JRF briefing paper:
Community Assets

Finance and business models for supporting community asset ownership and control

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This paper:
- describes how community organisations can finance the purchase and management of community assets;
- details the different financial and business models available to community organisations; and
- examines the prospects for community ownership of assets in the future.

The Joseph Rowntree Foundation (JRF) commissioned this paper as part of its seminar on the relevance of community ownership of assets, one of a series of seminars on Community Assets. These explore community ownership and management of assets, and their importance for a thriving society.

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Contents

	Key points	**4**
	Summary	**6**
Section 1	Introduction	**9**
Section 2	Policy perspective	**11**
Section 3	Overview of legal forms and types of finance	**15**
Section 4	Conventional business models and approaches to finance	**23**
Section 5	Focus on the emerging social investment market	**27**
Section 6	Key issues	**42**
Section 7	Conclusion	**46**
	References	**47**
	Acknowledgements	**50**
	About the author	**50**

Key points

- The ownership and/or management of assets by community organisations is common in the UK and has a long history. In the last ten years, public policy has become more supportive of the transfer of public assets into the control of community organisations, and the Coalition Government has continued to support this agenda in its policies.

- In the last decade, community asset transfer activity has been greatest in England and Scotland.

- For community organisations interested in owning assets or developing their existing assets further, a range of options is available for how this can be done. There are different legal organisational forms through which assets can be owned, different business models, and different sources and types of finance from the public sector, charitable donors and the private sector.

- The short- to medium-term prospects for the community ownership and management of assets in the UK currently look decidedly mixed. Whilst the supply of community assets is currently growing, with public sector organisations more willing than ever to consider disposal, public sector support to enable the acquisition and ongoing operation of these assets is diminishing. Difficult trading conditions in the wider economy are also undermining income streams from enterprise-based activities. The gap between supply and support appears to be widening.

- If more finance could be made available, it would enable more community asset transfers and the development of existing community assets. There are four broad opportunities for improving the flow of finance:

    - **Moving towards enterprise**. More community organisations could be encouraged and supported to diversify their activities and move towards a business model that includes a greater element of enterprise and income generation. This would also enable use of a wider range of finance, including loans and possibly equity and bonds.

    - **Building the social investment market**. The last decade has seen the growth of the UK's social investment market, with the development of new enterprises, intermediaries, banks and investment mechanisms. Greater development of this market, and engagement with it by social enterprises and community organisations, could provide greater access to capital through loans, equity and bonds.

    - **Using public sector commissioning to support asset development**. The present shift towards increasing the public sector commissioning of community and voluntary sector organisations could be used to support the transfer or development of assets.

- **Encouraging philanthropy**. More might be done to encourage local endowments to community organisations from wealthy individuals or companies.

Summary

This paper summarises the range of options available in the UK to support the financing of community organisations to develop sustainable business models for owning and managing assets for community benefit. It identifies both familiar and emerging options and sets out some key issues for discussion. The paper was prepared by SQW for the Joseph Rowntree Foundation (JRF) as part of the Foundation's seminar series on Community Assets.

Policy perspective

The ownership and/or management of assets by community organisations is common in the UK, and has a long history. In the last ten years public policy has been much more supportive of the transfer of public assets into the control of community organisations. The 2007 Quirk Review, in particular, launched a new wave of activity and public funding to accelerate asset transfer. Activity has been greatest in England and Scotland. At the same time, the last decade has seen the growth of the UK's social investment market, with new enterprises, intermediaries, banks and investment mechanisms developing.

Since May 2010, the Coalition Government has continued to support both of these related policy agendas through a series of green papers, strategies and bills to promote the 'Big Society' and 'Localism'. However, the present public deficit reduction programme is also leading to a significant reduction in income for the community and voluntary sector, the impact of which is yet to be fully understood.

Overview of legal forms and types of finance

Most organisations need finance in the form of both capital and revenue at some point. Capital investment helps an organisation to develop and grow, while a revenue stream is necessary to cover ongoing costs. The extent to which an organisation can generate a surplus each year will influence the options available for capital investment, so organisations that engage in some form of enterprise usually have more options.

This paper identifies the most common legal forms for community organisations and social enterprises, including Companies Limited by Guarantee, Charitable Incorporated Organisations, Community Interest Companies, Trusts and Co-operatives. The legal form chosen by an organisation will determine its governance (how it engages with key stakeholders); whether it can achieve charitable status; whether (and how) it can raise capital through share issues; and whether any surpluses can be distributed. There are also some legal differences across the UK in the nature of options available.

Related to this, there is a range of options for generating finance – private trading income, public sector funding, charitable funding and also loans and equity finance. Although the legal form that an organisation takes can influence the options permitted for generating finance, the nature of an organisation and its activities are very important factors, too. In practice, most organisations mix different sources of finance together.

Conventional business models and approaches to finance

The 'best business model' for any particular community organisation or social enterprise will depend on a range of factors – the aims and nature of the organisation and its activities; the nature of the asset; the lifecycle stage of the organisation; and also its context. The most appropriate model for an organisation may also change over time, as its circumstances change.

This paper does not explore the range of business models in use in detail, but provides an overview describing the spectrum of activity. Most conventional business models for operating a community asset rely on a mix of both enterprise (to generate an income stream) and some form of subsidy through public or charitable grants. Models can be grouped into three broad approaches, reflecting the balance between these two main types of income:

- Small community organisations reliant on public subsidy.
- Multi-purpose community organisations that mix publicly subsidised service delivery and enterprise.
- Social enterprises, largely enterprise-dependent.

The ability to generate a surplus (more often a feature of enterprise, rather than public service contract delivery) makes wider forms of finance (debt and equity) more feasible, and may therefore enable an organisation to develop faster. However, the significant reduction in public spending by the Coalition Government, reducing direct support to community organisations and for community asset transfer, and the slow growth of the economy at present (affecting trading prospects for many), provide challenging circumstances in which to progress such investments.

Focus on the emerging social investment market

The social investment market in the UK is small at present but has been growing in the last decade. It provides debt and equity finance, as well as advice and support, to social enterprises. Its significance is that it represents a potential route to private sector finance which is of growing importance as public spending falls. The Government have recently published a vision and strategy to grow this market and are already committed to a number of specific initiatives, including the creation of a wholesale 'Big Society Bank'.

The paper outlines the mechanics, present practice and the pros and cons of a number of types of finance available through the social investment market:

- Raising equity through community shares.
- Raising equity through investment funds.
- Securing debt capital through loans.
- Securing debt capital through bonds.
- Social Impact Bonds.

Key issues

This paper argues that whilst the supply of community assets is currently growing, public sector support to enable the acquisition and ongoing operation of these assets

is diminishing. The gap between supply and support appears to be widening. If more finance can be made available, it would enable more community asset transfers and the development of existing community assets.

The paper identifies four broad opportunities to improve the flow of finance, together with specific issues in each case:

1. **Moving towards enterprise**. How can more community organisations be encouraged and supported to diversify their activities and move towards a business model that includes a greater element of enterprise and income generation?
2. **Building the social investment market**. How should the social investment market be developed further to increase the supply and availability of private finance for social purposes?
3. **Using public sector commissioning to support asset development**. Can the present shift towards increasing the public sector commissioning of community and voluntary sector organisations be used to support the transfer or development of assets?
4. **Encouraging philanthropy**. Could more be done to encourage local endowments to community organisations from wealthy individuals or companies?

Conclusions

The short- to medium-term prospects for the community ownership and management of assets in the UK currently look decidedly mixed. There is perhaps more of a challenge in Wales, Scotland and Northern Ireland, where the level of activity continues to lag behind that in England.

Whatever the immediate future holds in store, this paper has identified a number of broad and longer-term opportunities for improving the underlying financial sustainability of asset-based community organisations and social enterprises, and improving their access to finance for growth and development. The challenge is for all sectors:

- **Community/voluntary**. To what extent is the sector committed to shifting towards a more enterprise-based culture, whether directly as an enterprise or as an institution looking to invest its funds more productively?

- **Public**. At a time of restricted spending, how will the remaining public funds be prioritised? Some organisations have the potential to grow and develop, but others serve deprived communities in ways that may never be financially viable. What is the appropriate balance between promoting financial sustainability and alleviating disadvantage?

- **Private**. As the social investment market develops, is there the prospect for a fundamental sea change in how private investors (large and small) see social investment? Could we be about to see a new wave of social investment in the UK, or will it remain a marginal activity for enthusiasts alone?

Section 1: Introduction

'Money never starts an idea. It is always the idea that starts the money'
(Owen Laughlin)

'Whoever said money can't buy happiness simply didn't know where to go shopping'
(Bo Derek)

Finance of some sort is essential for all community organisations which either own/manage their own assets or aspire to do so. It enables things to happen – a means to an end – usually contributing towards some form of community empowerment. This paper explores the range of options available in the UK to support the financing of community organisations to help them develop sustainable business models for owning and managing assets, particularly community assets. It also sets out some key issues for discussion.

Consideration of the general costs and benefits of the ownership and management of assets by communities has been covered elsewhere, and is not repeated here. This paper focuses on the process of securing finance for such assets, not the intrinsic merits of owning and managing assets, nor the process of transfer itself.

Asset-based community development and enterprise has been largely practitioner-led in the last couple of decades, rather than policy-led (Thake *et al.*, 2008). The paper therefore draws on a wide literature incorporating both academic and practitioner reports, as well as discussions with some leading practitioners. All references are acknowledged and listed, as are the names of those individuals consulted. The paper seeks to include experiences from across the UK but, inevitably, in a relatively short document it is difficult to do justice to all of the subtleties in difference between the four countries, although hopefully the main variations have been identified.

The literature on this subject uses a wide range of terms for similar activities. For the sake of clarity, we begin with some definitions of terms used in this paper:

- **Community assets** are land or property owned or managed by community organisations, including assets transferred from local authorities or other organisations or endowed to the community, and assets purchased independently or subsidised by other organisations. Assets may be managed on short-term agreements of a few years, owned on medium-term leases of up to 25 years or owned freehold. They are diverse in nature and represent a wide range of uses from small community centres and village halls to parks, wind farms and schools. The asset may be held for the benefit of the organisation itself or a wider community. Some community organisations see the ownership of an asset as a practical means to an end, whereas others are more inclined to see it at least partly as an end in itself, as a form of empowerment.

