

FUNDING COMMISSION

Paper 2 – Trading – Findings and Emerging Recommendations

Between June and September 2010 the Commission published eight papers on its website on different aspects of its work. Comments were invited on these papers. The emerging recommendations in the papers have subsequently been amended as the Commission's thinking developed. However, the findings in the papers contain much of the evidence on which the final report is based. Details of all those consulted during the preparation of the papers are given in Annexe 2 of the main report.

This is the second paper to be published by the Commission (August 2010) - on Trading. It is based on a preliminary discussion paper written by Sarah Flood for the Funding Commission.

1. Overview

This paper explores the potential of trading on the open market by civil society organisations (CSOs) to further their social and environmental objectives more effectively and sustainably. It does not include trading on the structured market¹, i.e. contracts with the public sector, or personalisation, as both these areas have been covered in a separate paper² on Public Sector Funding.

For CSOs, trading (selling goods and services) to achieve social objectives is nothing new. The range of models in existence: business model, part-funding for a service, or cross subsidisation i.e. raising income to fund charitable activities, is also nothing new. For example, the oldest existing community-owned shop was set up as a co-operative in 1884 in Langdale; Alms Houses charging nominal fees for services have been in existence for over 1000 years; and the Youth Hostels Association has been selling bed spaces for 80 years as part of its charitable work with young people. However, within the last ten years there have been significant developments in trading to achieve social objectives with the rise of the concept of social enterprise.

Social enterprises can take a variety of different legal forms e.g. charities, cooperatives, companies limited by guarantee or community interest companies. Indeed, it is often said that social enterprise is best viewed as a verb, rather than a noun. Organisations of all kinds can be more or less socially enterprising in their approach.

For those that are constituted as charities, there is an important distinction to make between primary and non-primary purpose trading. Primary purpose trading is carried out to fulfil the charity's objectives – for example, a theatre charity selling tickets for one of its productions or an educational charity charging fees for its courses and publications; trading is the charity's business model. This type of trading does not attract tax on profits.

Non-primary purpose trading is trading designed simply to raise funds for the charity's main activities – for example, charities selling readymade Christmas cards i.e. a form of cross-

¹ Terminology from NCVO's Sustainable Funding Project www.ncvo-vol.org.uk/sfp

² The Government Funding Relationship: Its impact on the sector, future challenges and opportunities, March 2010. Discussion Paper for the Funding Commission. www.ncvo-vol.org.uk/fundingcommission

subsidisation. This type of trading is potentially subject to tax, depending on the scale and type of trading involved. A very common approach is to run a trading subsidiary, which then gift aids all or most of its profits to the parent charity. This also has the added advantage of ensuring the trustees limit the risk of the trading enterprise to the parent charity. Ancillary trading, such as a community centre running a café for its users, is treated in the same way as primary purpose trading, provided the scale of the trading does not become too big.

This paper explores the challenges which CSOs face when trading on the open market. It is based on desk research and telephone interviews carried out by Sarah Flood (see Annexe 1) and explores:

- The scale and scope of trading on the open market for the sector (see also Annexe)
- Context
- Challenges
- Emerging recommendation

2. Scale and scope of trading on the open market for the sector

Data on the scale and scope of trading on the open market by CSOs is held in a variety of places and in a variety of ways; recording methods can even vary within one data set e.g. some trading subsidiaries record profit, some record income. Some of the reasons for this variety are the different:

- business models underlying the reasons for trading: e.g. it may part-fund a service or it may raise unrestricted income to invest as the organisation sees fit.
- legal forms used, such as a co-operative, company limited by guarantee, community interest company, charity, charity trading subsidiary
- markets they operate in such as care, the arts, retail, recycling and reuse
- ways of categorising the income generated e.g. trading profit/net profit/revenue, fees for services/fundraising, primary purpose/ancillary/non-primary purpose.

How important is trading on the open market to the sector?

