



Governance and Finance



The relationships between the governance and the financing of community enterprises

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What we will cover today

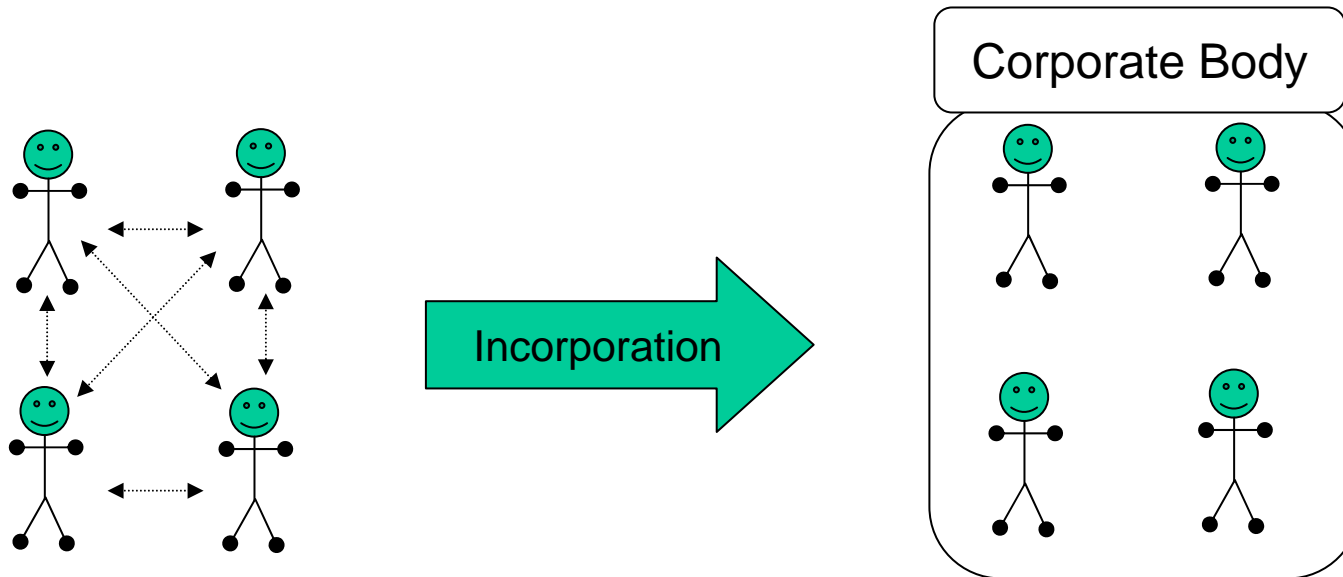


- What is governance?
- Options for financing your enterprise
- Relationship between governance and finance?
- Funders and sustainability
- Squaring the circle?





Incorporation



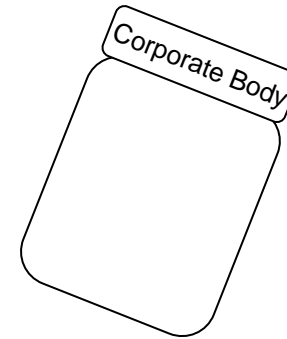
Creates a separate legal identity from the membership, the “corporate body”



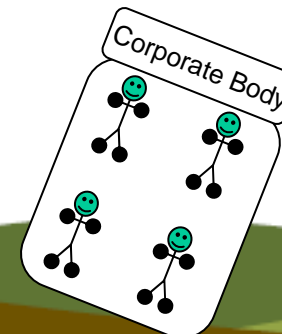
Legal Form and Organisational Type



Legal form – How the law regards the organisation
What sort of jam jar have you got?

