

FACT SHEET

2

The type of finance a Social Enterprise can access will often depend on the legal structure chosen and/or the amount of money required.

Factor 1 - Grants:

Grants do not need to be repaid, which is attractive especially for start-ups. However, grants tend to be restricted sources of income and can limit what you use the money for. Also, grants usually have to be spent within a certain time and may have to be given back if they are not spent soon enough or in the way specified.

Factor 2 - Loans:

You can get loans from the Community Development Finance Initiatives (CDFI), Credit Unions or even banks. Which one is most appropriate will depend on the circumstances, how established you are and how much capital you need. You will also get different conditions of repayment from the different sources. Loans have to be repaid. However, you can use the loan for exactly what you want or need. The time in which you spend it is usually flexible. Loans can also be used as capital for established Social Enterprises that wish to grow.

If you are thinking of taking out a loan, why not visit the following web pages for specific information and lenders:

Charity bank www.charitybank.org

Triodos bank www.triodos.co.uk

South East Loan Investment Finance - Local Investment Fund www.lif.org.uk

Factor 3 - Shares:

Not all Social Enterprises can issue shares. This will depend on their specific legal structure, please see Fact Sheet 1. The distribution of benefits, normally not among the shareholders, is also specified in the constitution.

Factor 4 - Profits/Surpluses:

You can earn and make a profit without compromising your social/community objectives and ethos. Profits must be dedicated either to grow or improve the Social Enterprise

and the services provided, or to be invested for social purposes. For CICs this is slightly different as they can raise equity. However, the cap and asset locks ensure the profit not reinvested in the company or dedicated to the social objective is kept to a minimum.

Generating a surplus: Why?

Why should you aim to earn money with your activity:

- It gives you independence regarding what you do and regarding where you want to go - you can plan ahead more effectively.
- It eventually may make you sustainable, which means you can survive by your own means without a paymaster or without having to repay a loan. However, you may be sustainable and want to expand, in which case a loan may be the way to go about it. A loan will also move you away from applying for grants.
- It allows you to compete even with mainstream businesses.
- It allows you to provide better services, to make a greater impact, and reach more people.
- It can give more security to employees and can help them to feel more positive about their work.

Trading

Usually you need to trade to get a surplus or profit. This may have implications on several aspects concerning your organisation, such as taxes. You need to know whether your activity, or part of it, is trading. How do you know this?

Generally you are trading when:

- you are buying to sell goods or services;
- you do this more than once;
- you intend to make a profit.