Community organisations are understood as generally local, resident-led and usually neighbourhood-based organisations that are neither public nor private and tend to operate on a not-for-private-profit basis. A range of organisational

models exist. We will use the term 'community organisations' in this paper as a general term.

- **Social enterprises** are understood as businesses that have primarily social objectives and whose surpluses are mainly reinvested in the business or the wider community. Such organisations may not necessarily be local or resident-led, although some are – i.e. some may be 'community organisations' but some may not.
- **A business model** is simply meant as the approach used to generate an income to sustain an organisation and its activities – whether that is by earning private income, seeking public sector grant subsidy, borrowing funds to repay over time or a mix of these.

Structure of this paper

The rest of this paper is structured as follows:

- **Section 2** outlines the present policy landscape affecting this area of practice across the UK and how it has developed recently.

- **Section 3** summarises the different legal forms available to community organisations and social enterprises and the different types of finance available to each of them.

- **Section 4** briefly describes the conventional business models used to support community asset-based activities.

- **Section 5** explores in more depth the emerging financial options in the social investment market, including some novel forms of finance.

- **Section 6** identifies and discusses the key issues for improving the flow of finance to, and the financial sustainability of, asset-based community organisations and social enterprise.

- **Section 7** provides some brief conclusions.

Section 2: Policy perspective

This section describes the relevant public policy context for community asset ownership and management.

Community organisations have a long history of owning and/or managing assets in the UK. No precise numbers are available on the extent of this today in the UK, but it is certainly thousands of organisations and many thousands of assets. The number of assets coming into community ownership continues to grow:

- There are estimated to be some 18,000 community-managed buildings (mainly community centres and village halls) in England and Wales (DCLG, 2006).
- Locality (a merger of the Development Trusts Association and bassac) has nearly 600 members which are asset-based community enterprises.
- A national survey of local authorities in England in 2009 suggested that 80 per cent had transferred at least one asset in the previous two years, and that a similar proportion were still engaged at the time in transferring one or more assets, suggesting nearly 1,000 assets at some stage of the process of transfer in England (SQW, 2009). These assets included shops, schools, libraries, offices, community centres, village halls, factories, church buildings, parks and playing fields, amongst others.

Policy context

In England and Wales, the community asset transfer agenda made a significant practical step forward in 2003 when the Labour Government amended the General Disposals Consent to allow local authorities to dispose of assets to community organisations without consent from the Secretary of State, providing the under-value of the asset did not exceed £2m. Subsequent and growing policy interest, backed by a number of positive research reports, led to the Labour Government ordering a review into policy on community assets. The Quirk Review reported positively in 2007 and kick-started a greater level of interest and activity in community asset transfer in England. The Quirk Review accepted as one its starting points that many community organisations and social enterprises are ‘seriously under-capitalised’, constraining their ability to realise their ambitions. It came to three firm conclusions:

- Any transfer of assets to community ownership and management must realise social or community benefits without risking wider public interest concerns.
- The benefits can outweigh the risks in many cases.
- Risks can be minimised and managed if public and community sectors work together.

The Review led to a number of initiatives, including:

- Preparation of toolkits and good practice guidance to support asset transfer
- Creation of the specialist Asset Transfer Unit in early 2009, based within the Development Trusts Association and funded by the Department for Communities and Local Government (DCLG).

- Launch of a £30m Community Assets Programme in England, funded by the Cabinet Office and delivered by the Big Lottery Fund (BLF).
- Launch of the Advancing Assets for Communities Programme in England, led by the Development Trusts Association (DTA), to build stronger partnerships between community and voluntary groups and local authorities to build capacity for asset transfer.

In parallel with this, and in relation to increasing the range and amount of non-public finance for community and social purposes, there has been growing interest and activity in social investment. The Social Investment Task Force, established by the Chancellor of the Exchequer, reported in 2000 and made a series of recommendations to increase the flow of private and institutional investment into disadvantaged communities. The report, and the subsequent implementation of those recommendations, laid the foundations for the development of a social investment market in the UK, and it has grown significantly in the last decade.

It led to the establishment of the Bridges Community Venture Capital Fund in 2002 (the first of its kind) and also the Community Development Finance Association (CDFA) in 2002, similarly the first of its kind in the UK. The government's Phoenix Challenge Fund that ran from 2000–2006 made a significant contribution to developing the number and range of Community Development Finance Institutions (CDFIs) including credit unions and social lenders. The emergence and growth of the 'social banks' Charity Bank and Unity Trust was part of this, and both provided loans for community asset transfer amongst other activities.

The Labour Government also established some significant programmes to provide 'patient capital' in the form of grants, loans and support to strengthen the development of community organisations and social enterprises. These programmes included the Adventure Capital Fund, Futurebuilders and Communitybuilders (these are described later in Section 5).

The new policy environment
Since the election of the Coalition Government in May 2010 there has been continued policy interest in community asset transfer and in the development of both community organisations and social enterprises. The policy interest has, if anything, grown, with much discussion of the 'Big Society' – although the level of public funding for the sector, and for supporting initiatives, has fallen. To date, the most significant initiatives by the Coalition Government in this policy area include:

- Publication of a green paper on public services commissioning, proposing a greater role for 'charities, social enterprises, mutuals and cooperatives' in public service delivery (Cabinet Office, 2010), with firm proposals expected in a white paper on Public Services Reform shortly.
- Publication of a green paper on Giving (Cabinet Office, 2011a). The March 2011 Budget also proposed a more generous tax relief on legacies, to encourage this form of donation to charities.
- Publication of a vision and strategy for 'Growing the Social Investment Market' (Cabinet Office, 2011b), including proposals for a new wholesale 'Big Society Bank'.

- Publication of the Decentralisation and Localism bill in December 2010, which is still going through Parliament and includes a number of proposals from DCLG under the policy umbrella of promoting 'localism'. These seek to give local communities more control, including proposals for a 'community right to buy', a 'community right to challenge' and a 'community right to build', all intended to make it easier for communities to acquire assets and run local services.
- DCLG has also removed capital clawback restrictions on assets acquired during four historic regeneration programmes – SRB, Urban Programme, City Challenge and Inner Area.

Less than a year into the term of the present Government, policy in this area is still evolving, with priorities not always clear. The policies and initiatives launched to date by the Government have sought to empower a range of stakeholders in society including individuals (as consumers in the market place), individuals (as volunteers in the Big Society), communities and civil society (with more rights to buy and challenge), businesses and social enterprises (with less 'red tape'), local authorities (with less ring-fencing of public spending), along with some traditional Whitehall centralisation (for example in education). It is too early to assess the extent to which these policies are leading to genuine community empowerment.

At the same time that public policy in this area is developing, there is also a significant programme of public deficit reduction underway, operating in parallel with an economy which is only growing very slowly. Some estimates put the loss of contracts by community and voluntary sector in the billions (CAF, 2011). National Council for Voluntary Organisations (NCVO) has also estimated that a further £950m of income is being lost each year through a combination of the VAT rise, lower giving from individuals (compared with pre-recession levels) and lower income from Gift Aid (NCVO, 2011). The combined financial impact of these changes will clearly be significant.

Country perspectives

Across the UK, community asset transfer activity has been greatest in England and Scotland in the last decade. In Wales and Northern Ireland, activity with respect to community assets has stepped up in recent years but has been less pronounced. Legislation differs to some extent between the different countries, although they have much in common.

Scotland

In 2003, the Scottish Executive introduced the Land Reform Act providing a Community Right to Buy for small rural Scottish communities, giving the community 'first refusal' if land is put up for sale, and a Crofting Community Right to Buy which goes further and enables purchase without landowner consent. Scotland has led the UK in the practice of 'community right to buy'. More than half of the land area of the Western Isles is now in community ownership.

This was followed by a £15m Big Lottery Fund (BLF) programme, the Scottish Land Fund, to support rural communities to exercise the rights legally available to them. This saw a number of areas of land transferred into community control including the Isle of Gigha and North Harris. The Big Lottery Fund then established the Growing Community Assets investment programme in 2006, with £50m in grants distributed

to both rural and urban communities. The programme supports communities to acquire assets and to develop and manage them. The programme has been extended to 2015. The current policy framework is defined by the Scottish Government's 2009 Community Empowerment Action Plan which identifies community asset ownership as an important tool for empowerment in some situations.

Wales
Legislation in England and Wales which is relevant to this policy area is largely the same. As in England, local authority improvement regimes in Wales have promoted a more integrated consideration of asset management by local authorities, including the potential for community asset transfer. Funding programmes such as Communities First and the Communities Facilities and Activities Programme (CFAP) have also invested in community assets, although transfers from the public sector were less common within these. A new £13m Community Asset Transfer Programme, jointly funded by the Welsh Assembly Government and the BLF, has also been launched recently. The 2005 Social Enterprise Strategy for Wales also encouraged community asset transfer.

Northern Ireland
In Northern Ireland, the 2007 Community Support Programme provided investment for community centres and other facilities. The Modernisation Capital Fund Programme is the key current initiative relevant to community-based asset ownership. It has three strands. First, the Infrastructure Pilot scheme of £300,000–£1.5 million capital grants has a focus on sustainable networking centres and other projects that would enable organisations to increase partnership working. Second, the Improving Community Facilities scheme has £100,000–£300,000 capital grants to allow voluntary or community organisations and social economy enterprises to modernise and improve community facilities. Third, the Small Capital Grants scheme has capital grants of £20,000–£100,000. Despite these initiatives, asset transfer has not appeared high on the political agenda in Northern Ireland when compared to England, Wales or Scotland.

Section 3: Overview of legal forms and types of finance

This section introduces the different legal forms and types of finance available in the UK for supporting community organisations and social enterprises in asset-based activities.

Why finance matters

Most organisations will, at some point, need two types of finance:

- **Capital investment** is required for most organisations at various points of their life. It can be used for quite different purposes, with three of the most common uses explained here:

    - **Development capital** is often required at the start-up stage of a project, but may also be required at key points after this, as new strands of work are initiated. It is used to enable the development and piloting of new ideas that are not yet proven and helps an organisation become 'investment ready'. Many social lenders and investors provide tailored investment readiness support packages to organisations, to help them develop in this way and prepare to grow.
    - **Growth capital** may be required to purchase, develop, refurbish, extend or remodel a building or piece of land. It may also be needed to provide or upgrade equipment, or to scale up the organisation.
    - **Working capital**. Some degree of working capital is also helpful to support cash flow, which can often be uneven.

