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SOCIAL ENTERPRISE COALITION

THE VOICE OF SOCIAL ENTERPRISE

FINANCE TOOLKIT

for BAME Social Entrepreneurs

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INTRODUCTION

Why this guide?

BAME communities possess high potential for social enterprise yet many aspiring entrepreneurs do not succeed, mainly because of a lack of knowledge of financial management within the UK system.

For many of us, BAME or not, anything to do with accounts and finance is mostly incomprehensible. We are 'doers' with the vision to establish social enterprises. We struggle with the concept of financial management being invoices, a lot of paperwork, systems, constraints and a different culture. We employ book keepers, accountants and hope our Trustees / Directors have some financial experience. Yet we also know we need to understand the finances of our enterprises to ensure it is, and remains, sustainable. We can only do this if we manage the finances. We can only manage the finances if we understand the language and the processes.

This guide will help you start your journey of understanding finance and financial management. We have simplified the jargon and given you a Glossary of Terms in **Appendix 1**. We have used examples to explain some of the techniques. This is to enable you to become a better financial manager who is able to lead your social enterprise more effectively.

Content of this guide

This toolkit gives you information around financial management.

Part 1 will help you understand how to access finance and what are the different options for your social enterprise.

Part 2 will guide you through financial management good practices, including:

- managing finance on the daily basis
- planning your financial needs in the medium/ long-term
- presenting your financial results.

1.0 ACCESSING FINANCE

1.1 Why is finance for social enterprise different to other enterprises or charities?

As a social enterprise, you will:

- have access to a wider range of funding options ranging from investment funding to grant funding. You will need, therefore, to think carefully about your funding route
- be accountable to many more stakeholders and have to present financial figures in different ways, depending on your funders and/or investors as well as other stakeholders' requirements.

1.2 The importance of accessing finance

All organisations need money. There may be a number of reasons for this. You may be starting up, managing dips in cash availability, expanding, starting a new project, buying equipment, furniture or property, etc.

As a social enterprise you should be generating earned income so that your organisation is financially sustainable. However, even the best enterprise ideas take time before income exceeds costs. This is as true for starting new projects as for expanding existing ones. So you need the cash (finance or funding) to carry you forward until such time as your cash income exceeds your costs. Similarly, you may need to buy an expensive item (equipment, building, etc) and do not have sufficient funds to pay immediately. You will have to borrow the money over a period of time.

1.3 Getting started

1.3.1 Initial things to think about

In order to get investment or working capital you need to know:

- **Why** you need it (working capital, development capital, etc. – See section 1.3
- **How** much you need
- **When** you need it
- **What** type of finance you need (grant, loan, investment, etc. – See section 1.5
- **How** you will access it - See section 1.6

Table 1: The 4 pillars of finance – what you need to consider

WHY?	HOW MUCH & BY WHEN?	WHAT?	HOW?
Start-up capital? Working capital? Development capital? Purchase capital?	Knowing how much to ask for from different types of funder Plan both for the short-term and long-term to ensure sustainability	Investments? Contracts? Trading /sales? Loans? Grant? Gifts? Membership fees? Corporate sponsorship?	Ensure you have the right legal structure Map potential funders / clients / investors Develop a funding strategy Develop a business plan and financial forecasts Check the requirements (information, governance, etc.)

You will need to convince the funders/ investors that you deserve their money, that the enterprise/ project is worth pursuing and that the funding/investment will generate a financial as well as a social return (depending on the source of money). The *financial return* means that you can repay the loan and any interest on it.

Usually this information is provided in the form of a business plan and financial or cashflow forecasts. We will explain this further in section 2. 3.

A business plan also forms a good basis for the preparation of grant funding applications. It will help you start planning on:

- Where you intend to source the finance
- The appropriateness of those sources of finance to your enterprise/ project
- Your longer term requirements to allow you to meet your strategic needs
- Your exit strategy is (how you will repay a loan or remain financially sustainable after the grant has ended)

Choosing to access funding and finance to grow should be the last part of a careful process whereby the four pillars of sustainable growth (**WHY, WHEN, WHAT and HOW**) have already been addressed.

Social entrepreneurs must be clear on what they are ready to accept, and what they are not as flexible with. The choice of a funding 'partner' also involves more than the money – e.g. contacts, networks, business acumen, expertise and the fit with values.

Accessing finance takes time and resources so you must make sure that you manage the strain on capacity and staff.

Once the funding or finance has been secured, social enterprises must be prepared to go through with their strategy and make the most of the money. You will also have to be ready for reporting to the funder on either their finances or their impact (or both) and adapt to the requirements of restrictions of the funding. In other words, securing the cash is only half the battle.

1.3.2 Developing a funding strategy

What is a funding strategy and why is it important?

A funding strategy is a written plan defining how your social enterprise will fund or finance its future activities and services. Knowing how much money you need, when you will need it and where it will come from is key to ensure the sustainability of your organisation. Turning this into a funding strategy can be a very helpful tool, and will help you develop a plan of action of what funding, and when, will suit your organisation. It will give you and your team an insight of what you should undertake to ensure the survival of your organisation.

Ideally, your funding strategy should be diversified to minimise risk, i.e. it should include a number of different sources of funding or finance. This means that you are not negatively affected if any one of the funding or finance sources ends. It also means potential investors will be re-assured to see that you have a diverse income strategy in place. In other words, it showcases a well managed, financially healthy organisation.

How does a diversified funding strategy work?

Your funding strategy should be developed alongside your business plan; they are linked and affect how you go about doing your business. It will help you understand how much money you will need, and from where, at each stage of your enterprise development. This will ensure not only that you can start-up and run your social enterprise, but also that you are doing so in a way that is financially viable in the long term.

Some social enterprises tend to become over-reliant on grant funding, or on a single customer. This is obviously a risky strategy. A diversified funding strategy will help you overcome potential challenges – e.g. a grant or customer falls through. It will give you a better understanding of how to develop, grow and consolidate your business over time.

Funding life cycle

The key to having a diversified funding strategy is to research potential sources of funding and be realistic about what funds you can and are able to access given the stage your enterprise is at, as well as your available resources. Some types of finance

and funding are appropriate at different stages of your enterprise's development e.g. whether you are a start up, growing, merging or even shrinking.

For many social entrepreneurs an early source of funding might be personal savings, loans or investments from family and friends, a bank loan or a small grant. Though it may be a small amount, this type of funding will allow you to run a pilot of your service or project. By demonstrating the viability of your enterprise in this way, you may then be able to access larger amounts of funding to grow.

The larger amounts of funding may come from grants, loans, selling services, contracting with statutory authorities, starting membership schemes and so on. Your strategy should be to prepare your social enterprise to move smoothly from your start-up funding source to future sources - and to ensure that you are able to attract the appropriate funders when you need them.

Even successful and profitable social enterprises sometimes need access to finance to start a new project or to address cashflow problems. It is better to think about the options before you face difficulties. Funders of any type do not like funding organisations at short notice or in emergencies.

TOP TIPS - CONTENT OF A FUNDING STRATEGY

- What your organisation sets out to do – your aims, objectives, your mission statement in line with your Business Plan
- What your realistic funding needs and priorities are over a defined period in order to be able to deliver your aims and objectives
- An outline of how you intend to raise the money required, including financial targets, timescales and designated responsibilities
- How you are working towards longer-term financial sustainability
- Contingency plans in order to manage financial risks

(Source : Volunteer Centre Tower Hamlet)

1.4 Different types of finance

Those that have the money use a language that can be confusing. So it is best to be able to understand the terminology that they use. The most common terms when asking for finance are:

- Start up capital
- Development capital
- Working capital
- Capital purchase

'Capital' usually means money.

