BUILT TO LAST
A Practical Toolkit
to keep your project going

UnLtd Community Champions
Who we are and why we’ve written this toolkit

UnLtd – the Foundation for Social Entrepreneurs, supports social entrepreneurs throughout the UK. We do this by giving awards which comprise of a complete package of funding and practical support; the aim being to give social entrepreneurs the best possible chance of success for their projects. It is from our experience of supporting social entrepreneurs across the UK that we saw the need for a practical guide such as this to help these individuals sustain their projects.

Built to Last Toolkit

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Introduction

Who this toolkit is for

Put simply, social entrepreneurs are people who act to make the world a better place. That doesn’t mean they necessarily develop complex, global solutions to large-scale issues; often social entrepreneurs simply take a problem in their own community and make a commitment to tackle it. So, if you have been granted a Community Champions or an UnLtd award it is because we want to support you in tackling the problem you have identified and we believe you are a social entrepreneur with the passion and determination to succeed.

How to use the toolkit

This toolkit is designed to assist you in your quest to make your project have lasting effects by supporting you to make it sustainable.

It is a collection of resources and information grouped under subject headings and placed in a relevant order from concept to evaluation. You can follow it through from start to finish but each of the sections also stands alone so you can dip in and out and use the tools as and when you need a bit of assistance or if you are unfamiliar with a particular subject.

The tools were created so you can use them and revisit them. If you are an UnLtd Award Winner you might want to discuss your findings with your Development Manager. If not you might find it useful to discuss your findings with someone else who acts in an advisory role for your project. This is a practical guide to the subjects covered and is by no means exhaustive. However as a social entrepreneur you know the importance of being resourceful and creative to get the best for your project.

Good Luck!
So, what are we talking about?

What is Sustainability?

The word ‘sustainability’ is everywhere. It’s often used to talk about the environment (‘sustainable development’ basically means making sure that today’s environmental actions don’t harm the planet in the future).

But sustainability is not just about being green. It is also a really important part of project or business development within the social sector (see the toolkit topic on different business models).

Here, sustainability means being able to keep a project or organisation going long-term. Can your project carry on? This thought is often in the minds of the people who might fund your project – if we invest how do we know that the project will last?

Sustainability for All –
The Commercial and Social Sectors.

Commercial businesses sell goods and services to make money that can then be given out to individuals who have invested in the business (e.g. the private entrepreneur or private shareholders depending on the structure of the business).

Organisations in the social sector, however, aren’t driven by gold coins. They have a social aim or purpose. Registered charities, voluntary organisations and social enterprises (see the section ‘Kate, Naomi and Elle: Different business models’) have one thing in common: they are all non-profit making.

However, for both commercial and social organisations sustainability is vital.
In the commercial sector, nearly one in three businesses fails before it reaches its third year of trading (source: Survival Rates of VAT-Registered Enterprises, 1995-2004, Key Results, DTI Small Business Service, February 2007). Reasons for this low survival rate include:

- Lack of finance
- Poor cash flow
- Lack of business and management skills
- Poor planning
- Inadequate access to business support

**It’s like gold dust**

The pressures on non-profit-making organisations within the social sector are even greater, making sustainability even more difficult to achieve. Because social sector organisations aren’t about making profits, they typically rely on grants from funding bodies. Often, funding is heavily regulated, with funders placing restrictions on how their money can be spent. Since they aren’t in business to make private profit, social sector organisations often have little spare money to play with or invest. This tends to make them quite vulnerable financially.

So sustainability is both sought after and precious in the social sector.

**Onandonandonandon STOP.**

Not all projects are on-going. They may have a time limit – coming to a natural and logical end after, say, 1 or 2 years. If this is the case, you need to state clearly the reasons why it is not meant to continue. If the project is about trialling a new way of operating it will have a short life; or maybe it is about passing on knowledge and skills to the community so is designed to having a lasting impact once it’s finished.

**OVER TO YOU...**

Answer the following questions:

Describe your project in a single sentence:

Does your project need to be sustainable in the long-term, or will it have a short ‘shelf life’?

- Long-term sustainable  □
- Short-term  □
If you ticked ‘short-term’, state how long you think it will take e.g. 12 months, 2 years etc:

Use the space below to state why the project needs to be either long-term or short-term.

Even if yours is a short-term project, the material contained in this Toolkit will be useful as it covers many of the essentials of setting up and running an effective project (however long it’s supposed to last).

**Round and round...**

Every project goes through a cycle. This starts with identifying what needs to be done, then doing it and, finally, evaluating what you’ve done. After that, the cycle repeats itself. This is shown in the diagram on the next page. Sustainability links each stage to the next. If you think about it at each stage in the cycle, you’ll keep going.

The various sections of this Toolkit link in some way to the different stages in the cycle. For example, What’s the problem? Problem Tree analysis and Ah ha! Generating a business or project idea link to the identification stage, while Doing the maths: The basics of money management and It takes two: Partnership working are probably more relevant further along the project cycle within the implementation stage. Some sections, like How are you going to do it? Drafting a business plan, straddle a number of stages in the project cycle.

As you use the Toolkit, think about the different stages within the project cycle.
Sustainability is about people, too.

Organisations are only as sustainable as the individuals running them – YOU. So you need to think about your personal sustainability too. You might not set up an organisation or company, but work mainly on your own as a self-employed sole trader. (see the section ‘Kate, Naomi and Elle: Different Business Models’).

Keeping your energy up

Like your counterparts in the commercial sector you will need energy, resilience and perseverance to see your ideas through to the end. Many excellent projects flounder or even fail to get off the ground because the individuals behind them can’t carry on. Some people reach ‘burn-out’ point where their energy levels are sapped and they can no longer cope.

That’s why this Toolkit gives handy tips on how you, as an individual, can preserve and enhance your own ‘sustainability’. You’ll find these at the end of the Toolkit.
What’s the recipe for sustainability?

The sustainability of projects is a complex subject but we can break it down into some key parts:

OVER TO YOU...

Imagine that sustainability is a cake and that you are trying to think of its main ingredients. Write your recipe here:

There are no right and wrong answers partly because sustainability covers so many different things. For example, it covers producing an effective business plan and being able to manage money efficiently, linked to the different stages of the project cycle. This Toolkit explains the things we think fall under the word ‘sustainability’.  

There’s a lot to take in here. You might want to talk to your mentor/advisor/development manager/guru about some of the things this section raises. It’s always good to bounce ideas off over people as you go along.
Sustainability Tools

It’s all about you: What skills, knowledge & qualities do you need?
Background

If in doubt, ask an expert. Dr. Ernesto Sirolli, a clever man with a great name, is a world renowned leader in community economic development and local entrepreneurship.

He says any effective business needs 3 things:

- Someone who loves the product
- Someone who loves selling the product
- Someone who loves looking after the money

These are the areas of: Production, Marketing and Finance. This trio has the fancy title ‘Trinity of Management’.

Community projects and social enterprises, however small, need these three broad skill areas too.

There are also a number of personal qualities or traits that you need. In ‘Your Tools for Personal Development’ you are asked to think about these qualities in one of the exercises.

What are we talking about here?

This topic looks at a range of important personal qualities and gives you templates to help think about your own skills.

Getting personal:

Ideally, you need to be:

An Innovator – eureka!

This is all about having ideas for fulfilling an unmet need or for harnessing untapped demand. These don’t have to be completely original ideas (!), but perhaps a fresh take on things that are already out there. You also need to be able to spot great opportunities when they pop up.

Passionate and Committed – spread the love.

If you don’t have passion for the idea, how will you be able to champion it to others? Without passion, your commitment to the project could wane and gradually disappear altogether. But with passion, a positive attitude, energy and hard work anything is possible!
A Calculated Risk Taker – give change a hug!
Some risk is good! A low tolerance to risk could hold you and your project back. Inevitably, there will be occasions when taking your project to the next stage requires a leap into the (at least partially) unknown. Being aware of these risks and planning how you might overcome them (see toolkit topic on Drafting a Business Plan), is important. As is having the courage to take the plunge and embrace change.

Focused on Results – it’s a goal!
By setting goals for both yourself and your project, you will be better at getting results. Break things down and tick them off as you go along. This will help you to stay focused and keep your motivation levels high. It’s also very satisfying.

A Problem Solver – life’s one big game of su doku.
Approach problems as challenges to be dissected, broken down and resolved, and you’ll be well on your way to success - and celebrations, of course.

Resilient – bounce back.
When things don’t go quite as planned, persevere, learn from your mistakes and move on.

A Reflective Practitioner – look in the mirror.
Resilience comes from reflection: learning from your own mistakes, but also from the mistakes, and of course the successes, of others. Ask yourself what went well and what didn’t so you can develop and improve next time.

OVER TO YOU ...
This skills audit template draws on, but also adapts and adds to, the framework originally set out in the ‘Learning Curve’ (Developing Skills and Knowledge for Neighbourhood Renewal, NRU, 2002).

The template has 3 main areas: skills, knowledge and traits.

Be honest.
Don’t overestimate your skills as this might mean that you overlook areas for development that will be crucial to the success and sustainability of your project. Equally, don’t underestimate your skills as this could mean you focus on areas of development that aren’t really relevant.

Don’t panic.
It could well be that you have no experience whatsoever in some of the specified areas, e.g. raising funds. If this is the case, simply tick ‘weak’ to pinpoint that this is an area that you need to work on and develop. Don’t panic if you find that you are ‘weak’ in a number of areas, for by highlighting them you can begin to address them. No one is perfect; everyone is weak in certain areas. Highlighting your weaknesses will give you a crucial framework for either:

- producing a personal action plan that sets out how you will acquire the skills
- getting other people with the missing skills involved in the running of your project, either as volunteers, professionals on contract (e.g. a self-employed accountant hired to undertake financial management tasks) or perhaps, further down the line, as paid employees.

A lot of the criteria in the template relate directly to topics covered in this Toolkit, so this resource will give you a good start in many of the areas. You’re in good hands!

## Skills Audit

### 1- Skills base

These skills are essential to setup and run effective projects and social enterprises:

<table>
<thead>
<tr>
<th>Skill area</th>
<th>Strong</th>
<th>Medium</th>
<th>Weak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Planning</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Project Management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assessing and managing risks</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Raising Funds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Marketing - including market research</td>
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<td></td>
<td></td>
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<tr>
<td>Staff recruitment and management</td>
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<td></td>
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<tr>
<td>Financial planning and management</td>
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<td></td>
<td></td>
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<tr>
<td>Monitoring and evaluation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer Services</td>
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<td></td>
</tr>
</tbody>
</table>
## 2. Knowledge

Knowledge is also required in the areas shown below.

<table>
<thead>
<tr>
<th>KNOWLEDGE AREA</th>
<th>Strong</th>
<th>Medium</th>
<th>Weak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal responsibilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constitutional/legal models</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental opportunities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Customer needs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finance opportunities – eg loan finance</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## 3. Qualities

The following traits are also essential.

<table>
<thead>
<tr>
<th>QUALITY</th>
<th>DEFINING CRITERIA (able to…)</th>
<th>Strong</th>
<th>Medium</th>
<th>Weak</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurial</td>
<td>Innovate/develop new ways of looking at issues and pioneer new ways of working</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Spot opportunities elsewhere</td>
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<tr>
<td></td>
<td>Champion new ideas and projects in a passionate and committed way</td>
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<tr>
<td></td>
<td>Adopt a ‘can do’ attitude</td>
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</tr>
<tr>
<td></td>
<td>Solve problems</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Take calculated risks</td>
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<td></td>
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<tr>
<td></td>
<td>Embrace change as a positive force</td>
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<tr>
<td></td>
<td>Focus on results</td>
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<td></td>
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<tr>
<td></td>
<td>Bounce back from disappointments</td>
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</tbody>
</table>
Once you have completed the skills audit, fill in this development plan. Pick three main areas to focus on.

## Development Plan

What gaps in skills, knowledge and qualities/trait do I want to address?

How am I going to do this, eg. personal development, getting others involved in the project?

Specific things to do...

By when?
Tariq’s story

Tariq wanted to set up a computer recycling project that could run as a social enterprise (i.e., a business with social objectives). He used the skills audit and realised that he was relatively weak at fundraising and marketing and that he hadn’t spent enough time learning from the experiences of others.

To address these gaps he attended a fundraising training course at his local Funding Advice Bureau and approached his local Volunteer Bureau to recruit a project volunteer with marketing experience and skills. He also decided to make best use of the networking opportunities available through UnLtd and to work with his UnLtd Development Manager to set up visits to other similar projects.

You may want to talk to your mentor/adviser/Development Manager/guru about the things you found out in the skills audit and what you might do to strengthen your skills in some areas. Remember there’s no need to panic. Just take everything at your own pace. One step at a time!

OVER TO YOU ...
What’s the Problem?
Problem Tree Analysis

Background
Before you can start developing your project or setting up a social enterprise, you need to identify, define and understand the problem you want to tackle. A good technique for doing this is called Problem Tree analysis (PTA). PTA is part of a project management technique called ‘project cycle management’.

What’s this topic about?
We will show you how to do the different stages of PTA.

Roots and Fruits:
How to carry out Problem Tree Analysis
With PTA you follow these steps:

Step 1 – The problem
Identify the main problem that your project will address. Try not to say ‘Lack of…’ but instead describe the problem and who it affects. Although your project can address a series of problems, try to capture the one FOCAL problem on which the project will concentrate.

Step 2 – The causes
Identify the causes of this focal problem – as many as you can think of. Place on the tree (see overleaf) below the problem – causes represent the ‘roots’.

Step 3 – The effects
Identify the effects of this problem – as many as you can think of. Place on the tree above the problem – effects are the ‘fruits’.

Step 4 – Objectives
Once you’re clear about how the problems relate to each other and what your focal problem is, you can start to identify objectives that correspond to the problems – that is, the desired future situation.

eg. Problem Future objective
Lack of skills People are skilled
High unemployment Employment rate rises
Local people become socially excluded

Area cannot compete

Neighbourhood gains bad reputation

Local schools less popular

Limited community capacity

Local businesses fail due to skill shortages

Growth of black economy

High rates of unemployment

Low numbers of local business start-ups

Culture of economic inactivity

High school truancy and drop-out rates

Lack of parental support or attention

Low participation in adult learning

Poor attainment in schools

Lack of educational role models

Prevalence of low-skilled jobs in local economy

Culture of under-achievement

Poor literacy and numeracy

Problem: poor skills

The Problem Tree

effects (‘fruits’)

3rd level effect

3rd level effect

3rd level effect

2nd level effect

2nd level effect

2nd level effect

1st level effect

1st level effect

1st level effect

1st level cause

1st level cause

1st level cause

causes (‘roots’)

1st level cause

1st level cause

1st level cause

1st level cause

1st level cause

focal problem
Local people become socially excluded
Area cannot compete
Neighbourhood gains bad reputation
Local schools less popular
Limited community capacity
Growth of black economy
Local businesses fail due to skill shortages
High rates of unemployment
Low numbers of local business start-ups
Culture of economic inactivity
Culture of under-achievement
Lack of parental support or attention
Poor literacy and numeracy
Prevalence of low-skilled jobs in local economy
Lack of educational role models
High school truancy and drop-out rates
Low participation in adult learning
Poor attainment in schools
problem: poor skills

Example Problem Tree
- Poor Skills -
Problem Tree analysis is useful in:

- Getting you to pinpoint the core problem you are trying to address.
- Understanding the root causes of that problem.
- Understanding the effects of the problem.
- Grasping the links between different factors – the chain of cause and effect that ties things into a cycle and which defines the full scope of the problem.

Create a Problem Tree for your own project.

OVER TO YOU ...
Ah ha!
Generating a Business or Project Idea

Background
Good ideas are your lifeblood. Once you’ve come up with an idea for a project or social enterprise, you need to keep re-thinking, re-shaping and refining it, as well as having new ideas for spin-offs or perhaps entirely new projects.

Therefore, creative thinking techniques (see Jargon Buster) are a useful element of your toolkit for sustainability.

What’s this topic about?
We will introduce you to some techniques to help you generate ideas. The techniques are:

- Brainstorming
- Parallel thinking/six Thinking Hats
- Discontinuity

Brainstorming – Great Minds Think Together
Brainstorming is best done in a group. Try and get a gang of at least four, and preferably more, people together. Have someone act as your facilitator (they keep it all going) and someone to be the scribe (they write up ideas on a flipchart), then:

1. Describe the focal problem you’re addressing, using the results of your Problem Tree analysis (see What’s the problem? Problem Tree analysis). Redefine the problem if necessary.
2. Warm up your minds to get the group’s creative juices flowing, eg think of all the uses of a paperclip or an orange.
3. Then begin the actual brainstorming exercise. Generate as many ideas as possible to solve the problem, following these rules:
• No idea is a bad idea – listen to everything, even if you think it sounds silly at first.
• Everyone’s equal, no matter what their title or job, and their ideas are equal too.
• The more ideas, the merrier. Go for quantity not quality (for once!).
• Use one idea to spark another. It’s a chain reaction.

This part of brainstorming is called the ‘green light’ phase where anything goes! The next stage is the ‘red light’ phase. This is where you analyse the ideas from the ‘green light’ stage. Chuck out the silly or irrelevant ideas; then adapt or reject some others; until you are left with the serious contenders. Don’t go into the ‘red light’ phase until you have thoroughly exhausted the ‘green light’ one and your brain can’t take any more.

A brainstorming session for our earlier Problem Tree example ‘Poor Skills’, might come up with a number of useful project ideas at ‘red light’ stage, such as:

• Develop local community learning champions to champion the benefits of learning.
• Set up an alternative college run by the local community.
• Set up family learning initiatives.

Parallel Thinking/Six Thinking Hats

Dr Edward de Bono, an expert in lateral thinking, came up with the six Thinking Hats method as a way of arriving at positive, creative solutions to problems. It involves adopting different perspectives or mindsets to look at and explore a given problem. These mindsets are represented by (real or imaginary) differently coloured hats:

<table>
<thead>
<tr>
<th>Hat</th>
<th>Perspective</th>
</tr>
</thead>
<tbody>
<tr>
<td>White</td>
<td>Fact-based perspective</td>
</tr>
<tr>
<td>Red</td>
<td>Emotional perspective</td>
</tr>
<tr>
<td>Black</td>
<td>Critical point of view</td>
</tr>
<tr>
<td>Yellow</td>
<td>Positive point of view</td>
</tr>
<tr>
<td>Green</td>
<td>Creative perspective</td>
</tr>
<tr>
<td>Blue</td>
<td>Process controller (makes sure all hats get used)</td>
</tr>
</tbody>
</table>

You can do this on your own or in a group.

If we applied the six Thinking Hats method to one of the ideas (eg developing local Community Learning Champions) from the ‘red light’ phase of the brainstorming session on solutions to the poor skills problem, we might end up with something like this:
<table>
<thead>
<tr>
<th><strong>White hat</strong></th>
<th>Fact-based perspective</th>
<th>This is about training up a small number of local people to champion the benefits of learning to other people in the community</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Red hat</strong></td>
<td>Emotional perspective</td>
<td>The Champions will feel under too much pressure to turn things round. Local people will feel patronised by the Champions</td>
</tr>
<tr>
<td><strong>Black hat</strong></td>
<td>Critical point of view</td>
<td>We will not get enough people who want to sign up to being Champions; there is no incentive for them</td>
</tr>
<tr>
<td><strong>Yellow hat</strong></td>
<td>Positive point of view</td>
<td>This could lead onto other things, eg Champions could promote other community initiatives</td>
</tr>
<tr>
<td><strong>Green hat</strong></td>
<td>Creative perspective</td>
<td>We could offer incentives, eg free access to other training courses</td>
</tr>
<tr>
<td><strong>Blue hat</strong></td>
<td>Process controller (ensures that all hats)</td>
<td>Need to: define Champion’s role; work out realistic target for number of Champions recruited; define</td>
</tr>
</tbody>
</table>

**Discontinuity**

Often new ideas or new ways of looking at things are triggered by novel occurrences and situations. You can do this yourself with the discontinuity technique, which helps you disrupt your usual patterns of work.

Try one of the following:

- Schedule interruptions into your working day.
- If you can, switch between one project or activity and another.
- Try doing something you don’t normally do, or read something you don’t usually read.
- Do different things in your leisure time, eg try watching TV programmes you do not normally watch.
OVER TO YOU...

Select one of the techniques – brainstorming, six Thinking Hats or discontinuity – and have a go.

Write your results here.

Creative Thinking Techniques

Technique:

Description of process adopted:

Results:

Issues:
Kate, Naomi and Elle: Different business models

Background
There are several business models in the social or not-for-profit sector.

At one end of the spectrum, there are groups and organisations that operate as ‘good causes’ with clear charitable objectives. At the opposite end, there are organisations that function as businesses with a social purpose. All could be defined as social enterprises (see Jargon Buster). Then there are organisations that sit more or less in the middle of the spectrum that have a social purpose.

Business Spectrum

<table>
<thead>
<tr>
<th>Charity</th>
<th>Hybrid</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social enterprises with charitable objects, such as, trusts and charitable companies.</td>
<td>Social enterprises that operate for the benefit of a community with an asset lock to prevent demutualisation and windfall profits (community assets) being distributed to shareholders and directors, such as, BenComms with an asset lock and Community Interest Companies</td>
<td>Social enterprises with a social purpose that tend to have limited protection against community assets being used for private gain, such as, Industrial and Provident Societies (co-operatives and BenComms without an asset lock), commercial, companies limited by shares, companies limited by guarantee and unincorporated associations.</td>
</tr>
</tbody>
</table>

At the same time as the social sector landscape is populated by organisations, there are also individual social entrepreneurs (see Jargon Buster) who operate as self-employed sole traders. Such individuals earn private income from their business ideas, but they merge this pursuit of private gain with a mission to accomplish certain social objectives e.g. they might provide, under contract, freelance home care services to older people to enable them to stay out of nursing homes. Unlike private entrepreneurs, they work to a
‘double bottom line’ – a blend of financial and social returns. There are also individual social entrepreneurs (see Jargon Buster) who operate as self-employed sole traders. These people earn private income from their business ideas and meet certain social objectives at the same time – e.g., they might provide, under contract, freelance home care services to older people to enable them to stay out of nursing homes. Unlike private entrepreneurs, they work to a ‘double bottom line’ – a blend of financial and social returns.