NCVO's research³ shows that just over 20% of charities' income, £8.3bn, is earned from trading on the open market i.e. trading with individuals, other CSOs, and the private sector. This is just below what is earned on the structured market, £9.1bn, making open market trading the sector's second most important source of income (ahead of individual giving at £7.8bn).

Earned income from trading on the open market falls into three main categories:

- £5.2 bn is fees for services

³ NCVO's UK Civil Society Almanac 2010. N.B. Although this is the most comprehensive data source, the data relates to charities, rather than CSOs more generally. The Almanac's definition of charities excludes housing associations, faith groups, trade associations, independent schools and those charities that are not independent of government, such as NHS charities.

- £3.1bn fees for services from individuals
- £1.3bn fees for services from the voluntary sector
- £0.8bn fees for services from the private sector
- £2.2bn is income raised from individuals e.g. membership subscriptions and event fundraising. This is different to donations from individuals.
- £0.9bn is from trading subsidiaries (this could include earned income from the structured market, as well as the open market and therefore the contribution of earned income on the open market could be slightly lower).

Ten charities account for 25% of income raised from individuals including British Heart Foundation (£102m), Barnardo's (£28m) and People's Dispensary for Sick Animals (£25m). Likewise 10 charities, account for 25% of trading subsidiary income including the National Trust (£51m), Salvation Army (£20m) and RNLI (£13m).

Since 2000/01 the general trend is that levels of income from trading on the open market have been increasing:

- Earned income from individuals has increased from £3.9bn to £5.3bn (shown above as income raised from individuals (£2.2bn), and fees for services from individuals (£3.1bn)).
- Earned income from other sources has increased from £2bn to £3bn (shown above as fees from the private sector (£0.8bn) and voluntary sector (£1.3bn), and trading subsidiaries (£0.9bn)).

However it should be noted that more recently income levels have been on a slight downward trend. Equally some types of earned income appear to be declining e.g. because of:

- Falling publication sales, as resources are made freely available online.
- Changing market needs e.g. many religious retreat centres are seeing a declining need for residential activity centres as people are more mobile and prepared to travel further.

Many charities combine trading on the structured market and on the open market. For example, a care home may deliver a service to some residents who are funded by the state and others that are self-funding. As public expenditure reduces, there are likely to be more services which individuals will have to pay for themselves.

Many of the Social Enterprise Coalition's (SEC) members are delivering public services. The following types of social enterprises do most of their trading on the open market: retail (12%), arts/culture/sport (9%), environment (7%) and transport (4%).

The following sectors dominate in relation to selling services to individuals within the top 50 biggest operations (NCVO Almanac 2010) (see Annexe for further details):

- Leisure e.g. My Time Active £13m, Fusion Lifestyle £11m
- Culture and recreation e.g. Royal Opera House £42m, Youth Hostels Association £40m, Zoological Society of London £22m, National Trust £16m

- Health and Social Care e.g. Scope £28m, RNIB £24m, St. Andrews Healthcare £8m
- Housing e.g. Cosmopolitan Student Homes £9m.

3. Context

Funding environment

There are both push and pull factors within the funding environment which are influencing trading on the open market by CSOs:

- Rise of Ethical Consumerism. The Co-operative Bank shows that expenditure on ethical goods and services grew threefold 1998-2008⁴ from £13.5bn to £36bn, outstripping overall market growth of 58%. Fairtrade sales in this period also increased 30 fold from £22m to £635m.
- Increasing demand for businesses to adopt ethical values e.g. YouGov Poll in November 2009 commissioned by the Social Enterprise Coalition found that 71% of people believe that the social and environmental values of a business are as, or more, important than before the credit crunch.
- Growing interest in supporting the local economy.
- Increased brand awareness by the general public about social enterprise as the sector has grown.
- Major cut backs in public spending requiring a rethink of the existing business models to consider which services could be wholly or partly funded by trading.