Start-up capital / development capital: *the money required to start something up.* When applying for start-up or development capital you will also want an element of working capital as it may be some time before your enterprise/ project is able to generate sufficient surpluses to cover all your expenditure.

Working capital: *the money required to keep you going even when profitable.* This is to ensure that you are able to meet on going expenditure in case your income is delayed or you will not be paid until after a project has been delivered. Most organisations require some form of working capital throughout their lives.

Capital expenditure: *the money you need to buy expensive/ long-term usage items.* It may be an element of the start up/ development cash requirement. Otherwise it relates to purchases where you need additional cash for expensive items that are not regular expenditure for your enterprise (e.g. new office desks or a printing machine).

Each type of cash input is what an enterprise might require at different stages in its development. However, capital expenditure means the money required to acquire items that are:

- For your own use
- Will last you more than 12 months
- Non-recurring (you do not buy them all the time)
- Are high value items (i.e. expensive)

The terms used are better explained below where examples of the types of expenditure relating to each type are categorised.

Table 2: Different Types of Expenditure

Start up/ Development Capital *One off or non-recurring expenditure*	**Working capital** *Recurring expenditure*	**Capital purchase** *One-off/ non-recurring high value expenditure*
Rent deposit	Salaries & employee costs (PAYE, training, etc)	Web site
Rent advance	Rent & rates	Buildings/ property
Initial recruitment costs	Utilities	IT equipment
Equipment purchase	Phone & internet charges	Machinery
Property purchase	Insurance	Motor vehicles
Web site	Marketing	Fixtures & fittings
Furniture	Print, postage, stationery	
Fixtures & fittings	Stock purchases	
Legal costs associated with start- up	Repairs	

You may also see terms such as Revenue Finance and Asset Finance. These are different terms to describe working and capital purchase expenditure, i.e.
Revenue finance: money to pay for ongoing expenses such as salaries, rent etc.
Asset finance: money to purchase fixed assets

1.5 Different sources of finance

An important consideration, especially in the early stages of a social enterprise's development, is researching the different types of funding that your social enterprise might access. Being over-reliant on any one source may be a high-risk strategy and might prevent you from growing.

Grant funding should not be the automatic choice for finance for a social enterprise. Grants are hard to come by and create a dependency which is not helpful to sustainable and scalable organisations. They are also often restricted to specific projects or services.

It is possible that in your early days you may have no alternative but grant funding. As you grow in size and confidence you will need to look at alternatives.

1.5.1 Different options to consider

The money you need can be obtained in a number of different ways:

a) **Self generated income** from selling services or products through:
   - trading (selling directly to the end user)
   - commissioning and contracting
   - membership fees

b) **Borrowed** from a number of different types of lenders. Loan finance is only an option if your organisation has, or will have, the capability of repaying the loan. Different types of loans are:
   - Bridging loans : to support your organisation when there is a delay in receiving grant funding or other identified income streams
   - Start- up capital loans: to support the launch of the organisation until an income stream can be generated
   - Working capital loan: to manage cash fluctuations
   - Acquisition loans: to facilitate purchase of equipment, property or acquire new businesses.

c) **Obtained by selling a share in your organisation** (investment)

d) **Being granted** the money to create social change or impact
   - grant funding
   - corporate sponsorship.

e) It is also possible that the resources that you need can **be given/ donated to you** so reducing the amount of cash that you need through individual donations, events, raffles, legacies, etc.

Table 3: Assessing External Funding Opportunities

Funding model	Amounts available	Requirements	Autonomy/ compliance issues	Long term benefits
Investments	£££	Robust business model. Capacity to meet financial and social returns. Business plan (3-5 years) + forecasts. Exit strategy.	Investor involvement needs to be negotiated. Reporting and management structures may need to change to meet investor requirements. If targets not met investor can ask for management changes.	Allows for rapid expansion. Autonomy if investor criteria met. Investor may bring entrepreneurial insights, networks and contacts.
Loans	£ / ££	Business plan (3-5 years) + forecasts	Light touch. Interest repayment.	Capacity to return continuously to fund growth this way.
Grants	£	Suitable legal structure; application form	Light touch	No repayment

CASE STUDY 1
Loan Finance for a BAME led Social Enterprise

About CARE:
CARE (Centre for Enterprise), CARE, is a BME led community organisation based in Leeds. It was established in 2008. However its origins date back to 2004 when a group of women decided that they had to take the initiative to help African refugee women. The organisation works with marginalised and disadvantaged communities in Yorkshire most of whom are from the BME community but not exclusively.

CARE (cfe) is a social enterprise and the trading arm of CARE which is a registered charity in the UK. CARE (cfe) has contracts to deliver its mission to empower, inform and educate the BME and other marginalised communities to overcome disadvantage, social exclusion and effectively participate in the social and economic regeneration of marginalised communities and individuals in Yorkshire.

CARE (cfe) is an accredited Centre by City & Guild and OCR to offer ESOL, Literacy and Numeracy classes and is also registered with the Office of Immigration Services Commission (OISC) to give immigration advice.

CARE (cfe) believes being socially enterprising is a state of mind, and that regardless of its legal structure, it has the ability to act in such a way as to bring about positive changes in the world.

Borrowing money
CARE (cfe) was keen to participate in a programme to teach English to improve employment opportunities and also prepare people for the UK citizenship test. It needed initial funding to set up the infrastructure requirement for the programme, i.e. the rent for premises and hiring appropriate tutors. Grant funding proved difficult to access. On the basis that it was confident of delivering a series of classes for the programme, and that each participant in a class would generate a fee of £250, the social enterprise decided to seek loan finance.

CARE (cfe) approached Key Fund a Yorkshire based social economy finance specialist. Key Fund closely reviewed CARE (cfe)'s business case and also its financial projections. Based on the discussions and the quality of the business case presented by CARE (cfe), Key Fund lent CARE (cfe) £10,000 as a short term loan. The language training programme has been a great success for CARE (cfe).

CARE (cfe) has since been involved in a project to work with supporting homeless single people living in Leeds. It was proposing to manage furnished accommodation and recover the cost of doing this from Leeds city Council. The project required CARE (cfe) to manage four properties of three rooms each. CARE (cfe) required revenue funding to start the project off.

CARE (cfe) needed to employ a support worker to start the project off. The contract with Leeds City Council also meant that CARE (cfe) recovered its costs 6 weeks later. Finance was therefore required to allow it to start the project and fund it to the point that it became financially sustainable through the contract money. CARE (cfe) estimated that it would require £20,000 of working capital or revenue finance.

Once again CARE approached Key Fund. Given CARE (cfe)'s track record of borrowing and repaying loans the process this time was easier. Key Fund was aware of CARE (cfe)'s abilities and management and was happy with the quality and length of the contract with Leeds City Council. CARE (cfe) still had to present a business plan/ business case and financial forecast for Key Fund to review. The paperwork was sufficient to convince Key Fund to loan CARE £18,000 and to make up the difference with a grant of £2,000.

1.5.2 Researching funding

Deciding on the appropriate funding also requires finding the appropriate funder, lender or commissioner.

Please refer to the many umbrella organisations, as well as the table in **Appendix 2.**

WATCH OUT: Restrictions due to legal structure

Your legal structure will play a key role in which type of funding you may be able to access. Remember that not all legal structures can access all the options above. This is why it is best to first consider your funding strategy, both short and long-term, before making a final decision on your social enterprise's legal structure.

For example, you will only be able to access grants if you have a non-profit distributing legal structure of some sort, and donations may only be possible if you are registered as a charity.

Conversely, investment will only be possible if your legal structure allows the sale of shares (i.e. you are a company limited by shares or a Community Interest Company limited by shares) or you are a co-operative (this structure allows each member to invest up to £20,000).