What’s this topic about?
We will highlight the link between business models and legal structures.

Business models and legal structures
Business models translate into legal structures (registered charities, companies limited by guarantee, Community Interest Companies and so on), which in turn at least partially define the financial/funding structure of the organisation; for example, a lot of trust funding is not available to Community Interest Companies or companies limited by guarantee without charitable status. This inter-relationship is depicted in the diagram below.

It is important to select the most appropriate business and legal model for your organisation. If you don’t, the sustainability of your venture could be affected. Although it is possible to change the business model you picked at the beginning of the project, and the legal structure associated with it, it’s often not very easy, especially where you are trying to change from being a registered charity, because charity law sets certain restrictions.

Business modelling and legal structures are covered in more detail in Playing by the rules: What’s the best legal structure?
OVER TO YOU...
Read the following story and then answer the questions.

Saleema’s story
Saleema, who is unemployed but has some savings to invest in a business venture, wants to set up a community launderette that will provide a useful service to people in the local community who don’t have their own clothes washing and drying machines.

She wants to be paid a living wage to run the launderette and aims for the facility to pay for itself (ie be self-financing – see Jargon Buster) by charging local people an affordable fee each time they use it.

Where would you put Saleema’s business model on the spectrum (tick the appropriate box)?

- Charitable group
- Hybrid
- Social enterprise

Use the space below to make a note of any potential issues for Saleema’s business model?

In your answer you might have indicated that Saleema could have a problem with her business model if she set the launderette up as a social enterprise that can be self-financing, only to discover later that it couldn’t generate enough earned income to sustain itself, and instead needed additionally to rely to some degree on charitable donations (see toolkit topic on ‘Where does the money come from? – Introduction to the Income Spectrum’).
How are you going to do it?
Drafting a business plan

Background
A business plan sets out the business case for a particular project, organisation or venture. It states how you will go about running a specific activity, or set of activities, over a defined future period.

You should produce a business plan even if you are setting up and running a small community project.

A key aspect of business planning is showing how feasible your project is. This is why funders often ask for a business plan before they decide to invest in a project or organisation.

Business plans help you carry on
There is a clear link between effective business planning and sustainability. For example, research carried out in 2000 by Martin Price Associates for the Community Fund (National Lottery) looked at the effectiveness of Community Fund grant-holders’ ‘exit strategies’ (see Jargon Buster), ie how successful they were in planning what they were going to do after the grant had finished.

In general, grant-holders who were good at business planning had a better chance of becoming sustainable than those who were poor at business planning. (Coincidentally, other factors that were seen as positive for sustainability were: having a passionate champion; continuity of staff and volunteers; having several sources of funding; and the involvement of potential long-term funders at an early stage.)

Effective planning is vital. Without a plan, a project or organisation will not be able to work out where it wants to be, let alone how it is going to get there: failing to plan means planning to fail.
What’s this topic about?

We will introduce you to four main areas:

- An overview of the purposes of business planning
- The process of drafting a business plan
- What sort of things to include in a business plan
- Risk analysis within the context of business planning

Business planning – what’s the point?

A business plan has four key purposes:

- A formal expression of the planning process
- A request for funding
- A framework for approval
- A tool for operational business management

We’ll explain these things here.

Formal documentation – from your brain to the page

Writing down a plan can highlight opportunities and risks and uncover inconsistencies that hadn’t come to light when the plan was just in your head. Once you’ve written it, the plan acts as a guide on how to operate in response to other events that affect your business.

Funding – sell, sell, sell

Often business plans are written for some funding purpose (this is perhaps the most common use of business planning within the social sector). Plans sell your idea, persuading a funder or investor to buy or invest in what is on offer. Alternatively, your plan might be used by your organisation to justify why it should invest some of its reserve funds or resources into a particular project or development.

Operational management – the benchmark

A plan provides a framework for managing your business. It’s a yardstick. It sets limits and goals so you can measure your performance. You can amend your plan in light of this performance.

Don’t let your plan get dusty! Keep referring to and using your business plan. Don’t let it die a slow and dusty death in a filing cabinet.
Drafting a business plan

When producing a business plan, you need to get the process right.

An individual and a team

An effective process should blend (a) the need for an individual with nominated responsibility for writing the actual document with (b) the requirement to involve and consult with as wide a range of key people as possible.

This blend covers the twin principles of executive focus (a nominated individual responsible for creating an effective and efficient result) and corporate ownership (a robust consultation process that makes sure a wide range of people have genuine input).

Business Planning in Action

Here’s an example of a business planning framework used by a community-based organisation with a small staff team.

- The board establishes a business planning subgroup consisting of not less than three members (including Project Manager and Chair) and not more than five members (including Project Manager and Chair).
- The Chair produces terms of reference for the subgroup.
- The subgroup organises a business strategy workshop, attended by key stakeholders and facilitated by the Project Manager (PM).
- The PM produces a first draft document based on the material generated in the business strategy workshop session, with additional input where necessary.
- The PM presents the first draft to the full board and asks for feedback.
- The PM makes substantive changes/revisions based on the feedback.
- The PM produces a final version document that reflects changes/revisions.
- The PM presents executive summary of final version to the full board.

NB The whole process takes three months in total.

Over to you...

If you are going to draft a business plan, complete the action plan summary sheet.

State why you are putting together a business plan by referring to the four purposes of business planning. Are you raising funds or are you making sure the project or organisation is managed effectively? You may have several reasons for drafting the document.
State the timeframe that your business plan needs to cover. This is sometimes called the ‘planning horizon’. A useful planning horizon is three years (ie January 2008 to December 2010). This sets a decent period to implement your business strategy and achieve your objectives, without being so far ahead (like five years) that you have to resort to guess work or a psychic.

Indicate how you intend to monitor and evaluate your progress in achieving your objectives. You might set up a subgroup of your overall project steering committee or board of directors (if you are setting up a company) to oversee your progress. Finally, use the ‘Other key issues’ section to outline any other relevant areas, eg perhaps you need to talk about the business plan with a particular group in the community.

Once you have filled in the summary sheet, have a go at completing the action plan chart. Use the sample completed chart for a supported employment project to help you.

**Process for producing the business plan**

**Organisation/project name:**

<table>
<thead>
<tr>
<th>Action Plan Summary Sheet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business planning purposes</td>
</tr>
<tr>
<td>Timeframe</td>
</tr>
<tr>
<td>Monitoring and evaluation</td>
</tr>
<tr>
<td>Other key issues</td>
</tr>
</tbody>
</table>
## Action plan chart

Organisation/project name:

<table>
<thead>
<tr>
<th>Action</th>
<th>Milestone</th>
<th>Timeframe</th>
<th>Nominated lead responsibility</th>
<th>Who else is involved (and how)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Completed action plan chart for a supported employment project

<table>
<thead>
<tr>
<th>Action</th>
<th>Milestone</th>
<th>Timeframe</th>
<th>Nominated lead responsibility</th>
<th>Who else is involved (and how)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determine framework for conducting market analysis (including competitor analysis)</td>
<td>Framework agreed by 8th January</td>
<td>First week of January</td>
<td>Project manager briefing business planning working group (operating as sub group of board)</td>
<td></td>
</tr>
<tr>
<td>Do the market analysis</td>
<td>Report on findings of analysis by beginning of February</td>
<td>January to beginning of February</td>
<td>Project manager working with business planning working group</td>
<td>Other staff members undertaking specific tasks</td>
</tr>
<tr>
<td></td>
<td>Findings of competitor analysis and other areas of assessment included in business plan</td>
<td>Mid-Feb to end of March</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hold business planning session</td>
<td>Session takes place</td>
<td>9th February</td>
<td>Project manager to organise and external consultant to facilitate</td>
<td>Board members attending planning session</td>
</tr>
<tr>
<td>Produce three-year business plan</td>
<td>Plan presented at board meeting on 30th March</td>
<td>Mid-Feb to end of March</td>
<td>Project manager with input from other staff as appropriate</td>
<td></td>
</tr>
</tbody>
</table>

What sort of thing is in a business plan?
Unfortunately, there is no standard format or order for a business plan!

Key ingredients
But there are some reasonably logical things to include in any business plan document, namely:

1. What you are trying to achieve, ie. your objectives.
2. What these objectives translate into in terms of products, services or activities, eg educational DVDs (product), employment advice for the long-term unemployed (service), a community festival (activity).
3. How much these products/services/activities will cost to produce/create.
4. How you intend to get the money to meet those costs.
This table gives you a guide for putting together the contents of a business plan.

<table>
<thead>
<tr>
<th>No.</th>
<th>Component</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Covering page</td>
<td>State the name of your project/organisation, address and contact details, business plan timeframe (e.g., April 2008 to March 2011), and the date drafted</td>
</tr>
<tr>
<td>2</td>
<td>Executive summary</td>
<td>Summarise the key points of the document (write the executive summary after you have completed all the other sections). Copy and paste key points from those sections into the summary – see key ingredients above for ideas about what to include. Ideally, this should be no longer than one or two sides of A4.</td>
</tr>
<tr>
<td>3</td>
<td>Preamble</td>
<td>Write a few paragraphs explaining why you have produced the business plan (refer to the four key purposes outlined earlier); set the context of the business plan for the external audience (e.g., potential funders).</td>
</tr>
<tr>
<td>4</td>
<td>Introduction &amp; background</td>
<td>Describe the project or organisation – its history, purposes, values and activities – again as context for the reader (be brief!)</td>
</tr>
<tr>
<td>5</td>
<td>Overview of the market</td>
<td>Also called ‘operating context’, this section describes the need you are trying to address (wherever possible use quantitative information/data to support your case, e.g., number of local people who are on benefits). It should also describe and evidence potential demand (perhaps you have carried out a survey in the community and 85% of respondents indicated that they would use the new community facility you plan to set up).</td>
</tr>
<tr>
<td>6</td>
<td>Mission, aims &amp; objectives</td>
<td>State your mission (why you exist as a project/organisation), aims (what you are trying to achieve) and objectives (how you are going to do things to realise your aims and fulfil your mission – objectives should be SMART [Specific, Measurable, Achievable, Resourced and Timed])</td>
</tr>
</tbody>
</table>
If you are running a social enterprise, forecast the sales you think you will generate over the period. If you are running a community project, ie not trading in the open market, forecast the outputs you anticipate achieving, eg number of unemployed people receiving employment advice. Then state the likely outcomes of this, eg the number of unemployed people who go on to find work. Finally, forecast the impact of this, eg the extent to which those people are financially better off.

‘PEST’ stands for Political, Economic, Social and Technological and is a method for brainstorming key factors and trends in the external environment, eg new health policies (political), changes in the demographic profile (social), etc

Analyse the Strengths, Weaknesses, Opportunities and Threats (SWOT) for your project/organisation. Strengths and weaknesses are internal, while opportunities and threats are external

Or ‘other player analysis’, explores other organisations who deliver similar or competing products/services. List competitors/other players, their products/services, business strategy, respective strengths and weaknesses, and outline the implications for your project – eg should you try to set up an agreement to work in partnership with them? To do the analysis, carry out research into your competitors – eg look at their websites

Explore the key risks facing your project/organisation (see later section Taking the Plunge section)

Define a number of options for your project. One of these should be ‘do nothing’ – ie don’t proceed with the project (this is important because if your project costs £x of public money to deliver then this will be saved if you don’t proceed). The final option will be to ‘proceed as proposed’ with the project as proposed. In between ‘do nothing’ and ‘proceed as proposed’, there will be other options, such as using another agency to deliver the project

Sustainability Tools: Different Business Models
13 Resource needs
State what resources you need to deliver the project; perhaps you need a building and some paid staff or volunteers.

14 Costs
Include an expenditure budget for the full business plan period. Divide this up into staff costs (remember to include National Insurance and pension contributions if you are employing staff) and other costs, eg heat and light, insurance, etc.

15 Funding or finance
Include a list of funders that you intend to approach and the target amount you are aiming for from each; or state your finance requirements if the structure of your enterprise means that you are seeking debt or equity finance (see Jargon Buster).

16 Cash flow forecast
Convert the expenditure budget into a cash flow forecast that shows the flow of cash coming in and going out of your project over the full period.

Don’t panic. Please don’t be daunted if a lot of this information is new to you. Remember to go at your own pace and take everything one step at a time. Talk to your mentor/adviser/Development Manager/guru about what you need to do to create a business plan. You can do it!

Taking the plunge – how deep is the water?
Risk analysis within the context of business planning
Risks analysis builds upon the weaknesses and threats section of the SWOT analysis.

Risks might include:
- Failing to achieve the projected outputs.
- Over-spending on the project.
- Experiencing cash flow problems.
- Failing to recruit staff or volunteers with the appropriate skills and experience to deliver the project.
- Not having enough people on the management committee with the right sort of skills.
- The activities being poor quality or failing to meet health and safety requirements.

With each risk you spot, you need to outline a strategy to cope with it. There are two main approaches:
1. Trying to prevent or minimise the chance of the risk occurring in the first place (preventive measures).
2. Trying to counteract or reduce the effect or impact of the risk if and when it does occur (curative measures).
OVER TO YOU ...

Use the risk register below to identify the risks facing your project or organisation (referring to and drawing on the weaknesses and threats set out in the project’s SWOT analysis).

Once you have listed the risks, analyse them for (a) likelihood and (b) impact. Use the ranking system set out at the foot of the template to help you. For example, if you think that the chance of the risk occurring is very high, allocate it a score of 6; if you think the impact will be significant, give it a score of 2. In the next column, indicate an overall ‘severity ranking’ by simply multiplying the likelihood score by the impact score (12 in our example). This will allow you to prioritise risks with the highest ranking.

Finally, bullet point a series of control measures designed to either minimise the likelihood of the risk occurring or reduce its impact.

An example of a completed risk register is provided to help you.

Example risk register

<table>
<thead>
<tr>
<th>Risk descriptor</th>
<th>Likelihood</th>
<th>Impact</th>
<th>Overall risk/severity (likelihood score x consequence score)</th>
<th>Strategy/control procedures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Failure to recruit project manager</td>
<td>5</td>
<td>3</td>
<td>15</td>
<td>• Advertise in local gazette</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Use local community channels to spread the word</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Consider using a freelance consultant on short-term basis if cannot recruit</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Use volunteers to fill in on short-term basis</td>
</tr>
<tr>
<td>Management committee lacks the right skills mix to run the project effectively</td>
<td>5</td>
<td>4</td>
<td>20</td>
<td>• Do a skills audit of committee</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Ask local Volunteer Bureau to recruit more volunteers for committee</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Ask local Council for Voluntary Service (CVS) to organise training programme in committee skills</td>
</tr>
</tbody>
</table>
## Risk Register

<table>
<thead>
<tr>
<th>Risk descriptor</th>
<th>Likelihood</th>
<th>Impact</th>
<th>Overall risk/severity ranking (likelihood score x consequence score)</th>
<th>Strategy/ control procedures</th>
</tr>
</thead>
</table>

### Likelihood
- 1 = negligible
- 2 = very low
- 3 = low
- 4 = medium
- 5 = high
- 6 = very high
- 7 = extreme

### Impact
- 1 = minor
- 2 = significant
- 3 = damaging
- 4 = grave
Playing by the rules: What’s the best legal structure?

Background

You have a number of options when defining the legal structure of your group or organisation.

What is a legal structure?

By ‘legal structures’ we mean the different ways you can give a legal identity to your project. All legal structures have a governing document and a governing body.

Why are legal structures relevant to sustainability?

As highlighted in Kate, Naomi and Elle: Different business models, it is important to select the most appropriate legal structure for your organisation. For example, registered charities face restrictions on the amount of trading activity they can do, which could affect how much income you could generate. On the other hand, you might set up your organisation as a Community Interest Company (CIC) so that it can trade in the open market, only to find that it cannot sustain itself without access to at least some grant aid, which may be difficult to achieve within the CIC model, but no more so than a company limited by guarantee without charitable status.

What’s this topic about?

We will introduce you to the most common forms of legal structure for organisations in the social sector:

- Model 1: Unincorporated Association
- Model 2: Registered Charity
- Model 3: Company Limited by Guarantee
- Model 4: Charitable Company
- Model 5: Charitable Incorporated Organisation (coming on stream in late 2007)
- Model 6: Registered Charity with a trading arm
- Model 7: Industrial & Provident Society
- Model 8: Community Interest Company
- Model 9: Share Capital Company
**Model 1: Unincorporated Association**

Most voluntary and community organisations are unincorporated associations – whether they know it or not. The governing method for unincorporated associations is usually the constitution or association rules. The term ‘unincorporated’ means that, in law, the association has no existence apart from its members as individuals.

Members, usually the elected committee, are responsible for any debts the association incurs.

Members can be sued personally for damages following any accident occurring during activities or events organised by the association.

The association cannot own property, although many unincorporated associations set up trusts to hold property on their behalf.

The association cannot enter into legal action, borrow money or enter into contracts. When unincorporated associations think they are doing such things, it is actually the individuals who sign the documents who are entering into a legal agreement, and it is they as individuals who are liable if anything goes wrong.

**Model 2: Registered Charity**

To become a charity, an organisation needs to register with the Charity Commission. The activities of a registered charity must fall into one or more of the following:

- Relief of poverty
- Advancement of religion
- Advancement of education
- Other purposes beneficial to the community

A central feature of a registered charity is a board of trustees, ie a group of people who volunteer to run the charity.

Key advantages of being a registered charity include:

- Exemption from certain forms of taxation, eg capital gains tax and corporation tax
- 80% (and in some areas more) reduction in the non-domestic rates on property
- Greater ability to raise funds from trust funds and companies (some trusts and companies will only support registered charities)

One of the main disadvantages is the restriction within charity law on carrying out certain activities, such as political campaigning. Also, substantial trading activity by registered charities is restricted, which is why they often set up trading arms (see Model 5).
Model 3: Company Limited by Guarantee

Incorporation (see Jargon Buster) is especially relevant for voluntary organisations that employ staff, own assets and have sizeable contractual commitments.

Company Limited by Guarantee is the most popular form of incorporation for organisations in the social sector. The governing body in this model is called a ‘Board of Directors’.

‘Limited by guarantee’ means that each member’s liability for the company’s debts is limited to an amount written into the governing instrument: usually not more than £5 each. This minimises the risks for the directors (see footnote).

In return for limited liability, certain information has to be lodged with Companies House:

- Annual accounts
- Annual return
- Notice of change of directors or secretaries and their particulars
- Notice of change of registered office

Footnote
Incorporation does not give complete protection from personal liability to the directors, as they can in some circumstances be liable, for example, under company law for breach of fiduciary and statutory duties; under the Insolvency Act 1986 for wrongful trading, and under charity law (if the limited company is also a registered charity) for breach of trust.

Model 4: Charitable Company

This is a model that combines being a Company Limited by Guarantee with registered charitable status, in other words models 2 and 3.

By the same token it combines the advantage of limited liability with the benefits associated with charitable status.

The primary disadvantages associated with this model are having to account to both Companies House and the Charity Commission, and having to manage the potential conflict that can arise between 2 different regulatory systems.

Model 5: Charitable Incorporated Organisation (coming on stream in late 2007)

This is a new model that will start later in 2007.

The rationale behind this new structure is that the Company Limited by Guarantee model, although the most popular form of incorporation for larger voluntary organisations, was never actually designed with charities in mind and is primarily aimed at the “for profit” sector where the members have a common
financial interest. Furthermore, sometimes there is conflict between company law and charity law and this can lead to confusion for the Directors/Trustees of a Charitable Company.

The Charitable Incorporated Organisation (CIO) model will only be available to charities and will require registration with the Charity Commission (rather than with Companies House as is currently the case with Companies Limited by Guarantee), thus avoiding the dual responsibilities of a Company Limited by Guarantee with registered charitable status (see model 4) and its directors having to comply with both charity law and the Companies Acts. Existing charitable corporations will not have to convert to the new form, but if conversion is desired this will be possible by a simple conversion procedure.

**Model 6: Registered Charity with a trading arm**

Charities can set up trading arms so that they can separate income-generating trading activity from their core charitable activities. A trading arm is a self-sufficient limited company operating as wholly owned subsidiary of the charity, but being run and financed independently. A trading arm can pledge or gift aid its profits back to the charity, avoiding having to pay corporation tax, but the charity should not use any of its money or resources to support or manage the company.

Other forms of legal structures can also operate with trading subsidiaries. An example would be a community centre run by a community association constituted as an unincorporated association and democratically accountable to its members, with a separate trading company running the bar as a financial concern.

**Model 7: Industrial & Provident Society (IPS)**

Essentially these are co-operatives, run and owned by their members, but which may operate for the benefit of the community in addition to benefiting the members. An IPS can own property, enter into contracts, issues shares and take out loans. It has to be registered with and regulated by the Registrar of Friendly Societies.

**Model 8: Community Interest Company**

The Community Interest Company (CIC) is a new type of company created for those wishing to establish a business with a social purpose (a social enterprise) in a legal form.