    If the capital investment comes from a public or charitable grant then it will not need to be repaid, but if the funds are borrowed in some way then they must be repaid from future income – that is, the project must be able to make some degree of surplus each year.

- **Revenue stream**. Every organisation will have running costs of some form and must be able to bring in revenue to cover those costs as a minimum each year, whether from a contract for delivering a public service or privately earned income from trading (e.g. from hiring out premises or selling goods and services). The extent to which an organisation can generate a surplus, and the size of that surplus, will influence the options available for capital investment. Organisations that engage in some form of enterprise usually have more options.

What types of finance and business model are available and appropriate for community organisations owning or managing an asset? The answer to this can vary significantly, depending on a number of factors and their interplay:

- **The asset**. The nature of the asset(s) in question, and their scale.
- **The organisation**. The legal status of the organisation that owns or manages the asset.
- **The activity**. The purpose of the activity for which the asset is to be used.

- **The lifecycle stage**. The stage at which the organisation and their project has reached, whether development or improvement of an asset for the first time, or the ongoing delivery of services.
- **The country context**. There are some legal differences between England, Scotland, Wales and Northern Ireland on what is possible.

The ‘best model’ for any particular community organisation/social enterprise and any particular asset will be the one that most effectively meets those needs at that point in time. At the outset, therefore, we recognise the difficulty of making general prescriptions about which finance and business models are ‘best’ and acknowledge the importance of research, planning and professional advice before an organisation chooses a model. The most appropriate model for an organisation may also change over time, as that organisation, and its activities, develop.

In practice, most organisations mix different sources of finance together. The range of ‘business models’ that exist is really a spectrum from established organisations wholly grant-funded from public or charitable sources through to new high-risk enterprises relaying entirely on venture capital, with many approaches in-between relying on a mix of finance. Each organisation is different.

In the rest of this section, the principal range of possible legal forms and also possible finance options for community organisations and social enterprises are summarised, together with a basic assessment of how the two relate to each other, as not all forms of finance can be used with all types of organisation. These can be thought of as the different possible components in any business model.

a) Available legal forms for community organisations and social enterprises
The most common legal forms available for community organisations and social enterprises in the UK are summarised in Table 1, showing the legal situation at the time of writing. The different legal forms allow for varying approaches to the ownership and governance of assets, to the distribution of profits and also have differing powers in relation to raising new finance. Legislation varies across the UK, although a range of legal forms are available in every country.

There are a number of exclusions worth noting:

- Given that our concern here is over the ownership and management of assets, it is assumed that some legal form is required for the lead organisation, so most forms of unincorporated organisation have not been included – partnerships, associations or friendly societies – although trusts are included, as they may sometimes be relevant.
- The common private sector legal structures of a private company limited by shares, a public limited company (plc) and limited liability partnerships (LLPs) have not been included for consideration, as these are rarely suitable for activities that are primarily focused on delivering a social benefit through a community asset as they do not provide an ‘asset lock’. (If an organisation has an asset lock it means that its assets – whether property or financial – can only be used for the organisation’s stated social purpose and cannot be sold or distributed to others, thus maintaining the social purpose of the asset). However,

a broader range of 'socially responsible businesses' may well have a private legal structure, making profits but in a more socially responsible manner.

- There is a range of other more obscure legal forms which have also been excluded e.g. bodies formed by Royal Charter.
- A new legal form – the Charitable Incorporated Organisation – is expected to be introduced in England and Wales, similar to the Scottish form, possibly in 2011, but the timetable for this has not yet been confirmed.

Community organisations and social enterprises label themselves and organise themselves in many different ways, making the legal landscape perhaps appear more confusing than it really is. Many different models have developed over the years which have differing aims and modes of operation but have the same underlying legal form. Most community organisations and social enterprises are known and grouped according to their social purpose rather than their legal structures. For example:

- **Co-operatives** are separated into a number of different types according to the nature of their core activity – such as credit unions, consumer co-operatives, worker co-operatives, housing co-operatives – but have the same underlying legal structure.
- Other organisations have adopted labels that do not necessarily relate to their legal status. Most **Development Trusts** are not in fact trusts but mostly companies limited by guarantee with charitable status, but which share common values and approaches to asset-based community development.
- **Community Land Trusts** are recognised in law (Housing and Regeneration Act 2008) as a particular organisational model, but are usually constituted as companies limited by guarantee or as Industrial and Provident Societies.
- The term **'mutual'** has become popular recently. Although it strictly applies to organisations that are owned by their members and which primarily provide services to their members, it is increasingly being used rather more generally to refer to organisations which are owned by their members and which may provide services to the public.

b) Available finance options for community organisations and social enterprises
Table 2 provides an overview of the main types of finance available to community organisations and social enterprises and their key features. Many organisations generate income from a range of different sources, so it is common to mix different types of finance. As organisations develop, their capacity to engage with new sources of finance may also grow.

The table is restricted to financial income, but it is of course important to remember that many community organisations rely upon volunteer time as a major resource. The next sections discuss and explore the different approaches to financing community asset-based activity.

Table 1: Range of legal structures available in the UK for community organisations and social enterprises

Legal structure	Key features of ownership and governance	Possibility of charitable status?	Inclusion of 'asset lock'	Powers to borrow?	Powers to issue shares or bonds?	Availability across the UK
Company Limited by Guarantee	Common and flexible legal structure, similar to a normal private company, used by many not-for-profit organisations. Members cannot own shares, but are guarantors, providing a nominal guarantee (often £1), providing limited liability. Regulated by Companies House.	Yes, provided profits are not distributed to members	Yes, but not permanent. Could be written into company articles, but could also be amended by shareholders	Yes	No – shares Yes – bonds	Yes, but some legal differences
Scottish Charitable Incorporated Organisation (SCIO) From 1 April 2011	A new legal structure that provides similar powers, limited liability and flexibility as a company limited by guarantee, but with charitable status 'built in' and regulated by one organisation only – the Office of the Scottish Charity Regulator (OSCR).	Yes Automatic	Yes	Yes	No – shares Yes – bonds	Scotland only
Community Interest Company (CIC)	A relatively new form of private company best suited to social enterprises providing a community benefit and which provides an alternative to charitable status. CICs can take any form of private company (limited by guarantee, limited by private shares, or a public limited company), but also have additional features. They must pass a community interest test and are protected by an 'asset lock' on all assets, including a cap on any dividend payments. The CIC model allows a broad range of purposes, provides limited liability and allows directors to be salaried. Regulated by Companies House and the CIC Regulator	No	Yes	Yes	Yes – shares Yes – bonds Dividends can be paid if limited by shares, but are capped at 20 per cent or 35 per cent of gross profits, whichever is lower. Some limits on how shares are redeemed	Yes
Trust	Trustees own and manage assets for the benefit of others, according to the agreed	Yes	Yes, if written in to Trust's deed	Yes	No – shares Yes – bonds	Yes, but some legal differences

Legal structure	Key features of ownership and governance	Possibility of charitable status?	Inclusion of 'asset lock'	Powers to borrow?	Powers to issue shares or bonds?	Availability across the UK
	aims of the Trust – but are personally liable as Trusts are unincorporated organisations. Often used where there is a fund of money to be given away. Regulated by the Charities Commission.					
Co-operative Society 'bona fide co-op' (Industrial and Provident Society 'for profit')	Trading organisations run for the mutual benefit of their members, with profits mainly reinvested in the business. Profit sharing amongst members is possible, but limited and must be equitable. There is a maximum investment in shares per person of £20k, all withdrawable. One member, one vote, regardless of size of shareholding. Limited liability. Registered by the Financial Services Authority.	Unlikely	Yes, but not permanent. Could be written into articles, but could also be amended by members	Yes	Yes – shares Yes – bonds Shares and bonds can be offered to the public. and are withdrawable. Limited dividends and interest can be paid.	Yes, but some legal differences
Benefit of the Community Society 'Bencom' (Industrial and Provident Society 'not for profit')	Trading organisations run for the benefit of non-members, with no profit distribution allowed. There is a maximum investment in shares per person of £20k, all withdrawable. One member, one vote, regardless of size of shareholding. Limited liability. Registered by the Financial Services Authority.	Yes	Yes	Yes	Yes – shares Yes – bonds Shares and bonds can be offered to the general public. Shares can also be withdrawn by members. Interest can be paid on shares, but not dividends.	Yes, but some legal differences

Table 2: Main types of available finance in the UK for community organisations and social enterprises

Type of finance	Key features, benefits and risks	Applicability for capital or revenue expenditure	Legal restrictions on the type of incorporated community organisation/social enterprise able to benefit
Private trading income			
Earned private income from trading	Income can be earned through trading, either through an asset (e.g. hiring out premises) or through selling goods and services. One organisation may rely on one trading activity or several, and the income generated may provide subsidy to other parts of the organisation. The level of income depends on the organisation's ability to compete in the appropriate market(s) and the size/health of those markets. This may well vary geographically (e.g. urban/rural, north/south). The ability to generate some degree of surplus is usually essential if loans or equity is to be sought.	Income can be used for any purpose	No, few restrictions
Public sector funding			
Public sector grant funding or other subsidy	Very common form of funding for many organisations, covering a wide range of purposes, with the nature and significance of objectives and conditions varying widely but with no need for any repayment. Public funding tends to come from either ongoing statutory budgets (typically revenue funding) or from time-limited programmes, such as UK area-based regeneration programmes or EU Structural Funds (often capital and revenue). Capital grants can require time-consuming bidding processes. Revenue grants are often annual in nature, rarely with long-term security of income.	Funding can provide for either, dependent on the nature of the subsidy	No, few restrictions
'Peppercorn' rents from public sector landlords	The provision of land and/or property at a 'peppercorn' rent (almost zero cost) by a public sector landlord is an important source of support for many community organisations, as it can save a significant amount of money. Such arrangements may be in place for years.	Reduces revenue costs	No
Public sector commissioning of services	Can provide some security of income, with contracts generally for 1–3 years in duration. Some contracts will cover core organisational costs, but some still do not. The nature of the services provided are defined by the commissioning body. Re-commissioning will be dependent upon public finances and decision-making. If public contracting becomes a high proportion of an organisation's income it could compromise its independence and make it over reliant on the fortunes of the public sector.	Mainly provides for revenue expenditure	Generally few restrictions, but larger and more established organisations are more likely to be commissioned