There are an increasing number of complex ways for getting investment like finance into companies limited by guarantee but are usually only appropriate for large sums.

In practice you may find that, even though there are a number of funding/finance options available, your particular needs will require you to focus on just one or two options. Looking for finance is very resource demanding – this is another reason to focus on a limited number of options.

Checklist 2: Choosing the best financial option

Checklist: Choosing the best financial option

Before engaging in any funding option, you should ask:

- ☐ What you want the funding or finance for?
- ☐ Is the amount you are looking for realistic and achievable?
- ☐ Will it lead to sustainability?
- ☐ How will the social enterprise meet the requirements to access the finance or funding? (e.g. appropriate legal structure, have the right management & processes in place, be finance ready, meet the funders aspirations, etc.)
- ☐ What are the consequences in terms of independence from, and complying with, the reporting requirements of the investor/lender/grantor?
- ☐ Can you meet interest and repayment terms, if applicable?
- ☐ Will the investment truly be of benefit?
- ☐ Will the investment create measurable success?

1.6 Building a strong case for funders

Information requirements

In order to make a strong case for investment you will need to show that:

- There is a market i.e. someone wants your product/ service
- You will be paid for this
- That there is, or will be, a growing demand for the product/ service
- You have looked at existing and potential competitors for your product/services and you can prove that your offer is as good or better than theirs
- You have understood the attractiveness of the market
- You understand what might make it difficult for you to enter this market (barriers to market)
- You understand the risk associated with this market

What the funders are looking for

It is best that you understand what funders and investors are looking for before you approach them so that you have the best chance of getting what you want.

Whoever you approach will need to be convinced that what you are proposing is likely to succeed. That it will generate the financial and/or social return you claim and that you are capable of managing the project or process. They will expect to see this in a business plan or a funding application.

Set out below is a framework that is commonly used by commercial lenders to assess whether an organisation is worth lending to.

Checklist 3: The CAMPARI Checklist for funders

The CAMPARI Checklist for funders		
C	**Character**	What is the business about? Who are the managers? What is the integrity of the management?
A	**Ability**	Is the enterprise legally and technically allowed to borrow? Does the enterprise, or the management, have a track record of borrowing and repaying loans. Can they demonstrate a good understanding of financial management?
M	**Means**	Does the organisation have sufficient capital i.e. has it got a strong balance sheet? Has it the means to repay the loan – is the revenue generation sufficient to repay borrowings? i.e. it must be able to make the loan repayments as well as pay interest and other charges and still have enough to meet its other obligations.

P	**Purpose**	What is the purpose of the loan? What will the money be used for? Will the money enable the organisation to become successful?
A	**Amount**	Is the money being borrowed sufficient for the proposed project? Is the organisation asking for more or less than would be required to make the project work?
R	**Repayment**	How long is the loan repayment period? (It has to be a length of time that is affordable to the borrower.)
I	**Insurance**	Does the borrower have security that it can offer? Can the loan be recovered if anything goes wrong? Can the directors give guarantees?

After this the funder's expectation will depend upon whether they are making a loan or an investment and whether they are a commercial or a social investor.

See also **Appendix 3**: considerations when accessing loans and investments.

Remember

- You need to plan for the resources (time, skills and money) that accessing each type of funding will require.
- Each type of funding requires different skills. Applying for grants is quite different from negotiating loans. Do not let that stop you exploring all possibilities as the funding that you have previously succeeded in getting may not be appropriate for what you want to do now.
- There are also numerous sources of support that you can access for each type of funding you are seeking. These could be sub-contracting the work, receiving training, being mentored etc. You could consider buying in the skills by using freelancers or consultants as the skills requirement may only be for a short period of time. Your strategy should take into consideration all of these factors as you will need the funds to create or buy these skills and resources on a one-off or regular basis.
- Make sure to stay focused on your business even while raising funds. Many entrepreneurs can get so involved by the search for external funding that this can have a negative impact on their enterprise's ability to generate funds from sales or contracts. The business still needs someone to drive it forward, so getting support from your team or partners can make a big difference. Moreover, it is crucial that the search for funding does not drive you away from your mission.

Checklist 4: Are you finance-ready?

Checklist: Are you finance-ready?

- ☐ Do you have a clear idea of what you need the funding for?
- ☐ Can you explain how this will benefit the enterprise?
- ☐ Do you have good financial controls and managements systems in place?
- ☐ Do you have regular management reporting?
- ☐ Can you show a realistic, sustainable strategy and 3-5 year business plan?
- ☐ Do you have robust forecasts and budgets?
- ☐ Do you have a clear idea of what type of funding is appropriate for you?
- ☐ Do you know the quantum, payback period (if any) and risks involved?
- ☐ Do you understand the social and financial outcomes?

2.0 FINANCIAL MANAGEMENT

2.1 Introduction: The language of finance

An enterprise's financial information can be reported in a number of different ways:

- **Management accounts** – which tell you how you are doing and if you are on course as compared with your financial plan / budget
- **Budgets** – which organise operational activities into a numerical format and attempt to predict the future
- **Financial accounts or financial statements** – which communicate historical performance and are the normal means of communicating performance to stakeholders and the public

A glossary of the most common terms cam be found at **Appendix 1**.

2.2 Management accounts: Budgeting & finance management on a daily basis

Management accounts are internal sets of information used by an organisation's management to Plan, Control, Measure, Report, Take Action.

Each organisation will have a number of different forms of internal management and controls that are specific to the organisation and the sector that it operates in. There is no set requirement for what these management accounts look like. However, the most common form of management accounts/ control is the **budget**.

Planning is usually done in the form of budgets. A budget is the same as a financial forecast but is usually for a period of 12 months. It is often more detailed than the forecast. A budget is used to work out what resources are required in the next 12 months and when, and ties in with the enterprise's strategy and business plan. A large organisation will have a budget for each department or branch, and an overall budget that is a summary of these.

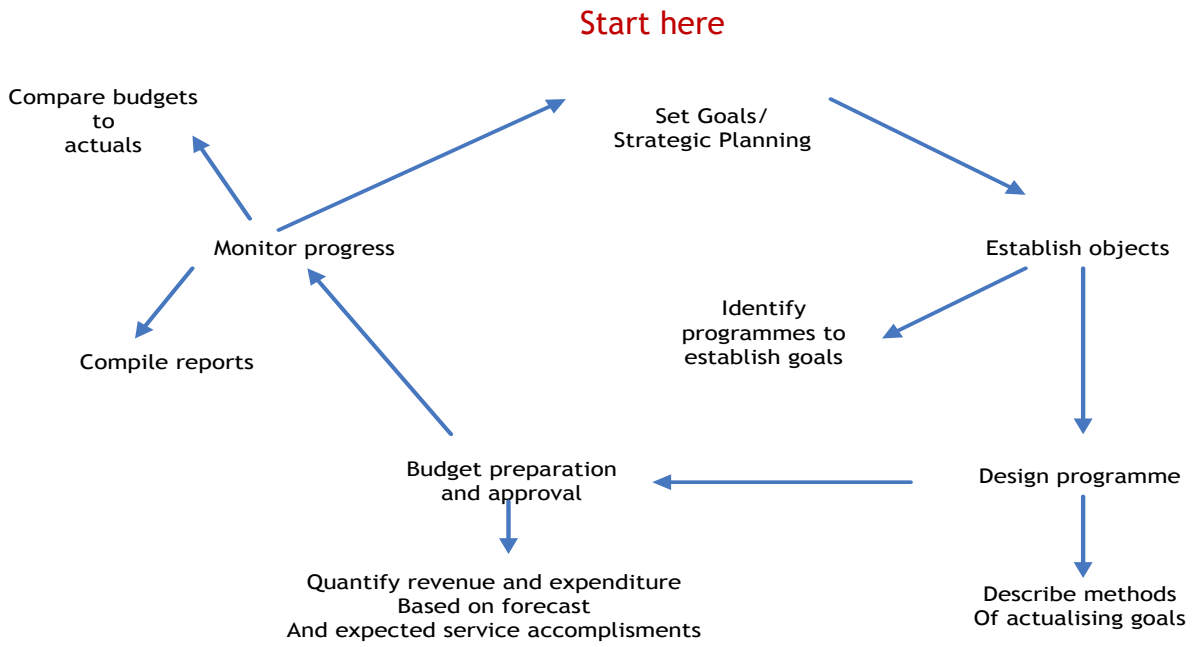
The budget is then used to control money, for example releasing money at the right time to meet the requirements of the organisation.