CICs can be private companies limited by guarantee or by shares, or a public limited company. They can adopt the co-operative, not for profit or general commercial company model.
There are a number of obligations (see model 3 above) that a CIC has to meet and continue to meet in addition to those imposed on an ordinary company:

- To satisfy a community interest test
- To adopt certain statutory clauses in its constitution.
- To deliver an annual community interest company report with its accounts.

The community interest test looks at the underlying motivation of the company in terms of what it will do, who it will help and how. If it makes a profit, or surplus, what the company will do with it. This information is made available on the public record after incorporation.

The statutory clauses have the following effect:

- To lock in the assets to benefiting the community it was set up to serve. This is referred to as the ‘asset lock’.
- To prevent the CIC falling under the control of individuals, or organisations, who are not members.

The annual CIC report is made available on the public record and provides transparency of operation by describing:

- How the company’s activities have benefited the community
- What steps were taken to consult stakeholders and the outcome
- What payments were made to directors
- What assets were transferred other than for full consideration
- What dividends were paid
- What performance-related interest was paid on loans or debentures

The ‘asset lock’ prevents the CIC giving away communities assets for less than the true market value unless the distribution is to another asset locked body, such as, a CIC or charity or to benefit the community it was set up to serve.

A CIC limited by shares may pay a dividend, if agreed by a resolution of its members. Dividends payable to private shareholders (non-asset locked bodies) will be subject to a dividend cap. The cap is at present a maximum dividend per share of 5% above the Bank of England base rate and a maximum aggregated dividend of 35% of the distributable profits. Unused dividend capacity can be carried forward for 5 years. There is also a cap on performance-related interest of 4% above the Bank of England base rate.

The ‘asset lock’ does not affect the ability of the CIC to use its assets in the normal course of business. For instance, they will be able to use their assets as collateral for finance, and if they do so, the assets will be available to creditors in the event of default.
<table>
<thead>
<tr>
<th>Model</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Interest Company</td>
<td>Tailor-made for social enterprises</td>
<td>Not relevant for non-social enterprises</td>
</tr>
<tr>
<td></td>
<td>Light touch regulation</td>
<td>No tax benefits as not actively regulated compared to a charity</td>
</tr>
<tr>
<td></td>
<td>Legal protection against demutualisation and ‘windfall profits’ being paid to its members and directors without all the necessary checks and balances of mutuality or charitable status.</td>
<td>Companies have more freedom to distribute assets to its members and directors.</td>
</tr>
<tr>
<td></td>
<td>Transparency of operation. The public has details of the company’s activities; the community that is benefiting; and how. Stakeholder involvement is integrated into its governance.</td>
<td>A certain loss of privacy with information being made available on the public record.</td>
</tr>
<tr>
<td></td>
<td>Flexible company form to accommodate different structures, membership and governance, with limited liability.</td>
<td>Disclosure requirements, which are the same for any company.</td>
</tr>
<tr>
<td></td>
<td>Continuity of purpose overseen by regulation</td>
<td>Residual assets on winding up have to be transferred to another asset locked body.</td>
</tr>
<tr>
<td></td>
<td>Improved access to finance, no trustees and directors can be paid.</td>
<td>May be more difficult for a CIC than for a charitable company to raise philanthropic donations/grant aid. Should be on a par with companies limited by guarantee.</td>
</tr>
<tr>
<td></td>
<td>The umbrella of the brand provides a higher profile for socially-motivated companies giving them voice.</td>
<td>Cap on dividends could depress demand from commercial investors compared to a company limited by shares.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>There is the extra cost of administration to comply with additional requirements.</td>
</tr>
</tbody>
</table>
Model 9: Share Capital Company

Instead of a CIC a social enterprise can be set up as a Share Capital Company (Company Limited by Shares). This is basically a “for-profit” model that is now being tailored to meet the needs of the social enterprise sector. The model brings together a private individual, who acts as the social entrepreneur driving the company forward, with financial investors in the form of existing social enterprises. The entrepreneur at the heart of the Share Capital Company has a minority shareholding in the company and the board structure reflects this ownership model.

It is similar to the CIC limited by share model. The primary difference is that a straightforward Share Capital Company is not legally protected by the statutory asset lock of the CIC.

Also, dividends on shares are not capped. Instead, the model seeks to preserve the social enterprise brand by the guarantee of non profit making agencies in the independent sector benefiting from share dividends. In other words, the majority (at least 51%) of profits or surpluses do not go into the pockets of private individuals, but are re-invested into enterprises that trade for a social purpose.

The following table summarises the main pros and cons of each structure.

<table>
<thead>
<tr>
<th>Model</th>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unincorporated Association</td>
<td>Governed by a simple constitution</td>
<td>No legal identity separate from the individual members</td>
</tr>
<tr>
<td></td>
<td>No regulation (eg through Companies House)</td>
<td>Members are responsible for any debts the association incurs</td>
</tr>
<tr>
<td></td>
<td>Easy to set up and administer</td>
<td>Cannot own property</td>
</tr>
<tr>
<td></td>
<td>Tax-effective</td>
<td></td>
</tr>
<tr>
<td>Registered Charity</td>
<td>Can make it easier to raise funds from trust funds and companies</td>
<td>More active regulation in return for the tax benefits (i.e. from Charity Commission)</td>
</tr>
<tr>
<td></td>
<td>Possesses legal existence apart from members</td>
<td>More responsibility for people involved – become charity trustees. Charitable law does not allow trustees to be paid for being trustees.</td>
</tr>
<tr>
<td></td>
<td>Can own property and hold contracts</td>
<td>The trustees may impact on the entrepreneurial aims of the executive members of the board</td>
</tr>
<tr>
<td></td>
<td>Combines advantages of registered charity and Company Limited by Guarantee</td>
<td></td>
</tr>
<tr>
<td>Model</td>
<td>Pros</td>
<td>Cons</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
</tr>
<tr>
<td>Company Limited by Guarantee</td>
<td>Possesses legal existence apart from members</td>
<td>Regulation (from Companies House)</td>
</tr>
<tr>
<td></td>
<td>Can own property and hold contracts</td>
<td>More responsibility for people involved – become company directors.</td>
</tr>
<tr>
<td></td>
<td>Directors can be paid.</td>
<td>May be difficult to raise philanthropic donations/grant aid</td>
</tr>
<tr>
<td></td>
<td><strong>Pros</strong></td>
<td>No protection from a statutory asset lock</td>
</tr>
<tr>
<td>Charitable Company</td>
<td>Possesses legal existence apart from members</td>
<td><strong>Cons.</strong></td>
</tr>
<tr>
<td></td>
<td>Can own property and hold contracts</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Directors can be paid.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Combines advantages of registered charity and company limited by guarantee</td>
<td></td>
</tr>
<tr>
<td>Charitable Incorporated Organisation</td>
<td>Avoids dual responsibilities of a Company Limited by Guarantee with registered charitable status (as CIOs only registered with Charity Commission)</td>
<td>More active and dual regulation – has to report to both Charity Commission and Companies House</td>
</tr>
<tr>
<td>(when this becomes available)</td>
<td>Good for promoting democratic ownership and control through co-operative structures</td>
<td>Even greater responsibility for people involved – become both trustees and directors. Charitable law does not allow trustees to be paid for being trustees.</td>
</tr>
<tr>
<td>Industrial &amp; Provident Society</td>
<td>Distinct brand for social enterprises</td>
<td>Not yet come on stream, therefore untried and untested</td>
</tr>
<tr>
<td></td>
<td>Embraces democratic ownership, not for profit and commercial models</td>
<td>Less fit for purpose for organisations with hierarchical structures</td>
</tr>
<tr>
<td></td>
<td>Combines freedom of entrepreneurial activity with protection of 'asset lock'</td>
<td>Not as well recognised as some of the other legal structures such as Company Limited by Guarantee or Registered Charity</td>
</tr>
<tr>
<td></td>
<td>Directors can be paid.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Light touch CIC regulator</td>
<td></td>
</tr>
<tr>
<td>Community Interest Company</td>
<td>Not subject to the additional regulatory requirements of a CIC.</td>
<td>Dual regulation Companies House and the CIC Regulator, but work seamlessly together.</td>
</tr>
<tr>
<td></td>
<td>Good investment model</td>
<td>Not relevant for non social enterprises</td>
</tr>
<tr>
<td></td>
<td>Embeds entrepreneurial drive</td>
<td>May be difficult to raise philanthropic donations/grant aid</td>
</tr>
<tr>
<td></td>
<td>Directors can be paid.</td>
<td>Cap on dividends could depress demand from investors</td>
</tr>
<tr>
<td>Share Capital Company</td>
<td></td>
<td>Potential conflict of financial interest between individual social entrepreneur and broader shareholder constituency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cannot raise philanthropic donations/grant aid, therefore needs to be entirely self-financing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>No protection from a statutory asset lock</td>
</tr>
</tbody>
</table>
Of course, as a social entrepreneur you may decide not to set up a constituted organisation at all, but operate in an individual capacity as a self-employed sole trader. Unlike with a company, this does not involve paying any registration fees. However, you are personally liable for any debts that your business runs up, which can make this a risky option for social businesses that need a lot of investment.

**O ver to You...**

Spend a few moments to reflect on the following questions:

1- At this moment in time, which do you feel is the most appropriate legal structure for your venture?

2- Why do you think this? What advantages do you think the structure will bring you in terms of funding prospects, governance arrangements, accountability, risk management and other areas?

3- Have you thought about the disadvantages of the preferred model and how you will cope with these?

**Take Action!**

Before making the decision to adopt a particular legal structure, it is imperative that you seek professional legal advice on what is involved. Contact your local Council for Voluntary Service (CVS) or Social Enterprise Development Agency for pointers on how to go about sourcing this advice. Often these agencies have access to their own legal professionals who can provide the advice free of charge.
The management: Effective Governance

Background
You have most likely set up your project on your own as an individual. As you develop your project, you are likely to come to a stage where it is important to make the leap from being a sole operator to running an organisation.

Without this leap, it is likely to be much more difficult for your project to be sustainable. For example, certain forms of funding are only available to structured organisations, rather than to individuals. Also, working as a solitary individual could place undue pressure on you, increasing the threat of stress and burn-out. No one wants that.

So, you’ll need to think carefully about what legal form your organisation should take. The Toolkit topic on legal structures (Playing by the rules: What’s the best legal structure?) gives an overview of the possibilities. However, it is important to remember that good governance is about more than just a legal structure; first and foremost, it is about the people and the responsibilities they share.

Whatever legal form you choose, you will probably need to bring other people on board. Inviting others to help manage your organisation means being clear about the vision and strategy of your project, as well as knowing what skills and experience you need them to have. There are many advantages in involving others in your work – they’ll bring new energy and fresh ideas, broaden the skills/experience available, and share responsibility and workload. There are potential disadvantages too – greater potential for conflict and difficulty in keeping control of the original idea and the way of working.

What’s this topic about?
We will give you an overview of the kinds of management roles and responsibilities involved in governing an organisation.
Role with it

Every organisation, from the smallest community group to the largest public company, is led by a group of individuals who are ultimately accountable for that organisation. This group might be called the directors, the board of trustees or the management committee, depending on the legal structure of the organisation (see the Toolkit topic on legal structures, Playing by the rules: What's the best legal structure?, for more about this). For simplicity, we will call this group the management committee.

It is common for not-for-profit or charitable organisations to make a distinction between the governance and the executive (or day-to-day running) functions. If you are going to become a charity, think about what this means for you. Usually, governance, or the work of the management committee, is about leading the vision of the organisation, setting policies, ensuring compliance with the law, and setting and maintaining the budgets. The management committee is also responsible for recruiting the chief executive, manager or most senior staff member, to whom they normally delegate all the powers relating to actually running the organisation on a day-to-day basis.

Roles and Responsibilities of the Management Committee

You might work in either the executive (day-to-day running) or the governance sphere (or perhaps both, depending on the legal structure you have chosen). Whether you are recruiting new committee members, or planning to take on this work yourself, you should understand the common roles and responsibilities of the management committee.

NCVO (National Council for Voluntary Organisations) lists 12 key roles for trustee boards of charities. These rules, listed below, provide a good general set of guidelines for the functions and duties of any management committee:

- Set and maintain the vision, mission and values
- Develop the strategy
- Establish and monitor the policies
- Set up employment procedures
- Ensure compliance with the governing document
- Ensure accountability
- Ensure compliance with the law
- Maintain proper fiscal oversight
- Select and support the chief executive
- Respect the role of staff
- Maintain effective board performance
- Promote the organisation
In order to manage well, management committee members need:

A shared vision and agreement about why the organisation exists
Clear roles and responsibilities
Clear short- and long-term goals
An ability and willingness to plan, work together and set targets

Management Committee or Staff – Who does what?

Working out which roles and responsibilities belong to the management committee and which belong to the staff can be tricky. To avoid potential conflicts, you need to be clear about the different roles. Although the roles of the management committee will vary from organisation to organisation, there are some general principles and guidelines. The table below outlines an example of workload division.

<table>
<thead>
<tr>
<th>Staff</th>
<th>Management committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Input into long-term vision</td>
<td>Approve long-term vision</td>
</tr>
<tr>
<td>Develop annual objectives</td>
<td>Approve annual objectives</td>
</tr>
<tr>
<td>Report on achievement of objectives</td>
<td>Monitor achievement of objectives</td>
</tr>
<tr>
<td>Assess needs and develop programmes</td>
<td>Oversee broader strategic goals</td>
</tr>
<tr>
<td>Prepare budgets</td>
<td>Approve budgets</td>
</tr>
<tr>
<td>Prepare financial records and statements</td>
<td>Ensure compliance and audits if required</td>
</tr>
<tr>
<td>Hire, discipline and manage staff, including directing work</td>
<td>Hire, discipline and manage chief executive</td>
</tr>
<tr>
<td>Settle conflicts between staff members</td>
<td>Settle conflicts between committee members</td>
</tr>
<tr>
<td>Prepare proposals for management committee</td>
<td>Approve proposals and sign legal documents</td>
</tr>
</tbody>
</table>

Specific roles

Most management committees have members with special responsibilities and roles – usually a chairperson, secretary and treasurer. Agree these jobs in writing, so that everyone knows exactly what they are meant to do.

The Chairperson is, effectively, the leader of the organisation.

He or she leads the management committee and is a key external representative of the organisation.

More specifically, the Chairperson’s job is to:

- Prepare the agenda for meetings (usually with the secretary). This will include thinking about how long each item might take and whether committee members need information in advance.
- Chair and facilitate management committee meetings and the annual general meeting.
- Ensure decisions are taken and acted on.
- Represent the group and speak on its behalf
- Have an overview of the organisation and its work.
- Bring impartiality to decision-making and give direction to the committee.
- Lead, produce ideas and keep the organisation on the right lines.
- Support and encourage other members (and staff or volunteers).
- Help to resolve conflicts and support change.
- Supervise the chief executive or senior staff member.
- Lead the development of the management committee.

The **Secretary** makes sure everything runs smoothly. The job usually involves:
- Preparing the agenda (with the chairperson), producing and circulating it.
- Collecting appropriate information for committee members before the meeting.
- Taking, writing-up and circulating minutes to the management committee and/or membership as appropriate.
- After meetings, telling absent members about any action they need to take.
- Maintaining the membership list.
- Dealing with incoming and outgoing correspondence and reporting back.
- Keeping the organisation’s constitution, a copy of the minutes and other records in a safe place.
- Overseeing the production of a written annual report if needed.
- Making sure the organisation has adequate insurance.
- Making sure that required monitoring documents are completed – eg for the Charity Commission, Companies House or funders.
- Keeping records of full membership and keeping the members informed of events, etc.

The **Treasurer** makes sure the financial assets (money and property) of the group/organisation are properly managed. The tasks include:
- Keeping accurate, up-to-date financial records and regularly presenting these to the management committee.
- Making sure clear and understandable financial systems are in place and operated by all members/staff/volunteers.
- Making sure the organisation has sufficient resources and income to meet its current and future obligations.
- Preparing and/or approving projected budgets and financial statements.
- Advising on the financial implications of any strategic plans.
- Producing end-of-year accounts – or arranging for these to be completed and externally exami...
ined, in line with legal requirements and the group’s constitution.
- Communicating with the bank, filing bank statements and keeping up-to-date records of those members authorised to sign cheques.
- Reporting regularly to the committee on the financial situation.
- Giving an accurate picture of the organisation’s financial position at any given time.
- Reporting to the annual general meeting on the end-of-year accounts.
- Preparing an annual budget for the committee.
- Ensuring that the accounts are prepared and disclosed in the form required by funders and the relevant legal bodies.
- If external scrutiny of accounts is required, ensuring they are examined in the correct manner (independent examination or audit) and that any recommendations are implemented.
- Making sure funds are spent in accordance with the organisation’s objectives and that money given for a specific purpose is used correctly.
- Assisting with funding applications.

Although the treasurer is responsible for preparing a draft budget and reporting regularly to the management committee about the state of finances, it is the responsibility of the committee as a whole to agree the budget and make decisions about its allocation.

OVER TO YOU....

Think about the importance of good governance within organisations by answering the following question:
What are the possible consequences of a poorly governed not-for profit organisation? Bullet point your answers here:
Some suggested answers are provided:

- No proper strategy/business plan in place
- The organisation mismanages its money
- If it has staff or project volunteers, they are poorly managed
- There is conflict between management committee members
- Members leave and new ones cannot be recruited
- The organisation falls foul of legal requirements and regulations
- Funders don’t want to fund it
- It is not sustainable and ultimately collapses

Jacquie’s story

Jacquie had always been interested in animal welfare, and she also wanted to contribute to social welfare within the community. She wanted to set up an animal rescue centre that saved and rehabilitated abandoned and neglected animals whilst providing paid work, volunteering and work experience opportunities for people with physical and learning disabilities and the long-term unemployed.

At the beginning Jacquie worked alone, but soon realised that she needed to get other people involved and establish a formal organisation. She approached people from other animal welfare charities and the social services department of her local authority and set up a small steering group to take the project forward. Eventually, working with a legal adviser from her local CVS, she was able to set up a Charitable Company (a Company Limited by Guarantee with Registered Charitable Status). The members of the steering group agreed to become directors and trustees of the new body.

Jacquie secured a small grant through the National Lottery Awards for All scheme to do some early development work. She paid for a trainer to run a session for the board on roles and responsibilities. She also hired a consultant to help produce a business plan that would set out the vision and strategy of the board. She set up a subgroup of the board to create policies in areas such as equal opportunities and health and safety.
On the market: Developing a Marketing Strategy

Background
Marketing is linked to business strategy and business planning, because it’s all about identifying, understanding and satisfying your customers’ needs.

Just like business planning, effective marketing is central to sustainability. If you are not able to meet your customers’ needs, then it is unlikely that your project will last.

A word about words
The language of marketing is dominated by profit-making/commercial sector terminology, like ‘customers’. This doesn’t mean that it cannot be applied to the social sector. Social marketing has a vital role in enhancing the sustainability of voluntary organisations, community projects and social enterprises. In this context, customers become beneficiaries, clients or users, but satisfaction of their needs is still vital for the success of the entire project.

What’s this topic about?
We will give you some general marketing tips and describe how to produce a marketing plan.

General Marketing Tips
* Make it easy for your customers to try your product. Remove any barriers they might have by encouraging them with things like promotions.

* Run a small-scale trial before launching a full publicity campaign.

* Ask your customers what they think of what you’re doing – they can often be the best source of new ideas for improving what you offer. Make it easy for them to talk to you: eg. you could include a short questionnaire or feedback form with your offer.
Drafting a Marketing Plan

Your marketing strategy is set out within a marketing plan. This should:

- Describe the groups of customers/beneficiaries you are going to target, their characteristics and buying criteria (customer analysis), and what products/services they need (market segmentation).
- Specify the products or services on offer (three product levels).
- Establish the size of the market.
- Identify your position in relation to competitors.
- Outline your promotional activities.
- Forecast your likely market share.
- Describe your pricing strategy.
- Complete a marketing and promotions action plan.

For more details, read on!

COMPONENT 1: Customer analysis

Wear their shoes

Carefully define the people or organisations that will buy your service/product. Put yourself in their shoes. The more you understand your customers, the more likely you are to give them what they want.

You can do this by completing a market segmentation chart (see later in this topic).

Different customers have different needs and demands – they do not all require the same product or the benefits it provides. Not all customers buy a product for the same reason. This is where market segmentation comes in.

Market segmentation means dividing up the mass of customers into distinct groups so you can treat them differently. You might target distinct groups with different products; or use different marketing methods to sell the same products to distinct groups.

You can segment your market using different criteria. For example:

- Geographical location
- Personal characteristics, eg age, gender, etc
- Social and economic circumstances
- Customer aspirations/product needs
- Size of customer group, ie volume of sales/take-up within a distinct group

Complete your own market segmentation chart using the template provided. If you are not sure about what marketing methods to select (final column), come back to it after you have read the information about promotional activities in (Component 5 below).
Steve’s story

Steve was a trained actor who wanted to use his skills to benefit the community. He wanted to use theatre and performing arts to engage and educate local people. He reviewed the potential market for his project idea and identified three market segments:

- Children and young people in local schools
- Long-term unemployed/economically inactive adults
- Voluntary sector organisations/charities working with disadvantaged client groups, e.g. drug users and people with mental health problems

Steve needed to know more about what these different groups wanted in terms of theatre/performance, so he asked them using focus groups and simple questionnaires. He then completed a market segmentation chart.