Community Ownership of Assets Policy Agenda

Following the Quirk Review in 2007 there has been a number of programmes set up to support asset transfer:

- Asset Transfer Unit funded by Communities and Local Government, opened in January 2009, to help empower local people and organisations to transform land and buildings into vibrant community spaces.
- Advancing Assets Programme, funded by Communities and Local Government, launched in 2007, and due to run until 2011, to support local authority/community sector partnerships to develop joint plans for transfer.
- Community Assets Programme, funded by Office for Civil Society to progress transfer of local authority assets to a civil society organisation
- Meanwhile programme, set up in April 2009 by Hazel Blears, the then communities secretary, to support making temporary use of empty shops on the high street to the benefit of the local community

⁴ Co-operative Bank Ethical Consumerism Report 2009

Going forward, the Government has pledged to support community ownership of assets via a Community Right to Buy scheme in the forthcoming Localism Bill to give local people the opportunity to protect any community assets that are threatened with closure.

Development of a new legal structure

Launched in 2005, the Community Interest Company legal structure was established to provide an organisational form which could raise capital and pay dividends but which also contains features to ensure the company operates for community benefit.

Access to Capital

Although most initiatives to provide access to capital have been in relation to the structured market there have been developments to support trading on the open market, primarily in relation to asset development:

- Community Shares are increasingly being used to support the development of community assets and services, and increasing use of this mechanism has been helped by the launch of The Community Shares programme in January 2009 funded by Office for Civil Society/ Communities and Local Government. In the first half of the decade there were, on average, four community share schemes each year (>£10,000) but this now increased seven fold to 28⁵. They support community-owned farms, football teams, pubs, community retail, and renewable energy. e.g. Torrs Hydro, established in 2007, is a community-owned small scale hydroelectric plant
- UnLtd awards to support individual social entrepreneurs to take forward their ideas
- There are also a number of mixed grant/loan packages to support development of community-owned assets such as Communitybuilders and the Village Core Programme supporting the development of community-owned shops and contributing to the rate of community-owned shop openings being at their highest ever.

Increased recognition of social enterprise approaches by CSOs

Within CSOs, trading as a mechanism to deliver social and environmental objectives has been increasing. A ten year perspective from NCVO's Sustainable Funding Project, set up in 2000, primarily working with medium sized organisations is that:

- Trading is now an accepted part of the income base for the sector
- Trading is being used as a business model to place value on a particular service e.g. Kidscity charge for childcare services to actively promote the value of childcare.

⁵ The Community Shares Programme: one year on by Jim Brown, Baker Brown Associates for Co-operatives UK and DTA

While there is increasing recognition of the role of social enterprise, the acceptance and identification of how trading can be used to deliver social objectives varies from sector to sector. For example, within infrastructure organisations there is still resistance to trading on the open market for a number of reasons:

- Perception of competing with the local sector whom they are also there to represent and support
- Cultural perception that commercially generated revenue is less desirable
- Perception of goal displacement

4. Challenges

Trading on the open market to achieve social objectives could be seen as the poor cousin of trading on the structured market. Most of the attention has been on organisations delivering public services. As a result, organisations that want to trade on the open market face a number of challenges, particularly in relation to having access to finance and markets and to specialist skills and support.

Access to finance

Access to finance was seen as the biggest barrier to trading on the open market despite nearly all social enterprises in membership of SEC, accessing loan finance at some point in their development. This is true both for organisations using trading as a business model and for those who want to develop trading activities to build organisational resilience.

The areas least well served currently are capital for non-asset based trading activities and start-up capital that is not loans for where profit margins are so tight that loan repayments would not be possible. For example, Social Firms, employing people who would otherwise have difficulty accessing the mainstream job market, have higher costs in relation to employment, and viewed access to start-up grant funding as critical. Equally, many arts organisations run services around their core business not because it generates a profit but because without them the core business would suffer e.g. running a cafe to ensure people visit the gallery.

While trading is increasingly being used as a mechanism to deliver social objectives either as a business model or to cross-subsidise or part-fund services, it must be noted that generating profit is hard. Business will work very hard to generate 5% profit; it is therefore extremely difficult to cross-subsidise services, using trading income. This is why on-mission, rather than non-primary purpose, trading is promoted by many of the support agencies. It is also why CSOs have difficulty attracting private investment.