The budget is also used to measure performance. For instance, after the first month of activity you check what actually happened against what you expected to happen. The differences are known as variances. By understanding the variances you can take a decision whether you need to alter your strategy because your initial predictions were not quite right. A variance can be positive (or favourable) that is something was better than predicted. Or a variance can be negative (or adverse) if something performed worse than predicted.

So variances are a call to action – if a variance is big enough (whether positive or negative) there is something that you need to do about it. A pro-active management team will use this information to make sure that action to rectify the situation is undertaken.

If the variances indicate that there is a fundamental problem with the assumptions used to create the budget then the budget should be redone. Otherwise it is normal to undertake the budgeting exercise annually.

A typical cycle for creating budgets is illustrated below:



Understanding Cash issues

Ideally a social enterprise is able to generate income that is greater than the costs of operating the enterprise. The difference between the two is the profit. The profit can be reinvested within the enterprise to grow, buy equipment and so on. However, for a new enterprise it may take many months, if not years, to get to this position.

Even a profitable enterprise may struggle to have sufficient cash exactly when it needs it to start a new project or buy equipment from the profits it generates.

All these activities from starting up, buying equipment or assets or launching a new project requires a large "lump" sum of cash. An enterprise needs finance in order to cover the cost of this "lump".

In addition, most organisations need access to extra cash to cover the cost of day to day activities; this is known as "working capital". Even when you are trading profitably, the cash due to you may not always be there in time to meet your regular payments such as salaries, rent, utilities etc.

Timing differences between cash in and cash out is a recurring problem for social enterprises. Many customers delay payment of monies sometimes by many months. Even if the cash you are owed arrives late you will be obliged to make certain payments when they fall due. You will need to secure working capital finance as well as the "Start up Capital" or "Investment Capital".

All this highlights the fact that cash is vital to the sustainability of an enterprise. Even profitable enterprises that cannot get enough cash in when required will not survive.

For this reason it is often said **"Cash is King".**

If you can control and manage the cash then you will survive.

2.3 Financial forecasts: planning finance in the long-term

2.3.1 Understanding financial forecasts

What are financial forecasts?

Financial forecasting is a planning tool for predicting the probability of something happening in response to a given set of circumstances. Financial forecasts are used to support a business plan.

The business plan details the objectives and intentions of an enterprise; the forecast translates these intentions into numbers. The numbers show the likely outcomes of the intended activities and the resource requirements needed to achieve them. Financial forecasts are therefore the key resource used to identify the funding requirements for a new venture, a new project, or the ongoing activities of an existing

enterprise. It will, therefore, support your funding strategy as well as your action plan: How much do you need to access and by when?

Financial management is usually the greatest weakness for most enterprises and, therefore the area that funders and lenders always concentrate on. The forecasts will give them an insight into the enterprise management team's understanding of finance, approach to risk and approach to reality. Forecasts are also a powerful management and control tool – they allow you to check whether you are in line with what you predicted. They help you measure and compare your performance. They can also help you to anticipate when you will need additional resources.

How does a financial forecast work?

Your financial forecast allows you to validate what you are hoping to achieve in your business plan. By using numerical data you can:

- see whether your targets are achievable
- show that your predictions are realistic
- examine the timing of delivery or sales
- see if you have sufficient resources to cover your expenses
- identify additional resources e.g. cash, people, facilities etc. if you increase the level of service/product delivery
- demonstrate the desired outcomes (in 1, 3 or 5 years) as well as the "journey" to get there
- prove the sustainability of the project/enterprise
- manage your enterprise within given resources

For those reading the business plan the forecast informs them about:

- the sustainability of the project/ enterprise
- the logic of the delivery plan and its timing
- how the outcome targets are going to be achieved
- the necessity of the additional resource requirement
- the ability of the management team to manage limited resources

Once the forecast has been agreed, it is used to create more detailed budgets year by year. These are used by the enterprise, either as a whole or department by department, to plan, implement and later measure actual activity and performance against what has been predicted. Forecasts should then be reviewed to adapt to the actual level of achievement.

What financial forecasts should include

Financial forecasts should ideally consist of:

- a profit & loss forecast
- a cashflow forecast & notes to cashflow
- a balance sheet
- assumptions supporting the profit, costs and cash (in & out) forecasts

Most enterprises attempt to only present a cashflow. However, if you are looking for bank funding (an overdraft or loan), soft loans (from social lenders) or investment funding, having the other components in place allows for a better appreciation and judgment of your business plan. The more answers you provide, the stronger your business case is and the more eligible to access funding your enterprise is.

The figures should be supported by a set of assumptions. The assumptions form the basis of the forecasts and explain how the information in the forecasts has been derived. Make sure your income forecast is linked to your expenditure forecast! If you plan to increase your activity, let us say by 50% within the next 3 years, it will require additional resources/costs (e.g. recruitment of another employee; marketing costs).

It is usual for the financial forecasts to cover a three-year period. However, many lenders often request five or even ten year forecasts. This may depend on the amount you wish to borrow and the expected repayment period, or the enterprise's maturity.

A well-structured forecast allows the user to change various assumptions to measure the impact of these changes on the predicted outcomes. It will also make it much easier to review your financial forecasts later on.

2.3.2 Understanding profit forecasts

What is a profit forecast and why is it important?

Profit or income forecasts set out what an enterprise expects to happen in the future. The forecast establishes the timing of activities, such as sales of products or delivery of services, month by month.

The activity is given a financial value, i.e. how much income you expect to generate. The forecast also sets out the cost of selling the product or delivering the service. Other costs associated with supporting the enterprise to function, (e.g. overhead costs), are also listed in the profit forecast.

How a profit forecast is broken down

The profit forecast seeks to explain the "legal" impact of your actions. For example, if you deliver training in January and you are entitled to invoice the work that same month, you record the invoice of your service in January in the profit forecast. You have an obligation to pay the subcontractor for the work in February, so you record the liability in February.

The profit forecast is also used to show the "normal" course of your trading activities. This means that some items, such as a large capital purchase which happens irregularly and the size of which has a significant impact on finances, would distort the underlying trading pattern and therefore the total expense will not be included as such in the forecast. For this reason these are shown only in the cashflow - what actually happens in reality, i.e. when you really expect to receive and pay money, is reported in the cashflow forecast.

By convention, items of income are recorded first and subtotalled. Items of expenditure are listed next and subtotalled. The difference between the two will give you your monthly expected Profit (if income is greater than expenses) or Loss (if income happens to be less than expenses). Losses and negative figures are usually shown in brackets.

An example of a profit forecast is set out below:

Table 4: Profit Forecast example

Profit Forecast for 12 months to 20XX					
	Jan	Feb			Total
Income					
Fees Activity 1	2,000	3,000			000
Fees Activity 2	3,000	3,250			000
Total Income	5,000	6,250			000
Expenditure					
Salaries	3,500	3,500			000
Subcontractors fees etc.	1,000	1,200			000
Rent	1,000	1,000			000
Total expenditure	5,500	5,700			000
Profit/(Loss)	(500)	550			000

Please note that it is unusual for a new enterprise to show profitability within the first 12 months of operation. Most experts expect an initial loss followed by periods of breakeven and then profits.