### Market segmentation chart: Performing arts project

<table>
<thead>
<tr>
<th>Market segment</th>
<th>Key characteristics</th>
<th>Customer ideals/buying criteria</th>
<th>Product/service</th>
<th>Primary marketing method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children and young people in local schools</td>
<td>11–16-year-olds&lt;br&gt;Linked to national curriculum and teaching and learning objectives</td>
<td>Want drama to be fun and exciting&lt;br&gt;Want to develop ‘soft’ skills such as communication and team-working in safe, non-threatening environment. Would like to learn about topical issues through a practical format</td>
<td>One-off drama workshops around a social theme, e.g. equality and diversity</td>
<td>Arranging sessions in the school timetable with the head teacher</td>
</tr>
<tr>
<td>Long-term unemployed/economically inactive adults</td>
<td>18–60-year-olds&lt;br&gt;Low skills levels&lt;br&gt;Low confidence&lt;br&gt;Difficult to access</td>
<td>Want to learn a range of employment skills in safe, non-threatening environment&lt;br&gt;Want to gain formal recognition for the skills gained&lt;br&gt;Some will want to progress within the performing arts</td>
<td>Longer accredited creative arts courses run in the community, with progression routes to industry-related training opportunities</td>
<td>Direct contact with local community groups. Posters in community venues Taster sessions</td>
</tr>
<tr>
<td>Voluntary sector organisations/charities working with disadvantaged client groups</td>
<td>Small- and medium-sized organisations&lt;br&gt;Vulnerable and demanding client groups. Resources are stretched</td>
<td>Want to use professional expertise to offer something extra to their clients&lt;br&gt;Want to develop their own ability to offer similar courses</td>
<td>Short drama sessions to build confidence and self-esteem, with work shadowing and coaching built in for staff of voluntary sector organisation</td>
<td>Direct contact with organisations Promotion through local CVS</td>
</tr>
</tbody>
</table>
Market segmentation chart: My Project

<table>
<thead>
<tr>
<th>Market segment</th>
<th>Key characteristics</th>
<th>Customer ideals/ buying criteria</th>
<th>Product/service</th>
<th>Primary marketing method</th>
</tr>
</thead>
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</tr>
</tbody>
</table>
COMPONENT 2: Product Specification

Exactly What Is It?

Three Levels of a Product or Service

There are different three levels to a product or service:

1. Core product (benefit)
2. Actual product
3. Augmented product

1. The CORE product is NOT the tangible, physical product. You can’t touch it. That’s because the core product is the BENEFIT of the product that makes it valuable to the customer. For example, when you’re buying a car, the benefit is convenience – ie the ease with which you can go where you like, when you want to. Another core benefit is speed, since you can get around relatively quickly.

2. The ACTUAL product is the tangible product that you can use. Again with the car example, it is the vehicle.

3. The AUGMENTED product describes the special add-on features. In the case of the car, they could include the warranty and after-sales service.

The following diagram describes these different aspects.

The Three Levels of a Product
These product dimensions are also useful when it comes to characterising a service delivered by an organisation in the social sector.

**Satish’s story**

Satish wanted to set up a training company to help local people get jobs. For example, he wanted to deliver a European Computer Driving Licence training programme. He used the three product levels to specify this product.

The **CORE** product or service includes standard benefits such as:
- Developing new IT skills or improving existing ones
- Gaining an IT qualification to improve employment prospects

The **ACTUAL** product or service is the tangible

IT training course that runs for two hours a week for 30 weeks.

The **AUGMENTED** product or service includes features such as:
- An initial assessment
- Basic skills support
- Personal tutorial support
- Childcare support
- Advice and guidance on opportunities after the programme
- Price discounts on other training programmes

**COMPONENT 3: Market size**

**How big is it?**

Estimate the size of the market. If your project is about providing employment advice to people with learning disabilities, you would need to find data on the number of learning disabled people of employment age within your catchment area. You might then estimate how many of those people are able to work (for example, using the Social and Physical Incapacity [SPI] Ratings). This would give you the extent of the NEED you are addressing. Finally, you might also try to find data on the likely level of DEMAND, ie the number of learning disabled people who are not only able to work, but also willing to work. This would give you a calculation of market size.

**COMPONENT 4: Competitive position**

**Who are you up against?**

In the section How are you going to do it? Drafting a business plan, we recommended that you include a section on competitor analysis within your business plan.

If you have filled this out you can use it to help you with the competitor analysis template on the next page.
Once you have analysed the strengths and weaknesses of your competitors, you will be in a position to build on your own SWOT analysis (see the section How are you going to do it? Drafting a business plan) in order to identify your unique selling points (USPs). USPs are what makes you special and different from the competition. They might include the rapport you have with your user groups/beneficiaries, or extras you offer within your service profile, eg an advice service that visits the housebound at home (see Three product levels above).

**OVER TO YOU...**

Use this space to list your project’s unique selling points.
COMPONENT 5: Promotional activities

Get some attention!

There are a number of ways to promote your product or service. You will probably need to choose a combination of these methods, depending on your budget and what fits your product or service.

a) Advertising
Advertising takes many forms: TV, radio, newspapers, magazines. Its reach can be large and it can build the image of your project quickly, but it can also be expensive.

b) Personal selling
This involves speaking to your target customers face to face. You’re probably already doing this. It’s personal and you can customise it for each individual. However, its reach is limited and it can take up a lot of your (or your sales person’s) time.

c) Sales promotions
Money-off coupons in supermarkets are examples of sales promotions. You may offer your product or service at a reduced price for a limited time. This is useful when you first launch because it encourages people to try what you offer; however, its effects can also be short-lived.

d) Public relations
This means managing the image of your project so that the public better understands who you are and what you offer. It can involve getting editorial coverage in newspapers, magazines, TV and radio through press releases, advertorials (adverts that look like articles), press conferences and publicity stunts. It can be powerful, credible and wide in its reach. It is also relatively inexpensive so good for social entrepreneurs.

e) Direct marketing
This is like general advertising but more targeted, and usually takes place by mail-shot, phone or email. Its responses can be measured accurately, but you will need to make sure your message stands out amongst the many other direct marketing materials (‘junk mail’) that most people receive.

f) Viral or word-of-mouth marketing
This is spreading the word about your project through friends, colleagues and acquaintances – and in turn through their contacts – either through email or conversation. If done correctly, it can be remarkably effective for very little cost.
COMPONENT 6: Market share
What’s yours for the taking?
Market share is the proportion of the overall market (see above) that you think you can capture. Once you have worked out the overall market size, you can then come up with a forecast of your likely share based on your competitive position/USPs, combined with your promotional activities.

COMPONENT 7: Pricing strategy
Pennies and pounds
Price is different from cost. Cost is the amount of money it takes to produce your product or deliver your service. Price is the amount of money you want to charge for it.

The services of a non-profit-making organisation have a price attached to them, even if this price is not actually charged to the consumers.

Sarah’s story
Sarah has set up a youth club in a local community centre. It costs £20,000 to deliver youth activities for 200 young people over the year. If Sarah aimed to break even and needed to charge for the services, then she would charge each ‘customer’ £100. This effectively is the price for delivering her service. If she secured the £20,000 she needed in the form of a service level agreement through, for example, the local authority, then the local authority would be paying the price for the service.

One of the key features of the not-for-profit sector is that the funding flowing into the sector is typically cost-based. In other words, funders will pay only for the actual cost of delivering the service, and sometimes this is only the direct project costs, rather than the full costs (see Doing the maths: The basics of money management).
In the mix

Once you have worked out your price, you can think about the ‘marketing mix’, which involves the four P’s:

- **Product**
- **Price**
- **Place**
- **Promotion**

You have already specified your product (through the Three levels), set your price and outlined your promotional activities. That leaves Place. Where will you distribute or deliver your products and services? If you are a community training project, you might have a training centre based on a deprived estate, deliver training on an outreach basis to nearby areas, and offer online learning which is potentially open to people further afield.

**COMPONENT 8: Marketing and promotions action plan**

**Reaching your targets**

To complete your marketing plan, set out an action plan that shows how you will achieve your marketing objectives.

---

**OVER TO YOU...**

Use this template to complete your own marketing and promotions action plan. The example is here to help.

**Marketing and Promotions Action Plan**

<table>
<thead>
<tr>
<th>Project name:</th>
<th>Satish's IT training project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date:</td>
<td>June 2007</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Component</th>
<th>Marketing/promotional</th>
<th>Distribution channels</th>
<th>Who is responsible</th>
<th>Frequency</th>
<th>Resource requirements</th>
<th>Annual cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product</td>
<td>European Computer</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Driving Licence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Training programme</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Course leaflet/poster</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Website</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<p>| | | | | | | |
|                      |                        |                      |                    |           |                       |             |
|                      | Local household leaflet| Extensive mail shot  | Project manager    | Three times per year in January, April and December |                       |             |
|                      | drop                   | to local organisations | (PM)               |           |                       |             |
|                      | Posters in libraries,  |                       |                    |           |                       |             |
|                      | surgeries, shops       |                       |                    |           |                       |             |
|                      | and supermarkets       |                       |                    |           |                       |             |
|                      | Internet access        |                       |                    |           |                       |             |
|                      |                        | ICT company to create website | PM to update | Website set up by September 2007 Update on a monthly basis, or more frequently if required |                       |             |
|                      |                        |                       |                    |           |                       |             |
|                      |                        | PM's wages for production of leaflet/poster |                       |                       |                       |             |
|                      |                        | Printing              |                       |                       |                       |             |
|                      |                        | Distributor           |                       |                       |                       |             |
|                      |                        | Set-up fee            | PM's wages for updating website |                       |                       |             |
|                      |                        |                       | £1,600 x 3 (£4,800) |                       |                       |             |
|                      |                        |                       | £200 x 3 (£600)     |                       |                       |             |
|                      |                        |                       | £1,500             |                       |                       |             |
|                      |                        |                       | 12 hrs x £20 (£240) |                       |                       |             |</p>
<table>
<thead>
<tr>
<th>Product</th>
<th>Marketing/Promotional method</th>
<th>Distribution channels</th>
<th>Who is responsible</th>
<th>Frequency Timeframe</th>
<th>Resource requirements</th>
<th>Annual Cost</th>
</tr>
</thead>
</table>
Show me the money

Introduction to the income spectrum

Background
It’s important to know the different categories of funding or income you plan to target, and what proportion of your total income each category is likely to be.

There are several different categories of income on the income spectrum. The income categories are:

- The gift economy
- Specified outcomes
- Service level agreements
- Contracts
- Open market

People often think that trying to achieve sustainability involves focusing on the open market category, but it could just as easily involve achieving a good blend of income across all the categories.

What is this topic about?
We will give you a breakdown of each of the income categories and show you how to carry out an income spectrum analysis.

The income categories
The different categories are described in the chart on the next page.
The gift economy

This describes the domain of charitable donations and philanthropic grant aid. Essentially, it involves giving monies to support an organisation’s charitable objectives and activities without specifying its outputs and outcomes.

Donors in this domain would include some smaller local trust funds.

Specified outcomes

This is funding that is not just about support for the organisation’s activities but which also expects certain specified outcomes.

Examples of funders within this category include the Big Lottery Fund, Esmée Fairbairn Foundation and the Tudor Trust.

Service level agreements (SLAs)

Service level agreements are formal agreements to deliver certain services (often associated with statutory agencies) through non-statutory organisations. They are less binding than formal contracts.

An example of an SLA might be an agreement through a primary care trust to deliver health-related provision in a disadvantaged community.

Contracts

Contracts are legally binding documents that constitute an agreement for the delivery of services, with a clear emphasis on outputs and outcomes. Failure to deliver against a contract has legal implications and can result in funding being clawed back by the contractor.

An example of a contract might be one with the Learning and Skills Council to deliver training outputs.

Open market

The open market describes the situation in which organisations trade goods and services at a commercial rate.

Examples of where an enterprise might trade in the open market include:

- Charging fees to service users (e.g., a community training provider receiving a contribution from learners towards the cost of tuition)
- Selling expertise in the form of advice and consultancy (e.g., a women’s development organisation charging a consultancy rate to advise other women’s organisations in other parts of the country or overseas)
- Selling products (e.g., a community café selling food)

### Income spectrum analysis

Using these categories you can evaluate the income spectrum for your own organisation (this is called an ‘income spectrum analysis’ and creates an ‘income spectrum profile’).

This involves:

**Mapping income sources** Map actual or potential income sources to the different income categories with their respective amounts.

**Calculating ratios** Calculate ratios based on the proportions that each income category contributes to the overall income of the organisation.

Look at the income spectrum profile for a women’s training organisation on the next page to see how this works.
An income spectrum profile for a women’s training organisation (with an annual turnover of £150,000)

<table>
<thead>
<tr>
<th>Income Spectrum Profile</th>
<th>Gift economy</th>
<th>Specified outcomes</th>
<th>SLAs</th>
<th>Contracts</th>
<th>Open market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funders/contractors/</td>
<td>Trust funds</td>
<td>NR Community</td>
<td>PCT</td>
<td>Learners</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Social sponsors</td>
<td>Chest/Area Based Initiatives</td>
<td>LSC</td>
<td>Training providers</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Opps for Volunteering</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>clients</td>
<td>Payroll givers</td>
<td>Big Lottery Fund FutureBuilders</td>
<td>ESF</td>
<td>Women’s organisations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Online givers</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Income (£) | 18,000 | 20,000 | 10,000 | 90,000 | 12,000 |
| Percentage of overall income | 12.00 | 13.33 | 6.67 | 60.00 | 8.00 |

Over to you...

Describe the income categories you hope to target for your project or organisation, and which you want to be the most important.

<table>
<thead>
<tr>
<th>Income category</th>
<th>Which do you want to target? (please tick)</th>
<th>Which will be the most important? score 1 to 5, with 5 being most important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gift economy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specified outcomes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SLAs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contracts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Open market</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Your piggy bank: Developing a funding strategy

Background
Sustainability involves planning for the future, and this means you’ll need to think about fundraising. Unfortunately, you can’t just organise a sponsored swim and hope for the best. It is vital that you develop a proper, well thought out funding strategy. Otherwise it will be difficult, if not impossible, for your project to be sustainable. Having a funding strategy helps you to:

- Pinpoint particular funding approaches within an overall strategic framework.
- Avoid being funding-driven (see Jargon Buster), pulled into inappropriate funding opportunities that do not really fulfil your mission or realise your objectives.
- Manage fundraising resources more efficiently.
- Manage risk, think about your funding options and compile funding contingency plans in case things don’t go to plan.
- Plan your exit strategy.
- Monitor and evaluate your effectiveness in securing funding.

Funding strategy links closely with, and flows out of, your business plan. One element of a business plan is funding, which includes a list of funders that you intend to approach and the target amount you’d like from each.

Your funding strategy describes why you have come up with this list of funders and how you are going to raise the amounts specified.

What’s this topic about?
We will describe the seven sources of funding and break down the different parts of a funding strategy.
A Lucky Number
The Seven Sources of Funding

There are seven different sources of funding for projects and organisations in the social sector. We have matched each source to the income categories (see Show me the money: Introduction to the income spectrum).

1. Public money or statutory funding
This is money that comes through the taxpayer via a variety of channels, such as local authorities and central government departments. It includes funding through the Learning and Skills Council and the various pots of money available through European Social Fund.

2. Charitable trusts and foundations
These are bodies set up by philanthropists. The money (capital) within the trust is invested with the income generated used to support a range of good causes.

3. The National Lottery
This is a significant source of funding for the voluntary and community sector, including social enterprises. The distribution arms within the Lottery include the Big Lottery Fund and Heritage Lottery Fund. Each has its own rules about who can apply and how to apply.

4. Companies
Companies tend to give flexibly. For example, alongside cash donations, some donate equipment such as PCs or input their time free of charge.

5. Individual giving
This is money given by members of the public directly to your organisation or group. It could take the form of payroll giving, covenants which are tax exempt, or money left to a charity through a legacy.

6. Earned income or trading
This is money you earn directly from selling your goods and services. This could range from setting up an entire business unit dedicated to generating income – eg a charity setting up a trading arm that offers consultancy services at a commercial rate, with the surpluses supporting the core objectives of the charity – through to small-scale trading designed to contribute to an organisation’s sustainability, eg a community theatre group selling tickets at a small price for its shows.

7. Do-it-yourself (DIY) fundraising
This is a more informal and varied way of obtaining money from individuals, eg jumble sales, summer fetes, raffles, sponsored walks and social evenings.
The table below sets out the relative pros and cons of each source.

<table>
<thead>
<tr>
<th>Pro</th>
<th>Con</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Public Money</strong></td>
<td><strong>Trusts and foundations</strong></td>
</tr>
<tr>
<td>- Large sums are available</td>
<td>- Majority only donate small sums of money (ie £5,000 or less)</td>
</tr>
<tr>
<td>- Can fund ongoing running costs (revenue)</td>
<td>- Can be very competitive</td>
</tr>
<tr>
<td>- Will often fund unappealing (though nonetheless beneficial) work</td>
<td>- Often short-term arrangements, ie funding only lasts for a year (and usually not more than three)</td>
</tr>
<tr>
<td>- You can lobby for grants</td>
<td>- The time to process your application can be long (check the trust’s guidance to see when their grants panel next meets)</td>
</tr>
<tr>
<td>- Being awarded public money can increase your credibility and reputation</td>
<td>- Some of the larger national trust funds, eg Esmée Fairbairn Foundation, have moved into specifying certain outcomes in return for their money (see section <strong>Show me the money: Introduction to the income spectrum</strong>).</td>
</tr>
</tbody>
</table>

- Often bureaucratic procedures
- Strings attached (have to deliver specified activities with specified outputs)
- Can be cash flow problems due to staged payments being late
- Typically daunting levels of monitoring and accounting
- Often complex terminology and jargon to get to grips with
- Grants shifting to contracts within the so-called procurement agenda (see **Jargon Buster**).
<table>
<thead>
<tr>
<th><strong>The National Lottery</strong></th>
<th><strong>Pro</strong></th>
<th><strong>Con</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-Substantial sums of funding available</td>
<td>-Very competitive</td>
</tr>
<tr>
<td></td>
<td>-Can provide long-term funding (up to five years)</td>
<td>-Threat of some of the money being diverted away from the voluntary and community sector towards the 2012 Olympics</td>
</tr>
</tbody>
</table>

**Companies**

- Often no strings attached (unless the cash contribution is in the form of a social sponsorship – see Jargon Buster)
- You can develop long-term relationships with some companies
- Can lead to other benefits, eg the company providing work experience placements for the unemployed people with whom your project works

**Individual giving**

- No strings attached
- Can gain publicity for your group
- Can provide a regular income, eg through payroll giving (see Jargon Buster)
- Depending on the circumstances of your group, large amounts of money may be raised

**Earned income**

- No strings attached as it is unrestricted (you can use it as you wish or bank it as savings)
- Some groups are simply not in a position to charge for their services if the organisation moves substantially into trading, this can deflect
**Pro**

**Earned income (continued)**
- Income can be regular depending on structure of trading activity
- Can support organisational independence and growth
- Charging people encourages them to value your work (after all, they have paid for it)
- Can bring greater customer focus, stronger connection with beneficiaries

**Con**
- Requires business skills and commercial know-how
- Can bring a lot more pressure as expectations of people who have paid the going rate are usually greater than those of users who have got it for free or paid less than the market rate

**DIY fundraising**
- Can be a fairly quick way of raising small amounts of money
- Can be fun
- Good way of involving lots of people and building up volunteer commitment to the project
- Can cost very little to set up

**Con**
- Unpredictable way of raising money
- Can be time consuming
- There are legal considerations to take into account, such as licences for street collections and rules on gambling
- Some events may lose money!

The next chart maps the seven sources to the income categories (see the topic Show me the money: Introduction to the income spectrum).

<table>
<thead>
<tr>
<th>Gift economy</th>
<th>Specified outcomes</th>
<th>SLAs</th>
<th>Contracts</th>
<th>Open market</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Public money</td>
</tr>
<tr>
<td>Trusts/foundations</td>
<td>National Lottery</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Companies</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individual giving</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earned income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIY fundraising</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIY fundraising</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The Elements of a Funding Strategy

There are six main elements of a funding strategy:

1. State your case, ie why your organisation or project deserves support and what it needs.
2. Analyse the strengths, weaknesses, opportunities and threats of your fundraising activities (Component 2 –Fundraising audit).
3. Describe how you plan to raise the funds you need (Component 3 –Fundraising implementation plan).
4. Carry out risk analysis and contingency planning: ie, what are the risks inherent within your funding strategy; are there other funding options open to you; and what will you do if a certain funder turns you down.
5. Explain what you will do at the end of the funding period (your exit strategy).
6. Outline how you will monitor and evaluate your funding strategy.

We will now explain each of these elements.

COMPONENT 1:
Case Statement

This is a description of the project you need funding for, and as such should mirror your three-year business plan (it is a little like the executive summary of the business plan – see How are you going to do it? Drafting a Business Plan).

A well constructed case statement is the basis of an effective funding proposal. It’s a piece of persuasion.

