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

- Workers
- Customers
- Investors
- Other orgs.
- Governing body
- Governing document
- Regulators
- The bank
- The law
- Funders
- The tax man

- Members

- Old logo
- New logo 

Community Enterprise
Connecting Land & People Through Food
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

- When are you going to do what?
- How are you going to do it?
- Why are you doing it?
- What are you going to do?
- Who involved and how?

Members?

Objects?

Ethos?

Powers?

Profit?

Ownership?

Business plan

All combine to create the...

Governing document

All contribute to...
**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
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
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