Many enterprises destroy their credibility by showing instant profitability in their forecast. This reflects badly on the management's grasp of reality.

Remember that in practice it always takes longer to reach profitability than you expect, so play it safe and allow sufficient time to get there. Ensure that you show all sources of income and can justify both the quantity and the timing. Similarly, you should ensure that all costs have been captured and listed. There should not be any glaring errors!

Checklist 5: Have you thought about all your costs?

Checklist: Have you considered ALL your costs?

- ☐ Salaries, staff expenses + Employer's National Insurance contributions
- ☐ Cost of goods
- ☐ Sub contractor & consultancy fees
- ☐ Travel
- ☐ Rent, rates, utilities
- ☐ Insurance & licenses
- ☐ Telecommunications & IT support
- ☐ Office supplies, postage & stationary
- ☐ Bank charges & interest; VAT
- ☐ Equipment & asset depreciation
- ☐ Subscriptions
- ☐ Training & Conferences
- ☐ Legal fees
- ☐ Accountancy & audit fees; book keeping costs
- ☐ Sundry costs

It is always best to over-estimate the expenses a bit as you are likely to incur more costs than you anticipate.

Items such as rent, rates, utilities, insurance, legal and audit fees tend to be divided equally across the year.

If you build your forecasts over many years, make sure you increase your costs by at least the inflation rate.

2.3.3 Understanding cashflow forecasts

What is a cashflow forecast and why is it important?

A cashflow forecast is a part of an enterprise's financial forecast. It anticipates cash movements (from your bank account) into the future and, therefore, is very importance. Management of cash is the single most important aspect of any

organisation's financial management. If an organisation runs out of cash, it will cease to exist. The cashflow forecast will help you to anticipate times when there is insufficient cash to meet expenditures, it will help you plan for overdraft facilities or funding inputs to cover the shortfall, or indeed to accelerate collection of fees or delay payments of activities.

If there is a choice between producing a cashflow forecast or a profit forecast it should be the cashflow forecast that you prioritise. However, it is best practice to do both. The information shown on the two forecasts differs and both are required to understand how well an enterprise will perform in the future.

2.3.4 Cashflow forecasts versus Profit forecasts

What are the differences between a profit and cashflow forecast?

- Cashflow forecasts help you identify short-term flows in your income
- Profit forecasts will give you an insight of medium / long-term resources required to help you develop your activities.

A profit forecast tests the assumption that the trading activities of an enterprise will be profitable and sustainable in the long term. It allows the entrepreneur, stakeholders, supporters and, most importantly, potential funders, to decide whether the enterprise will deliver what it claims and whether it is worth supporting.

The cashflow forecast identifies the timing of cash movements in and out of an enterprise. This helps to identify the funding required for the enterprise to deliver the profit forecast. It takes into account the initial funding to start the enterprise or project and identifies future cash requirements to cope with shortfalls due to trading or seasonal fluctuations. It also allows the identification of cash resources required to support, or scale up, trading activities through the purchase of fixed assets or recruiting more staff etc.

What are the causes of these differences?

There are a number of causes for the differences between the two types of forecast. The main ones are:

a. Timing differences
b. VAT
c. Treatment of capital expenditure
d. Treatment of loans
e. Treatment of investments
f. Treatment of corporation tax

a. Timing Differences

A profit forecast shows when a sale or asset and when a purchase or liability will be created. In the first case: this is when you predict that you will deliver a service or product and invoice your customer for payment. In the second case, you may be on the receiving end of a request for payment for goods or services (a liability).

In reality, you do not receive money as soon as you deliver a service or even issue an invoice, nor do you pay out as soon as you receive a request for payment (informed of a liability). This leads to a timing difference between the profit forecast and the cashflow forecast. The latter reflects the most likely time that there will be a movement of cash.

Examples of cashflow timing differences

- Cash receipts (cashflow forecast) may lag behind the income (in the profit forecast) by one or more months (reflecting the reality of commercial operations). Similarly, you may well settle liabilities later than the date incurred in the profit forecast, as you want to ensure cash receipts occur before paying invoices.
- The cashflow should reflect the actual payment month of utilities, e.g. at least quarterly in advance. These liabilities may be shown in a different phasing on the profit forecast. It is common practice to show utility payments equally across the year in the profit forecast.
- Timing differences may also affect other liabilities such as insurance, professional fees, business rates, audit and accountancy fees etc.

For illustration: See the profit and cashflow example below

b. VAT

VAT impacts the cashflow forecast but is not included in the profit forecast. The reason for this is that VAT is collected on behalf of HM Revenue & Customs and is not a trading activity and so is excluded from the profit forecast. So your profit forecast ignores VAT but the cash impact has to be shown in the cashflow forecast, as it is effectively money out from your account. (see **the illustration below).**

c. Capital expenditure

Purchases of fixed assets or items of capital expenditure are shown as incurred in the cashflow. However, these are not shown as such in the profit forecast. The reason for this is that capital expenses have a long term use and the profit forecast attempts to show the cost of using these items for the benefit of the business over the expected life of the asset.

For instance, a computer may be expected to last three years so the profit forecast will show the cost of the computer purchase spread over that period. This is done by introducing an expense line in the profit forecast called depreciation. Depreciation is excluded from the cashflow as the cost of the capital item has already been captured in there. (See **the illustration below).**

d. Loans

Loans are not considered as trading items, i.e. they are not something directly generated because of your enterprise activity. For this reason they are excluded from the profit forecast as are any repayments that are made. Another way of looking at this is to consider that the loan is not your money but belongs to the lender. So the loan and the repayments will only be included in the cash forecast. (See **the illustration below).**

e. Investments

Investments are treated in the same way as loans. They appear in the cash forecast only. (See **the illustration below).**

f. Corporation tax

If your enterprise is starting to generate profits your profit forecast should reflect the tax liability for each month you generate a profit. However, corporation tax is payable up to nine months after the year end. So the cashflow will only show the cash impact of corporation tax in the following year. (See **the illustration below).**

The various differences between the cash forecast and the profit forecast are captured in a balance sheet. Money not received is included as a debtor; money not paid is included as a creditor.

Profit and cashflow example

The example below shows how the profit forecast and cash forecast can be quite different and give a more rounded picture of how an enterprise is going to operate into the future:

Table 5: Profit forecast

Income	January	February	March	April	May
Sales	8,000	12,000	10,000	13,000	9,000
Expenditure					
Salaries	4,500	4,500	4,500	4,500	4,500
Employers NIC	540	540	540	540	540
Subcontractors	1,000	2,000	1,500	3,200	1,000
Utilities	500	500	500	500	500
Depreciation **(9)**	250	250	250	250	250
Total Expenses	6,790	7,790	7,290	8,990	6,790
Profit/(loss) before tax	1,210	4,210	2,710	4,010	2,210
Tax (illustrative)	(363)	(1,263)	(813)	(1,203)	(663)
Profit after tax	**847**	**2,947**	**1,897**	**2,807**	**1,547**
Cumulative Profit	**2,723**	**5,670**	**7,567**	**10,374**	**11,921**