Research published by the Institute for Public Policy Research North has also highlighted how dependent many social enterprises are on public sector funding, either through grant support or through contracts.; moving from structured trading to trading on the open market could be a particular challenge for social enterprises in this situation.

Access to markets

For many organisations there will be changing relationships, or more complex relationships, as beneficiaries also become customers, e.g. through personalisation and individual budget arrangements. Different skill sets, as well as new systems, are required for managing these different relationships.

In marketing goods or services that meet social and environmental objectives, as well as generating income, it is often hard to get a message across in a retail environment that by purchasing a product or service you are contributing to social objectives. For charities, selling the brand message is perceived to be easier than for social enterprises as the public have an understanding that charities deliver social good. The Social Enterprise Mark is helping to develop a brand message for social enterprise.

With charities and private companies operating in the same market, there is a potential challenge of unfair competition. This charge has been levelled for some time in relation to charity shops receiving tax and rate advantages compared to other small businesses on the high street, and more recently in relation to community transport (although the challenge was overturned). The Federation of Small Businesses has also been lobbying for some time to have the ancillary trading category removed on the basis of unfair competition.

On the other hand, English Community Care Association representing both not-for-profit and for-profit providers in the care sector did not see this as an issue where there have been multiple providers in the same market for 20 years. A similar situation exists in relation to theatres, where there have never been any complaints from the commercial theatres about the charitable status of bodies like the National Theatre.

One challenge identified was in relation to communicating distinctiveness where the private sector moves into markets created by CSOs. For example, Fair Trade Divine Chocolate, which is 45% owned by the farmers producing cocoa, now competes with Cadbury following their adoption of the fair-trade mark, creating challenges of how to market the difference between the two on a chocolate bar.

Many CSOs engaged in social enterprise lack either the resources or the contacts required for gaining access to wider markets. One of the most effective ways of addressing this can be through developing partnerships with larger organisations, either in the commercial or the charitable sector (see case studies below). This can also bring additional benefits through providing opportunities for accessing professional advice and mentoring support.

Case studies – Partnerships

- **Cancer Research UK (CRUK) and Open Gym**

CRUK's Open Venture Challenge is one of their initiatives for developing innovative approaches to fundraising. Using 'crowd-sourcing' the Open Ventures Challenge was a national open innovation initiative building up a valuable community on and off line developing and assessing ideas for income producing social ventures. One of the three ventures chosen for a pilot partnership was Open Gym; between them, the three ventures have the potential to generate over £2m pa for CRUK.

Open Gym is a social enterprise providing outdoor fitness groups founded by Jo Hill. Open Gym recruit fitness trainers to organise and run groups in local parks; customers are recruited through leaflet drops outside railway stations and other venues; they can then join a group and pay on-line (one off or monthly subscription).

CRUK's Race for Life raises £60m pa from 750,000 women taking part in, and raising sponsorship for, over 230 five kilometre races all over the country. Through this partnership with Open Gym, CRUK aims to encourage regular exercise by promoting Open Gyms locally. This would develop a regular, year round income stream for CRUK based on monthly subscriptions, as 10% of the Open Gym membership fee is donated to CRUK. In addition, the aim is to recruit new CRUK supporters by encouraging Open Gym members to take part in Race for Life each year. The partnership works by CRUK providing marketing and PR expertise and Open Gym providing an enthusiastic social entrepreneur to organise the local fitness groups.

- **Disability Awareness training**

One of UnLtd's Award Winners provides on-line disability awareness training for front line customer service staff. The innovative training has attracted very positive feedback from corporate and public sector organisations. However, the sales cycle is time consuming and it is a challenge to find the right people within large organisations who are the key decision makers. The social entrepreneur is currently negotiating a partnership with an association of retailers. This will provide access to an existing market of organisations that will benefit from frontline customer service training in disability awareness. As a result of the partnership, this social entrepreneur will have an opportunity to scale up the delivery of her service and achieve much higher impact.

