating when and how a loan or other funds can be repaid. Even if an organisation wants to keep the loan term as short as possible, forecasting will show when the funds for repayment will be available.

#### 5. Be clear about the competence of the organisation to manage the finance

Money coming into an organisation must be managed effectively, particularly if it is a loan or other investment that will help the organisation to achieve the goals that in turn will allow the funds to be repaid. It is critical that any expenditure against borrowings or investments are managed against the original forecasts. It is only by doing this that the Board and staff can exercise control and ensure that funds are used for the purpose for which they were sought.

#### 6. Be clear about how the organisation will manage issues of compliance

Any external funds are likely to be linked to a contract that will include key issues of compliance. This could include providing regular reports to reassure the lenders or investors that the social enterprise is managing the investment effectively and efficiently. They will also use these compliance mechanisms for measuring the risk to their investment.

## 7. Be clear with funders

A major issue for any funding arrangement is how effectively the relationship is managed. Funders – any body that gives grants or loans – like to be kept in touch. They want regular reassurance that all is well, they want to know that the funds are being managed effectively and they want to know that the funds that they have provided are achieving wider goals and helping to add value.

## 8. The social fit

Funders consider funding propositions as a whole, and will look at the broader aspects such as what money is wanted, when it is wanted, how much is wanted and when will it be repaid (if this is appropriate). Funders are concerned with funding the right projects and ideas, but they also take into consideration the people, as they are the ones that will manage the money and ensure that targets are met. In the case of loans, they are also the people who will be responsible for repaying.

One key issue for approaching commercial funders might be whether or not you feel they would understand your social objectives, or if they would see these as a barrier to achieving business goals and objectives.



Imagine your organisation is approaching a commercial funder for financial support. How would you 'sell' your social objectives?

### 4.1 'Selling' your organisation

Another aspect of being fit for finance is about being able to go out to the wider financial framework and sell your organisation's proposition. There are three key elements to reaching this stage:

#### Be aware of the available sources of finance

There are a large number of funders and sources of finance available to social enterprises – business support organisations will be able to advise your VCO on this.



Board Members can be well placed to use their networks in helping to build this finance source knowledge base.

## Be aware of what funders look for

Whilst funders will advertise the terms and conditions that apply to their loans they may also have an appraisal process whereby other criteria are used as a basis for their decisions whether or not to fund. Talk to funders to see if they have such a criteria.

### Know how to make an approach

It is the role of Board Members to be an integral part of the teams presenting a proposition for funding. Board Members must therefore be able to:

- ❖ Present the plan
- ❖ Sell the social objectives to a commercial funder
- ❖ Negotiate a deal

It is important that you as a Board Member have particular credibility in this respect, as you are ultimately responsible and accountable for any money that is borrowed. The following checklist will help you determine the suitability of your Board to speak to commercial funders.

### How fit for finance is your Board?

Is your Board clear about the following financial matters?	Yes	No	Not sure
Your organisation's financial wants and needs			
The terms and conditions of borrowing			
How you will use the funds			
Your ability to repay			
The competence of your organisation to manage the finance			
How your organisation will manage issues of compliance			
How and who in your organisation will manage relationships with funders			
How you will 'sell' your social objectives to the funders			
How to build your awareness of the available sources of finance			
What funders look for in a funding proposal			
Knowledge of how to make an approach			

## Summary

VCOs are facing a critical time when they must take a fresh approach to how they can sustain their work over a longer period of time. They need to move away from the cycle of grant submission and funding problems that seems to be the norm for so many organisations. Managing resources might at first glance seem to be a very practical role, more often placed within the remit of management, but Board Members have a key role. The Board steers the organisation – it therefore needs to understand where money can be sourced from, how it can be accessed and what can be done to ensure that the organisation is 'fit for finance' – how to access grants and loans.

## Quick module checklist

? What is a SLA?

A A Service Level Agreement: a contract between the Local Authority and the social enterprise.

? What negative attitudes/thoughts could hinder financial planning?

A Fear of finance, failure to ask questions & fear of failure.

? What is a full cost recovery?

A Cost recovery means including all of the costs of producing/doing something in the price charged.

? How can organisations get funds, other than grants?

A Sample answers:

- Loans for capital or product development
- Mortgages for property
- Lease purchase for equipment
- Equity for growth and development

? What is equity investment?

A Equity investment is investment which is more or less permanent (meaning that it is difficult for the investor to withdraw), and may receive a variable return depending on the profitability of the business.

? State 4 factors in being 'fit for funding'.

A Sample answers:

- Be clear about what your organisation needs
- Be clear about your financial parameters
- Be clear about how you will use the funds
- Be clear about your ability to repay
- Be clear about the competence of the organisation to manage the finance
- Be clear about how the organisation will manage issues of compliance
- Be clear with funders
- The social fit

## What's next?

To make the most of the module, it is important that Board Members develop what they have learnt in the module, and apply it to their roles within their organisation.

### Action points from the module:

Focussing on income as an indicator will present a number of challenges for Boards of VCOs moving into the enterprise arena. They may not have the necessary financial control or reporting systems in place for monitoring income. Boards must consider who they need to speak to within their organisations to gain this knowledge.

Boards may like to lead a discussion on attitudes to money with other Board Members and key staff. This could help highlight any issues that might stop the organisation developing new insights and perspectives.

Communicating social objectives as a 'selling point' can be tricky for Board Members to master – a discussion on ideas and terminology may be beneficial.

Remember that Board Members can be often be well placed to use their networks in helping to build a knowledge base of finance options.



After working through this module, what do you feel have been the three key learning points for you?