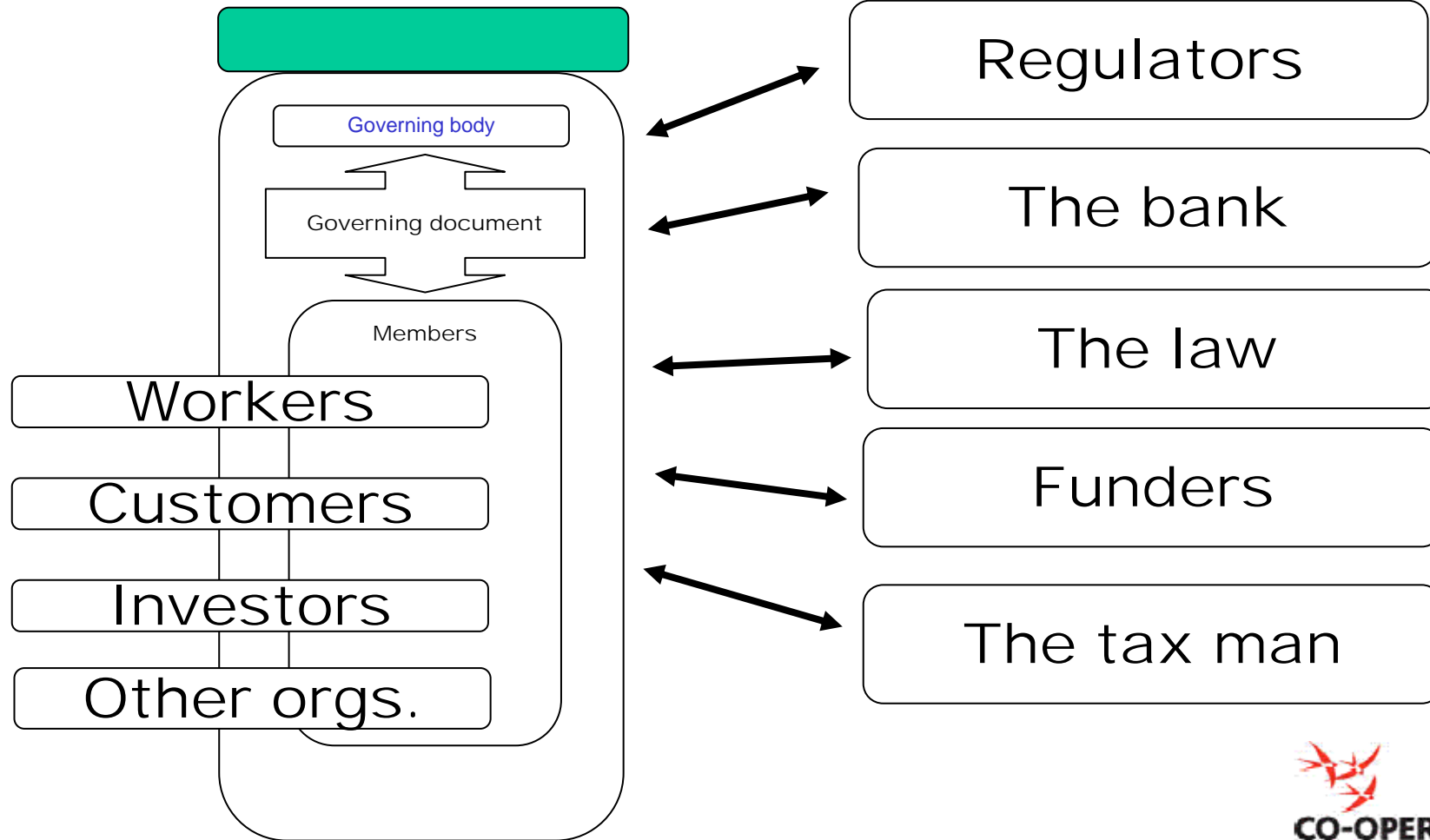


Organisational type – How the organisation regards itself
What sort of jam have you got in your jar?





Governance





Organisational Types for local food initiatives



Co-operatives

- Worker co-operative
- Consumer co-operative
- Co-operative Consortium

Community Supported Agriculture

Farmers Market

Food Co-op/Buying Group

Village Shop

Community Enterprise

Social Enterprise

Community Land Trust

etc.....





