

Support Horizons

Community Interest Company



Social Enterprise

in

Social Care

a basic guide

Produced by Support Horizons Community Interest Company

www.support-horizons.co.uk



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Introduction

What defines a social enterprise?

Social enterprise is a term that covers a huge range of types of business, operating in a multitude of varied sectors.

Large and well known businesses such as Café Direct, the Eden Project, the Co-Op and the John Lewis Partnership are all social enterprises. Many small community run cafes or shops, recycling schemes and micro-enterprises offering supported employment are also social enterprises.

So what do they have in common?

The Department of Trade and Industry defines social enterprises as:
“any business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community rather than being driven by the need to maximize profit for share holders and owners”

A social enterprise can perhaps best be defined as:

A business that trades for a social purpose

Social Enterprise London suggests three common characteristics for social enterprises:

- **Enterprise Orientation.** Social Enterprises attempt to make a surplus from trading to finance themselves and their social aim.
- **Social Aims.** Social Enterprises have a stated social aim and take into account their social, economic and environmental impact.
- **Social Ownership.** Social Enterprises use their profits for the benefit of the community rather than individual gain and often include community ownership or a high level of stakeholder participation.

Social enterprise includes the concept of **Social Firms**, defined by the Social Enterprise Coalition as:

“A business created to provide integrated employment and training to people with a disability or other disadvantage in the labour market”

Within the social care sector there is a real opportunity for social enterprise to be increasingly used as a vehicle for services that are inherently person-centred – being owned and controlled by the community they support. Social Firms can provide valuable and unique employment opportunities for vulnerable people that go beyond the traditional range of opportunities offered.

The 2006 government white paper “Our health, Our care, Our say” shows a commitment and vision for furthering the role of social enterprise within the

provision of Health and Social Care services. With a range of support already available to help, “social enterprise” looks set to be an increasingly heard term within social care.

Identifying the need

The starting point for a prospective social enterprise is often the identification of an area or service that is currently lacking, could perhaps be done better as an independent entity or with a different approach. Social enterprise combines social values with a business approach – so a good starting point may be to consider how an identified social objective could be a commercial success or alternatively how a commercially run service could be used to promote a social aim.



Partnership working

The best results can often be achieved when the greatest resources are available. Working in partnership with other stakeholders within the community can give the enterprise access to a wider range of knowledge, skills and resources than when working in isolation. For example involving stakeholders such as the local council, supported employment services and self advocacy groups can help when raising finance, finding premises and researching the potential market.



Involving the community

Social enterprises are often distinguished by the way they involve and include the community they serve. This can mean including the customers or workers in the ownership or management of the enterprise.

Within the context of social care this can provide valuable opportunities for self advocacy – for example giving people with learning disabilities the chance to own and run a service they use or are employed by.



Successfully involving the community in a meaningful way may require doing things in a more accessible format – for example writing minutes in an easy-read version or using a “buddy” system to ensure that members have the opportunity for further clarification of the issues and decisions involved.

Legal Structures

There are many legal formats available to social enterprises. Each has benefits and drawbacks that will make them more or less suitable to a particular enterprise. Whichever legal structure is chosen will need to reflect and accommodate both the social aim and intended ownership of the enterprise as well as business aspects such as size, funding sources and type of activity.

Key considerations when choosing the right legal structure for a social enterprise might include:

- Social ownership – ensuring that the community and stakeholder interest is reflected in the control and ownership of the enterprise.
- Raising finance- how does the enterprise plan to raise capital? Charitable status provides tax advantages and access to some funding but may limit what business the enterprise can pursue. Some grants and loans may be limited to some legal types.
- Regulations and reporting- some legal structures have a lot of regulation and may have limiting rules. Some may require a lot of annual reports to be completed that may be a problem for smaller enterprises.
- Image and identity- how the enterprise is seen by people. The enterprise may want to be perceived primarily as a business or ensure that it is understood as “not for profit”.

Presented below are brief summaries of some of the options available and suggestions for further sources of information and support. Choosing the right legal structure is a very important consideration and this summary should only be used as a starting point – advice should also be sought from lawyers and business advisors.

Unincorporated association

This is the simplest format, being a group of people with a shared purpose. The business itself is not legally separate from its owners. The group will usually have a formal governance or set of rules but there is no legal obligation to do so. This format may have advantages for recently established small business as it benefits from light regulations (general laws such as VAT and taxes still apply) and can operate relatively informally. It may also provide some tax advantages for self-employed owners.