Your case statement should include the following:

a. Mission and benefits
b. The problem
c. The solution
d. Target amount
e. Target income profile
f. Target sources
g. Timeframe

We explain these in the next table.
<table>
<thead>
<tr>
<th>Component</th>
<th>Description</th>
<th>What you need to be able to complete this section</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Mission and benefits</td>
<td>This should show why your project exists, the important work it is doing and the benefits it delivers</td>
<td>A mission statement for your project/organisation Description of broad aims Description of the benefits</td>
</tr>
<tr>
<td>b. The problem</td>
<td>The problem your project addresses; why you need financial support</td>
<td>Problem Tree analysis (see section What's the problem? Problem Tree analysis) Analysis of need Documenting the need</td>
</tr>
<tr>
<td>c. The solution</td>
<td>Specifically, how will the money be used to address and overcome the problem</td>
<td>Statement of specific objectives and description of project activities</td>
</tr>
<tr>
<td>d. Target amount</td>
<td>How much funding you need; how it splits (where applicable) between capital and revenue costs (see Note 1), and start-up/set-up costs and end-use costs (see Note 2). You will need to supply a budget to support this</td>
<td>Assessment of what resources (capital items, staff, general running costs) you need to deliver your objectives/activities Calculation of how much these resources cost A budget plan</td>
</tr>
<tr>
<td>e. Target income profile</td>
<td>Where your project or organisation sits in relation to the income spectrum (see topic Show me the money: Introduction to the income spectrum)</td>
<td>Assessment of the amounts you expect to secure through different types of income</td>
</tr>
<tr>
<td>f. Target sources</td>
<td>What funding/contracting sources you are targeting (this should distinguish between existing and potential supporters) and how much you are looking for from each; whether you’ve already received any funding towards your target amount and how much from each funder</td>
<td>Once you have worked out the target income profile, you will know the amount of income needed through grant aid and SLA/contracting channels. You will need to research potential sources of funding/contract income (see Note 3)</td>
</tr>
<tr>
<td>g. Timeframe</td>
<td>When you need the money by and for how long</td>
<td>You need to work out when you want the project to start and therefore when you need the money by You need to know how long you will need the money</td>
</tr>
</tbody>
</table>
Note 1: Capital Costs and Revenue Costs

Capital costs
These are one-off costs. They include buying a building or purchasing machinery or equipment.

Funding sources for capital include:
- European Regional Development Fund
- Single Pot
- Big Lottery Fund

Revenue costs
These are recurring costs. They include staff salaries and general running costs.

Most funding sources will fund revenue costs. There are some that only fund revenue. The most common of these is the European Social Fund (see Jargon Buster).

Many funders, such as the Big Lottery Fund, are prepared to support a range of revenue projects, while others, such as the Learning and Skills Council (LSC – see Jargon Buster), only fund certain types of revenue-based activity (post-16 training and education in the case of the LSC).

Note 2: Start-up or set-up costs and end-use costs
If your project is to establish and run a new facility, such as a community resource centre, then this will have two phases:
- A start-up or set-up phase – the groundwork to create the facility (this might involve a new-build project or refurbishment of an existing building).
- An end-use phase – once you have created the facility you can then use it for community benefit.

Both these phases obviously have costs attached to them.

Note 3: Undertaking prospect research
The key to effective fundraising is researching your funding prospects thoroughly. Even the most compelling funding proposal will be unsuccessful if it targets the wrong source. Different funders have different priorities and conditions, and the most successful fundraisers know that the best approach is to target funders whose criteria fits.
Useful sources of information on funding prospects are:

Funderfinder – a subscription-based information source on trusts and foundations (www.funderfinder.org.uk)

www.govtmentfunding.org.uk – a website containing information on government grants

www.biglotteryfund.org.uk – gives all the latest information on the various Big Lottery Fund programmes

Directory of Social Change – produces a number of useful funding guides such as the Directory of Grant Making Trusts and the UK Guide to Company Giving (www.dsc.org.uk)

Bernadette’s story

Bernadette was interested in photography and local history. She lived in a regeneration area in Salford, Greater Manchester and realised that not enough local people were getting involved in the regeneration process. One of the main reasons for this was the ‘communication divide’ between the public officials implementing the regeneration scheme and the local residents.

So Bernadette decided to set up the Local History and Regeneration Awareness Club (LHARA Club) to get people researching and celebrating the history of the area whilst raising their awareness of the current regeneration process.

In 2001 she drafted this case statement:

Mission and benefits

The LHARA Club is a unique, grassroots charity based in Seedley and Langworthy, situated on the south-east side of Salford in Greater Manchester. The mission of the Club is to bring community regeneration to life; to make it real, practical and, above all, meaningful for the actual people who are the focus of it and whom it is intended to benefit.

According to the Indices of Deprivation 2000 (Department of Transport, Local Government and the Regions), Salford is one of the poorest districts in the country. In fact, it ranks as the 23rd worst district for multiple deprivation indicators out of a total of 354 districts in England.

There is a great deal of emphasis on regenerating the borough, particularly the most disadvantaged areas like Seedley and Langworthy.

Our aim is to use history as a tool to engage people, as a practical medium to explain things that are happening in the area, to catalogue social and cultural change, and in so doing to raise awareness and understanding. It is about looking at how we lived in the past in a way that informs how we live today and in the future.

The problem

The problem our organisation is trying to address is the ‘communication divide’ that exists
in regeneration areas between the officials who are responsible for implementing regeneration schemes and the local residents who are the intended beneficiaries of those schemes.

“We have found that forums a set up to develop and regenerate an area hold meetings in impenetrable jargon and codes Excluded people need help to articulate their hopes and needs, but everybody involved needs to work for developing communication that is common to all, both in terms of words and concepts.” (Bringing Britain together: a national strategy for neighbourhood renewal, Social Exclusion Unit, 1998)

The solution
We are tackling this problem by using audio-visual media to break down barriers and improve understanding of the regeneration process and environment. Specifically, over the next three years we will:

- Train 50 local people in video and photography skills
- Create 10 opportunities for volunteering
- Develop a website that can act as a focal point for local people around local history and regeneration awareness issues
- Produce a Local Regeneration Almanac that will document the history of the Seedley and Langworthy regeneration scheme

Target amount
In total, we need to raise £140,254 for the full three years. This will allow us to employ two workers, operate an office and run the activities to realise our objectives.

Target income profile
We hope to secure funds through three main routes: grants, regeneration/contract funding, and membership subscriptions/one-off fundraising events.

**Target sources**

<table>
<thead>
<tr>
<th>Funding source</th>
<th>Funds: Year 1 – April 2002 to March 2003 (£)</th>
<th>Funds: Year 2 – April 2003 to March 2004 (£)</th>
<th>Funds: Year 3 – April 2004 to March 2005 (£)</th>
<th>Total funding (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRB5</td>
<td>22,152</td>
<td>19,638</td>
<td>20,837</td>
<td>62,627</td>
</tr>
<tr>
<td>National Lottery</td>
<td>22,152</td>
<td>19,638</td>
<td>20,837</td>
<td>62,627</td>
</tr>
<tr>
<td>Subscription/events</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
<td>15,000</td>
</tr>
<tr>
<td><strong>Total funding (£)</strong></td>
<td><strong>49,304</strong></td>
<td><strong>44,276</strong></td>
<td><strong>46,674</strong></td>
<td><strong>140,254</strong></td>
</tr>
</tbody>
</table>

We have received a small amount of Community Chest funding through SRB5 in the past. The National Lottery would be a totally new source of support for us.

Timeframe
We want to secure the funding by March 2002.
Write a case statement for your own project, using the template provided.

Mission and benefits

The problem

The solution

Target amount

Target income profile

**Target sources:**

<table>
<thead>
<tr>
<th>Funding source</th>
<th>Funds: Year 1 (£)</th>
<th>Funds: Year 2 (£)</th>
<th>Funds: Year 3 (£)</th>
<th>Total funding (£)</th>
</tr>
</thead>
</table>

Total funding (£)

Timeframe
When planning a funding strategy and putting it into practice, you must be aware of your fundraising strengths and weaknesses. You must also identify the fundraising threats and opportunities facing you. This means carrying out an audit of your current fundraising position by doing a SWOT analysis. This is not a general SWOT analysis like the one in your business plan (see How are you going to do it? Drafting a Business Plan), but one that is specific to fundraising. Some examples of the sorts of things you might include are in the following table.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Having past success in raising funds locally</td>
<td>Little or limited experience in writing funding bids and tenders</td>
</tr>
<tr>
<td>Having a good relationship with a number of influential people</td>
<td>Being overwhelmed by the day-to-day demands of running the organisation or project, leaving little or no time for fundraising</td>
</tr>
<tr>
<td>Having a range of possible projects, all of which can translate into clear community benefit and therefore are potentially attractive to funders</td>
<td>Not having enough information about potential funding sources</td>
</tr>
<tr>
<td>Having an image that is attractive to funders</td>
<td>Not having enough resources to raise your profile</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Threat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Being within a recognised regeneration area where there is the potential access to significant funding</td>
<td>Being located in an area that isn’t considered to be particularly disadvantaged</td>
</tr>
<tr>
<td>Being unique in the local area or having relatively few competitors for the same funding sources</td>
<td>Having a number of organisations in the area capable of competing for the same funds</td>
</tr>
<tr>
<td>Having good links with development/support agencies that can advise you on fundraising</td>
<td>Having poor links with development/support agencies</td>
</tr>
</tbody>
</table>
OVER TO YOU ...

Spend a few minutes completing your own fundraising audit, using this template. As well as using the examples above, read the next section, The ‘No!’ top ten: The ten most common reasons why bids are declined) to help you.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threat</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tr>
</tbody>
</table>

TAKE ACTION!

Like other important steps along the way, you may want to talk to your mentor/adviser/Development Manager/guru about the issues revealed by your fundraising audit. Don’t worry if your weaknesses and threats seem to outweigh your strengths and opportunities. You will be able to work together to plan how you will address any issues and improve. The important thing is to tackle them early on.
COMPONENT 3:  
Fundraising implementation plan

To plan how you will raise the money you need, think about the following questions.

**What methods will you use to raise the funds?**
This will depend on the sort of funding you are trying to attract. For larger projects, fundraising usually involves writing bids and tender proposals for public money, eg through the European Social Fund, the Single Pot (see Jargon Buster) or the Lottery. However, if you are a relatively small project, it might also involve trying to raise smaller amounts of funding through other means, such as donations from individuals, in which case you might organise an event such as a raffle.

**Who will do the fundraising?**
A good way to approach this is to establish a fundraising group (maybe a subgroup of your management committee, or a group of local volunteers or service users). When writing bids, proposals or tenders, one person should have overall responsibility.

**When will you need to do it by?**
Work out when you need the funding and work back from there. Some funding bodies take quite a long time to process an application. You need to find out how long it will take for our application to be processed and take that into account.

**How will you know when you have completed the task or activity?**
Specify an indicator for completion. This might include, for example, the documented funding application or a record of a fundraising event having taken place.

**How will you know whether the activity has been successful?**
Similarly, it is useful to specify a success indicator (these are often referred to as ‘key performance indicators’). This might simply be ‘offer of grant’.

An example of a fundraising implementation plan for the LHARA Club is on the next page with these questions used as a framework.
<table>
<thead>
<tr>
<th>Funding source</th>
<th>Target amount (£)</th>
<th>Method(s) used</th>
<th>Who is responsible</th>
<th>When by</th>
<th>Completion indicator</th>
<th>Key performance indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRB5</td>
<td>62,627</td>
<td>Contact SRB manager</td>
<td>Project co-ordinator</td>
<td>April 2002</td>
<td>Record of contact</td>
<td>Offer of grant</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Write bid</td>
<td>Project co-ordinator (with support from RegenSchool mentor)</td>
<td>April 2002</td>
<td>Bid document</td>
<td>Offer of grant</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Invite SRB appraisal officer to a site visit and formal presentation of our work</td>
<td>Volunteer fundraiser</td>
<td>May 2002</td>
<td>Visit takes place</td>
<td>Offer of grant</td>
</tr>
<tr>
<td>Community Fund</td>
<td>62,627</td>
<td>Contact CF development officer</td>
<td>Project co-ordinator</td>
<td>May 2002</td>
<td>Record of contact</td>
<td>Offer of grant</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Write application</td>
<td>Project co-ordinator</td>
<td>May 2002</td>
<td>Application document</td>
<td>Offer of grant</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Undertake telephone assessment interview</td>
<td>Project co-ordinator and chair of management committee</td>
<td>TBA</td>
<td>Assessment interview takes place</td>
<td>Offer of grant</td>
</tr>
<tr>
<td>Subscriptions events</td>
<td>15,000</td>
<td>Membership subscriptions</td>
<td>Volunteer membership secretary</td>
<td>Ongoing</td>
<td>Membership documentation</td>
<td>300 members paying £10 fee per annum = £9,000 in total</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Events eg jumble sales, raffles, etc</td>
<td>Volunteer fundraiser</td>
<td>Once a quarter</td>
<td>Events take place</td>
<td>Average takings per event of £500 = £6,000 in total</td>
</tr>
</tbody>
</table>
COMPONENT 4:
Fundraising risk analysis and contingency planning. Shit happens.

There are three main risks in implementing a fundraising plan:

1. There is always a risk with any funding bid that it will not be successful, no matter how well you may have researched the funding source or how well written the bid is. It could simply be the case that the funder has run out of money.

2. When you are successful with a funding bid, you still need to plan what to do if you don’t receive the money until after your scheduled start date. This may be caused by the bid not going to the panel meeting that you had originally expected, despite your blood, sweat and tears. This type of funding delay is known as ‘slippage’.

3. You may end up not getting as much money as you asked for. Sad, but true. Many funders, in an increasingly competitive environment, are trying to make their money go further by spreading it around to more groups and organisations.

You need to plan for all these eventualities within your fundraising strategy. This is called contingency planning. Write your contingency plan in a simple table, like the one on the next page.

LHARA Club fundraising contingency plan

COMPONENT 5:

<table>
<thead>
<tr>
<th>Risk scenario</th>
<th>Contingency plan options</th>
<th>Advantages</th>
<th>Disadvantages</th>
<th>Disadvantages</th>
<th>Chosen action(s)</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>We will secure SRB support but not Community Fund (CF) support</td>
<td>Go back to SRB for more money</td>
<td>Only having to focus on one funding source</td>
<td>SRB may want ‘match funding’</td>
<td>SRB may want ‘match funding’</td>
<td>Negotiate with SRB now on the chance that CF bid might not succeed – put a marker down</td>
<td>We aren’t just waiting for the risk to materialise before we do anything</td>
</tr>
<tr>
<td></td>
<td>Reduce scale of the project</td>
<td>Can just run with SRB</td>
<td>Reduces effectiveness</td>
<td>Reduces effectiveness</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Put back project start date and re-submit to CF</td>
<td>Can still run full project, albeit delayed</td>
<td>Re-bid might also fail</td>
<td>Re-bid might also fail</td>
<td>Would still need to defer start of project to allow time for bid processing</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Substitute other funding sources for CF (options: Lloyds TSB, Tudor Trust)</td>
<td>Can still run full project</td>
<td>Would still need to defer start of project to allow time for bid processing</td>
<td>Need several funding sources to amass total amount needed – more work</td>
<td>If SRB cannot increase funding, then partially scale down project at same time as increasing volunteer input</td>
<td>This will enable project to start without relying too much on volunteers</td>
</tr>
<tr>
<td></td>
<td>Can run project from start date as planned</td>
<td>Can run project from start date as planned</td>
<td>Bid to alternative funding sources as project is running</td>
<td>Overly-reliant on volunteers</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Sustainability Tools: Developing a funding strategy
Exit strategy

If you are applying for funding for a fixed term, then you will need to show what will happen at the end of that term. This is called an exit strategy.

There are four main options when planning your exit strategy. Here are some examples:

1. The project represents a one-off piece of work and will end naturally when the funding ends
   For example, your project might be designed to build your organisation’s capacity over a three-year period. Once that extra capacity has been built, the project’s objective has been achieved.

2. Another organisation or possibly a statutory authority will take over the work
   Your project might involve trialling a new way of working, such as a new way of delivering care in the community, which you then hope your local authority (in this case social services) will adopt as one of their day-to-day services.

3. The project will continue but in a reduced form or will be subject to a gradual wind-down
   Your project might involve employing someone full time for a year to set up a community information network. Once the network is up and running it might only need occasional maintenance and updating.

4. The project will continue in its current form or might even expand
   Your project might involve securing three-year funding to train unemployed/economically inactive people in IT and basic skills. If you can show the project’s success, you may want to continue it for the foreseeable future.

COMPONENT 6: Monitoring and evaluation

You will need to monitor and evaluate your fundraising strategy on a regular basis to find out whether or not it is successful. The success criteria, or key performance indicators, in the fundraising implementation plan will help you to do this. To aid the monitoring process you need to keep good records, for example of bids dispatched and responses received.

Reviewing your work will help you to plan future fundraising strategies.
Use the following questions as a framework:

- **Who will be responsible for monitoring and evaluating the effectiveness of the funding strategy?**
- **What methods will they use?**

A key monitoring method involves asking for feedback. For example, you may receive feedback:

- Directly from funders about your funding bids
- From outside experts, eg your mentor/adviser/Development Manager/guru, about your funding bids
- From people who have been at one of your fundraising events

It is also useful to get hold of examples of successful bids that other organisations have written and compare these with your own bids.

- **How often will you monitor your strategy?**
  Don’t plan to monitor and evaluate the strategy only at the end of the implementation process. Carry out at least one review as you go along, so that you can revise your strategy if you need to.

- **How will you report the findings of the monitoring process?**
  Will you produce a short written report? Will you present this report to your management committee or your project steering group?

- **How will you use the information you collect?**
  It is important to use the monitoring information to improve future strategies. Think about the following:
  - Were we over-ambitious?
  - Did we use the right methods?
  - Do we need to research potential funding sources more thoroughly?
  - Do we need support or training to produce better case statements or more accurate budgets?
  - Do we need to review our strategy?
  - Do we need to go back to the drawing board and do a more in-depth review of our fundraising practice (fundraising audit), and do we need external support to do this?
The ‘No’ Top Ten:
The ten most common Reasons why bids are Declined

No, No, No and No
Background: Inside the mind of the funding gods

Whatever the size and type of your project, at some point you’ll probably need to ask for funding. To increase your chances of success, it is useful to know how funders think about the bids they receive and what criteria they deploy.

What is covered under this topic?
We will give you a series of top tips on what funders are looking for, or rather what they are not looking for!

The ‘No’ Top Ten with some Top Tips
Here are the 10 most common reasons why funding bids fail.

1. ‘The organisation does not meet our priorities.’
   Research thoroughly before applying.

2. ‘The organisation is not located in our geographic area of funding.’
   Get the guidelines before applying.

3. ‘The proposal does not follow our prescribed format.’
   Read the application information very carefully and follow it exactly.
4. ‘The proposal is poorly written and difficult to understand.’
Ask colleagues and experienced people to critique your bid before you submit it.

5. ‘The proposed budget/grant request is not within our funding range.’
Look at the average size of grants given by the funder.

6. ‘We don’t know these people. Are they credible?’
Set up an interview before submitting your proposal and ask board members and other funded organisations to help you establish a relationship and give you credibility.

7. ‘The proposal doesn’t seem urgent. I’m not sure it’ll have an impact.’
Study the priorities and get a skilled writer to do this section so it ‘grabs’ the funder. Sound urgent, but not in crisis.

8. ‘The objectives and plan of action of the project greatly exceed the budget and timelines for implementation.’
Be realistic about programmes of activities and budgets – only promise what can really be delivered for the amount you request.

9. ‘We’ve allocated all the money for this grant cycle.’
Don’t take this personally. It is a fact of life. Try the next grant cycle. Next time, submit at least a month before the deadline to give ample opportunity for questions and a site visit.

10. ‘There is not enough evidence that the project will become self-sufficient and sustain itself after the grant is completed.’
Add a section to the proposal on your exit plan and develop a long-term strategy to show how you’ll manage on your own.

Adapted from California Grants Guide, Grant Guides Plus, 2000

**Take Action!**

There are many people who can help you with your funding strategy and applications. Speak to your mentor/adviser/Development Manager/guru. For example, UnLtd has a comprehensive resource pack on sources of funding.
Background
If your organisation has money problems you might end up over-spending or perhaps spending grant or contract monies on the wrong things. In short, there will be very little chance of your project being sustainable.

Take Action!
Don’t panic if you are not strong in this area. You might need to recruit someone, either as a paid worker or volunteer, who has the right expertise. You could appoint an accountant to manage your money on a freelance or self-employed basis.

What is this topic about?
We will introduce you to these key aspects of money management:
- Basic methods for keeping track of the money
- Basic budgeting principles
- Financial statements demystified
- How costs work (including Break Even Analysis)
- Tips on pricing a product or service
- VAT demystified

Basic methods for keeping track of the money
The golden rule of bookkeeping is to **KEEP ALL THE INVOICES AND BILLS THAT YOU PAY.** These will form the basis of your financial record keeping.
Money coming in (receipts)
Keep a record of all your sales or incomings.

If your project or business is cash-based, eg if you are running a community café as a social enterprise, then you will need a point-of-sale system to record sales, eg a cash register.

If, on the other hand, the basis of your project or enterprise is non-cash-based, you should issue an invoice for every sale (remember to separate paid and unpaid invoices so that you can keep a track of outstanding debts). If your project is designed to live off grants or public subsidy, then you may need to issue a claim form at certain periods to receive the grant funding. Either way, keep a record of the paperwork.

Money going out (payments)
Keep invoices or receipts for every purchase you make (remember to separate out purchases paid and purchases unpaid).

Also keep records of any payments made by cash (set up a file labelled ‘petty cash’ for this purpose).

You also need to keep records of payments into and out of your bank account (remember to set up a separate bank account and to ask for monthly bank statements).

The cash book
The most important record to keep is a cash book. This forms a summary of the money you receive and the money you pay out. You can buy purpose-made cash books or create your own folder.

Computerised bookkeeping
If you have an accounting software package (such as QuickBooks), then this acts as a cash book.