Mindset for organisations



We know

- what we want to do
- how we want to do it

Legal forms and organisational types are the tools that can be used to get the job done

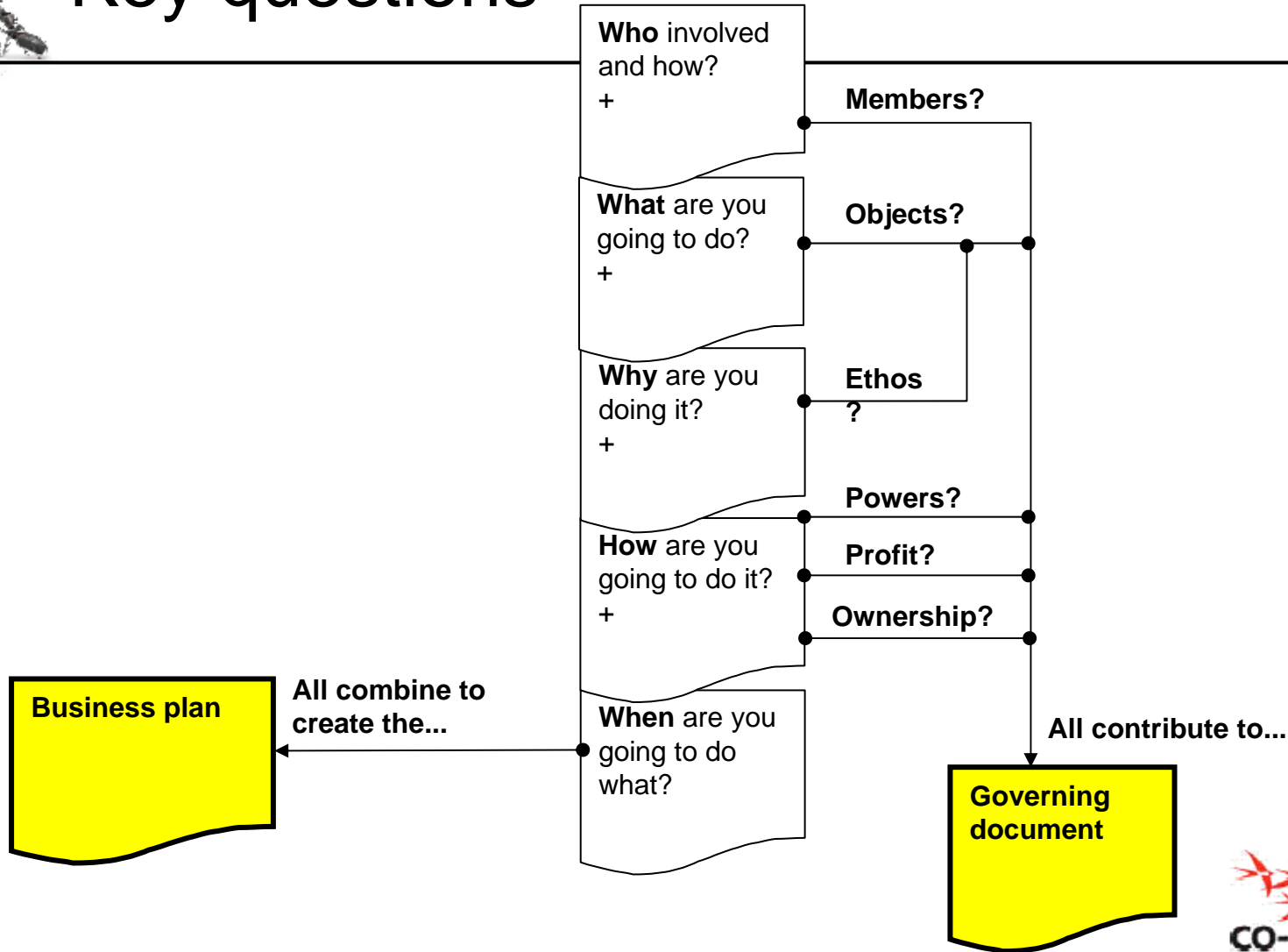


But

- some aren't favoured/understood by funders/investors



Key questions





Finance?