The main disadvantage of remaining unincorporated is that the owners or members are themselves liable for the debts of the business. It is the owners themselves who enter into contracts and agreements and so take the financial risks personally. This may make it an unattractive proposition for many social enterprises. It may also make securing funding difficult.

Other unincorporated formats such as Sole Traders and Partnerships (firms) are similar but as they imply low or single membership are less likely to be suitable formats for social enterprises to adopt.

Company limited by Guarantee

Incorporating into this more formal structure has been a popular format for social enterprises.

Forming a company provides the advantage of limited liability – as the company is a legal entity in its own right the owners are not usually personally liable for debts beyond their “guarantee” (usually just £1). The format is one widely recognised which can be a benefit when raising finance.

A Limited Companies rules are set out in its Memorandum and Articles of Association documents. These set out the structure of the company – often a Board of directors composed of some or all of the owners (referred to as members) is created to run the company. Members are required to attend the annual general meeting and may elect or dismiss the Directors. The Memorandum and Articles may also set out how any surplus or profits be used – so as to ensure that they are used for the enterprises social purposes. However this can be later changed by agreement of the members.

Limited Companies are regulated by Companies house and are required to return annual information and accounts which are made public. The level of regulation may be seen as a hindrance by some social enterprises. Registration costs from £20.

Company limited by Shares

This form of incorporation has similar features to being limited by Guarantee except that in this case the members are the people who have bought shares in the company. Shareholders may be paid a dividend from the profits although again the Articles and Memorandum may include a clause to prevent this.

Industrial and Provident Societies

This legal form of incorporation covers two distinct types of society –

- Community Benefit Society – which must demonstrate that it operates for the benefit of the community rather than solely its own members
- Co-operative Society- which must be owned and controlled by a group of people with a shared aim.

Societies are like companies in many ways including having limited liability. They have rules of governance setting out the powers of the members and directors. However they are usually based on the principle of one member, one vote. Surplus cannot be given to members (no dividends) in Community Benefit Societies and this is limited with Co-operative Societies.

Societies are regulated by the Financial Services Authority and have to send annual returns. Costs to register vary from £100 to £950 depending how many changes are made to the model rules.

Charitable Status

Any of the above formats may also become a charity. A social enterprise that is a charity must fall under one of the following categories:

- To relieve poverty
- To advance education
- To advance religion
- For other purposes beneficial to the community.

As a charity all surplus and profit must be used in pursuit of its charitable aims. No surplus or profit can be paid to members.

Becoming a charity can have advantages for a social enterprise. Charities get several tax benefits which can be financially very beneficial. However charities are highly regulated by the Charities Commission and have to file annual reports and returns in addition to having their finances examined or audited. Charities also have many restrictions on what they can do that may make it difficult to operate as a social enterprise. Charities sometimes set up a separate trading company to carry out business that is not covered by their main purpose.

Community Interest Companies (CICs)

This is a new format set up specifically for social enterprise. A Community Interest Company can be either limited by shares or guarantee and are in many ways like a limited company.

However there are important differences that make them a suitable format for social enterprises.

The Asset Lock – this is a built in feature of the CIC that means that assets are protected. Assets and surplus may only be distributed to other asset locked bodies and charities – members and shareholders may not benefit from them. A CIC limited by shares may pay a dividend but however the amount that can be paid is capped.

The Community Interest Test – to register a CIC must demonstrate that it will work for the benefit of a community and state how the assets and profits will be used to promote this.

Community Interest Companies are regulated by the Community Interest Company Regulator (CREG) which features intentionally “light touch” regulation, making them in many ways a less complicated option than having charitable status. A Community Interest Company is also required to make the same annual returns to Companies House as a limited company.

Community Interest Companies have several advantages as a legal format for social enterprise. They are relatively simple, building on the established and familiar company format. If limited by shares they also allow for some return for investors, making equity financing a possibility. They may also be seen as more flexible than the restrictions of charitable status or the regulation of Industrial and Provident societies. However Community Interest Companies are a new format and as yet often unfamiliar to banks, insurers and lawyers. They also do not yet carry the same public trust or image that charities and other formats may enjoy.

Planning the business

Planning what the business will do, how it will do it and how it will remain financially solvent are probably the most important aspects of the setting up of a new social enterprise.

"A business plan is a written document that describes the business, its objectives, its strategies, the market it is in and its financial forecasts. It has many functions, from securing external funding to measuring success within your business."