Florence’s story
Florence was a social entrepreneur who wanted to set up a social firm (see Jargon Buster) that employed disabled people to restore old, unwanted furniture. She wanted to sell the furniture and generate surpluses to reinvest in the business. The business model was based on a mixture of sales and public subsidy/grant income. Florence produced a cash book to record the enterprise’s incomings and outgoings (see overleaf).
### Receipts Page

<table>
<thead>
<tr>
<th>date</th>
<th>source/desc</th>
<th>banked</th>
<th>cash retained</th>
<th>sales</th>
<th>grant income</th>
<th>other income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</table>

### Payments Page

<table>
<thead>
<tr>
<th>date</th>
<th>supplier</th>
<th>cheque no</th>
<th>bank payment</th>
<th>cash payment</th>
<th>wages</th>
<th>materials</th>
<th>office costs</th>
<th>marketing</th>
<th>travel</th>
<th>telephone</th>
<th>insurance</th>
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</table>

88
The receipts page of the cash book contains:

- The date of the transaction
- What the source of the money is/or a brief description
- Whether you banked the cash received or whether you retained it
- Where the income came from – sales, grants or other income, which might include the sale of an item of equipment

The payments page covers the following:

- The date of the transaction
- The name of the supplier and description of the goods/services
- Cheque number (allowing cross-referencing to the chequebook)
- Whether the payment was by cheque or cash
- The various categories of expenditure that are connected with the business, eg wages, materials, etc

Update your cash book once a week, or once a month if you have just started out and there are not many transactions to record.

**Florence’s story … continued**

Florence secured a bank loan to rent premises and purchase equipment.

As she began trading, Florence then received a grant of £5,000 from her local Social Enterprise Development Agency on 1 May 2007. She spent this grant on wages and travel to pick up furniture.

A short while later, the business sold its first item of furniture, a bedside cabinet, to Mr Smith for £300. These transactions converted into entries into the cash book in May (see overleaf).

### Receipts page

<table>
<thead>
<tr>
<th>date</th>
<th>source/desc</th>
<th>banked</th>
<th>cash retained</th>
<th>sales</th>
<th>grant income</th>
<th>other income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/05/07</td>
<td>SEDA grant</td>
<td>5000.00</td>
<td></td>
<td></td>
<td>5,000.00</td>
<td></td>
</tr>
<tr>
<td>28/05/07</td>
<td>Mr. Smith sale of bedside cabinet</td>
<td>300.00</td>
<td></td>
<td>300.00</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Payment page

<table>
<thead>
<tr>
<th>date</th>
<th>supplier</th>
<th>cheq no</th>
<th>bank payment</th>
<th>cash payment</th>
<th>wages</th>
<th>materials</th>
<th>office costs</th>
<th>marketing</th>
<th>travel</th>
<th>telephone</th>
<th>insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/5/07</td>
<td>petrol</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>50.00</td>
</tr>
<tr>
<td>18/5/07</td>
<td>wages</td>
<td>BACS</td>
<td></td>
<td></td>
<td>4950.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
Reconciling the bank account

Compare your bank statement and cash book every month. After any errors have been corrected, both balances should be the same.

- Match each entry in the cash book with the entry on the statement. Tick them both off.

- Certain items will not yet be recorded in the cash book, ie payments by direct debit or standing order, and bank charges and interest. Write these details in the cash book below the other entries and then tick off the item in the cash book and on the bank statement.

- Keep going until every item on the bank statement has been ticked off.

- Certain items will not yet appear on the bank statement, ie money paid in but not yet cleared (eg cheques from customers) and cheques you have paid to suppliers that have not yet been paid into their bank accounts.

- Therefore, adjust the bank balance so that you end up with a calculation of what the balance would be if all the money paid in and cheques paid out were actually included:

\[
\text{Adjusted balance} = \text{Stated end-of-month balance} \\
\quad \text{plus any money paid in but not showing on balance} \\
\quad \text{minus any cheques paid out but not included in the statement.}
\]

You can then reconcile the bank statement, which means making everything match up.

\[
\text{Adjusted balance at BEGINNING of month} \\
\text{PLUS} \\
\text{All income received for the month (from cash book)} \\
\text{MINUS} \\
\text{All payments for the month (from cash book)} \\
= \text{Adjusted balance at END of month}
\]
Basic Budgeting Principles
A budget is basically the expression, in financial terms, of how you are going to achieve your objectives.

It helps you plan the best use of resources, anticipate your funding needs and monitor day-to-day operations. Budgeting should be a key element of your business plan (see How are you going to do it? Drafting a business plan), building on what you forecast you will be able to achieve through your business strategy. Once the budget is in place, you can then use it to monitor actuals, ie the actual costs of the items needed to run your project or organisation. You will be able to spot any differences between actual costs and budgeted costs. This will keep your spending under control and your project on course.

This cycle is shown here:

Budget headings
Budgets are often broken down into two main headings:

- Staff costs or salaries
- Other or non-pay costs

These main budget headings are then broken down into a number of subheadings.

Staff costs
This covers the costs of employing staff. It needs to include not just the basic salaries but also any on-costs, ie pension and National Insurance contributions.

Other costs
All other project costs come under this heading, including:

- Staff training
- Staff travel
- Staff recruitment
• Office costs, eg stationery, postage, photocopying, telephone
• Utilities ie heat and light
• Rent (if applicable)
• Equipment purchase or hire
• Equipment maintenance
• Marketing/promotion
• Insurance, eg Employers Liability
• Professional fees, eg legal and accounting fees
• Evaluation and dissemination
• Bank interest charges

**Beneficiary costs**

Sometimes projects that work with groups of disadvantaged people in the community set out a third overarching category of costs – beneficiary costs. These are associated directly with engaging and supporting the beneficiaries of the project and might include training costs, childcare support, travel expenses, etc. If these items aren’t included under beneficiary costs, then they would fall into the ‘other costs’ category.

**Top Tip**

When you’re preparing an expenses budget, don’t use a single column of figures. Instead, project three scenarios:

1. **Bare bones**
2. **Reasonable**
3. **Ideal**

The ‘bare bones’ column includes what the project needs to survive. Do this first. Next, focus on the ‘ideal’ scenario. This sets out how much money the project needs to operate at maximum effectiveness. This is not a dream budget, but a true estimate of how much cash you need to perform at your best.

Finally, prepare the ‘reasonable’ column: how much money you need for the project to do more than survive but still not meet all its goals. These figures should not be just an average of the other two columns! For example, for the project to accomplish anything at all, you may feel the salaries need to be reasonably high to attract appropriately skilled staff.

The ‘bare bones’, ‘reasonable’ and ‘ideal’ columns, therefore, give the range of finances required to run the project at various levels of functioning.
A useful fundraising strategy is to aim for sufficient funds to achieve the ‘reasonable’ scenario, so that (a) securing anything more than that and getting towards the ‘ideal’ scenario is a bonus, and (b) the ‘bare bones’ scenario operates as the ultimate fallback, contingency position. This builds a careful approach into budgeting and financial forecasting, based on an awareness of the sensitive financial environment.

OVER TO YOU...

Use the template below to create your own budget, even if you don’t have one already. If do have a budget, use the three columns to come up with alternative scenarios. Under each heading list the budget items (e.g., under staff costs list the job titles of the employees), and then calculate the costs under each of the three scenario columns. Avoid guessing the figures – try to make your calculations as accurate as possible. Use published salary scales to pinpoint the salary levels for project staff (remember to include on-costs for National Insurance and pension contributions). For other items, try and get quotations from suppliers.

Use the budgeting checklist below to help compile your budget.

Budgeting Checklist

• Remember to factor in VAT when you are working out what you will need to buy from your suppliers.
• Include a budget heading for staff training and travel costs as sometimes these get forgotten.
• If you need to take on a new worker or workers, remember to include recruitment costs. Don’t underestimate this, as it can be relatively expensive to advertise in newspapers.
• With equipment such as computers, if the funding you are seeking to resource your project is restricted to revenue (i.e., paying for staff and general running expenses) and not capital (i.e., paying for buildings, machinery, and equipment), then you would only be able to use this funding to rent the equipment, not to buy it.
• Think about including a budget for dissemination – basically spreading the word. Some funding bodies will expect you to carry out an evaluation of your project and tell other people what you have learnt (project dissemination). This might involve producing and dispatching an evaluation report or running a seminar, workshop, or conference – and can be costly.
• If your project is running for more than one year, remember to increase your costs in years two, three and so on, in line with projected increases in inflation. Also, plan for incremental increases in staff salaries over the period and build these into your cost projections.
• If you have phased your project outputs to increase in years two, three, and so on, remember that this will normally mean an increase in overall expenses in those years, linked to a growth in beneficiary costs such as childcare, travel expenses, etc.
### Staff costs

<table>
<thead>
<tr>
<th>Item</th>
<th>Bare Bones</th>
<th>Reasonable</th>
<th>Ideal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Beneficiary costs</td>
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<td></td>
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<td></td>
<td></td>
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<tr>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other costs</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Beneficiary costs

<table>
<thead>
<tr>
<th>Item</th>
<th>Bare Bones</th>
<th>Reasonable</th>
<th>Ideal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Other costs

<table>
<thead>
<tr>
<th>Item</th>
<th>Bare Bones</th>
<th>Reasonable</th>
<th>Ideal</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

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**Financial statements demystified**

If you set up a company, you will need to file annual accounts. These accounts are made up of three financial statements or reports:

- The profit and loss account
- The balance sheet
- The cash flow statement

**The profit and loss (P & L) account (income statement)**

This is a summary of a business’s financial performance over a particular period of time. It shows whether a business is making money (profit) or losing money (loss) in that period. For a non-profit-making organisation it is usually referred to as the ‘income statement’, but the principle is the same, ie looking at the balance of income and expenditure.

---

**Gross and net profit**

To understand profit you need to be familiar with important lingo like:

- Annual turnover
- Gross profit
- Net profit
- Gross profit margin
- Net profit margin
The following table explains these concepts, using John as an example. John runs a chip shop as a social enterprise, with profits being reinvested in local community initiatives.

<table>
<thead>
<tr>
<th>Concept</th>
<th>Definition</th>
<th>Illustration: Community chip shop</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual turnover</td>
<td>Total sales revenue in the year</td>
<td>John sells £100k of fish and chips over the year, so his turnover is £100k</td>
</tr>
<tr>
<td>Gross profit</td>
<td>Sales revenue minus sales costs</td>
<td>He spends £20k on potatoes and fish; so his gross profit is £80k (£100k sales revenue minus £20k sales costs)</td>
</tr>
<tr>
<td>Net profit</td>
<td>Gross profit minus operating expenses</td>
<td>He spends a further £60k on all his operating costs – staff, heat, light, insurance, etc; so his net profit is £20k (£80k gross profit minus £60k operating expenses)</td>
</tr>
<tr>
<td>Gross profit margin</td>
<td>Gross profit divided by total sales revenue (%)</td>
<td>His gross profit margin is 80% (£80k gross profit divided by £100k sales revenue, expressed as a percentage)</td>
</tr>
<tr>
<td>Net profit margin</td>
<td>Net profit divided by total sales revenue (%)</td>
<td>His net profit margin is 20% (£20k net profit divided by £100k sales revenue, expressed as a percentage)</td>
</tr>
</tbody>
</table>

A simplified version of a profit and loss account based on the community chip shop example might look something like this:

**Profit and Loss account for year ending 31 March 2007**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>£ 100,000</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>20,000</td>
</tr>
<tr>
<td>Gross profit</td>
<td>80,000</td>
</tr>
<tr>
<td>GP%</td>
<td>80%</td>
</tr>
<tr>
<td>Operating costs</td>
<td>£ 60,000</td>
</tr>
<tr>
<td>Net profit</td>
<td>£ 20,000</td>
</tr>
<tr>
<td>NP%</td>
<td>20%</td>
</tr>
</tbody>
</table>
The Balance Sheet
The balance sheet is a snapshot of the health of a business or organisation at a particular time. It has three components:

**Assets**
Items owned by the business (many social enterprises have strategies to develop assets, which is called asset-based development – see Jargon Buster) or owed to them by debtors (see Jargon Buster)

**Liabilities**
Items that the business owes to others, ie its creditors (see Jargon Buster)

**Equity**
The amount due to the owners of the business, the shareowners (includes the profits of the business)

It’s all equal
A balance sheet, as its name suggests, always balances, since the assets will equal the sum of the liabilities and the equity.

The Cash Flow Statement
There is a constant flow of cash coming in and going out of any business or organisation. This is called the cash flow cycle.

Within the social sector, organisations often secure a grant or contract, start the project and then receive staged payments in arrears from the grant-giver/contractor. This can lead to cash flow problems, where money has to be spent on supplies before the cash is there to pay for them.

Cash flow is also crucial in the commercial sector. Poor cash flow is one of the main reasons why commercial businesses fail. This might even be the case when the business is actually profitable.

Cash flow is a particular problem for business start-ups. Since a start-up has no track record of paying out, it might find it difficult to get good credit terms from suppliers. Instead, it will probably have to pay its suppliers the following month after the goods are received. Meanwhile, in order to attract customers, the new business offers three-month credit terms, so sales in January are paid for in April. Clearly, in such a scenario there will be a net outflow of cash, even though the business will eventually make a profit. If the business doesn’t possess enough working capital (see Jargon Buster), then it will not be able to survive.
The cash flow statement that is part of the company accounts reflects all transactions that involve cash going out of the business or coming into it. It has five parts:

1. Net cash flow from operating activities
2. Returns on investment and servicing of finance
3. Taxation
4. Investing activities
5. Financing

How costs work

There are two ways of classifying costs within your project or organisation:

1. Subjective classification: This involves classifying costs according to their nature, e.g. staff costs, other costs such as heat and light, etc. When we looked at budgeting we used this method.

2. Objective classification: This entails classifying costs according to their purpose. You can use several different approaches to do this.

Direct versus indirect

One approach is to divide costs into direct and indirect costs. When we looked at the earlier example of John’s chip shop, his direct costs were the cost of sales, so the potatoes and fish that he bought in – think of these as his raw materials. His indirect costs, i.e. those not directly associated with the product he is making and selling, are the general operating expenses, e.g. staff, advertising, insurance, etc.

Fixed versus variable

This approach looks at whether a cost varies when the activity level changes. A fixed cost remains unaltered when activity varies. A good example would be the rental of a telephone line – the cost of this remains fixed irrespective of the number of calls made. On the other hand, a variable cost, as its name suggests, does change when levels of activity vary. The cost associated with the number of telephone calls made would be variable.

Understanding these different approaches to objective cost classification will help you to understand cost behaviour. This is essential to the sustainability of your organisation.

Break even analysis

If you understand cost behaviour, you can carry out a break even analysis. This tool analyses the relationship between costs and volume of outputs or sales, to establish at what point the two are equal (the break even point) and the initial investment is recouped. It also shows profit margins at certain levels of sales. This is also known as cost-volume-profit analysis.
As well as looking at the interrelationship between fixed and variable costs, the analysis also involves what is called the contribution concept. This is the difference between income and variable costs. The contribution first covers the fixed cost, then, after the break even point, provides a surplus:

\[
\text{Break even point} = \frac{\text{Fixed costs}}{\text{Contribution per unit}}
\]

The following case is a good example of how a break even analysis can be used.

**Satish’s story**

Satish set up his IT training company to train local people so that they could get jobs. Jobcentre Plus asked him if he wanted to partner with them to direct some of his trainees to jobs advice interviews. This would involve Satish’s training company speaking to trainees on both a face-to-face and a telephone basis to promote the benefits of the jobs advice interviews. Satish agreed a fixed price of £25 for every trainee he directed to Jobcentre Plus. He needed to know how many trainees his company had to direct every month (i.e., the volume of outputs or ‘sales’) to break even. He worked out his fixed and variable costs as follows:

<table>
<thead>
<tr>
<th>Cost Description</th>
<th>Amount (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent and rates</td>
<td>200</td>
</tr>
<tr>
<td>Salaries</td>
<td>500</td>
</tr>
<tr>
<td>Telephone rental</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>800</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost Description</th>
<th>Amount (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone calls</td>
<td>4</td>
</tr>
<tr>
<td>Refreshments</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>5</td>
</tr>
</tbody>
</table>

Based on this, he was able to calculate the contribution to fixed costs:

Contract income (Jobcentre Plus fee) less variable costs = contribution (£25 - £5 = £20). Therefore, if the training company directs one trainee to Jobcentre Plus, there is a £20 contribution to fixed costs of £800. If there are two trainees, there is a £40 contribution towards the fixed costs, and so on.

Satish is now in a position to work out what he needs to achieve break even point.

To break even, the training company needs enough contributions to pay all the fixed costs. Reaching the break even point will mean that the Centre has nothing left – no surplus and no deficit. The break even point is: £800/£20 = 40 trainees directed per month.
Alison's story

Alison, a former nurse, is interested in the health and care needs of older people within the local community.

There are many isolated, older people living at home who require access to personal home care. As well as receiving care in their own homes, they would benefit from domestic support – someone, for instance, to help with the shopping and cleaning.

Alison’s wants to set up a social enterprise called Proud & Positive Care to provide a combination of home care and domestic support to isolated older people in the community.

Price

Alison analysed the pricing policies of private sector competitors. She worked out that she could charge an average of £35 per two-hour home visit.

Costs

Fixed costs

Running the organisation will cost about £50,000 per annum. This will be enough to employ a half-time manager and two care workers (one full-time and one half-time) and pay for general running costs.

Variable costs

<table>
<thead>
<tr>
<th>£ per visit (average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel costs</td>
</tr>
<tr>
<td>First aid materials</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Questions

A. Calculate the contribution cost.
B. How many home visits would Proud & Positive Care need to undertake in a year to break even?

C. If Proud & Positive Care did 1,300 home visits in its first year, would its trading accounts show a surplus or deficit position, and by how much?

D. If Proud & Positive Care did 2,000 home visits in its first year, would its trading accounts show a surplus or deficit position, and by how much?

How did you do? The answers are here:

A. Calculate the contribution cost. £30 per unit

B. How many home visits would Proud & Positive Care need to undertake in a year to break even? 1,667

C. If Proud & Positive Care did 1,300 home visits in its first year, would its trading accounts show a surplus or deficit position, and by how much? Deficit of £11,000

D. If Proud & Positive Care did 2,000 home visits in its first year, would its trading accounts show a surplus or deficit position, and by how much? Surplus of £10,000

E. How did you do? Talk it through with your mentor/adviser/Development Manager/guru if you find this tricky.

The Margin of Safety

This is the difference between the expected levels of sales or outputs and the break even point. The larger the margin of safety, the more likely it is that you will make a profit. In other words, if sales or outputs start to fall there is more leeway before the organisation begins to incur losses.

In the example of Satish’s training company, if the number of trainees directed to jobs advice interviews was forecast at 50 per month, with a break even point of 40 trainees per month, then the margin of safety is calculated like this:

\[
\text{Margin of safety} = \text{projected sales/outputs} - \text{break even point}
\]

\[
= 50 \text{ trainees} - 40 \text{ trainees}
\]

\[
= 10 \text{ trainees per month or } 20\% \text{ of sales/outputs}
\]

\[
(10/50 \times 100)
\]

The margin of safety should be expressed as a percentage of projected sales/outputs to put it into perspective.

The margin of safety can also be used to calculate surpluses within social enterprises. Once the breakeven point has been reached, there are no more fixed costs to cover and all the contribution goes towards surpluses.
For the IT company, the monthly surplus from outputs of 50 trainees signposted per month would be £200.

Margin of safety = 10 trainees per month

Monthly surplus = 10 x contribution per output
= 10 x £20
= £200

**Break Even & Sustainability**

If you cannot reach break even point by trading in the open market (see the section Show me the money: Introduction to the income spectrum), then you will need some form of subsidy through statutory funding, individual donations, etc. Otherwise, obviously, your project won’t be sustainable.

A low break even point will help you survive when your business is not selling much. This is especially important in the initial stages of a project, while you establish yourself.

To reduce the break even point you could try a number of things:
- Reduce the fixed costs, eg rent cheaper premises.
- Reduce variable costs, eg use cheaper materials.
- Increase the contribution margin, eg by securing grant aid to subsidise your product or service.

**Full cost recovery**

Full cost recovery is becoming increasingly important within the voluntary and community sector. Essentially, it means obtaining enough funding to cover both direct and indirect costs.

“Full cost recovery means recovering or funding the full costs of a project or service. In addition to the costs directly associated with the project, such as staff and equipment, projects will also draw on the rest of the organisation. For example, adequate finance, human resources, management, and IT systems, are also integral components of any project or service.

“The full cost of any project therefore includes an element of each type of overhead cost, which should be allocated on a comprehensive, robust, and defensible basis.” (ACEVO website, section Other useful sources of information and resources)
**Tips on pricing a product or service**

In the section On the market: Developing a marketing strategy, we referred to pricing strategy. Your strategy will depend on the business model you have opted for (see Kate, Naomi and Elle: Different business models).

If you set up a charity, you will still price projects to ensure full cost recovery. If your business model is focused on trading in the open market as a social enterprise, then your pricing strategy can be based on generating income beyond the break even point, ie surpluses. In this scenario, here are some methods for pricing your product or service:

**Cost plus:** calculate all the costs (direct and indirect) that go into making your product/service available to the customer and add a percentage onto it.

*Benefit:* means you will not be out of pocket and, hopefully, that you will generate some surplus.

**Competitive pricing:** check what other providers of the same product/service are doing and set a similar price.

*Benefit:* means you don’t price yourself out of the market.

**Market tolerance:** understand how much your target market can afford and set a price within that range.

*Benefit:* means your product will be affordable to those you hope will buy it.

**Perceived value:** understand what people think your product/service is worth and set the price accordingly.

*Benefit:* may produce really high margins for certain type of products or brands.

**VAT demystified**

Value Added Tax (VAT) is a tax that applies to most business transactions involving the trading of goods or services.

Once your annual business turnover (ie the amount of gross sales revenue that you generate) reaches a certain level (for the fiscal year April 2007 to March 2008 the threshold is set at £64,000), you will have to register for VAT. This means that whenever you buy or sell anything you will have to charge VAT on your sales and keep proper VAT records of your incoming and outgoing transactions.