- **The CREATE Foundation**

CREATE is a social enterprise in Leeds, which is now in the RBS SE 100 (the social enterprise equivalent to the FTSE 100). It provides skills training, work experience and real employment opportunities to vulnerable and homeless people. CREATE has formed a partnership with a supermarket chain which has increased the number of training and job opportunities it can now offer homeless people.

Developing the skills base

As with access to finance, business support for social enterprises is primarily focussed on those who want to deliver public services. Currently the only publically financed support is via the School for Social Entrepreneurs to support individual entrepreneurs, via Capacitybuilders to support organisations who want to set up social enterprise as an income stream and via intermediaries like Unlit to support developing social enterprises with finance and skills.

Business support services that fully understand the complexities and unique issues for CSOs trading on the open market are needed. Much of the current support available is not appropriate because it tries to be one-size-fits all service, delivering both specialist skills and general social enterprise support. Therefore, it is either not sensitive to supporting social entrepreneurs or not sensitive to supporting trading and entrepreneurial behaviour within charity structures. In particular, specialist issues are often not covered well e.g. asset transfers, legal structures and intellectual property.

It has also been highlighted that up to now Business Links, funded by the Department for Business, Innovation and Skills and by the Regional Development Agencies, has not been meeting the needs of social enterprises⁶. The face to face service is now being closed down and ‘an improved and simpler to use online service, accessible both on desktops and on mobiles’ will be developed instead; this will be supported by a call centre, which will give people extra advice as required. The government also envisages that private sector provision of business advice will also become more important, including private sector business support agencies, such as those linked to local Chambers of Commerce or the local authority.

Support not only needs to be specialised, by being targeted at CSOs, but will also need to be targeted to particular sub sectors within civil society. Peter Holbrook, CEO of the Social Enterprise Coalition, thinks that a demand led model, whereby CSOs are provided with funding to purchase the business advice they need(e.g. from the former Business Links budget) is likely to be the most effective way of ensuring this.

⁶ Social Enterprise Coalitions, State of the Sector 2009.

EMERGING RECOMMENDATION – Trading up

Background

- **Trading on the open market is the second most important source of income for charities**
- **CSOs engaging in social enterprise need access to capital and to markets, as well as to appropriate skills and business support**
- **To date, most of the initiatives for supporting social enterprise have focussed on the public services, rather than on the open market trading, agenda**

Proposal

- **Access to capital: Funders should be encouraged to provide high risk, venture capital to intermediary agencies like UnLtd and Venturesome for investment in social enterprises to enable them to develop their activities**
- **Access to skills: Given their particular needs, business support for social enterprise is best provided through the provision of grants to enable CSOs to purchase advice from consultants and specialist agencies (i.e. on the demand model); some of the funding for this should be provided from the savings through closing down Business Links**
- **Access to markets: partnerships between CSOs engaging in social enterprise and larger commercial or civil society organisations should be brokered with the help of support agencies**
- **Recognition: As more social entrepreneurs develop initiatives in the civil society sector, the role of social entrepreneurship should be seen as a distinct area of expertise, which should be supported, recognised and celebrated as a distinctive profession.**

Benefits: All CSOs wanting to become involved in, or develop their existing, trading activities.

Annexe – Scale and scope of trading on the open market

1. Sub-sectors

Housing and Leisure

In the housing and leisure sectors trading is the primary source of income. Organisations with a turnover over £1 million are significantly more likely to provide housing (39% of those with a £1 million turnover)⁷.

Care

National Care Forum representing the interests of not-for-profit health and social care providers calculates that its members have a combined revenue of £800m p.a.

Arts

Arts Council of England shows that in 08/09 earned income from their regularly funded organisations was £508m⁸; however, this does not include a wide range of other arts organisations such as those involved in film, craft, heritage and museums. Ticket sales, workshop fees, merchandising, and sale of books and magazines represent 47% of total income. In the last few years earned income has risen by 12% while other sources, such as individual giving and, particularly from now on, public sector subsidy, are declining.