– *Business Link guide to preparing a business plan.*

The business plan is a very important document for several reasons –

- It allows the stakeholders to clarify, agree and document the purpose of the social enterprise
- It provides an agreed plan to work to and measure against
- It highlights potential problems and issues that may not have been identified
- It is essential for gaining finance and funding for the enterprise
- It demonstrates that you have researched and understand your business and market



In the case of a social enterprise a business plan helps identify at what point, and how, it may become self sufficient. This is essential to know if funding from grants or loans will need to be obtained.

Help and advice for business planning is readily available. Business Link provides guides and examples as well as a 3 day course. Many banks offer business planning software and local social enterprise support organizations often supply guidance and training. Making use of this support, as well as any expertise within the stakeholders of the enterprise, can be vital for producing a successful business plan.

Involving stakeholders fully in the production of the plan can seem difficult but is easier if the terminology is well explained and the focus is on the overall plan rather than the detail. Initially using another planning method such as PATH, or a graphical representation of the issues, can help in involving everyone in the formation of the business plan.

The contents of business plans vary but usually include:

- A summary of the plan for the business
- A description of what the business will do, including what makes the service or product different (a “unique selling point”) and how the business will develop
- The market and competitors and how the business will compare to them (including sales projections)
- Who will run the business, where it will be based, what budget it will need etc
- Profit and Loss forecast and Cash flow projections.

Market research can be achieved by accessing the market research publications available at many libraries (such as the Mintel or KeyNote reports), searching the Internet, looking at local statistics (again available at libraries) and talking to potential customers. Social enterprises, being community owned, are often able to effectively research their market through involvement of stakeholders who may be customers or users of existing services themselves.

The business plan is a document that should continue to change and evolve. Once the enterprise is established the plan can be updated and changed as the business progresses, forming the agreed basis for the direction of the project.

Funding the enterprise

Once the costs and financial projections have been established in the business plan the enterprise will know how much initial funding will be required. This will need to cover set up costs, and ongoing overheads for any anticipated shortfall in revenue.

There are several options for funding that can be considered for social enterprises:

Debt finance. Borrowing money through loans or overdrafts from traditional sources can often be problematic for social enterprises. The interest costs may be prohibitive for small enterprises without established income. Also high street banks usually require security for a loan – an asset or property. If the social enterprise has nothing to secure against the loan this may be a problem. One solution may be the Small Firms Loan Guarantee – the Department of Trade



and Industry guarantees the loan but charges an additional premium. There are also social banks (for example the Charity Bank or Triodos) and Community Development Finance Institutions that may have loan finance available that is designed for social enterprises.

Grants. Grants from sources such as government departments, European funds, charities or the Lottery have been a common source of funding for social enterprises. As they require no repayment they are a very useful way for social enterprise to get started. However there is increasing competition for the grants available. Grants often have very strict criteria on how they can be spent and sometimes require time consuming applications and on-going reporting. Help with finding grants is sometimes available from local social enterprise and community foundations as well as through websites and software such as Grantfinder.

When searching for grants it may help to be as broad as possible with definitions – rather than just searching for “social enterprise” or “learning disabilities” for example it might be productive to search for grants that support employment for minorities or promote community inclusion.

Equity finance. This is only an option for social enterprises with the right legal structures as it requires exchanging some ownership for capital (usually through the sale of shares). However it does offer advantages – no security is required and repayment through dividends is not compulsory. Investors may also bring in useful business expertise and knowledge to the enterprise. However finding investors with the right interests willing to take a risk on a social enterprise may be difficult.

Advice on funding options may be available from local social enterprise support organizations. Business Link may be able to offer advice on conventional means of financing the enterprise.

Other issues

Legal advice. Getting legal advice can be a vital, but potentially expensive, part of setting up a social enterprise. Lawyers may be able to advise the enterprise on the best legal format, special regulations, employment contracts and terms of business. Local social enterprise support organizations may be able to recommend local lawyers with experience of dealing with social enterprise and may even be able to offer a discount. There is also the “Lawyers For Your Business” scheme which offers a free half hour initial consultation with participating solicitors.

Premises. Finding the right premises to rent for the new enterprise can be difficult. All buildings are classified into what they can be used for. For

example some are restricted to office use whilst others may only be used as shops. It may be harder to find premises for some types of business than others. The enterprise will need to check with an estate agent or local council as to what classifications it may use. Finding small premises with good disabled access and facilities can also be difficult. Deciding on the best premises can often mean compromise for a new business as it can be very difficult to find a building that has a suitable cost, location and accessibility.



Landlords often require references from new enterprises and many leases are for a minimum three years. If available shorter leases may suit a new enterprise, as it may be unclear how the business will expand and what it can afford. An option might be to find another enterprise or project willing to share space and resources.