If your ‘output tax’ (ie the amount of VAT you receive on your sales) is more than your ‘input tax’ (ie the amount of VAT you pay on your purchases), then you will need to pay the difference to HM Revenue & Customs (HMRC). If the opposite is the case, then HMRC will refund the difference to the business.

Even if your turnover is below the registration threshold, you could consider registering voluntarily for VAT.

If you are setting up a charity that will live off grant funding, then you will not have to register for VAT since you will not be trading.
It takes two: Partnership working

Background
Partnership working is so common within the social sector that NCVO (National Council for Voluntary Organisations) has set up its own dedicated unit – the Collaborative Working Unit - to focus on this area.

There is a strong link between partnership working and sustainability, simply because working collaboratively with another body might make all the difference between success and failure for your project or organisation.

Partnership working can bring a range of benefits:
- New or improved services
- Wider geographical reach or access to new customer/beneficiary groups
- Financial savings and more efficient use of existing resources
- Knowledge, good practice and information sharing
- Sharing the risk in new and untested projects
- Capacity to replicate success
- Stronger, united voice and greater resultant bargaining power
- Better co-ordination of organisations’ activities
- Competitive advantage
- Mutual support between organisations

On the other hand, there are risks involved:
- The time and resources invested in the partnership outweigh the outcomes, and even loss of resources if collaboration is unsuccessful
- Loss of flexibility in working practices
- Complexity in decision-making
- Loss of autonomy
- Diverting energy and resources away from core aims – ‘mission drift’
- Damage to or dilution of your brand and reputation
What’s this topic about?
Here we will introduce you to:
The sort of things you can work in partnership on
Some initial questions to answer when you are thinking about working in partnership
Criteria to help you decide whether it is appropriate to work in partnership with a particular body
Different models of partnership working
Good practice tips on partnership working

What can you work in partnership on?
All sorts of things! You might want to work with other individuals, groups or organisations to:
Share resources, eg shared office space, in order to save on costs
Exchange knowledge, ideas or skills through networking in order to develop expertise and know-how
Deliver services jointly to add value to what each partner can achieve individually
Collaborate on the management of a project to increase efficiency

First questions (adapted from NCVO’s checklist on collaboration):
• What are you hoping to achieve by collaborating with another individual, group or organisation?
  State the goal you are trying to reach through the partnership.
• Are you sure that collaborative working is the best way to achieve that goal? Explore a range of other options here. For example, your goal might be better achieved by employing your own project staff or using your own resources.
• Who proposed the idea? Do they have a vested interest?
• Do the other people in your group, for example your management committee members, support the idea?
• Does it fit within your group’s vision, values and current priorities?
• Does it fit with the constitutional objectives in your group’s governing constitution (if you have one)?
• Does your governing document (if you have one) include the power to establish, support, cooperate with, join or amalgamate with other groups/organisations?

Once you have gone through the initial questions, think about these key areas:
• Will collaboration help you to get your project off the ground in the first place?
• If you have already set up your project, will it mean the difference between survival and collapse?

In addition to these general, fundamental questions, you should also think about the specific benefits that collaboration would bring.
If you are thinking about working in partnership, or you are already in a partnership and would like to review its effectiveness, use this template (based on NCVO’s checklist on collaboration) to consider the specific benefits of the arrangement.

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes (tick if appropriate)</th>
<th>No (tick if appropriate)</th>
<th>Use this column to give a brief description of the benefits or disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Will there be measurable benefits to service users and beneficiaries?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Will your group/organisation save money?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Will collaboration affect your potential income?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Will collaborative working add value to your group’s work to justify the time, effort and money invested in it?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Will you lose anything by working on your collaborative project?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you risk ‘mission drift’ because collaborating would mean moving away from your group’s or project’s main aims?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Will the structure of your project or organisation be affected by the change and, if so, how will you deal with the long-term implications?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Will collaboration change your group’s other existing relationships?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
How do you know whether it is appropriate to work in partnership with a particular group/organisation?
If you intend to work closely with another organisation or a number of organisations then it’s good to find out if they are compatible with your own group or organisation.

You don’t have to share the same aims and objectives, but it is important to ensure that they don’t clash. Ask to see the prospective partner’s business plan or perhaps their governing document.

It is also useful to match up skills and weaknesses. If you are weak at contract management, for example, link in with an organisation that is strong in this area, eg a statutory body. Similarly, offer the partner agency something that they don’t have, perhaps the capacity to reach and engage with the chosen target groups.

If there are areas of incompatibility, can you overcome them, and, if so, how?

If you intend to work in very close partnership with someone (perhaps you intend to set up a joint venture company (see Jargon Buster) with them, or even merge) then you should always carry out ‘due diligence’. This is a process for checking whether the prospective partner has any liabilities that would constitute a risk to your organisation. These liabilities may be financial, legal, strategic and so on. The actual process would involve, for example, examining the organisation’s accounts, looking at its current cash flow position and the nature of its assets and liabilities, testing whether it meets relevant legislation, exploring its strengths and weaknesses and overall competitive position, etc.

Take Action!
If you are intending to work in a close collaborative arrangement with another organisation, you should talk to relevant professionals, eg solicitors and accountants, to get the best possible advice on the due diligence process and possibly to get them to carry out certain aspects of the process.

Different models of partnership working
There is a spectrum of different models for partnership working. They range from loose, informal arrangements for networking and sharing information on a fairly ad hoc basis, through to more systematic and formal approaches like consortia and joint venture companies, to mergers where two or more organisations agree to give up their separate identities to form a single body for all activities.
Some of the different models are:

**Loose network**
Groups of organisations come together to form a loose network, perhaps to share information and good practice. The network would have no legal status outside each of the individual members and each organisation would operate entirely independently.
The loose network model is very easy to set up and operate.

**Consortium operating with a lead body**
Organisations within a loose network might decide to take their collaboration a stage further and bid jointly for funds. In such a scenario, one of the models open to them is a consortium with a lead body.

The lead body is incorporated so that it can apply for funding or tender for contracts on the consortium’s behalf. If a grant or contract is secured, then the lead body subcontracts some of the money to the partners, keeping the rest to (a) pay for the delivery of its own services and (b) to cover the cost of managing the grant/contract.

An advantage of the consortium with a lead body model is that it uses the existing systems and track record of the lead body.

**Formal consortium set up as a company in its own right**
An alternative to the loose consortium operating with a lead body is where organisations agree to establish a partnership that is then formally constituted as an independent legal entity (often a Company Limited by Guarantee), with the partner organisations becoming members of this company. The new company can then employ its own staff to bid for funds and manage contracts on the behalf of the consortium. Each member organisation has a seat on the board of directors so that control of the consortium is shared equally.

This approach creates a ‘single point of contracting’ where one contract can be secured for the entire consortium (instead of multiple contracts for all the separate member organisations) and then subcontracted to each of the partners, as appropriate. This tends to make this type of development very attractive to funders/contacting bodies because it is more efficient and lowers costs.

Another advantage of the formal consortium model is the fact that risk is shared equally across the membership.

The model you choose depends on a number of factors, including:
- How experienced the partners are in partnership working and how well they know and get on with/trust each other – if they are very experienced in collaboration and are a close-knit group,
then formal collaboration becomes a lot easier and more tenable.

- What the partners want out of it – if they just want to share information and knowledge, then a loose network would suffice; whereas if they are seeking funding or income, then a more formal arrangement would probably be better.

- What factors are at play within the external environment – some funding/contracting bodies, for example, may demand that a ‘single point of contracting’ is established, in which case a loose network would be inappropriate.

Satish’s story ... continued

Satish wanted his IT training company to be able to secure a contract through the Learning and Skills Council (LSC). He decided the best way to achieve this was to join up with other small training providers so he could:

- Increase his bargaining power (instead of working alone he’d be working with several others)
- Create economies of scale and efficiency gains (instead of having to pay for his own full-time contracts officer, for example, he would be able to share one with his partners, and share the costs)
- Increase the value of what his company could offer through working with others, eg delivering joint training programmes

Satish called an initial meeting of prospective partners and eventually it was agreed that a formal consortium should be established, with six founding members. The group hired a solicitor to help set up the consortium as a Company Limited by Guarantee.

Eventually, the new company was successful in winning an LSC contract. The partners agreed to ‘top slice’ the contract by 10% so that a contracts officer and an admin/monitoring officer could be recruited to manage the contract.

Tips on partnership working

- Make sure the partnership has agreed terms of reference that set out clearly what the partnership’s aims and objectives are, who is involved and what the partners’ respective roles, responsibilities and contributions will be.
- Better still, develop a fully fledged partnership agreement for each partner to sign (see below).
- Make time to build trust amongst the partners (for example, take time out for team-building exercises).
- Make sure everyone is prepared to commit sufficient resources to the partnership, including paid staff or volunteer time, otherwise the chances of it being successful will be reduced.
Focus on outcomes to help keep the partnership on track and overcome any internal difficulties.

Monitor and review the effectiveness of the partnership on a regular basis, and if it is clear that it is not working then either improve ways of working or split up.

Have a clear timeframe – agree how long the partnership will last at the beginning, as this will help to avoid the partnership drifting along with no clear exit strategy.

**Partnership agreements**

Partnership agreements set out what the different partners agree to do. They guide the partnership in its daily operation and act as a common reference point to clear up any confusion and misunderstandings.

A partnership agreement might include:

- Name of partnership
- Brief description of shared purpose
- Statement of specific objectives
- Expected benefits of collaboration
- Roles and responsibilities – who will do what, when and how
- Frequency of partnership meetings and who will attend
- Outline of decision-making processes
- Protocol for declarations of interest, ie partners agree to declare any conflicts of interest and to be open and transparent about matters concerning the collaboration
- Agreed internal communication processes – how partners will be kept informed
- Timeframe – how long the partnership will last
- Monitoring and review arrangements
- Finally, a space for an authorised individual from each partner organisation to sign and date the agreement
Your Team: Employing people

Background
You may not need to employ anyone – your business model may involve a sole proprietorship where you are the only individual involved, or your project may be able to rely solely on volunteer input and not need paid staff.

Deciding to employ people is a big step. There are lots of legal implications as well as good-practice issues involved.

Employees are the ‘engine’ of the project or enterprise. Skilled, highly motivated and well managed employees will greatly improve the chances of your project or organisation being sustainable.

Remember, well motivated and highly skilled volunteers can be just as effective as their paid colleagues. Although what follows focuses specifically on paid employees, much of it is applies to volunteers too.

What is this topic about?
We will introduce you to:

- The sorts of employment policies your project should have in place
- The basics of recruitment and selection
- Tips on managing staff

Policies
If you intend to employ people, you will need the following policies in place:
### Policy | Why is it important?
---|---
Equal opportunities | It will help you to avoid discrimination
Recruitment | To comply with legal requirements and to make sure you get the best possible candidate
Grievance and discipline | To resolve any employee grievances, disputes and disciplinary issues
Pay and benefits | So employees know what pay and benefits they are entitled to
Health and safety | There are a number of statutory requirements in this area

Other policies that you might develop are: staff training and development, performance review, etc.

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**Take Action!**

Don’t be daunted by any of these policies. You can find many models or templates for different policies on the internet. Talk to your mentor/adviser/Development Manager/guru who may point you in the right direction.

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### The basics of recruitment and selection

You need to develop a good way of assessing applicants’ skills and attributes objectively and testing these against a profile of the ideal person for the post in question. This involves asking three main questions:

1) **What are the main tasks required as part of the vacant post?**
   
   The answer will form the JOB DESCRIPTION.

2) **What key attributes will the applicant require in order to fulfil the demands of the job description?**
   
   The answer will form the PERSON SPECIFICATION. Some organisations divide this into essential and desirable attributes, which can speed up the screening of applications, but you don’t have to do this.

3) **How do we assess the applicant’s attributes against the person specification?**
   
   There is no one accepted way of doing this, and there is always some element of subjectivity involved. All you can do is develop a method of assessment that offers as objective an outcome as possible, without committing the organisation or project to a laborious and time-consuming exercise.

### Methods include:

- Asking candidates to complete an application form or send in a CV that outlines their skills, qualifications and experience.
- Holding an interview for candidates shortlisted at the application stage.
- Setting tasks or tests – eg preparing a presentation, doing a written numeracy test, etc.
**Take Action!**

Talk to your mentor/adviser/Development Manager/guru about your recruitment process. UnLtd has some sample job descriptions and personal specifications as well as a ‘how to’ guide on recruiting.

**Florence’s story continued …**

As her furniture recycling social firm expanded, Florence decided to hire a part-time operations manager to handle some of the day-to-day operational issues while she (Florence) focused on the business strategy.

Florence worked with her board of directors to draft a job description that set out the key tasks of the post and also a person specification that highlighted what qualities she was looking for in the ideal candidate.

She drafted a brief job advert and paid to place this in the local newspaper. She also emailed the advert to her network of partners and contacts.

She asked candidates to send in a CV.

She asked the candidates to attend an interview. She prepared a schedule of interview questions matched to the criteria set out in the person specification and also devised a simple scoring system to grade the responses to the questions. She also asked them to do a 10-minute presentation to answer the question: ‘What do you think are the key operational issues facing the enterprise and how would you ensure that these are managed efficiently and effectively?’ This meant she could assess the candidates’ understanding of the enterprise environment and knowledge of/experience in operational management, whilst appraising their communication skills. All these were essential criteria within the person specification.

**Tips on managing staff**

Here are some handy tips on staff management:

- Be proactive – don’t just wait for staff issues to emerge and then react to them; hold regular staff support and supervision sessions to gauge progress and address potential issues before they emerge.

- Deal with any staff problems quickly and firmly in line with the disciplinary policy.

- Adopt a ‘listening ear’ approach – be prepared to listen to employees’ moans and gripes. If you consistently ignore the complaints, staff will lose faith in your ability to lead. Acknowledge
their concerns, thank them for having the courage to speak up, and then try your best to do something about it.

- Keep asking staff their opinions and perspectives – finding out their views will help you improve your project or organisation and make staff feel valued.

- Behave as you expect others to – for example, don’t expect your staff to work hard if you aren’t willing to put in the hours yourself.

- Praise staff when they do things well but don’t be afraid to give constructive criticism when things aren’t going quite so well.

- Get to know your staff members’ individual strengths and weaknesses and build a team approach to maximise those strengths and minimise those weaknesses.

- Avoid ‘micromanagement’, which is where you as the manager get involved too directly in a staff member’s work. This is bad for the project or enterprise, as it means you will not have enough time to carry out your management tasks and it stifles the initiative and creativity of the staff member.

- Make time (by, for example, holding team away-days) to build a common bond and shared sense of purpose amongst staff – this can help to increase motivation, morale and therefore productivity.

- Communicate regularly and consistently – a lot of frustration and low morale amongst staff is caused by them not being properly informed.

- Be open and honest – don’t promise things (like pay increases!) that you can’t deliver, as it only raises false expectations and damages morale.

- Encourage a culture of continuous learning and improvement – if staff make mistakes encourage them to analyse where they went wrong and how they can put things right in the future. A blame culture is counterproductive!

- Always build in sufficient time to improve your own skills and learning as a manager.

- Above all, trust your staff and they will trust you!

**OVER TO YOU...**

Using the checklist on staff management, bullet point what you think are your key strengths/qualities as an employer/manager here. Also, highlight any issues/areas for development.
Me as an employer/manager

Strengths/qualities

- 
- 
- 
- 
- 
- 
- 

Issues/areas for development

- 
- 
- 
- 
- 
- 

Take Action!

Once you have done this activity, you might want to talk about it with your mentor/adviser/Development Manager/guru.
Being the best: Quality and quality assurance

Background
Investing in quality means giving your customers or users what they need and want. It will also help your project or organisation become more efficient and effective, and show your funders and investors that you deliver to high standards.

If what you deliver is of low or indifferent quality, then the chances of your project or organisation being sustainable will be greatly reduced.

What’s this topic area about?
We will introduce you to a number of quality assurance systems.

A quality assurance system lets you respond to the needs of your customers or users, so that you provide your service consistently and to agreed standards.

Even the smallest project needs some sort of quality assurance system.

You could devise your own system or adopt an ‘off the shelf’ system. There are several options, including:

Quality First
This is published by Birmingham Voluntary Service Council and is designed specifically for small- to medium-sized organisations without any paid staff.
PQASSO (Practical Quality Assurance System for Small Organisations)

This is designed for small- to medium-sized community and voluntary organisations and is a step on from Quality First. It enables the organisation to assess its work and performance in 12 key areas:

1. Planning for quality
2. Governance
3. Management
4. User-centred service
5. Staff and volunteers
6. Training and development
7. Managing money
8. Managing resources
9. Managing activities
10. Networking and partnership
11. Monitoring and evaluation
12. Results

Contact:
Charities Evaluation Services
4 Coldbath Square
London
EC1R 5HL
Tel 020 7713 5722
www.ces-vol.org.uk

Investors in People

This is an externally accredited quality standard which sets a level of good practice for improving an organisation’s performance through its people. It was designed for the private sector, although it is becoming more popular with larger voluntary organisations and social enterprises. However, cost, paperwork and time burdens are all barriers for the social sector.

Contact:
Investors in People UK
7-10 Chandos Street
London
WIG 9DG
Tel 020 7467 1900
www.investorsinpeople.co.uk
OVER TO YOU...
Spend a few minutes thinking about these questions.

What standards of delivery will you set for your project (use the next question to prompt your answer)?

What will customers or users expect (ie what will be their ‘customer ideals’) in the following areas:

Product (or service, ie what you are supplying)

Will this need to generate certain benefits or have add-on features, etc (refer to the three product levels in On the market: Developing a Marketing Strategy)?

Process
Will customers/users expect to be dealt with promptly and efficiently, etc?

People (the skills and competences of those who deal with customers/users)

Will you be expected, for example, to empathise with your users, especially if they are experiencing some form of disadvantage?

Price (the cost to the customer)

Will customers expect the price to be very competitive? Will they want favourable credit terms to allow spread payments?
Monitoring and evaluation can help you to assess the effectiveness of a project in achieving its objectives and to measure the project’s impact. Monitoring and evaluation are critical elements of any project (although often forgotten), and to get them right you need to build them into the project from the outset. They are important for internal stakeholders (eg staff and volunteers) – to celebrate successes and highlight areas that need to change – and for external stakeholders (eg funders, government, media) – to provide them with confidence that the project is having a positive impact and thereby attract further support.

Social entrepreneurs and their projects vary enormously and therefore require quite different approaches to evaluation. This guide will take the reader through definitions and the main stages of the evaluation process. It will demonstrate that process using one case example. It will also offer further information about online evaluation tools for social entrepreneurs interested in learning about what and how to evaluate. There is no one correct way to monitor and evaluate: each social entrepreneur has to decide for herself/himself the most important areas to evaluate and how best to carry out an evaluation.

This guide aims to tackle monitoring and evaluation by:

- Clearly defining the terms
- Explaining why they are important
- Detailing the steps involved in conducting a monitoring and evaluation programme
- Suggesting ways to report results
Definitions
Although monitoring and evaluation work hand in hand, with both used to assess the progress of a project/programme/award towards achieving its objectives, and the terms are often used interchangeably, they are not the same thing. It is important, therefore, to recognise the difference between them.

Monitoring involves assessing efficiency in reaching your direct, easily quantifiable or short-term objectives. It consists of the collection and collation of facts expressed in terms of pounds used and numbers/volumes produced – for example, the number of jobs your project created, number of community members who benefited from your project, cost per project user, or amount of extra funding your project attracted. In addition, try and look for external comparison data as a tool for checking if your progress is good enough – ie real data or proxies published by the government, non-governmental organisations (NGOs) or academics on subjects similar to those affected by your projects/activities.

The monitoring data you collect usually falls into two categories:

- **Input indicators**: the resources (financial, human, technical, intellectual) put into an activity
- **Output indicators**: the tangible and direct products these resources have achieved

Evaluation involves assessing your effectiveness in reaching the medium- to long-term, and often difficult to quantify, objectives in connection to your target beneficiaries (individuals, communities or organisations). It consists of the collection and collation of facts and the views of your target beneficiaries expressed in terms of increases or decreases in their skills, behaviour, knowledge and level of functioning –for example, improved confidence or increased practical experience of your project users, improved social networks in the target local community.

The evaluation data you collect should be separated into two categories:

- **Outcome indicators**: intended, specific and short-term differences made to target beneficiaries
- **Impact indicators**: intended (or unintended), fundamental and medium- to long-term differences made to target beneficiaries

Why is monitoring and evaluation important?
Monitoring and evaluation is important to enable you to:

Satisfy stakeholders and encourage support for your work

- Current or potential funders want to know that their money has or will be well spent, in line with agreed objectives and milestones.
- Support from other stakeholders such as sponsors or government will often depend on your ability to prove that you have done what you said you would and that the project has measurable impact.
- People working on the project (including you) want to know that the effort they put in is worth it.
Comply with regulatory and legal requirements

- The law and regulatory bodies and users may require you to maintain accurate records of income, expenditure and assets. If you are a registered company, you will need to submit accounts to Companies House at the end of the year. If you are a registered charity, you will need to report to the Charities Commission at the end of the year.
- If you are a registered charity, trustees need information in order to ensure legal responsibilities are fulfilled and to understand what is going on with a project/programme. Budgets, monthly cash flow projections and regular reporting against an agreed annual plan are the key means of control.

Learn from past mistakes and make improvements

- Monitoring and evaluation helps you identify what didn’t work and why, as well as steps for improvement and future development.

When should monitoring and evaluation be done?