What will you do with what you have learnt?

When will you do it?

Who do you need to support you?

Do you need any resources?

Do you foresee any challenges to overcome?

## Further Information

### Unlocking the Potential

[www.socialenterprise.org.uk](http://www.socialenterprise.org.uk)

A guide to finance for social enterprise

### More for your money

[www.socialenterprise.org.uk](http://www.socialenterprise.org.uk)

A guide to procuring from social enterprises

## Reference sheets

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### This module is split into four sections:

1. Thinking about money
2. Controlling money
3. Where does your VCOs money come from?
4. Being fit for finance

### Learning outcomes

By the end of this module, you will be able to:

- Explain what is meant by 'full cost recovery'
- Explain the Board's role in negotiating and managing contracts
- Describe the financial market for social enterprise
- Identify the major financial risks that your organisation must understand and manage if it is to be a successful enterprise

- Outline the different forms of finance available to a social enterprise

### Glossary:

**Cash flow** – money going in and out of an organisation in a set period of time

**Cost recovery** - including all of the costs of producing/doing something in the price charged

**Equity** – money invested in an organisation

### Acronyms:

**SLA** – Service Level Agreement

**VCO** – Voluntary Community Organisation

**VCS** – Voluntary Community Sector

## Topic 1: Terminology checklist

### Loans

Money that is borrowed and must be repaid

### Mortgages

Money borrowed to purchase a larger item, often a building – usually long term

### Lease/hire purchase

A financial arrangement where you can immediately use something while paying for it over a period of time, in agreed instalments

### Lease

Paying to use something for a limited time – item is surrendered when the agreed lease period comes to an end

### Equity

Money invested into a project or business, often through shares

### Service Level Agreements

Service Level Agreements (SLAs) are contracts for the delivery of specific services, such as care for the elderly or provision of play services for children.

SLAs place an emphasis on performance targets and outputs and relate these to payments and payment schedules, and they provide an agreed framework for the delivery of a wide range of public services.

## Topic 2: Controlling money

Negative attitudes/thoughts that could hinder financial planning:

### Fear of finance

Not understanding the terms, systems or ways in which financial information is presented.

### Fear to asking questions

Not asking the questions needed to test things out and make sure that the assumptions applied to financial plans are appropriate.

### Fear of failure

Fear of failure can stop Boards taking even calculated risks to go after opportunities.

### Cost recovery

Cost recovery means including all of the costs of producing/doing something in the price charged.

Some organisations find this a difficult thing to do because:

- ❖ They do not have a clear understanding of all of their costs
- ❖ They do not have systems in place for analysing costs
- ❖ They feel that they cannot pass on the full costs to the users/customers
- ❖ They feel that passing on the full costs would make them uncompetitive

Calculating the full costs of developing and delivering your service or product is critical. These costs need to be accurate and take into account factors such as inflation or expected additional costs (such as wage increases) when you are negotiating a contract, as making an error can be very costly to the organisation.

## Topic 3: Where does your organisation's money come from?

### Loans and mortgages

Loans and mortgages are available from both traditional commercial lenders and through a range of social banks and Community Development Finance Institutions (CDFIs).

## Equity investment

Equity investment is investment which is more or less permanent (meaning that it is difficult for the investor to withdraw), and may receive a variable return (dividends) depending on the profitability of the business. Shares are the most common type of equity investment mechanism, though there are others.

Any social enterprise considering an equity investment programme must decide whether or not these investors are to become voting members of the enterprise. It is quite possible to design non-voting equity, but this may not be so attractive to potential investors. If investors are to be admitted as voting members of the enterprise, then some strategy is needed to prevent the social enterprise from becoming entirely investor-driven and having its social goals diminished.

Many with a background in the grant-aided sector may instinctively shy away from the idea of shareholders, dividends and the like. However, the value of long-term, patient capital can be enormous – many businesses take years to become profitable, and many fledgling social enterprises have been crippled by debt finance.

### Topic 4: Fit for finance

The concept of ‘being fit for funding’ can be split into eight areas:

- Be clear about what your organisation needs
- Be clear about your financial parameters
- Be clear about how you will use the funds
- Be clear about your ability to repay
- Be clear about the competence of the organisation to manage the finance
- Be clear about how the organisation will manage issues of compliance
- Be clear with funders
- The social fit

## How fit for finance is your Board?

Is your Board clear about the following financial matters?	Yes	No	Not sure
Your organisation’s financial wants and needs			
The terms and conditions of borrowing			
How you will use the funds			
Your ability to repay			
The competence of your organisation to manage the finance			
How your organisation will manage issues of compliance			
How and who in your organisation will manage relationships with funders			
How you will ‘sell’ your social objectives to the funders			
How to build your awareness of the available sources of finance			
What funders look for in a funding proposal			
Knowledge of how to make an approach			

### Summary

VCOs are facing a critical time when they must take a fresh approach to how they can sustain their work over a longer period of time. They need to move away from the cycle of grant submission and funding problems that seems to be the norm for so many organisations. Managing resources might at first glance seem to be a very practical role, more often placed within the remit of management, but Board Members have a key role. The Board steers the organisation – it therefore needs to understand where money can be sourced from, how it can be accessed and what can be done to ensure that the organisation is ‘fit for finance’ – how to access grants and loans.

### Further Information

#### Unlocking the Potential

[www.socialenterprise.org.uk](http://www.socialenterprise.org.uk)

A guide to finance for social enterprise

#### More for your money

[www.socialenterprise.org.uk](http://www.socialenterprise.org.uk)

A guide to procuring from social enterprises