Table 6: Cashflow forecast

Income	Jan	Feb	Mar	Apr	May
Investment received **(1)**	22,000				
Loan **(2)**	10,000				
Cash received **(3)**			8,000	12,000	10,000
VAT **(4)**			1,600	2,400	2,000
Total Cash received	**32,000**	**0**	**9,600**	**14,400**	**12,000**
Salaries (net) **(5)**	3,150	3,150	3,150	3,150	3,150
PAYE & NIC **(6)**		1,890	1,890	1,890	1,890
Subcontractors **(7)**		1,000	2,000	1,500	3,200
Utilities **(8)**	1,500			1,500	
Fixed asset purchase **(9)**	12,000				
VAT **(10)**	2,700	200	400	600	640
HM Customs & Excise **(11)**				-1,700	
Loan repayment **(12)**		500	500	500	500
Total cash expenditure	**19,350**	**6,740**	**7,940**	**7,440**	**9,380**
Cash movement in month **(13)**	12,650	-6,740	1,660	6,960	2,620
Opening cash balance **(14)**	0	12,650	5,910	7,570	14,530
Month end cash balance	**12,650**	**5,910**	**7,570**	**14,530**	**17,150**

1. Investment – as explained earlier, this only impacts the cashflow forecast and not the profit forecast.
2. Loan – Likewise, this only impacts the cashflow and not the profit forecast.
3. Cash received – here the customers are paying two months after the sales invoice is issued (timing difference).
4. VAT – The enterprise is registered for VAT so it will have charged VAT on its sales (which is not shown in the profit forecast) so when the cash is received it includes VAT at the current rate of 20%.
5. Salaries - are paid in the month incurred but only the net amount, i.e. they exclude PAYE. The amount shown is what your employees actually receive.
6. PAYE & NIC – theses are paid to HM Revenue & Customs on the 19th of the following month.
7. Sub contractors – In this examples, these are paid the month after the receipt of an invoice from them.
8. Utilities – Utilities are usually paid quarterly in advance – so here it is shown that three months worth of utilities are paid every quarter.
9. Fixed asset – this has a cash impact only; the profit forecast shows depreciation which has no cash impact.

10. VAT – VAT is payable at the rate of 20% on the payments to sub contractors (7), utilities (8) and fixed asset purchases (9). VAT on expenditure does not impact on the profit forecast.
11. HM Customs & Revenue – VAT is usually accounted to the tax authorities quarterly. So the VAT received is netted off against VAT paid for January, February and March. The difference, in this case a recovery from HMRC, is shown as a cash receipt.
12. Loan repayment – as with loans received this has a cash impact only and does not appear in the profit forecast.
13. Cash movement – this is the difference month by month between the cash received and the cash spent.
14. Opening cash balance – here we are assuming that the enterprise has no cash to start with and the investment and the loan have allowed it to start trading. The monthly cash movement plus the opening cash balance gives the monthly cash balance. The previous month's closing cash balance is the current month's opening cash balance.

2.3.5 Making the right assumptions in your financial forecasts

What are assumptions and why are they important?

A question asked by all potential funders and reviewers of business plans is "Do the numbers stack up?"

The numbers referred to are the financial forecasts. The funders will always wonder if you are able to deliver a project within the money available to you, if you can generate an income and derive a profit.

The starting point for any forecast is the assumptions. The assumptions form the logic behind the forecasts and explain why the numbers in the forecast behave the way they do, and is why they must be as realistic as possible. Equally important, the assumptions form the link between the business plan and the forecasts.

You need to ensure that your assumptions are well researched and robust and cannot be challenged. This is particularly important because:

- It is very easy to find information on the web so someone can easily double check your assumptions.
- Funders have a lot of experience reviewing business plans. They probably understand your sector or potential market well and will know the limits on size, resource requirements, market prices etc.
- Line managers, reviewing assumptions for an internal business plan, will also be very familiar with what can and cannot be achieved.

You will need to make assumptions for several components of your financial forecast, including:

- your income (made up from the different sources of funding, and also self-generated income, these will depend on your pricing strategy, number of clients you can address and how much you can sell to each of them, etc.)
- your operational costs (and how they will increase alongside the development of your activity)
- your profit
- your cashflow

TOP TIPS – MAKING THE RIGHT ASSUMPTIONS

For your income assumptions:

- Use historical achievements as a baseline, or, if you are just starting, access records from other enterprises undertaking similar work, research similar projects in other countries, talk to sector specialists
- Consider changes in income overtime due to:
  - external conditions – changes in market size, market conditions, economic conditions, competition, etc.
  - internal objectives – intentions to change size, improve efficiency, expansion into new markets, development of new products or services, etc.

For your cost assumptions

- Ensure that your costs forecasts match the resources needed to achieve the estimated income
- Try to keep your fixed costs at a minimum (eg: annual rent) especially when you start, as whatever your level of activity is, you will still have to pay the full amount at the end of the year
- Include cyclical nature of costs (monthly / quarterly / annually, etc.)
- Consider external factors that might increase your costs in the coming years (e.g. Inflation)

Sensitivity

You will also need to show that you have considered what would happen if you do not do as well as you think you will and what happens if you do better.

You will need to state in the assumptions what changes in volume or price or timing you have used to test the robustness of your forecasts.

The important aspect of this is to showcase that, if you loose a client or a funder, it might delay the implementation of a new project or the hiring of a new employee but it should not threaten the organisation's survival.

2.4 Financial statements: presenting your annual records

2.4.1 Overview of financial statements

What are financial statements?
Financial statements are the end product of the accounting information captured for a specific period of time.

The statements are a summary of all the transactions for that period and show the actual financial position of that enterprise. Usually financial statements refer to a twelve month period.

Unlike management accounts financial accounts are prepared to an agreed format that is set out in the Companies Acts and also International Standards. Charities are expected to prepare their accounts as set out in the Statement of Recommended Practice that take the requirements of the Companies Acts and adjust them to meet the requirements of charities.

The simplest of all financial statements is the Receipts and Payments Account. This is a summary of the Cashbook and includes details of cash balances at the start and end of the reporting period.

Most enterprises report their financial statements within 2 main reports:

- The Profit & Loss Account or the Income and Expenditure Account
- The Balance Sheet

(See below for further details)

Why do you need financial statements?

- Your financial statements refer to what you actually achieved and therefore could help you measure your performance and sustainability of an enterprise (against your financial forecast). Reviewing current and past accounts will indicate trends in your performance.
- Financial statements are the normal means of communicating performance to stakeholders and the public.
- A surprisingly large body of people and organisations use the financial information that one enterprise might generate - Owners / shareholders / managers / investors; employees; people you trade with; competitors; Banks & lending organisations; Grant-making bodies; Revenue & Customs; sponsors; etc.

What are the readers of your accounts trying to do?

- Understand what is happening within your organisation over time
- Provide data which allow them to decide whether to trade, invest, insure or support your organisation
- Compare you with competitors to see whether you are as efficient

2.4.2 The Profit and Loss Account

The Profit & Loss Account summarizes all types of income and expenditure which belong to that year.

This includes:

- income invoiced or contractually due but not yet received
- all expenses committed or contractually agreed to be paid though not yet paid.

The financial accounts are, therefore, a picture of historical performance.
By convention, income is listed first and then the expenditure. The difference between total income and total expenditure appears on the bottom line and is expressed either as a profit or a loss - or surplus /deficit.

The profit or loss generated each year is added to the cumulative profits or losses from previous years and is shown on the Balance Sheet - sometimes called Accumulated Funds and or Reserves if the organisation is a charity.

Profit & Loss Example

The example below is the Profit & Loss account of a social enterprise that makes a substantial trading income.

The accounts indicate that it is good at generating income and accumulated reserves brought forward show that this has been the case in the past. All this indicates that the management is competent at what they do, and that the enterprise is financially astute and sustainable.