Type of finance	Key features, benefits and risks	Applicability for capital or revenue expenditure	Legal restrictions on the type of incorporated community organisation/social enterprise able to benefit
National Lottery funding	The National Lottery distributes significant amounts of time-limited grant funding each year through a wide range of programmes delivered through the Heritage Lottery Fund, the Big Lottery Fund and UK Sport. Much of this is capital funding, but this is often accompanied by some revenue funding also. Most programmes are competitive.	Mainly capital, but some revenue	No, few restrictions provided a social purpose can be demonstrated
Charitable funding			
Charitable grants from foundations, etc	Common form of funding, providing both small and large grants, from a wide range of charitable institutions, varying in scale from local to international. Some funds are very flexible, some are quite prescriptive. Rarely any long-term security of income, with grants often one-off in nature.	Funding can provide for either, dependent on the nature of the grant	Few restrictions, although often a preference for organisations with charitable status
Charitable donations from individuals	Common form of fundraising for many charities, seeking public financial support. Includes donations and legacies. More effective for some types of charity – requires some investment in fundraising. Level of income is dependent on profile, ability to compete and can be influenced by wider economic trends.	Income can be used for any purpose	Few restrictions but primarily for organisations with charitable status
Large endowments from philanthropists/foundations	Significant endowments and major gifts from individual philanthropists or charitable foundations can provide an asset-base for long term development of an organisation – whether bequeathing land and property or a financial endowment. The asset usually provides for a sustainable income stream.	Gift is usually for a specific purpose, defined by the giver	No, but tax incentives meant that recipients are generally charities
Loans and equity finance			
Loans Overdraft Unsecured loan Secured loan (mortgage) 'Patient capital' (long-term loan)	Short-term overdrafts are relatively easy to acquire, to cover cash-flow issues. Organisations must be able to generate a surplus to repay a loan and must be able to demonstrate this to the lender. Larger and longer term loans are easier to acquire if there is an asset to secure the loan against. Unsecured loans are more difficult to acquire, requiring the organisation to demonstrate stability and reasonable financial returns.	Short-term loans can be used to bridge cash-flow issues, but longer-term loans are likely to be for capital expenditure	No, few restrictions
Equity (shares) and Quasi-Equity Individuals/community Investors/private funds	Relatively small and new area of social finance. Only CICs and Co-operatives can offer shares to the public, and Co-ops have a £20k limit to the amount that any individual can invest. The number of financial intermediaries willing and able to invest is growing, however. Capital might be provided for a range of purposes, particularly for organisations wishing to develop and grow. Currently, practice falls into three main areas: • Local community-led IPSs raising modest amounts of funds from local communities to	Primarily for capital investment	Only CICs and IPSs can issue shares (in addition to private companies)

Type of finance	Key features, benefits and risks	Applicability for capital or revenue expenditure	Legal restrictions on the type of incorporated community organisation/social enterprise able to benefit
	fund local projects. • National investment funds raising capital from a mix of sources to invest in social enterprises, seeking both social and financial returns. • More broadly, there is a growing number of 'socially responsible businesses' which are private profit-making companies seeking to do more business in a more socially responsible way and in which there is growing interest and investment activity. • Some of the larger charitable foundations and trusts are increasingly making equity investments in exchange for both financial and social returns (related to their missions) and could become a greater source of investment finance in the future.		
Bonds	Small and new area of social finance. A very small number of bond issues are raising finance to support charities and social enterprises. Many types of organisations are able to issue bonds, providing they can meet certain conditions, but nearly all organisations can benefit from funds raised through bonds issued by others.	Primarily for capital investment	No
Social impact bond	A new model of 'Social Impact Bond' (SiB) has been developed, with only one example currently in existence in the UK, but the nature of investment in this is more akin to equity than bonds, given the risks inherent within it.	Primarily to fund service delivery	No

Section 4: Conventional business models and approaches to finance

This section outlines what might be considered the most conventional business models and finance options to support the acquisition, development and operation of community assets. This has been described and discussed in some depth over the years and is therefore dealt with only briefly in this paper, in favour of greater attention being given to the emerging, and less well known, forms of finance discussed in the next section. This should not be misconstrued as implying that conventional business models and sources of finance are less important, however, as they remain, by definition, the most common approaches today.

Conventional business models

The nature, activities and structures of community organisations and social enterprises varies significantly across the UK on a wide spectrum from small, local community groups through to large, national social enterprises.

The process for a community organisation acquiring a community asset usually involves transfer of land or buildings at below market value or gifted at a nominal cost, often accompanied by a mix of public grants and support. The process of transfer is described in detail in a range of toolkits and guidance documents prepared by Locality's Asset Transfer Unit.

If public grant support is insufficient, the range of financial options to support the acquisition and any subsequent refurbishment or redevelopment of an asset will be largely determined by the intended business model of the organisation going forwards. Broadly speaking, the conventional business model for operating a community asset relies on a mix of both enterprise, to generate an income stream, and some form of subsidy through public or charitable grants. These business models can be broadly grouped into three approaches, on a spectrum, reflecting the balance between the two main types of income. The essential difference is the extent to which the organisation is able to generate a surplus (i.e. an operating profit):

Small community organisations reliant on public subsidy. The largest number of community organisations in the UK are small, local and often relatively informal in nature. Those which own assets are often totally reliant on public subsidy. Typical examples are village halls and community centres where a community organisation exists to operate the asset, and all or most of the costs are covered by annual grants from the local authority. For example, the premises are provided at a peppercorn rent by the local authority who also provide building maintenance costs, with all other costs met through volunteering or fund-raising. In this case, there is little if any enterprise and no surplus generated and financial options for any new initiatives will be limited to seeking grants from public or charitable sources.

Multi-purpose community organisations. A growing number of community-led organisations have developed into larger multi-purpose organisations which have several strands of activity incorporating both enterprise and publicly supported service delivery (such as Development Trusts). These organisations often make use

of their asset (such as a resource centre/community hub) to generate income from hiring out space, but may also be engaged in enterprise based on selling goods or services (for which the asset is perhaps not central). They often also deliver services funded by the public sector. Income will be a mix of grant subsidy, often from a range of sources, service contract revenue and income from trading. Many such organisations are able to generate a surplus each year, making a larger range of financial options possible.

- **Social enterprises**. Some social enterprises, possibly community-led but not necessarily, have developed a business model that is largely if not entirely enterprise-dependent and may be able to generate a significant surplus each year, for reinvestment in the enterprise. This includes a broad range of organisations from community-led organisations managing a local community asset through to national not-for-profit companies which may not be grounded in any particular community. Partly depending on the legal form of the organisation, the widest range of financial options are probably available to this group. Often, social enterprises may only wish to consider owning property at a later stage of their development, once they have established a track record.

In terms of financial sustainability and growth prospects, the precise nature and structure of an organisation's business model is probably less important than the 'quality' or 'robustness' of its income stream; for example – how diversified is it? How long are the contracts (if any)? How established is the organisation in its markets? How much of a surplus is being generated? There is no business model that guarantees success, only a wide spectrum of options that can make success more or less likely for any given organisation in any given set of circumstances.

The next section outlines the range of investments available through debt and equity which may enable some organisations to move beyond their present circumstances and develop faster.

Present trends in public subsidy

Since the Quirk Review in 2007, a number of government programmes have supported the transfer of community assets from the public sector. In England this has included the £30million Community Assets Programme, funded by the Cabinet Office, and the Advancing Assets for Communities Programme, funded by the Department for Communities and Local Government. In Scotland, the Big Lottery Fund is investing £50million in the Growing Community Assets (GCA) Programme. Other smaller programmes have also operated, but most of these programmes are now either complete or closed to further applications, although Scotland's GCA Programme continues. Public grant subsidy to support community asset transfer is unlikely to be significant in the next few years, although some programmes continue (including ERDF).

At the same time, the supply of community assets potentially available for transfer may be increasing as many public sector organisations seek to divest themselves of assets they can no longer afford to run and as the forthcoming 'community right to buy' is implemented. The availability of finance and the ability to put together a viable business model will be a key issue if this potential is to be realised. As a stop-gap measure, the Asset Transfer Unit, working with local authorities and other public agencies, have been considering how 'multi-asset vehicles' might be created to allow

local authorities and others to temporarily transfer assets to ‘holding organisations’ in advance of local communities taking on direct ownership themselves. However, this is not a long-term solution.

The impact of the fall in public expenditure across the UK from 2011 to 2015 will further undermine the viability of some community organisations. Many are likely to see their public sector income fall as contracts are cut or reduced.

The ‘silver lining’ is the Coalition Government’s commitment to move towards a model of public services commissioning which makes it easier for community and voluntary sector organisations to bid for contracts (Cabinet Office, 2010), but the impact of this is still to be felt in practice. Longer-term contracts for public service delivery would provide organisations with more secure revenue streams which can make capital asset acquisition more viable.

There are also moves to give local authorities new powers to retain more of the value arising from new developments, through Tax Increment Funding as well as the new Community Infrastructure Levy. Whilst not directly relevant to community assets, these would be modest new sources of funding which could be applicable to financing community assets in new development.

In summary, support from the public sector for the transfer and funding of community assets is significantly less today than it has been in recent years and this is unlikely to increase in the short term, although there are some government initiatives which may deliver some support in the medium term.

Present trends in enterprise

More generally, community organisations and social enterprises engaged in trading are unlikely to be immune from the general trend in the wider economy which is currently struggling to recover from the 2008–9 recession. However, these organisations operate in a wide range of markets and engage in many different activities, from village shops to wind farms, so generalisations on their economic prospects are difficult to make. Box 1 provides an example of an enterprise based on renewable energy, a growing trend recently and a relatively new market for communities to operate in.

Box 1 – Community renewable energy

Energy4All, which promotes the community ownership of renewable energy assets, has helped to create seven renewable energy co-operatives in the UK, where the community own the asset.

The first such co-operative was the Baywind Energy Cooperative Ltd – the first UK cooperative to own wind turbines. Baywind is an IPS formed in 1996 by seven people who lived in Ulverston and Barrow-in-Furness. When it was established, Baywind was given a lot of support and advice from a Swedish co-operative. Between 1996 and 1999 a number of community share issues enabled Baywind to raise £2m, with a minimum shareholding of £300. They now own six turbines in Cumbria and have 1300 members. Members are drawn from a wide area, with 43 per cent from Cumbria and Lancaster.

