

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 overestimate payments. Consider your reserve (maintaining a level of savings from your profit to cover future business growth or 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 or starting new activities	Overdraft, Invoice Discounting/Factoring (selling off debt to create cash) or a working capital loan
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 lease/contract hire finance 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). E.g. the Arts Council England run a National Lottery Project Grants scheme providing grants up to £100,000 for arts, museums and library projects.

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)
- Community Shares (percentage of ownership of a cooperative or community benefit society)

Mixes

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

Other

- Crowd-funded investment (unsecured investment raised via an online platform with many people investing small amounts to be paid back)
- Social impact bonds (payment-by results contract where a social investor pays for your organisation to operate and the government repays the investor based on the success of your activity)

There will be factors which influence the type of finance most suitable for your business, such as: 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/electronic expressions of interest or initial applications which are used to support businesses to get 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 - Dependent upon the amount and type of investment supporting evidence may be needed e.g. business plan, copies of incorporation certificates, insurance etc. If the investor is seeking equity, there will also be a legal process.
- Presentation/Meeting - In addition 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, or of course, may be 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 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

Contribution per unit = unit price – variable cost per unit

Total contribution = contribution per unit x no. units

Example:

Variable Costs = £5 per unit

Fixed costs = £50,000

Expected volume = 100 units

Unit Costs = 5 + $\left(\frac{50,000}{100}\right)$ = £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.

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

Where to go for Further Help

- Business Enterprise Fund – social enterprise loan provider to SMEs <https://www.befund.org>
- The National Lottery Community Fund (including Awards for All) <https://www.tnlcommunityfund.org.uk>
- Responsible finance – organisation representing responsible finance providers <https://responsiblefinance.org.uk>
- SEE Ahead – business support <https://seeahead.co.uk>
- SIB - Social enterprise investors <https://www.sibgroup.org.uk>
- Social Enterprise UK <https://www.socialenterprise.org.uk>
- Social Enterprise Yorkshire & Humber <https://seyh.org.uk>
- The Key Fund - Social enterprise investors <https://thekeyfund.co.uk>
- UnLtd – social enterprise funding organisation <https://www.unltd.org.uk>
- Yorkshire & Humber funding support organisations:
 - Barnsley Community and Voluntary Services <https://www.barnsleycvs.org.uk>
 - Bradford Environment Forum – support for organisations involved in environmental activities <http://www.bradfordenvironment.org.uk/funding>
 - Calderdale Voluntary Sector Infrastructure Support Service (VSI Alliance) <https://www.sectorsupportcalderdale.org.uk>
 - Voluntary Action Calderdale – www.cvac.org.uk
 - Community Action Bradford and District – support for the third sector <https://www.cabad.org.uk>
 - Community First Yorkshire – support for the third sector <https://communityfirstyorkshire.org.uk>
 - Doing Good Leeds – support for the third sector <https://doinggoodleeds.org.uk/>
 - Funding Leeds – third sector funding organisation <https://www.idoxopen4community.co.uk/lcc>

- SYFAB – South Yorkshire Funding Advice Bureau
<https://www.syfab.org.uk>
- Voluntary Action Rotherham – support for the voluntary sector
<https://www.varotherham.org.uk>
- Voluntary Action Sheffield – support for the voluntary sector
<https://www.vas.org.uk>
- York and North Yorkshire Growth Hub – business support
<https://www.ynygrowthhub.com>
- York Centre for Voluntary Service - support for the third sector
<https://www.yorkcvs.org.uk>
- CERT consultancy <https://www.certconsultancy.co.uk>
- North Bank Forum – Hull <https://northbankforum.org.uk>



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