Table 7: Profit & Loss account for Comcom CIC for the 12 months to 31 March 2011

Explanation	**£**		**2010/£**
Turnover (i.e. fees/sales etc.)	150,000		116,000
Cost of sales (direct costs)	88,000		67,000
Gross profit	**62,000**		**49,000**
Other costs (i.e. administration/marketing etc.)	51,500		43,750
Net Profit before tax	**10,500**		**5,250**
Taxation	1,800		1,008
Net Profit after taxation	**8,700**		**4,242**

2.4.3 The Balance Sheet

What is a Balance Sheet and why is it important?

The Balance Sheet of a social enterprise is a statement of the enterprise's net worth on a particular date. The net worth is the difference between what a company owns and what it owes; your balance sheet will provide an overview of this.

What a company owns is called an **Asset** and what a company owes is called a **Liability**. There are different subcategories within assets and liabilities which are explained below.

Assets
There are two types of assets: long term and current (or short term).

Long term assets - These consist of fixed assets and investments.

Fixed assets - These are items that a company has purchased that are:

- not for resale
- will last more than 12 months
- have a high relative value

Examples are: PCs & printers; furniture; fixtures & fittings; equipment; vehicles; website; machinery; leasehold; land & buildings; etc.

Investments
An investment is something that a company has purchased with the intention of retaining it for some time and which produces a passive income for the owner. That is the investment generates an income in its own right without any active participation from the owner.

Examples are: shares (depending on your legal structure); property that is rented out

Current (or short term) assets
Current assets are items that the business can convert into cash within the next 12 months.

Examples are: cash and bank accounts; trade debtors (see below); other debtors (such as VAT recoverable); stock (items purchased for resale); pre payments (cash paid in advance e.g. a quarter's rent)

Debtors are created when a business raises an invoice for services delivered or goods sold but for which payment has not been received at the balance sheet date. It is normal for most businesses to give credit where there may be many months before an invoice is settled. (A cash business such as a shop or a restaurant should not have this issue).

Liabilities

These are categorised between Long term liabilities and Short term liabilities

Long term liabilities
These are amounts that are payable beyond the next 12 months. For example, if the business has a five year loan, then the amount due in the next 12 months is shown a short term liability, but the remainder is shown as a long term liability.

Short term liabilities
These are liabilities that need to be paid within the next 12 months.
Examples are: bank overdraft; trade creditors (see below); statutory creditors (VAT or other tax payable); loan (amount repayable within the next 12 months); accruals (amounts due but not yet paid e.g. charges paid in arrears)

Net worth
The net worth is the difference between the total assets less the total liabilities. In other words, the situation of the enterprise if:

- it ceased operating at that date, and
- all of its assets were converted into cash and
- all of its debts were paid off

Then what was left over would be what the organisation's worth.

The greater the net worth the more value the company has and the safer it is considered to be by lenders, suppliers and statutory authorities seeking to give out contracts. If a company has a negative net worth it is effectively bust and the directors should be taking advice as to whether they should be trading at all.

Balancing the Balance Sheet

A balance sheet gives more information than the net worth alone. The balance sheet also shows how the net worth was created.

Usually the net worth (the net assets) is an accumulation of cash and fixed assets. The accumulation has come about because of money that has been invested in the business and also the accumulation of profits over the years, (i.e. the profits retained in the enterprise and not distributed to the investors/owners).

The investment and the profits belong to the owners of the business, whereas the net worth belongs to the company, which is a separate legal entity.

So, as far as the company is concerned, the accumulated profits and the investments are liabilities that will at some point be paid back, usually when a company stops trading. When the company stops trading the assets will be sold, the resulting cash will be used to settle liabilities, and the balance will equate to the "net worth" of the company which will be used to repay the owners their investment and the accumulated profit that they are entitled to.

This liability to the owners is therefore "balanced" by the net assets.

Table 8: Balance Sheet example

	£	£
ASSETS		
Long term assets:		
Fixed assets		25,000
Investments		15,000
Total long term assets		**40,000**
Current assets		
Bank	2,500	
Trade debtors	15,000	
Stock	12,000	
Prepayments	500	
Total current assets	**30,000**	
LIABILITIES		
Current liabililities		
Trade creditors	16,000	
Accruals	500	
PAYE	1,500	
VAT	2,500	
Loan repayable in 12 months	5,000	
Total current liabilities	**(25,500)**	
Net current assets		**4,500**
Long term liability (loan repayable after more than 1 year)		**(1,500)**
(Net Worth)		**43,000**
Owners funds		
Investment		20,000
Current year profit		8,700
Prior year profits		14,300
		43,000

Final notes:

By now, you must have a great overview of what are the financial requirements for your company and what you need to put in place.

Remember, as a manager of your social enterprise, you need to constantly look at your finance. You need to plan, control, capture and analyse this in order to monitor and report the progress of your enterprise. If you do this, you will be a successful BAME social entrepreneur!

APPENDIX 1: FINANCE GLOSSARY

Account: A record of monetary transactions, either written into a book designed for the purpose or entered onto a computer file.
Accounting period A specified period for recording and reporting financial activity for a given time; usually one year.
Accruals Outstanding expenses for an accounting period which have not yet been paid or invoiced. Opposite of prepayments.
Accruals basis A basis for preparing accounts which adjusts receipts and expenses for amounts that should have been collected or paid before the end of the accounting period. (N.B. Cash based accounts only record cash receipts and payments within the period).
Accumulated fund Money a charity has accumulated year by year through not spending all its income. These are funds held in trust by the organisation in order to fulfill its objectives.
Asset Any possession or claim on others which is of value to the organisation. See also Fixed Assets and Current Assets.
Audit: The annual check on the accounts by an independent person (auditor)
Balance Sheet A summary of the financial position of an organisation at a particular date, showing the assets owned by the organisation and the liabilities or debts owed to others.
Budgets Are an attempt to marshal operational activities into a numerical format and attempt to predict the future.
Capitalisation When a purchase is included as an asset on the balance sheet and not expensed through the profit & loss account
Capital expenditure is expenditure on equipment, property and other fixed assets which will be used to support activities over more than one accounting period.
Cashflow The difference between cash received and cash spent in a period.
Chart of accounts A list of all the accounts codes and cost centre codes that are used in an organisation's accounting system.
Core costs or fixed costs are the central administration and management costs of an enterprise, including utilities. These costs are often not directly attributable to a project activity and so do not often get funded. Remember, these costs are incurred regardless of the level of activity of your enterprise.
Cost centre A way of distinguishing between different activities or projects to define where costs are incurred or income is 'earned'. Cost centres are closely linked to the concept of budget-holders.
Creditor Anyone the organisation owes money to.
Current assets Cash, debtors and other short-term assets that in theory can be converted into cash within one year.
Current liabilities Short-term sources of 'finance' (e.g. from suppliers, bank overdraft) awaiting payment in the next 12 months.
Debtor Any person or other party who owes money to the enterprise.
Depreciation A charge to the profit & loss account to spread the cost of fixed assets over their useful economic life.
Designated funds Unrestricted funds which have been accumulated by a charity over time and earmarked for a particular purpose.
Direct cost A cost which can be specifically allocated to an activity, department or project.
Financial accounts - Communicate historical performance to stakeholders and the public.
Financial accounting Recording, classifying and sorting historical financial data, resulting in financial statements for those external to the organisation.
Financial planning is one component of an organisation's strategy and guides how finances are managed.