Health and Safety. The enterprise may have Health and Safety obligations towards employees, customers and the public. The Health and Safety Executive can tell you if the business has to register and what it must do.

Tax and VAT. It is likely that the enterprise will be liable for some form of tax. This depends on the structure, size and type of business but could include Employers National Insurance, Corporation Tax and business rates.

If the enterprise has a turnover of over £60,000 it must register for, and then collect, VAT. Those under this threshold can choose to do so, if they wish to claim back VAT on their purchases and charge VAT on their services. Some goods and services have are exempt from VAT or have a reduced rate.



Business Link can offer advice and information can be found from HM Revenue and Customs about tax and VAT. Local social enterprise support organizations may be able to suggest accountants with experience of dealing with social enterprises.

Bank Account. It is worth checking what the various banks can offer before opening a bank account for the business as some offer special accounts for social enterprises. These often offer reduced charges for social enterprises and charities (such as the Co-Operative Community Directplus Account).

Insurance. The enterprise will need to get insurance. Any business that employs people must get Employers Liability Insurance. The enterprise may also need Public Liability Insurance. Other insurances may be necessary depending on the nature of the business.

Benefits and Supported Employment. If the enterprise plans to employ people with disabilities a major concern for them may be the risk to their benefit entitlement. In most cases claimants can earn £20 a week without affecting their benefits. Those on incapacity benefit or severe disablement allowance may be eligible to earn up to £81 on “supported permitted work” as long as they are supervised by a supported employment organization. However those on means tested benefits such as income support and housing benefit may find that earnings over £20 result in a corresponding decrease in benefits.



Advice can be sought from disability advisors at Jobcentre Plus or Regional Disability Benefit Centres. Local supported employment organizations may also be able to help.

Outsourcing functions. Functions of the business such as running a payroll or accounting can be time consuming, costly and distract from the main purpose of the enterprise. One option is to outsource them – pay another specialist company to do those things for the enterprise. This enables the enterprise to focus on the things that really matter like making revenue and the benefits it provides the community.

As it is often not cost effective for small business to do everything for themselves an alternative option may be to share resources with other small enterprises and community groups. For example a group of projects could share a payroll function that would be too costly and time consuming for an individual group to run alone.

Promotion and Advertising. When promoting the project the term social enterprise may not always be understood so it may sometimes help to describe the enterprise in other terms – “not for profit” or “community owned” for example.

Information and Support

Business Link

Advice, support and training on all aspects of business, including Business Plans.

0845 600 9 006 for national organization, local support also available.

www.businesslink.gov.uk

Social Enterprise Coalition

National advice for social enterprises.

www.socialenterprise.org.uk

Local social enterprise support:

Social Enterprise East Midlands (www.seeem.uk.net)

Social Enterprise East of England (www.socialenterprise-east.org.uk)

Social Enterprise London (www.sel.org.uk)

Social Enterprise Berkshire (www.rcea.org.uk)

North East Social Enterprise Partnership (www.nesep.co.uk)

Department of Trade and Industry

Publications and information relating to all aspects of business.

020 7215 5000 or www.dti.gov.uk

Companies House

For all aspects of company formation and company law

0870 33 33 636 or www.companieshouse.gov.uk

Community Interest Company Regulator

For anything relating to setting up a CIC

029 20346228 or www.cicregulator.gov.uk

HM Revenue and Customs

VAT and benefits - www.hmrc.gov.uk

Directgov

Information on benefits and tax (easy to understand) - www.direct.gov.uk

Social Firms UK

Support for social firms.

01737 764021 or www.socialfirms.co.uk



Government Funding

Government grants for the voluntary and community sector

www.governmentfunding.org.uk

Legal Forms for Social Enterprises – “Keeping it Legal”

Useful publication detailing legal formats for social enterprises

Can be downloaded from www.bateswells.co.uk (in the Charity and Social Enterprise section).

Lawyers For Your Business

Free half hour initial consultation for small firms

www.lfyb.lawsociety.org.uk

Insurance

British Insurance Brokers Association

08709501790 or www.biba.org.uk

Health and Safety

Health and Safety Executive 08453450055

www.hse.gov.uk

Lottery Funding

“Reaching Communities” fund is open to social enterprises

www.biglotteryfund.org.uk

About Support Horizons

“A company run by, and for, people with learning disabilities”

Support Horizons Community Interest Company is a not-for-profit, community owned social enterprise providing temporary agency staff and consultancy services in Berkshire.

For more information

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