Case Study – The big museums

The Metropolitan Museum is a major retail outlet in the US; it has eight shops, including in the three New York airports and is exploring outlets in other countries.

The Victoria and Albert Museum in London has now extended its opening hours and has been expanding its retail activities. According to the Chief Executive of Arts and Business, there is a huge untapped potential for the big museums to develop their catering and retail businesses, if they were prepared to be more commercial and to extend their opening hours. The question for the leadership of these organisations is whether, in a climate of reduced public funding, this is a direction they are willing to go further in.

⁷ Social Enterprise Coalition's State of Social Enterprise Survey 2009

⁸ Arts Council Regularly Funded Organisations (880): key data from the 08/09 Annual Submission. N.B. This excludes many thousands of other arts and cultural organisations in the UK

Resource Recovery

Resource Recovery (recycling, reuse) organisations in England (of which there are around 700) have a combined turnover of £134m⁹. How much of this is from trading and how much from contracts and grants is unknown as the figure includes all income sources. Since 2005 turnover has increased by up to a third.

Development organisations/local infrastructure

NAVCA identify that 80% of their members are earning income¹⁰. Primarily this is mission-related trading with their members often acting as landlords for other CSOs. Currently very few trade to cross-subsidise services, although some are starting to do this very e.g.

Voluntary Action Sheffield provide a number of services such as event management, HR advice, legal advice, payroll. The feeling is that the sector is very much at the early stages of considering what trading on the open market would look like.

Nationally, many of the umbrella bodies such as NCVO, ACEVO, NAVCA, and DTA are all, to varying degrees, earning income through setting up consultancy services, running events and conferences, publications, and deals with service providers (e.g. insurance).

Transport

Traditionally income from the open market has been low for Community Transport Associations, although it has started to increase in recent years. The Community Transport Association estimates that 20% of its income is charges for services (fares).¹¹

Charity Shops

Charity Shops generate £120m per year in profit and have a turnover of £526m¹². The Charity Retail Association estimates there are 7,500 charity shops throughout the UK.

Turnover is made up from the sale of donated goods, sales of new goods e.g. Christmas Cards, and sales of rags to textile industry where clothing is unfit for use in shops.

Technically, sale of donated goods is seen as realising the value of a donation; however, in economic terms it is similar to trading and as such appears in the Statement of Financial Activities as an activity to generate funds along with other fundraising activities.

Development Trusts

Development Trusts (some 466 organisations), earn £136m p.a. representing 49% of their income¹³. It is not clear how much is from contracts and how much is from trading on the open market. However, rents and property based fee income are by far the most frequent

⁹ www.realliance.org.uk figures for 08/09

¹⁰ NAVCA Infrastructure for the local third sector, February 2008.

¹¹ Enterprising Approaches to Rural Community Transport by Plunkett Foundation and CTA, October 2006

¹² Charity Retail Association

¹³ DTA Development Trusts in 2009

source of earned income. Development Trusts show a 23% increase on earned income from the previous year.

Social Firms

Social Firms are businesses set up specifically to create jobs for people disadvantaged in the labour market e.g. Oxford Wood Recycling provides a waste wood recovery service and employs five people who would otherwise be disadvantaged in the labour market because of long-term health issues. The sector has developed in the last ten years and witnessed steady growth since then. 80% of Social Firms are established by service provider organisations such as Mencap and MIND who want their beneficiaries to be able to access employment and therefore set up a Social Firm for this purpose. In 2005 there were 119 businesses in the Social Firms Sector (49 Social Firms and 70 emerging Social Firms). This grew to 151 in 2007 (71 Social Firms and 80 emerging)¹⁴ and has risen again to 179 in 2009¹⁵, an increase of 50% in four years.