The six turbines have a total capacity of 3.1MW, generating enough electricity to meet the average needs of 1700 homes and offsetting around 6,000 tonnes of carbon dioxide emissions.

The electricity generated by the turbines is sold to the National Grid through a 15-year Non-Fossil Fuel Obligation (NFFO) contract. Members have received a regular financial return on their investments.

Source: Case Study 20: Baywind Renewable Energy Cooperative, Energy Saving Trust

Section 5: Focus on the emerging social investment market

This section provides a fuller overview of the emerging social investment market in the UK. The market has been developing rapidly in the last decade. It is of particular interest currently as it is potentially a route for some social enterprises and community enterprises to access more private sector funding at a time when public sector funding is scarce.

Social investment primarily covers those forms of funding which are provided to social enterprises to enable them to move towards financial sustainability, rather than simply provided as grants or subsidy. The market is distinguished from mainstream private investment markets by the focus of its investments which have both a social as well as a financial purpose. The greater focus on social investment in this paper is not meant to imply that other forms of finance are less important, but reflects the fact that the more conventional forms of finance are better understood, whereas the opportunities in this emerging market are perhaps less well understood.

The social investment market has developed in recent years, enabled by government, in recognition that mainstream investment markets and business support services do not currently serve community organisations or social enterprises very well. A number of market failures have been identified, which have been well rehearsed elsewhere (e.g. GHK, 2010), reflecting inadequate flows of information, unfamiliar risks and other factors.

To put this market in perspective, the Cabinet Office (2011b) has estimated that in 2010 there was £190m of social investment in the UK. This compares to £3.6bn of philanthropic grants in the same year, £13.1bn donated to charities by individuals and (in the commercial sector) £55.3bn of bank lending to businesses. Clearly, the market remains modest in scale. It has, nevertheless, grown significantly in the last decade, facilitated by the Labour Government's implementation of a number of recommendations from the Social Investment Task Force's first report in 2000.

NESTA have recently published an overview of the social investment market and the organisations that facilitate this (Young Foundation, 2011) and made these observations about the social enterprise sector:

- It is a young sector – over 30 per cent of social enterprises are less than five years old.
- The sector is dominated by small enterprises – only 10 per cent of social enterprises describe themselves as operating at a national scale.
- The sector is still largely reliant on the public sector – the vast majority of social investment in the last decade has come from public funds not private investment, and 39 per cent of social enterprises still get over half their income from the government (through grants or contracts to provide services).

The Government has recently published a vision and strategy for 'Growing the Social Investment Market' (Cabinet Office, 2011b), which sets out a broad framework for moving forward. Proposals include opening up public services to a wider range of

providers, tax incentives, a more supportive business environment, investment in the infrastructure of the social investment market and greater finance and championing through a new Big Society Bank (see Box 6 for more information on this).

The rest of this section outlines the various types of finance available to community organisations and social enterprises through this nascent market. It is of interest for two reasons. Firstly, if public sector subsidy is likely to be in shorter supply in the next few years, seeking out private finance is an obvious response. Secondly, privately arranged finance provides greater flexibility to an organisation on the nature of its investments in any assets when compared to a public grant programme, which will often be prescriptive in what can be supported. In particular, privately arranged finance may enable acquisition by community organisations of a wider range of assets, not just those from the public sector.

The network of 'social venture intermediaries' (organisations which provide advice, support and/or finance) has also grown significantly in recent years with many new names becoming well established in this sector since 2000 – including CAF Venturesome, Charity Bank, Social Finance and Bridges Ventures. The Young Foundation's report reviewed this sector and we have drawn on this study to provide an up-to-date overview of the sector in Box 2. Note that this sector includes many Community Development Finance Institutions (CDFIs), but is wider than this. Some CDFIs are also more focused on alleviating individual financial exclusion (such as Credit Unions) and these are therefore excluded from this present discussion. This paper will generally use the term 'social venture intermediaries' when referring to support or finance organisations. The Community Development Finance Association (CDFA) remains the sector's largest trade body, with 66 members, who primarily focus on loans.

a) Raising equity ('risk capital') through community shares

Selling shares is a way to raise medium- or long-term capital for investment in a new or growing enterprise. It is described as 'risk capital' because it is not guaranteed that the shareholder will get their money back or a return. Indeed, part of the value of equity for enterprises raising capital is that there is usually no obligation to repay the initial investment and no requirement to pay a dividend until and unless a profit is made. Here we consider the use of share issues by community organisations and social enterprises as a means of both raising money and also raising awareness about a project and securing new supporters.

How it works

As highlighted in the previous section, not-for-profit organisations can only issue shares if they are Community Interest Companies (CICs) or Industrial and Provident Societies (IPSs). If a CIC offers shares to more than approximately 50 people (i.e. formally understood as being offered 'to the public') then it must follow the normal rules for a public share issue, requiring a formal prospectus which can be very expensive. However, an IPS can raise up to £2m from the public by issuing an offer document without a prospectus. Thus, if the intention is to offer shares to more than small number of private individuals or organisations, the best model is to use an IPS, and most community share issues in the last few years have been done this way. Share issues can be achieved relatively cheaply, for a few thousand pounds. It is possible to convert many existing companies to become an IPS fairly readily.

Box 2: Introducing social venture intermediaries

Community organisations and social enterprises can seek advice, support or finance from many different sources. There are mainstream business support organisations like Business Link, commercial banks and professional services such as lawyers, accountants. There is also a growing sector of specialist social venture intermediaries which provide support, including pre- and post-investment support, and/or finance tailored to social enterprises.

This latter group of social venture intermediaries has grown significantly in the last decade, with hundreds now working in the UK. A recent review of the state of the sector by the Young Foundation (2011) found a rich diversity of organisations with differing attitudes, aims and approaches but with a core aim of promoting social objectives through social enterprise. The review grouped social venture intermediaries into five main types (with a more sophisticated typology within this), acknowledging that many organisations straddled two or more categories.

The five main types of intermediaries were identified as follows:
1) Finance intermediaries
These are organisations that bring in finance to social enterprises and tailor it to their needs, often providing a mix of both financial and social returns. Currently, mainstream banks and investment funds have been slow to engage with social investment. The 10 largest social finance intermediaries currently channel 96 per cent of social investment in the UK. Intermediaries include:

- Foundations, grant makers and challenge funds like the Big Lottery Fund and NESTA
- Social venture capital funds or venture philanthropy funds like Big Issue Invest, Bridges Ventures, Private Equity Foundation
- Specialist 'social' banks like the Charity Bank, Unity Trust Bank, Triodos Bank
- Social lenders like Venturesome, Adventure Capital Fund, Social Investment Business

Investment brokers and networks, bringing investors and enterprises together, like the Funding Network, ClearlySoEmerging web-based 'crowd funding' organisations that bring smalls-scale investors together, like Buzzbank.
2) People, networks and expertise intermediaries
These organisations are focused on building the skills and capacity of social enterprises through networks, provision of accommodation, training, expert consultancy or the recruitment of employees or volunteers. Examples include:

- Networks bringing members together and providing best practice support like Cooperatives UK and the Development Trusts Association
- Specialist consultancies like Eastside Consulting
- Organisations which match pro-bono resources with social enterprises, like UnLtd's Connect network
- Organisations which develop skills like the School for Social Entrepreneurs

3) Marketing and distribution intermediaries
These organisations provide advice or services in bringing social enterprises and customers together. They include 3SC, which brings social enterprises together in consortia to bid for large public sector contracts and the Innovation Unit, which brokers new ventures between social enterprises and the public sector.

4) Innovation intermediaries
These organisations focus on developing and launching innovative ventures, sometimes supported by grants or challenge funds; organisations such as NESTA, the Young Foundation, the Shaftesbury Partnership and Participle.

5) Monitors
These organisations undertake research and provide information to the market about the nature and effectiveness of social enterprises, such as the consultancy New Philanthropy Capital and the SROI Network.

Individuals or companies can invest up to £20,000 each in an IPS. Another IPS can invest an unlimited amount. Each shareholder has one vote, irrespective of the amount of their shareholding. Shares are withdrawable (by the IPS buying the shares back), although various restrictions can be placed on this – e.g. requiring several months notice, requiring the Board's permission. The more restrictive the conditions, the more off-putting this may be to potential investors. Dividends can also be paid to shareholders in a for-profit IPS (usually known as a co-op), although there are limits on this. Some IPSs which have issued shares to the community do have charitable status, although many do not and it is rarely compatible with distributing profits.

The mix of objectives in a community share issue can differ between projects, affecting the nature of the share issue. Some projects may be more interested in securing a membership and support than in raising finance, whereas others may be seeking essential start-up capital for a new venture.

Some support is available to organisations wishing to pursue a share issue, with loans available to support feasibility work from organisations such as Adventure Capital Fund and Futurebuilders. Professional advice is available from a number of sources, including Co-operatives UK.

Practice

Community investment through co-operatives was popular in the nineteenth century in the UK, through consumer or worker co-operatives, but declined through the twentieth century as co-operatives consolidated. Interest in this model revived in the 1980s, with a handful of enterprises being established each year, including some well-known organisations like Shared Interest and Traidcraft, which have successfully grown since then. By 2006, it has been estimated that there were perhaps 80 such enterprises, excluding very small organisations (Co-operatives UK, 2010). Interest seems to have picked up with 28 share offers in 2009 and over 40 in 2010. The vast majority are IPSs. Most are small in size.

In 2009–2011 a Community Shares and Bonds Action Research Programme was led by the DTA and Cooperatives UK (funded by DCLG and the Cabinet Office), working with ten organisations involved in these forms of investment to learn practical lessons. This Programme has helped to raise the profile of this area of activity and promote wider interest.

A common use of community shares in recent years has been to raise money to finance the buy-out of a local shop, particularly village shops threatened with closure. (Box 3 summarises recent research on the number and nature of community shops). A growing number of local renewable energy projects have also been financed this way. A range of other projects have also adopted this approach, in smaller numbers. Box 4 describes some recent enterprises.