Financial statements The accounts of an organisation that include the profit & loss account, the balance sheet, the directors'/trustees' report, the auditor's report and notes to the accounts.
Fixed assets Items that are owned by an enterprise and continue to retain a value to the enterprise for longer than 1 year. The items could be equipment, vehicles or buildings which are known as tangible assets, or they could be intellectual property, licenses or copyright which are classed as intangible assets.
Full cost recovery is when core costs that have been apportioned over various projects are recoverable as part of a grant receipt or a contract or loan.
General funds Unrestricted funds which have not been earmarked and which may be used generally to further the organisation's objectives. Also known as Reserves. Usually applied to charities.
Income & Expenditure Account Summarises income and expenditure transactions for the accounting period, adjusting for transactions that are not yet complete or took place in a different accounting period, also known as the profit & loss account
Indirect costs: A cost which cannot be specifically allocated to an activity or department or project but which is more general in nature.
Liabilities Amounts owed by the organisation to others, including grants received in advance, loans, accruals and outstanding invoices.
Management accounts – financial information which indicates actual progress against budget. These are produced periodically i.e. monthly, quarterly and are for internal use by management to measure, control and change strategy. (See also financial accounts).
Management accounting The provision of financial information to management for the purposes of planning, decision-making, and monitoring and controlling performance.
Net book value (NBV) The cost of an asset less its accumulated depreciation to date.
Net current assets Funds available for conducting day-to-day operations of the organisation. Usually defined as current assets less current liabilities. Also known as working capital.
Prepayments Amounts paid in advance – e.g. rent paid in advance. Opposite of accruals.
Profit & loss account Summarises income and expenditure transactions for the accounting period, adjusting for transactions that are not yet complete or took place in a different accounting period, also known as the income & expenditure account
Reserves Funds set aside from surpluses produced in previous years.
Restricted funds Income funds which have conditions attached to how used, usually with a requirement to report back to the donor.
Shareholder funds the cumulative profit and capital introduced by shareholders, in non commercial organisations also known as the accumulated funds or reserves. These are categorized as a liability because these funds belong to the owners of the business.
Stock these are goods held for further processing or sale and are usually classed as a current asset
Unrestricted funds are funds held for the general purposes of the charity, for spending within the stated objectives.
Variable costs: costs that are incurred because they are directly needed for a specific project or activity. Variable costs will change with the level of activity.
Venture Philanthropy: is an increasing activity in the social sector. Wealthy individuals choose to "donate" money to a charity or social enterprise but with strings attached. Primarily this will involve the active participation of the donor in the activities of the organisation. This is similar to the way venture capitalists invest in commercial businesses.
Variance is the difference between the budgeted income or expenditure and the actual performance of that activity.
Working capital See net current assets

APPENDIX 2: RESEARCHING SOURCES OF FUNDING

Contracts	• Supply2gov, www.supply2.gov.uk • Competefor, www.competefor.com • Public Tenders, www.publictenders.net • (European) Tenders Electronic Daily, www.ted.europa.eu • www.pasa.nhs.uk • www.supplychain.nhs.uk • www.sid4health.nhs.uk • Funding central lists tender and grant opportunities www.fundingcentral.org.uk • Your local council website • Local paper with large distribution e.g. South London Press • Alito, tender portals for various areas including Wales (http://appswales.alito.co.uk), Humber and Yorkshire (https://scms.alito.co.uk/) **General tender opportunities:** • www.BiPcontracts.com • www.tenders.com • www.tendersdirect.co.uk
Grants	• www.fundingcentral.org.uk • www.trustfunding.org.uk • www.funderfinder.org.uk • www.lotteryfunding.org.uk • www.access-funds.co.uk • www.governmentfunding.org.uk • www.grantfinder.co.uk • www.fundraising.co.uk • www.trustfunding.org.uk • www.companygiving.org.uk (corporate donations to charitable work, generally distributed in the form of grants) • www.grantsonline.org.uk • www.J4b.co.uk • www.grantsnet.org.uk • Your local CVS • www.unltd.org.uk • www.esmeefairbairn.org.uk • www.henrysmithcharity.org.uk • www.biglotteryfund.org.uk • www.lloydstsbfoundations.org.uk • www.citybridgetrust.org.uk/CityBridgeTrust/ • www.tudortrust.org.ukx • www.trustforlondon.org.uk/ • www.jackpetcheyfoundation.org.uk • www.awardsforall.org.uk • www.cdf.org.uk/web/guest/funding **For general information : http://www.institute-of-fundraising.org.uk/**

Loans	Social Banks and social lenders • Triodos Bank - www.triodos.uk • Unity Trust Bank - www.unity.uk.com • Charity Bank - www.charitybank.org • The Co-Operative Bank - www.co-operativebank.co.uk • Social investment Business - www.socialinvestmentbusiness.org • The Social Enterprise Loan Fund – www.tself.org.uk • Big Issue Invest – www.bigissueinvest.co.uk • London Rebuilding Society - www.londonrebuilding.com • GLE One London – www.gle.co.uk • Various local and regional community lenders (CDFI's) can be accessed via the umbrella body's web site: Community Development Finance Association (www.cdfa.org.uk) • Venturesome – www.cafonline.org
Investments	Social Investors • CAN Breakthrough – www.can-online.org.uk • Venturesome – www.cafonline.org • Bridges Community Ventures – www.bridgesventures.com • The Big Issue Invest - www.bigissueinvest.co.uk • Triodos Social Entrepreneurs Fund - www.triodos.uk • New: V Cap Fund (to be launched summer 2010) • Business Angels networks: • Clearlyso – www.clearlyso.com • Equityplus – www.equityplus.org.uk
Commercial sponsorship	**Get support from brokers, organisations who working the field:** • Business in the Community http://www.bitc.org.uk/ • Arts and Business http://artsandbusiness.org.uk/ • London Benchmarking http://www.lbg-online.net/ • Forum for the Future http://www.forumforthefuture.org/ • Law works www.lawworks.co.uk • In-kind Direct www.inkinddirect.org.uk

APPENDIX 3: CONSIDERATION WHEN ACCESSING LOANS & INVESTMENTS

Commercial lenders will be looking to make sure that they get a financial return, which is they get the money they lent you back, but also the interest for letting you use their money. This is what they are in business for. They will also want to make sure that they will get the money they have lent you back if anything goes wrong with the project or the company. They do this by asking for collateral, or guarantees, either from the company or from its directors.

Social economy lenders will be a bit more flexible about the guarantees that they seek. They too will want to see a financial return – but possibly not as great as that demanded by the commercial lenders. The social lenders will also expect to see a social return, which is they want to support projects that show a social impact. Social lenders are also likely to be more helpful to you then commercial lenders if you hit any problems with paying back your loan.

Lenders will on the whole leave you alone to get on with what you are doing. They will want monthly reports and will take a closer interest if you cannot keep up repayments or the financial information you are providing does not match their expectation.

Commercial investors usually expect to have a share in your company and expect to share in the profit you generate. They will be looking to sell the investment at some point, called an "exit".

Socially motivated investors will also want shares, sometimes referred to as equity, in your company but will expect a smaller financial return, i.e. share of the profit. They will expect a social return. They, too, will want an exit after a few years.

Loan finance is usually for a period of years related to the reason for borrowing. Smaller capital purchases may need paying back over 3 to 5 years. More expensive items may be paid back over 10 years or more, and is called medium term borrowing. Long term loans are associated with the purchase of buildings or land – usually 25 years.

Investors may take a more proactive interest in your company and may choose to be involved in some of the management decisions and strategy. You may have chosen an investor because of their skills, experience and networks. However this does mean that this will have an impact on you and your organisation which may not be that comfortable.

Investments can vary in length. It is usual for an investor to expect to exit after 5 years. Some investors take a longer term view and may be happy not sell their shares for many years. From the enterprise's point of view it may have to buy the shares the investor is selling if nobody else can be found to want them. This needs to be thought through before you look for investors.

The table below summarises the different expectations of funders.

	Collateral	Repayment	Financial Return	Social Return	Exit
Bank O/D	✓	✓	✓		
Commercial loan	✓	✓	✓		
Loan from a social lender	✓	✓	✓	✓	
For profit investor			✓		✓
Social investor			✓	✓	✓
Grant funder				✓	✓