Telephone 0844 870 7215
Email info@seeahead.co.uk
Website www.seeahead.co.uk

DOING GOOD LEEDS

Seeking the right type of finance and managing your money

As with many businesses, there may be a time when growth of the social enterprise requires an investment from external sources. It is important to understand when you may need financial investment, for what purpose and what investors require to safeguard their investment.

Cash Flow Forecast

This is the starting point for all businesses. It is important to plan what income the social enterprise will earn, how frequently and what costs and payments will be made.

Briefly a cash flow consists of a table broken down into months. For each month you will illustrate:

- Income (receipts)
- Expenditure (payments)
- Excess of income over expenditure – with negative figures in brackets
- Opening bank balance
- Closing bank balance

TIP – Always underestimate income and over estimate payments. Consider your reserve (maintaining a level of savings from your profit to cover future business growth and potential redundancies)

Types of Need

There are different types of need for investment summarised below:

Need	Characteristic	Examples	Solutions
Operating Cash	Short-term investment to get over a difficult period	Managing on-going cash needs such as covering expenditure whilst waiting for sales returns, buying and established business	Overdraft, Invoice Discounting/Factoring (selling off debt to create cash) or a working capital loan

		orstarting new activities	
Capital Investment	Often longer-term and more significant investment	Purchasing property or equipment, renovating a building, buying a vehicle	Mortgage, secured loan, equity investment or Financing e.g. photocopiers
Growth and Change	Concentrated investment initially followed by continued higher expenditure	Taking on new staff, expanding premises or creating new product lines	Patient capital, equity, working capital loan
Bridging	Filling a gap between two identified income streams	The payment gap when moving to a new contract after closing an existing one or between two grant schemes	Bridging loan, short term overdraft facility

Types of Finance

Grants

- Capital (building, equipment, construction)
- Revenue (staff, operations)
- Specific (tied to a single purpose – restricted income)
- Programme (tied to a programme and way of working). For example the European Regional Development Fund (ERDF). This is funding specifically allocated by the European Union as part of a programme of economic development of member countries.

Loans (Debt Finance)

- Secured (assets set against the loan to be used if the loan is in default)
- Unsecured (no call on other assets if in default)
- Bridging (short term to cover a specific gap in cash flow)
- Working Capital (to finance everyday expenditure)
- Bank Overdraft

Equity

- Shares (percentage of ownership sold to generate income)
- Venture Capital (loans made to make a big, quick return for investor)
- Patient Capital (loans made for slower return often with social as well as financial return considered)

Mixes

- Grant/Loan (an investment package that is part grant and part loan)
- Equity/Loan (an investment package where some is straight loan some buys shares)

Influences: Amount of investment needed, level of risk, constitutional status, business case, market stability, track record.

Investment Readiness Process

The following processes are used in moving a client to investment readiness. They are not all used every time, but in seeking investment you will be called upon to go through some of the following stages:

- Seminars / workshops – Most lenders targeting social enterprise will hold events on a fairly regular basis. They are a good opportunity to establish a relationship with an investor.
- Initial application – Applicants will be asked to fill in paper or electronic expressions of interest or initial applications which are used to identify current investment readiness or support needs to get the organisation investment ready.
- Mentoring/training - Investors sometimes offer mentoring or formal training programmes to sit alongside an application process as a way of reducing risk.
- Full Application - At some stage a full application will be required and dependent upon the amount and type of investment supporting evidence may well be needed e.g. business plan, sales projections, copies of incorporation certificates, insurances etc. If the investor is seeking equity there will also be a legal process to go through.
- Presentation/Meeting - In additions to meetings with the investing organisation, you may be asked to make a formal presentation of your business case. This is less often the case, but being able to do so is a good discipline for the business.
- Appraisal - An appraisal panel will review your application and supporting evidence and recommend a course of action. Investment may be approved, with or without conditions and of course also turned down.

Investment Readiness Characteristics

Before seeking investment, it is important that you demonstrate the following to prove that you are investment ready:

- Have a clear business strategy
- Demonstrate a thorough market analysis
- Have a clearly defined product or service
- Possess the right legal structure to be able to trade and ensure all regulations are adhered to
- Have a skilled management committee and staff team equipped to run the business with appropriate accreditations, qualifications and experience
- Operating with appropriate finance systems to manage the business with checks and balances in place
- Demonstrate an accurate estimation of the amount of investment required

TIP – Make sure you are confident that you can manage the amount of investment sought

Barriers to Investment

- Low awareness of opportunity (inability to identify potential growth opportunities for the business)
- Quality of business documents (Business Plan, Feasibility, Cash Flow)
- Skills Issues in Company (Management, financial, presentation, business planning)
- Cultural Barriers

Unit Costs

To determine your profit it is important to understand costs. One of the first costs your enterprise will encounter is pre-start costs. In order for your enterprise to achieve profit it is important that the business is able to return the initial pre-start costs once trading.

Full Cost Recovery is being able to recover pre-start investment and all the costs of the enterprise (indirect costs), not just the costs directly associated with the product or service (direct costs).

As part of pricing your services or products, it is important to include a proportion of the profit margin as a contribution towards the Full Cost Recovery.

Calculating your unit cost is the main step towards correct pricing in order to achieve Full Cost Recovery and profit.

Fixed costs are those costs which do not vary with the level of production / service delivery (within a certain range)

Variable costs are those costs which vary with production / service delivery levels

Total costs are the sum of both fixed and variable costs for a specific level of production / service delivery

Unit costs = Variable costs + Fixed costs

Per unit No. of units

Example:

Variable Costs = £5 per unit

Expected volume = 100 units

$$\text{Unit Costs} = £5 + \frac{£50{,}000}{100} = £505$$

If a product's or service's selling price covers its variable cost, then anything above that makes a contribution to covering the fixed costs and towards the profit.

Contribution per unit = unit price – variable cost per unit

Total contribution = contribution per unit x number of units

Profits are generated by selecting a unit price that generates the most total contribution.

Where to go for Further Help

www.seeahead.co.uk

www.thekeyfund.co.uk

www.cdfa.org.uk

www.unltd.org.uk

www.awards4all.org.uk

www.adventurecapitalfund.org.uk

www.lotteryfunding.org.uk

www.befund.org

Yorkshire & Humber funding support organisations:

South Yorkshire Funding Advice Bureau

www.syfab.org.uk

Leeds

http://www.fundsinleeds.org.uk/

Bradford

http://www.bfunded.org.uk/

Hull and East Riding

www.fundraisingplus.net

North Yorkshire

http://www.ynyfundingadvice.org.uk/

www.yorkcvs.org.uk

www.nyfvo.org.uk