Box 3: Community shops

The Plunkett Foundation, a leading supporter of community shops, has recently researched the nature and health of community shops in some depth. The research found:

- Community shops are growing in number, with 251 identified in the research and approximately 20 being added each year, although the report notes that 400 village shops are currently closing each year.
- More than half of the UK's community shops (56 per cent) are in the South West and South East of England.
- 65 per cent of community shops adopt the IPS Benefit of the Community model and have an average of 155 members.
- Community shop failures are rare, with a high survival rate, demonstrating the resilience of this model. The average turnover is £132,000, with modest profits. Shops employ 1.9 people on average, and 90 per cent of shops use volunteers.

Source: Plunkett Foundation (2011)

Box 4: Examples of enterprises issuing community shares

FC United of Manchester
FC United of Manchester is a community football club, set up in 2005 by disillusioned Manchester United fans. It now has 3,500 members. Its semi-professional football team currently shares its grounds with Bury FC, but the club has planning permission for a new 5,000 capacity stadium, with community facilities, in Newton Heath and is seeking to raise £3.5m to build it.

The club is set up as a Benefit of the Community Society (an IPS) with the formal aims of both benefiting the fans of the football club but also the local community. The club wants to create a new kind of football club which is more democratic and rooted in its local community.

In September 2010 it launched a community share issue to raise £1.5m of the £3.5m required to build the new stadium, of which (by January 2011) £1.2m has been raised. The share offer was open for a four month period to members with a minimum shareholding of £200. No withdrawals or interest payments are allowed in the first three years, but after this, funds permitting, interest may be payable and withdrawals of up to 10 per cent per year are possible.

The remainder of the funding for the new stadium is being sought from a mix of sources, including public grants. The project is also being supported by Manchester City Council, who have provided the land at a peppercorn rent.

Green Valley Grocer in Slaithwaite
When the owner of the greengrocers in the village of Slaithwaite, near Huddersfield in West Yorkshire, decided to retire in early 2009, there was no-one to keep the shop running. There was concern locally that closure of the shop might have an adverse affect on the High Street, not to mention being a loss in itself.

'Nobody wanted to be a greengrocer,' said Graham Mitchell, a local resident who worked to save the shop, 'but nobody in the community wanted to lose the greengrocers either.'

After some initial discussions, a core group of local activists organised a public meeting to test the idea of taking the shop into community ownership. The meeting was attended by 60 people who offered strong support for the idea. So the group developed a business plan, formed a co-operative and launched a local share issue to raise the money necessary to re-establish the business. In two weeks £18,000 was raised from over 100 people. Most bought £100–£150 of shares, (at £10 per share) with a few larger investments of up to £1,500. The co-operative bought the fixtures and fittings for £6,000 from the retiring owner (but not the building itself), refurbished the shop and re-opened it six weeks after it closed. The refurbishment of the shop also benefited from some in-kind support from local volunteers.

The renamed 'Green Valley Grocer' had saved one local job and created three more. The shop is still thriving two years later.

Source: Community Shares website (March 2011)

Pros and cons

The benefit of a community share issue is that it can raise a significant sum of working capital which does not need to be repaid or generate a return in the short term. This can be helpful to an organisation that cannot secure an affordable loan, or as an equity cushion to complement borrowing. The IPS model of 'one member, one vote' and capped shareholding also enables a more equitable approach to decision-making and a more democratic form of ownership. There are also wider benefits to a

share issue, in the form of media attention and engagement with a wider network of people who may become supporters/volunteers.

Share issues do not always succeed, with success depending on the attractiveness of the enterprise to the wider community and how effectively it is ‘sold’ to them, the strength of the business case and the related level of financial security and return. It has also been suggested that the wealth of the community is a key factor in the viability of such share issues, although some share issues have very low minimum investment thresholds and can sometimes bring wealthier investors and more deprived communities together (DTA, 2007). Nevertheless, at present, investors tend to be older professionals (aged 45 or over) who are financially literate, socially motivated and able to invest sums of money they can afford to lose (Wessex Community Assets, 2010).

b) Raising equity (‘risk capital’) through investment funds

A second way of securing investment through equity, particularly where larger amounts are sought, is through more formal investment routes. This is relevant for enterprises owning (or seeking to acquire) assets as well as those developing a business without an asset, and which are able to issue shares. In practice this is likely to be CICs and a broader range of private for-profit companies which also have social objectives.

How it works

A small but growing area of activity in the last ten years has seen a mix of public, charitable and private organisations and private individuals creating investment funds which aim to identify, support and invest in social enterprises to deliver both a financial return and a social return. These funds vary in size, aims, the types of enterprises in which they invest and also in their appetite for risk and financial returns. Often investors may provide a mix of specialist advice, grants, loans and/or investments. Some investment funds prefer to become very engaged with the enterprises they invest in, building a close relationship and building up the skills and capacity of the organisation – before, during and after the financial investment.

Investments are often in the form of equity, with investors purchasing shares, from a range of specialist venture capital funds.

Some investments are in the form of quasi-equity. This is a hybrid investment which is essentially a loan (debt) but which carries some of the attributes of equity, particularly in the risks associated with it. The investor loans intending to get their capital back, but it may not be secured against an asset and may have more flexible repayment options than a normal loan – for example repayments may be contingent upon the enterprise making a profit – so there is greater risk than a normal loan. Any such investment may cost the investee more than a more conventional loan, allowing the investor to receive a higher return if the venture is successful. This form of investment has often been adopted with enterprises which are Companies Limited by Guarantee.

Practice
It is not clear how much equity investment is currently being made into social enterprises, but it is likely to be modest in scale and is certainly much smaller than the amount of investment being made through loans and grants (see below).

The Government itself has been one of the largest providers of capital for these funds, and many also rely on charitable foundations or wealthy philanthropic individuals. Nevertheless, private funds have been growing as a proportion of the market. Box 5 describes some of the different funds available at present.

It is important to distinguish here between these forms of equity investment and the related growth in recent years of mainstream 'socially responsible investments' (currently estimated at over £900 billion). These are very broadly defined as investment funds which have 'screened out' certain types of companies such as Tobacco and Arms manufacturers and cannot be considered as 'social investments' in the sense being discussed here. However, there is growing interest amongst major private investors, such as pension funds, in 'triple bottom line' investing, so there is potential for more mainstream investors to engage with the social investment market.

Box 5: Examples of social investment funds

Bridges Ventures
Bridges Ventures is a private company majority-owned and managed by its directors and Bridges Charitable Trust and backed by private equity firms Apax Partners, 3i and Doughty Hanson. Capital is drawn from banks, pension funds, wealthy individuals and foundations to invest in organisations that deliver both financial and social returns. It currently has four funds under management:

Launched in 2002, Bridges Community Development Venture Fund I raised £40m to invest in small social enterprises in the most deprived parts of England, including start-ups. In 2007, Bridges Ventures raised a further £75m for Venture Fund II, to invest in a wider range of areas.

In 2009, the Social Entrepreneurs Fund was launched, drawing on capital from charitable foundations, high net-worth individuals and government departments to invest in social enterprises which have reached a 'growth stage'. It has raised £12m so far. Deals are typically £500,000–£1m, up to £1.5m maximum. This is owned and run by the related Bridges Charitable Trust on a more philanthropic basis, where lower financial returns are likely.

In 2009, the Bridges Sustainable Property Fund was launched, raising £29m so far to invest in property-based social enterprises.

Big Issue Invest
Big Issue Invest is a social enterprise, part of the Big Issue group of companies, which provides equity investments and loans to other social enterprises. Investments are primarily in the form of medium-term growth capital from £50,000 to £500,000 to established enterprises. Its Social Enterprise Investment Fund has raised £3m funds.

Social Finance
Established in 2007, Social Finance is a not for profit company which is aiming to grow the social investment market. It raises capital from foundations, individuals, private banks and institutional investors to invest in a range of different investment vehicles for both social and financial returns. Mechanisms used include Social Impact Bonds, Venture Capital Trusts, equity and loans. Some schemes are up to £250m in value.

Pros and cons
This is a relatively small and new area of practice which is in its early stages of development. The main issue for organisations owning community assets is that this form of investment may not be possible for many of them, if they cannot issue shares or if they have charitable status. It is likely to be more relevant for CICs and those social enterprises which operate as private companies but with social objectives.

c) Securing 'debt capital' through loans

Loans are available from many mainstream financial organisations, but community organisations and social enterprises can often encounter difficulties in securing these. The Government has established a number of significant funds in the last few years to counter this and to encourage the wider development of a social investment market. These funds provide direct finance, seek to lever other finance in and also invest in the skills and 'investment readiness' of relevant social enterprises. The majority of this finance has been provided in the form of various forms of loan.

How it works
An investor will typically provide both a loan and some form of business support or specialist advice to the investee to help them develop and grow their organisation. Loans might be short-term to cover cash-flow or longer term to provide 'seed capital' to help establish a new initiative or 'working capital' to help finance growth and development. Long-term loans are sometimes described as 'patient capital', reflecting the willingness of the investor to wait for longer before seeking any financial returns and often accepting lower financial returns than many commercial investors would expect. Many loans are secured against assets, but some are unsecured, making them higher risk for the investor. A wide range of arrangements are used.

Practice
The CDFA's most recent annual review (CDFA, 2010) provides an insight into the level of activity on loan finance within this sector. These organisations include a range of lenders with overlapping labels – 'micro-finance institutions', 'community loan funds' and 'social lenders'. The data reflects the activity of approximately 70 organisations and probably includes the majority of social lending in the UK. It is worth noting that a handful of the largest institutions account for the majority of loans by value – including Triodos Bank, Bridges Ventures and the Social Investment Business. Their estimates of activity across the CDFI sector for 2009–2010 suggested that:

- CDFIs are represented in every region and country of the UK, but with few in Scotland, Wales and Northern Ireland.
- Lending activity has continued to grow each year, although in 2009/10, nearly 50 per cent of the income raised for new lending came from RDAs; this income will no longer be available from 2012.
- CDFIs lent £34m to business – micro-businesses and small and medium enterprises (SME) – with most loans relatively modest in size.
- CDFIs lent £153m to civil society organisations, mainly from a handful of the largest CDFIs.