2. Characteristics

Trading subsidiaries

Looking at charity trading subsidiaries (£0.9bn income in 2007/08) an easy assumption would be that trading subsidiaries equate to organisations that are cross-subsidising services. However, around 10% of organisations with trading subsidiaries earn 70% of their total income via a trading subsidiary, making it a key part of the business model. For example, National Energy Action, with one of the top ten largest subsidiaries, earns around 75% of its total income via the subsidiary. Eden Trust is another example where the Eden Trust owns the Eden Project and earns 71% of what they need from its visitors. Similarly, Charity Technology Trust, a medium sized organisation, earns around 85% via its subsidiary, and Dudley Canal Trust, a small sized organisation earns 86% via its subsidiary.

In relation to selling services to individuals (£3.1bn income in 2007/08), one in three charities earn the majority of their income this way making it a significant part of their business model¹⁶. For organisations identifying as social enterprises, the figure is slightly higher with half of them earning most of their income from trading on the open market¹⁷.

Size of organisation

While the majority of the income from trading on the open market is earned by the major and large charities (93% of trading subsidiary income and 92% of fees from individuals), it should be noted that medium sized charities account for 5% of trading subsidiary income

¹⁴ Social Firms 2007 and 2005 sector mapping

¹⁵ The UK Social Firm Sector 2010 to be published.

¹⁶ As calculated from raw data used for producing NCVO's almanac provided by NCVO's research team

¹⁷ Social Enterprise Coalition's State of Social Enterprise Survey 2009

which, given their size, equates to around 25% of their total income. Equally, small charities earning income from fees from individuals (representing 80% of the charities who earn income from fees) account for around 6% of the total income which, given their size, means that this often equates to a significant proportion of their overall funding. Examples of small charities earning income from fees include many locally based organisations such as village halls, parent associations, and community associations.

Trading Subsidiaries

Size	% of total no. orgs with trading subsidiary	% of total trading subsidiary income
Micro (less than £10k)	0	0
Small (£10k to £100k)	6%	0.1%
Medium (£100k to £1m)	34%	6%
Large (£1m to £10m)	50%	43%
Major (over £10m)	10%	51%

Fees

Size	% of total no. orgs who earn fees from individuals	% of total income from fees
Micro	3%	0.05%
Small	81%	6%
Medium	6%	2%
Large	8%	33%
Major	2%	59%

Constitutional forms

The variety of different constitutional forms within which trading takes place have different implications in relation to raising capital, protecting public benefit and tax liability.¹⁸

Some interviewees, such as the Chief Executive of the Social Enterprise Coalition, thought that charitable structures inhibited entrepreneurial activity because trustees became risk averse and because the concept of charity was sometimes interpreted in a paternalistic, rather than in an empowering and enterprising way. Others thought that these differing attitudes

¹⁸ Centre for Regional Economic and Social Research, Sheffield Hallam University Futurebuilders Evaluation: Final Report, 2010

were more a function of the size of the organisation than its legal form. Larger organisations tended to be more bureaucratic and slower moving, regardless of whether they were a charity or not.

Ideas for new constitutional forms, based on the concept of limited liability partnerships, are being developed in the UK in order to provide mechanisms whereby private investors can form partnerships with charities to run social enterprises. The aim of these hybrid structures would be to encourage foundations, companies and individual investors to be more innovative in investing in new approaches to addressing social problems.

Acknowledgment

This paper is based on a preliminary discussion paper written by Sarah Flood, who also conducted most of the research for the paper. Sarah has worked in civil society organisations for over ten years primarily in roles focussing on supporting the financing and funding of the sector. Currently she is working as a freelance consultant and a Business Development Adviser for Social Investment Business. Prior to this she was at the Plunkett Foundation where she led Defra's Social Enterprise Strategic Partnership and helped establish the Plunkett Foundation/Community Transport Association Rural Social Enterprise Programme. Prior to this she worked for NCVO's Sustainable Funding Team managing their Public Service Delivery Network and for New Philanthropy Capital as a project manager on their Full Cost Recovery Project.

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