- Start-up funding
 - Not required
 - Gifts/Grants
 - Loans
 - Shares
- Income
 - Trading (who with?)
 - Grants (sustainable?)

The legal form of the organisation will have a big effect on how grant funders view the organisation. Traditionally “for-profit” forms may be disfavoured.





Grant funding – free money?



- Some funders will only fund charitable organisations
- Most funders (eg Lottery) will only fund organisations which distribute no surplus in any way
- Most funders will want to see some form of common ownership or asset locking
- The structure favoured by the funder may be different to that which is most appropriate for what you want to do
- Pump-priming rather than reliance





Loans



- ☺ Easily understood
- ☺ “Investment” without control

- ☹ Debt is a liability
- ☹ Debt has to be paid back (generally with interest)
- ☹ “Investment” without control
- ☹ Personal guarantees





Shares



- ☺ Equity rather than debt
- ☺ Gearing
- ☺ Investment with control
- ☺ Shareholders have greater stake in success – more likely to trade with organisation

- ☹ Disfavoured by funders
- ☹ Imbalance of power (not IPS)





Trading income



- ☺ Your money?
- ☺ Sustainable?
- ☺ Can distribute?

- Tax?

- Mutual trading status?





Incorporated legal forms



- Company Limited by Guarantee (CLG)
- Company Limited by Shares (CLS)
- Industrial and Provident Society (IPS)
- Community Interest Company (CIC)



Company Limited by Guarantee and funding



- ☺ Common well understood legal form for Social Enterprises
- ☹ Funding by grants or loans
- ☹ Cannot issue shares



COMMUNITY ENTERPRISE
CONNECTING LAND & PEOPLE
THROUGH FOOD



Company Limited by Shares and funding



- ☺ Can issue shares and attract investors
- ☹ Unlikely be eligible to be a charity
- ☹ Not favoured by funding bodies as seen as for profit
- ☹ “Cannot” carry out a public share issue



COMMUNITY ENTERPRISE
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THROUGH FOOD


CO-OPERATIVES UK





IPS Co-operative and funding



- ☺ Ideal for community share issue
- ☺ Can pay a dividend before tax
- ☺ Can pay interest on shares
- ☺ Can also use loan funding

- ☹ Cannot be a charity

- ☹ Not well understood by funders
- ☹ Funders will not like any distribution of surplus
- ☹ Perception that governance is more complicated





IPS Ben Com and funding



- ☺ Ideal for community share issue
- ☺ Can pay interest on shares
- ☺ Can also use loan funding

☹ Can sometimes be a charity



☹ Not well understood by funders

☹ Funders will not like any distribution of surplus

☹ Perception that governance is more complicated

☹ Cannot pay a dividend





CIC's and finance



- ☺ Funders like the asset lock
- ☺ Can issue shares and distribute surplus
- ☺ Can also use loan funding



- ☹ Cannot be a charity
- ☹ Still not well understood by funders
- ☹ Funders will not like any distribution of surplus
- ☹ Not suitable for community share issue
- ☹ Cannot get mutual trading status





Charitable Status



Not a structure but a status

- ☺ Tax and rates relief
- ☺ Grant funding
- ☺ Asset protection

- ☹ Limited “permitted purposes”
- ☹ Limits to trustee benefits
- ☹ More onerous administration
- ☹ Limits on trade





Grant funding the tension - discuss



- Philanthropy vs. Mutual self-help
- Pump priming vs. grant dependence
- Not for profit vs. rewarding members
- Common ownership vs. Joint ownership
- Waiting for a decision vs. getting on with it





Your structure – good start-up governance



First consider as a group or delegate to steering group:

- Exactly what is it you want to achieve?
- Why you want to achieve it (your ethos)?
- Where's the money going to come from?
- What will you do with any surplus?
- Who will be involved and how?
- Assets and ownership
- Future membership and wind-up

Then seek professional advice

- Select-a-structure exercise
www.selectastructure.uk.coop