One of the largest lenders in recent years has been the Social Investment Business (established in its present form in 2009 as a group, on behalf of government). It has managed a number of funds, which between them have received £400m of support in recent years and which provide a mixture of business support, grants and loans to community organisations, rather than just finance alone:

- **Communitybuilders**. In 2009/10, this £70m fund provided grants, loans and expert business support to multi-purpose, inclusive, community-led organisations (sometimes known as Community Anchors). The fund closed and the remaining £27m assets were given to Adventure Capital Fund (ACF) in March 2011 as an endowment, for ACF to own and manage. (The ACF is the parent charity for the Social Investment Business.)
- **Futurebuilders England**. Established in 2004, this £215 million fund, provided by the Office for Civil Society, provided loan financing, grants and professional support, to third sector organisations in England that needed investment to help them bid for, win and deliver public service contracts. The main loans were £50,000 or more, but short-term loans were also available to support cash-flow or to support the development of tenders. The fund is currently closed.

- **Adventure Capital Fund**. Established in 2002, this was a new style of fund that aimed to invest more adventurously in community organisations and social enterprises with a view to recouping at least some of its investments. It provided grants, loans and support. The original fund is closed, but ACF is now managing an endowment (see above).
- **Social Enterprise Investment Fund**. This fund provided grants and loans of up to £10m to enterprises working in the health and social care sector.
- **Modernisation Fund**. This £9.5m fund provided interest-free loans of £30,000 – £500,000 to civil society organisations to help them overcome the effects of the recession. It is also now closed.

A handful of 'social banks' are also key players in lending – Charity Bank, Unity Trust, Triodos and the Cooperative Bank. The Charity Bank, for example, provides normal regulated banking services to charities which cannot afford financial services at market rates or which are excluded from those markets. The Bank provides secured and unsecured loans, mainly to charities, to support asset acquisition or to provide working capital to enable growth and transformation. The Bank typically lends £50k to £2m from a capital fund of *c.*£65m, raised from trusts, institutions and philanthropists.

The Government is currently developing proposals to launch a new wholesale bank, which will increase the supply of capital for lending, as described in Box 6.

Box 6: The Big Society Bank

New initiative for 2011: The Big Society Bank
The Cabinet Office's 'Strategy for Social Investment' (February 2011) set out the proposed principles for a new Big Society Bank. The intention is that the Bank will be an independent and self-sufficient wholesale bank, with a clear social mission to 'catalyse the growth of a sustainable social investment market'. It will not relate to individuals or individual projects directly but will invest in funds created by financial intermediaries, providing loans, taking equity stakes and using bonds. It might also act as an underwriter or guarantor.
Most of the Bank's investment is expected to be in three areas of activity:

- Investing in funds, probably themed with specific objectives, which will in turn invest in front-line social enterprises
- Investing in funds to support the viability of social finance intermediaries themselves
- Investing in funds to develop new investment vehicles and build market infrastructure – e.g. supporting development of the market for social impact bonds

The Bank is due to begin work later in 2011. UK banks have already agreed to provide £200m of capital and legislation is already in place to direct money from dormant bank and building society accounts into the Bank. Up to £400m may be in these accounts. The Government has committed to direct the money from all of the accounts in England into the Bank, although the Devolved Administrations will make their own choices on their portion of the available funds.

Finally, community organisations or social enterprises could form mutual guarantee societies. These are formal associations of organisations that come together to pool their savings, or to make provisions for possible losses, in order to provide collective

guarantees to each other. This can make it easier to access to loan finance. They are currently not common in the UK, but some are being piloted.

Pros and cons
The provision of loans, on a variety of terms, has been the most common form of finance for community organisations and social enterprises after grant funding, often being given with specialist support and advice. This may be the most relevant tool to use to support the acquisition and management of many community assets, as it does not conflict with charitable objectives in the way that seeking equity often does. As ever, the ability to repay a loan assumes the ability to generate a surplus. Loans can help organisations develop and grow faster than they might be able to do so through reliance on grants or retained earnings but as in any business, getting the level of borrowing ('gearing') right is critical.

d) Securing 'debt capital' through bonds

Bond issues (sometimes known as 'loan stock issues') are offers to a limited number of people or organisations to lend money over a specific period of time and for a rate of return. Bonds are a form of loan and are often medium or long term and are usually lower risk than equity.

Bonds can be issued directly by a wide range of organisations, including trusts, CICs, companies limited by guarantee and IPSs, providing they can provide certain guarantees. Registered Social Landlords have been the main users of bond finance, often raised through the not-for-profit Housing Finance Corporation, an IPS which has raised billions through bonds in recent years. Beyond this, such finance is not common in the charity/social enterprise sector. In 2006, the Wellcome Trust, the UK's largest endowment, became the first UK charity to issue bonds, raising £300m through long-term 30 year bonds to complement its £12 billion investment portfolio. In 2009, it raised a further £275m through 12 year bonds. Clearly the size of the Wellcome Trust makes it unusual, but other charitable foundations and possibly consortia of organisations could potentially issue bonds.

Bonds can also be issued by a third party in a way that benefits community organisations/social enterprises. The leading provider of these 'social bonds' in the UK is Allia (formerly CityLife, established in 1999), which is a Benefit of the Community Society IPS with charitable status. It has raised and invested £16m to date, using a 'charitable bond' mechanism it has developed over the last few years.

A 'bond offer' is published, seeking investments from individuals and corporations up to a determined amount. This money is then loaned to a social housing provider (Places for People Homes). The investor will receive their capital back after five years, together with an agreed rate of interest. Allia take a small percentage to cover their costs and the remainder, a percentage (perhaps 10 per cent) is given as a gift to a selected charity. The more funds given to the charity, the less are available to receive as interest – a choice made by each investor.

A bond is a relatively low risk/low return investment for investors and can provide a medium-term loan for community organisations and social enterprises, which must be repaid within a particular term and at a reasonable rate of interest. It is currently not in common use within the social investment market in the UK, but could

potentially be another source of loans to social enterprises and/or potentially provide grant income to charities if the ‘charitable bond’ model is used.

e) Social Impact Bonds

The Social Impact Bond (SiB) has been developed to enable private investment in preventative social programmes delivered by social enterprises. The rationale is to enable investment that tackles the root causes of social problems, not just the symptoms – getting around government’s traditional inability to invest in long-term prevention when the challenge of tackling current needs is so pressing. It also reflects a wider interest by Government in ‘payment by results’.

How it works

A SiB is not a bond in the conventional sense. A SiB is a multi-year contact between a public sector commissioner and an investment fund to deliver a positive social outcome through a programme of interventions delivered by social enterprises. If that outcome is delivered, the government agrees to pay a proportion of the cost savings to the investors, who thus have both a social and a financial incentive. If the programme succeeds, the government also benefits from lower needs and therefore lower costs in the future. However, if the outcome is not delivered, the investors receive nothing, so there is some risk within the investment, more like equity than a bond.

Technical guidance offered by Social Finance (2011a) defines four stages of development to establish a viable SiB proposition:

- Define a social issue where there is a clearly identifiable target group with identified needs, for whom existing service provision is inadequate but where there is a public service commissioner willing to consider a SiB.
- Develop a social intervention strategy that includes a suite of actions and for which there is some evidence from past interventions about the likely impact.
- Build a business case by establishing the costs of the interventions, how the outcomes can be measured and what savings might accrue to particular public sector budgets from an improvement in those outcomes.
- Develop a financial model that defines the level of investment required (to cover all costs), the time horizon for the SiB to operate over and the returns that investors could receive.

Practice

In the UK, the first SiB has been pioneered recently by Social Finance, described in Box 7. Other SiBs currently being explored relate to health, drug rehabilitation and Children’s Services.

Box 7: Social Impact Bond for Peterborough Prison

The first Social Impact Bond (SiB) in the UK was signed with the Ministry of Justice in March 2010, began delivery in August 2010 and was officially launched in September 2010.

The SiB aims to reduce re-offending amongst male short-sentence prisoners released from Peterborough Prison. Currently, little statutory support is available for rehabilitation after release. Some 60 per cent of short sentence prisoners re-offend within one year of release.

Social Finance, a not-for-profit company established in 2007, has raised £5m from 17 social investors. The investors are mostly charitable trusts and foundations, although some are giving vehicles for 'high net-worth individuals' or private banks. All of the investors' capital is at risk.

The capital is being used to fund a package of services (the 'ONE Service') being delivered by the St Giles Trust, Ormiston Trust, the YMCA and others. They will work with 3,000 men over six years. Some of the services are based on tried and tested interventions that have been evaluated previously, including work by the St Giles Trust.

Investors will receive a return of up to 13 per cent (calculated as an Internal Rate of Return) over an eight-year period, if re-offending among the target group falls by 7.5 per cent or more compared to a control group of similar prisoners across the UK. For example, a 10 per cent reduction in re-offending would result in a 7.5 per cent return. Investments are staged over the six-year delivery period to cover the cost of service delivery and payments from the Ministry of Justice back to investors are staged over eight years, according to the performance of the contract. The total cost of the project is capped at £8m. If the required performance is not delivered, investors will not receive repayment of their capital or any return.

The contract runs for longer than the service delivery period to allow for post-delivery impact measurement. Payment to the service providers is not performance related.

This SiB took nearly two years to develop and agree. Some of the set up and management costs for this SiB were funded through grants. Pro-bono legal advice was also received.

Source: Social Finance (2011) Peterborough Impact Bond. London: Social Finance Ltd and Social Finance (2011) A Technical Guide to Developing a Social Impact Bond: Criminal Justice. London: Social Finance Ltd and some emailed clarifications from Emily Bolton of Social Finance (March 2011)

Pros and cons

The value of SiBs is that they could potentially increase the amount of capital available to invest in preventative programmes and promote innovation in finding effective solutions to challenging social problems. However, SiBs are also new and complex and it will take time for the market for SiBs to develop. Unlike many conventional bonds, all of the capital is at risk in a SiB, and they are not tradeable. Social Finance (2011c) acknowledge that most of the capital invested in the first SiB was from charitable trusts and foundations and that SiBs will need to develop a track record before a wider range of investors are likely to commit on any scale.

As the technical guidance implies, SiBs are also only applicable to: social problems where significant cost savings to the public sector are identifiable; where an intervention can achieve measurable outcomes within a time horizon of about five years; where there is an existing evidence base on the relevant interventions; and where there is a public sector commissioner willing to engage. The researching and development of the contract requires an up-front investment. The initial capital

investment is also at risk: if the results are not achieved, no payment will be made. It will also be interesting to see, assuming the SiB programmes are successful, whether the public sector is actually able to realise the cost savings or will simply reassign those public resources to other services.

In terms of the relevance to community assets, a SiB could provide a long-term income stream and some stability for a service provider, but it is not clear if this would allow the generation of any surplus to fund purchase or operation of an asset, unless that was an integral part of the service.

Postscript on tax reliefs

A number of tax incentives are available currently which incentivise private investment through some of the above financial instruments:

- Enterprise Investment Scheme (EIS) – this now allows investors to set 30 per cent of the cost of a share purchase against their individual income tax liability (raised from 20 per cent to 30 per cent in April 2011) and is therefore only relevant to enterprises that can issue shares. This does include community share issues. However, from 2012, it will exclude businesses based on feed-in-tariffs (i.e. renewable energy companies).

- Community Investment Tax Relief – This provides tax relief to investors who invest in accredited Community Development Finance Institutions, giving 5 per cent relief for up to five years on the amount invested. Take up has been relatively low.

- Gift Aid – tax relief for individual giving is already in place and is a significant source of income for many charities. The recent Budget 2011 has proposed extensions to this to cover smaller donations and to provide greater incentives for people to bequeath larger parts of their legacies to charity. The recent Green Paper on Giving has also put forward some proposals to improve the arrangements for gift aid.

Section 6: Key issues

The present challenge

The transfer of community assets has been building momentum since the Quirk Review of 2007, particularly in England. At present, with public spending cuts now biting, the supply/availability of community assets from the public sector has probably never been higher. With DCLG's forthcoming 'community right to buy' this availability may increase further. Yet, the supply of public grants and support to enable the transfer process has contracted significantly and is unlikely to recover in the next few years as public spending remains tight. The wider impact of public spending cuts is also likely to have adverse effects on the financial sustainability of many community organisations and social enterprises, with or without assets. For many of them, achieving financial sustainability is very difficult. Many are financially fragile and often still dependent on public sector or charitable funding.

Thus, whilst the possible supply of community assets is growing, public sector support to enable the acquisition and ongoing operation of these assets is diminishing. There has always been a gap between supply and support (partly evidenced by how oversubscribed the recent grant programmes have been) but it appears to be widening.

Yet we know that owning assets can bring many benefits to community organisations, including the provision of a firmer base from which to generate an independent income stream, which in turn can open up greater opportunities for securing non-public finance for redevelopment and expansion. Over the long term, such leverage will reduce the need for public sector investment in these assets.

How can finance be made more readily available to fund a growing supply of community asset transfers and the ongoing management of these assets?

Drawing on discussions in the literature and consideration of the issues, the following four broad opportunities have been identified as potentially of the greatest significance:

- **Moving towards enterprise**. How can more community organisations be encouraged and supported to diversify their activities and move towards a business model that includes a greater element of enterprise and income generation?
- **Building the social investment market**. How should the social investment market be developed further to increase the supply and availability of private finance for social purposes?
- **Using public sector commissioning to support asset development**. Can the present shift towards increasing the public sector commissioning of community and voluntary sector organisations be used to support the transfer or development of assets?
- **Encouraging philanthropy**. Could more be done to encourage local endowments to community organisations from wealthy individuals or companies?

Each opportunity is discussed below.

1) Moving towards enterprise

More community organisations, whether asset owning or not, could move towards an enterprise model, diversifying their sources of income and activities. The ability to generate a surplus is fundamental to accessing a wider range of financial options and enabling greater investment. Accessing private finance, or at least finance outside of grant programmes, also provides for greater flexibility in how that finance is used, potentially giving community organisations a much greater choice of assets that they might seek to acquire, rather than just ex-public sector assets.

Work to promote this has been continuing for years, but there has probably never been a greater need for it than today. What more could be done to accelerate this shift within the voluntary sector? How deeply does enterprise and the discipline of generating a surplus already run within the sector? The challenge is not just about how much funding or finance is available, but how willing and able organisations are to commit to enterprise as a discipline for delivering change. How can available public funding and social finance resources be best used to promote this?

Within this, it is also clear that some organisations operate in market contexts that make the generation of a surplus quite difficult, if not impossible. In some rural areas and some of the more deprived urban areas is trading in local markets a realistic prospect? Should ongoing public grant subsidy be prioritised more explicitly to those community organisations operating in areas of the more severe market failures, with organisations that have greater potential for enterprise expected to rely on loans and other enterprise-enabled finance options? Should we move to a public subsidy regime for community organisations that is more explicitly enterprise-led, to incentivise this shift?

2) Building the social investment market

As the Social Investment Task Force concluded recently, there is still a long way to go in developing the effectiveness of this market as a reliable and significant source of finance:

> *'…the market is still poorly defined and there is confusion over terminology; there are no accepted standards for measuring social impact….the market lacks the clarity of structure and diversity of organisations that characterise mainstream financial markets…'* (SITC, 2010)

As noted earlier, the Government has recently published a vision and strategy for growing the social investment market, setting out a range of proposals within a broad framework of action (Cabinet Office, 2011). There are implications for all sectors, with those perhaps most relevant to community assets identified here:

- Public sector – There is much that the public sector could do to incentivise and enable investments:
  - An important part of improving the context in which community organisations and social enterprises operate will be moving public sector commissioning towards a situation where it awards longer term contracts.
  - The evidence clearly suggests that there is a pressing need for the greater provision of accessible support packages for potential investees, including both pre-investment and post-investment support. The challenge is about skills, not just money.

- ‘Many social entrepreneurs feel that the provision of investment readiness and business capability support is a more pressing need than the provision of finance itself.’ (Cabinet Office, 2011)

Some tax incentives are in place to encourage private investment, but take up of the principal relief in this area – the Community Investment Tax Relief – has been weak, suggesting a need to reform this.

The regulation of investments can be complex and often too complex and perhaps disproportionate for small community organisations. For example, Locality have proposed a co-regulatory body to provide the more appropriate oversight of community share issues.

- Social venture intermediaries – These organisations need to work together to develop market standards, raise the profile of available services and evolve their products and services.
- Private sector investors – Mainstream financial institutions and professional advisors need to become more aware of the differing nature of needs in the social sector and the opportunities to develop new products and services and engage mainstream investors in this growing market.
- Community and voluntary sector – Many organisations need to look to smarter social investment strategies:
    - Individual organisations need to be willing to consider a wider range of business models. This may entail a culture change for some (as already noted above),
    - Voluntary sector organisations in the UK hold £95 billion in fixed and current assets, with nearly £70 billion invested in equities, unit trusts, property and other securities (2007/8 data quoted in Cabinet Office, 2011b) and more of this could be invested in social funds. Are there sufficient incentives in place to encourage this?

3) Using public sector commissioning to support asset development

The Government’s 2010 green paper on Modernising Commissioning proposed a greater role for civil society in the provision of public services, with specific proposals due to be announced soon in the Public Service Reform white paper. As the green paper notes, civil society already delivers over £9 billion of public service contracts each year already (2010 figures). The proposals will potentially open up service delivery to a wider range of organisations than hitherto and enable a wider range of service delivery models, including the much-discussed but not as yet well defined ‘mutualisation’ of services.

The question with respect to community assets is the extent to which any of these reforms might extend beyond revenue support for delivering short to medium term contracts and include the ownership or management of the assets that sometimes accompany those services. Will there be new opportunities to empower communities through these service reforms, rather than simply deliver services? The longstanding issue of irrecoverable VAT by charities also undermines their financial viability and remains a practical challenge for Government.

4) Encouraging philanthropy to create local endowments

Historically, many wealthy business people have left legacies of land, buildings and endowments to a range of charities. A growing number of wealthy individuals and corporations across the world have established significant foundations in the last few decades to support a range of charitable objectives. The global Gates Foundation gives away $2–3 billion each year. The Shell Foundation invests in bringing social enterprises to scale. Atlantic Philanthropies are committed to investing all of their $3.5 billion fund by 2016, as part of the growing 'giving while living' movement. Across the UK, there are thousands of foundations of varying sizes awarding grants.

Many individuals also give to charity and leave legacies, but as the recent 'Giving' green paper showed (Cabinet Office, 2011), the UK lags many other developed countries in the proportion of people doing this. The paper outlines a range of challenges and opportunities. The Charities Aid Foundation have also recently highlighted a range of practical measures that could be taken by Government to promote giving (CAF, 2011), including measures on legacies, tax reliefs, workplace giving and corporate giving.

To what extent could donations be increased and directed towards establishing more sustainable asset-based community-led organisations – effectively creating local endowments? To what extent are foundations, philanthropists and individuals in the UK aware of the challenges and benefits of community asset ownership? How far does the creation of sustainable local enterprises count as 'impact investing' for this group?

Section 7: Conclusion

The short- to medium-term prospects for the community ownership and management of assets in the UK presently look decidedly mixed. There is perhaps more of a challenge in Wales, Scotland and Northern Ireland, where the level of activity continues to lag behind that in England. On the plus side, there has probably never been a greater supply of community assets from the public sector, or a willingness to consider disposal. Experience in how to deliver such projects has also been broadening out in recent years. Yet at the same time, the specialist public sector programmes to fund and support these transfers are smaller than before, and community organisations and social enterprises face a double whammy of both falling income from public service contracts and difficult trading conditions in the wider economy.

It is evident that there is much that we still do not know about practice in relation to community assets. There are few robust evaluations on the practice of community asset transfer or ownership and little systematic evidence comparing the relative merits of different forms of investment from a UK or international perspective.

Whatever the immediate future holds in store, this paper has identified a number of broad and longer-term opportunities for improving the underlying financial sustainability of asset-based community organisations and social enterprises and improving their access to finance for growth and development. The challenge is for all sectors – public, community/voluntary and private. The essence of each challenge can be summarised as follows:

- **Community/voluntary**. To what extent is the sector committed to shifting towards a more enterprise-based culture, whether directly as an enterprise or as an institution looking to invest its funds more productively?
- **Public**. At a time of restricted spending, how will the remaining public funds be prioritised? Some organisations have the potential to grow and develop, but others serve deprived communities in ways that may never be financially viable. What is the appropriate balance between promoting financial sustainability and alleviating disadvantage?
- **Private**. As the social investment market develops, is there the prospect for a fundamental sea change in how private investors (large and small) see social investment? Could we be about to see a new wave of social investment in the UK, or will it remain a marginal activity for enthusiasts alone?

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