Monitoring and evaluation is one of the first things to consider when you’re setting up a project, not the last. You shouldn’t leave it to the end, but often that’s exactly what happens: you may begin to think about monitoring and evaluation only when a sponsor or funder requests you to do them in their contractual agreement with you; or you might think that by leaving them until the last minute you will have the maximum number of beneficiaries and volume of services provided to report as proof of your achievements. These reasons are wrong: you need to consider and know from the start what you are going to monitor and evaluate and how, so that:

- You can gather the right information
- At the right time
- With as little use of precious resources as possible

How should monitoring and evaluation be done?

There are many methods for monitoring and evaluating, but they can generally be divided into three main groups:

- **Quantitative methods** – that provide you with numerical information about your project, organisation or beneficiaries. You can get this information by, for example, using a questionnaire: this is a list of multiple-choice questions for the reader.
- **Qualitative methods** – that provide you with the views of or stories from the key people involved in and benefiting from your project. You can get this information by using face-to-face or telephone interviews.
- **Mixed methods** – that provide you with a mixture of numerical information and stories about your clients. This involves using a mixture of the quantitative and qualitative methods mentioned above.
Which method you choose for monitoring and evaluating your project or organisation will depend on:

- Why you are monitoring and evaluating in the first place
- What information you want
- How you will use the information when available

You will need to spend some time up front thinking about answers to these questions, reflecting on your aims, objectives and expectations. This is absolutely crucial for making sure that your monitoring and evaluation will be useful and rigorous.

**Key steps**

This section explains briefly the main steps involved in monitoring and evaluation. We’ll use an actual case example (Breakfast Clubs) at the end of this section to demonstrate these steps.

1. Define aims and set targets

Decide what you want to monitor and evaluate. Come up with the questions you wish to be answered by your clients, staff or any other stakeholders – it is important for you to reflect on why you’re monitoring and evaluating and to come up with a set of clear questions to be answered. You might also want to think about setting targets that you want to meet or exceed.

Your questions need to focus on two things:

- The objectives of your project. Ensure your project objectives are **SMART** – Specific, Measurable, Achievable, Realistic and Timely – and set targets accordingly
- The achievement of a combination of inputs, outputs, outcomes, and impacts

2. Gather data

Make sure you collect the required and relevant information from the right people in the right way.

**Right information**

Define your sample size (the number of people you gather information from) well and appropriately. As a general rule, if you have less than 30 beneficiaries, you should try and collect data from all of them. If you have more than 30 you should collect data from at least 30 to ensure that any trends you identify from the data are meaningful. As this number increases, you should increase the number of people you sample. For example, if you have about 1,000 beneficiaries, you should try to gather data from at least 100 of them in order for your data to be significant and meaningful.

Make sure the type of data you’re gathering is relevant to what you and your funders expect from your project. For example, some funders may be happy with just having the number of beneficiaries helped by your project. Other funders, however, may ask for more specific and comprehensive information on the actual benefits and impacts of your project.
**Right people**
Ensure you gather your information from the right people. It may not be solely the beneficiaries of your project that you need to approach. For example, if your project is based in a school and aimed at school-age children, you may need to gather information from the school teachers and the parents in order to get a fuller picture of how your project is impacting the children.

Once you have clarified the right people to be approached, inform them and give them advance notice, making sure you have their clear consent before you proceed. Reassure them of confidentiality. Inform them of the rationale for asking evaluation questions and allay any fears that they are being ‘assessed’ personally.

**Right method**
Develop appropriate ways of gathering data. There are a number of ways you can use for gathering information from your clients, staff or other stakeholders, including:

- Self-completed questionnaires
- One-to-one interviews
- Group interviews
- Site visits
- Content analysis of relevant documents
- Case studies

There is no one right method and you may eventually use more than one way of data-gathering. See Appendix 1 for a brief discussion of questionnaires and interviews, the two most commonly used methods, and how to use them.

3. **Analyse findings**
When you are trying to understand what the gathered information is telling you, it’s important to go back to your original aims and questions.

- Did you achieve your expected targets?
- Were the targets realistic and right?
- Were the methods used for gathering data appropriate?
- Do your project aims and objectives remain valid, or do they need revision?
- Are your findings and conclusions plausible and coherent?
- If you have determined any causal links in your conclusions, what might you do to verify that the link is real and not simply a chance occurrence?

4. **Reporting on your findings**
As you are planning your monitoring and evaluation programme you should create a reporting timetable
and set out what you will report at each point.
When reporting monitoring data, ensure that you organise and present the data clearly. Use charts and diagrams if appropriate to show trends. When reporting the outcomes of an impact evaluation, ensure that the outcomes are clearly related back to the stated objectives of the project. Below are some suggestions of what a reporting timetable could look like.

**Example Reporting Schedule**

**Monthly**
Share key monitoring outputs with management team, eg performance against budget, user numbers, etc.

**Monthly/quarterly**
Report key monitoring outputs to trustees and/or board members, eg management accounts, performance against key targets

**Half-yearly/yearly**
Report conclusions of outcome evaluations to external and internal stakeholders, eg funders, sponsors, trustees, beneficiaries

**Annually**
Formal reporting and accounts submitted to Companies House (if you are a registered company) and to the Charity Commission (if you are a registered charity)
Annual report to summarise progress on the project circulated to all stakeholders

**Three-yearly**
Conduct an independent impact evaluation by contracting an external evaluation expert (this can usually be expensive and is normally only conducted by larger organisations). Alternatively, conduct an internal impact evaluation yourself by using your existing human resources

5. **Case example: Breakfast Clubs**
Let’s consider an example project to see the steps involved in setting up a monitoring and evaluation programme, and making sense of the information gathered.

Project aim: To improve school children’s eating habits and concentration levels in lessons through the provision of nutritious breakfast clubs in schools across the UK.
Examples (not exhaustive)

<table>
<thead>
<tr>
<th>Input indicators</th>
<th>Output indicators</th>
<th>Outcome indicators</th>
<th>Impact indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keep admin costs to less than 30% of total project spend</td>
<td>Set up four breakfast clubs in Tower Hamlets by the end of 2005</td>
<td>Improve the concentration levels of children in morning classes</td>
<td>Develop life-long healthy eating habits in children</td>
</tr>
</tbody>
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**Step 1: Set clear and measurable objectives. Set time-boundaries for achieving these**

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<thead>
<tr>
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</tr>
</tbody>
</table>

**Step 2: Set up data gathering systems and processes and start to gather data**

<table>
<thead>
<tr>
<th>Input indicators</th>
<th>Output indicators</th>
<th>Outcome indicators</th>
<th>Impact indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keep records of all the clubs you are working with and the date that they started. You could keep a copy of a letter to the head of the school confirming that the club has successfully opened</td>
<td>Prepare a simple questionnaire or interview template and sit down with teachers to assess whether they think that the children who attend the breakfast clubs are concentrating better in class. Keep a record of quotes – these can be very powerful</td>
<td>Conduct annual follow-up questionnaires and interviews with children over the ensuing 10 years to assess changes in eating habits and attitudes Set criteria for what constitutes healthy eating and score participants against these If possible, compare a group who attended breakfast clubs with a control group</td>
<td></td>
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**Step 3: Check the validity of data gathered**

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<th>Input indicators</th>
<th>Output indicators</th>
<th>Outcome indicators</th>
<th>Impact indicators</th>
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</thead>
<tbody>
<tr>
<td>Sense-check information to see if it seems reasonable, eg if admin costs are very high check whether the costs are correctly categorized</td>
<td>Are the clubs actually up and running rather than just agreed in principle? Do they have attendance registers?</td>
<td>Are all questionnaires being completed in the same way, eg handed out to participants or conducted as interviews?</td>
<td>What other factors are influencing eating habits and attitudes?</td>
</tr>
</tbody>
</table>

**Step 4: Look for patterns in the data and draw conclusions from these**

<table>
<thead>
<tr>
<th>Input indicators</th>
<th>Output indicators</th>
<th>Outcome indicators</th>
<th>Impact indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Summarise financial data highlighting performance against the specific targets that you set</td>
<td>Summarise number of clubs and date of opening</td>
<td>Summarise interviews and questionnaires from teachers and children Try to make direct links between attendance at the clubs and improved concentration Try to account for other influencing factors</td>
<td>Look for trends in the stories told during interviews Look for patterns and differences in the data collected in questionnaires If you were able to set up a control group, compare the data from this group with data from the clubs and try to identify any significant differences between them (using statistical tools where possible) Try to filter out and explain other influencing factors</td>
</tr>
</tbody>
</table>
Appendix 1: Questionnaires and Interviews

Below is a brief discussion of questionnaires and interviews, the two most commonly used methods for gathering data.

1. Questionnaires

Questionnaire design

Design of the questionnaire can be split into three elements:

• Determine the questions to be asked.
• Select the question type for each question and specify wording.
• Design question sequence and overall questionnaire layout.

The questions you’ll be asking will depend on who you’re asking and what information you’d like to get from them. Here, you have to think creatively as well as explore the questions asked by others who have run projects similar to yours.

Do not clutter the questionnaire form with unnecessary headings and numbers. However, it is good to ensure that the questionnaire has a title and a brief introductory statement. Contact and return information should be included on the questionnaire, irrespective of whether addressed envelopes are provided; these can easily become separated.

Lay out the questions and answer choices neatly and attractively.

Try to be consistent in aspects such as wording. Avoid using lots of lines, borders and boxes since these can make the page look too cluttered. A key factor that affects the response rate is the length of the questionnaire: questionnaires perceived as long will deter respondents.

Use a good legible font. Make good use of italics and bold types, but be consistent.

If you’re relying on the respondent to complete the questionnaire, begin with questions that will raise interest. Try to keep the flow of the questionnaire logical and simple; avoid complex branching.
Question types
There are different types of questions you can use in your questionnaire – for example, open versus closed:

- Open questions can be useful because they give the respondent the chance to tell you more information. Open questions, however, elicit a whole range of replies of varying lengths and articulation, making it more difficult to compare replies meaningfully.
- Closed questions provide several pre-written answers for the respondents to choose from. This makes comparison less difficult, but you have to make sure the pre-written answers are broad and exhaustive enough to satisfy your objectives and respondents’ needs.

Wording questionnaires
- Be concise and unambiguous; make questions brief and clear; avoid jargon.
- Avoid double questions, for example, ‘Do you think the British should eat more healthy food and exercise more?’
- Avoid questions involving negatives, for example, ‘Are you against a ban on smoking?’
- Avoid leading questions, for example, ‘Do you agree with the majority of people that banning smoking in public places is good?’
- Allow for privacy and do not ask questions which may offend. If you need to ask some personally searching questions, it helps to explain as much as possible about your research to the respondent, both at the beginning and throughout the questionnaire.
- If you make promises of confidentiality, comply with such promises. However, it might help to explain what is meant by confidentiality rather than just give a blanket reassurance. For example, ‘Your responses will be treated with confidence and data will be presented in such a way that your identity cannot be connected with them.’
- Consider involving your clients in designing the questionnaire to ensure that questions are appropriately constructed and understood.
- Test (pilot) the questionnaire on a small sample of your respondents. The aim is to detect flaws in your questioning and correct these prior to your actual survey.

Self-completed questionnaires
In addition to the above considerations, consider the following:

- Emailing questionnaires can be quicker and provide higher returns, but you need to ensure that all respondents have access to a computer.
- Handing the questionnaire to the respondents and getting them to complete it on the spot can ensure a good response rate.
- Send out three to four times as many questionnaires as you would like returned, as response rates can often disappoint.
- Ensure that Data Protection Act regulations are complied with before issuing questionnaires.
2. Interviews

Interviews are a means of gathering data from your clients, staff and other stakeholders about their experience since using or being involved in your project. Stories and statements obtained during interviews can qualify and give context to numerical data gathered through questionnaires. Interviews are thus equally as important as questionnaires for telling you if you and your project are making a difference.

Interviews can be semi-structured, with a number of questions for all interviewees in order to gather information on the same issues from all of them. These questions can be relatively open and allow interviewees to choose how to answer them. This will tell you what they find important and interesting without you pre-judging this.

There are a number of considerations to bear in mind before you decide to use interviews:

- If your clients have a low literacy level, interviewing them would be better than giving them a questionnaire since the interviewer can make sure the questions are understood.
- Whilst interviews can be time consuming and costly, they often give you in-depth information on exactly how your project is helping your clients.

Group interviews, if facilitated well, can lead to in-depth discussions. However, some of your clients may not feel comfortable criticising the project in a group situation. If different interviewers are involved, particularly in large-scale evaluations, then you have to ensure some consistency across all interviews. You can, for example, design an interview template to be used by all interviewers.

It is up to the interviewer to customise interview questions to clarify or focus on what is being asked and to meet the individual circumstances of each interview, such as:

- Paraphrasing the questions to use language with which you and your interviewee(s) are more comfortable.
- Varying the order in which you ask questions.
- Referring to previous answers when asking later questions – eg ‘You told me that … is there anything to add about …’
- Tailoring the interview to the person being interviewed – eg not asking them questions to which they cannot know the answers.
Appendix 2

Further information

If you are interested in free online monitoring and evaluation tools and databases, there are some suggestions below. The list is not exhaustive, so please use the sites as pointers for further exploration.

Online tools

First Steps in Monitoring & Evaluation
www.ces-vol.org.uk/files/Monitoring_evaluation.pdf
A booklet developed by the Charities Evaluation Services particularly for small projects and voluntary organisations with little or no experience of monitoring and evaluation.

Enterprise Development Impact Assessment Information Services
www.enterprise-impact.org.uk/informationresources/toolbox.shtml
Offers a comprehensive evaluation toolbox including topics such as ‘how to design an evaluation on a shoe string’.

Research Initiative on Social Entrepreneurship (RISE)
www.riseproject.org
A research project at Columbia Business School, whose mission is to study and disseminate knowledge about the markets, metrics and management of for-profit and non-profit social enterprise and social venturing. It has a useful ‘Reports’ section which includes a comprehensive report on social impact assessment methods, and a ‘diagnostic toolkit’ identifies points of relative strengths and weaknesses for a social venture.

Social Return on Investment (SROI) Primer
http://sroi.london.edu/resources.html#public
The SROI Primer is a web tool designed to introduce how to measure social outputs, outcomes and impacts, and how to use the SROI approach to valuing some social impacts in monetary terms. The Primer is a result of collaboration between the London Business School and the New Economics Foundation.

New Ways of Measuring
Part of the New Economics Foundation’s website, New Ways of Measuring gives a useful list of the most recent and tested approaches to evaluation. It’s a good place to start if you’re shopping around for evaluation techniques.
Your Project & its Outcomes
www.biglotteryfund.org.uk/programmes/ypf/assets/ypf_outcomes.pdf
A step-by-step guide prepared by the Charities Evaluation Services for the Big Lottery Fund to help grantees and award winners describe the outcomes their projects are aimed to achieve and how to show they’ve been achieved.

Measuring Impact: A Guide to Resources
A guide prepared for the National Council for Voluntary Organisations (NCVO) that aims to offer direction to anyone in the voluntary sector interested in measuring impact. It gives a comprehensive analysis of some of the available approaches and tools for impact measurement.

Civicus Civil Society Toolkits
www.civicus.org/new/content/civtoolkits2.htm
Provides free (more lengthy) toolkits to help civil society organisations. Includes one on monitoring and evaluation.

Online Databases
Compendium of Assessment and Research Tools (CART)
http://cart.rmcdenver.com
This is a database which provides instruments for measuring attributes associated with youth development projects and programmes. The website includes thorough descriptions of various tools, research instruments and guides for those interested in evaluating the effectiveness of school-based youth development activities.

Measures for Community Research Database
www.aspenmeasures.org
A collection of measures used to evaluate outcomes for the following topic areas: community building, economic development, employment, education, housing and neighbourhood conditions, neighbourhood safety, social services, and youth development. The site features descriptions of primary data collection instruments, interview protocols, and self-assessment guides.

Project Star
www.projectstar.org/star/library/new%20library.htm
This is an AmeriCorps State/National Direct website. It provides links to sample data collection tools by topic area. Topics include community strengthening, health, literacy, member development, environment, tutoring, youth activities and mentoring.
Additional Tools for You

Personal SWOT
Setting Personal Goals
Time Management Techniques
Barometer: Personal SWOT

Background

SWOT (Strengths, Weaknesses, Opportunities and Threats) analysis is mainly used for organisational and business strategies (see How are you going to do it? Drafting a Business Plan), but it also can be powerful as a personal tool.

If your enterprise or project idea needs support beyond your own personal strengths, you’ll need to involve other people with the right qualities. You might be weak in certain areas, such as managing money, in which case you will need to think about how you can address these weaknesses.

What is this topic about?

We will explain how to carry out a personal SWOT analysis.

Undertaking a personal SWOT analysis

**OVER TO YOU...**

Use this template to build up a personal SWOT analysis.

Under **Strengths**, think about your skills and other areas that bring you an advantage; for example, perhaps you have good connections or access to support networks. In the section on Sustainability Tools one of the sections (*It’s all about you: What skills, knowledge and personal qualities do you need?*) includes a skills auditing tool. Refer to this if you haven’t done so already.

Under **Weaknesses**, think about areas that you need to address or improve.

To help you to think about your strengths and weaknesses answer following questions:

- Can you cope with calculated risks?
- Do you have the self-confidence and self-belief needed to get the project off the ground?
- Do you have the commitment needed to realise your idea?
- Are you prepared to put the work in?
- Do you have the interpersonal skills to work with a broad cross-section of people?
- Will you be resilient when, inevitably, things don’t work out quite as you planned?
- Are you good are coping with pressure and stress?
Get a second opinion.
Ask your family, friends and colleagues what they think your strengths and weaknesses are.

Finally, use Opportunities and Threats to explore any issues that face you beyond your project/organisation. Draw on your strengths and weaknesses to do this. For example, if you are strong at relationship building this might present an opportunity to develop new networks.

When you complete the personal SWOT, don’t stray into project issues, but, as its name suggests, restrict your thinking exclusively to the personal sphere. It’s all about you!

<table>
<thead>
<tr>
<th>Personal strengths</th>
<th>Personal weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th>Personal opportunities</th>
<th>Personal threats</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tr>
</tbody>
</table>

As you work through other aspects of the Toolkit, you may wish to return to this SWOT and update it from a fresh perspective, based on your growing understanding of what is required to set up and run sustainable projects and organisations.

Take Action!
Talk to your mentor/adviser/Development Manager/guru about any issues your SWOT raised. Think about how you will address any weaknesses or threats you have identified.
On target: Setting personal goals

Background
Before you set up your project, it is important to set your own personal goals. These describe what you want to get out of it and will help to guide your development.

Why is this important to sustainability? Well, if the project or organisation you wanted to start did not fit with what you wanted to get out of life, then it would make it more difficult for the project/organisation to be successful. You may also find that the project’s goals end up conflicting with your own personal ambitions. Setting clear personal goals will also help motivate you and the overall project.

What is this topic about?
We ask you a set of questions to guide your personal goal-setting and highlight what’s involved in work–life balance.

Guide questions
To identify your personal goals use the following questions as a guide:

- What is driving you personally to set up your project or organisation?
- Where did the project or enterprise idea come from? Is it inspired by a vision you have?
- Do you want to earn income from the idea as a social entrepreneur or through eventually becoming a salaried employee of the new organisation? If so, roughly how much would you like to earn per year?
• Are you investing some of your own money into the project? In which case, do you want to see a return on that investment?

• Do you want to get a sense of personal satisfaction and achievement from seeing your idea get off the ground?

• Do you want to develop skills and knowledge through it, or gain a qualification? How do you see these new found skills and knowledge helping you in your life?

• How many hours each week are you willing and able to commit to the project?

Work–life Balance – Setting Boundaries

Another key issue to think about is work–life balance. You will need to reconcile the demands of your project with the needs of your family and personal life. Are you confident that your family and the people around you will support you, or is there likely to be resistance, especially if the project takes up a lot of your time?

You may be trying to set up a community project and hold down a paid job, in which case you will have to set clear boundaries between the demands of the project and the rest of your life.

Getting your work–life balance right should be one of your goals, so that you can sustain your drive, commitment and enthusiasm.

**OVER TO YOU ...**

Use the priorities board below to list your key personal goals. Try to map these to the timeline indicated. A tip here is to start with your longer-term goals (10 years) and then work back to shorter-term goals.
Priorities board: Personal Goals

Timeline

10 years
5 years
3 years
Next
12 months

Additional Tools: Setting personal goals
Stop the Clock!
Time Management Techniques

Background

Time is one of your key resources. Some basic time management techniques will help you to achieve better results and make your approach more sustainable.

A golden rule is to concentrate on results. Many people spend the day being incredibly busy without actually achieving that much because most of their efforts are wasted on pursuing the wrong things.

What is this topic about?

We will introduce you to the following tools:

- Activity logs
- To-do lists
- Action plans

Activity logs

An activity log is a simple tool for recording and reviewing how you use your time. It helps to identify whether you are using any of your time on low-value/low-payback tasks and activities, and, if so, how much. This then allows you to re-focus your energies on more important tasks, as appropriate.

An example of an activity log is provided below.
**Over to you...**

Keep an activity log for at least a week and then analyse the results. Every time you change activities, e.g. answering your emails, going to a meeting, making coffee, chatting to friends, etc, make a note of the time.

When you start to analyse your log, you may be shocked to discover how much of your time is eaten away by low-value activities. Try redressing this by:

- Eliminating the low-value jobs that you don’t really need to do.
- With other low-value jobs that you cannot eliminate, trying to reduce the amount of time spent on them.
- Where possible, minimising the number of times a day you switch between different types of task.

For example, read and reply to emails in, say, a couple of blocks per day – once in the morning and once in the afternoon. This will help you to build up blocks of concentrated time and effort.

**To-do lists**

A to-do list is another simple, yet powerful, tool for effective time management. It is a prioritised list of all the tasks that need to be done. It helps you to organise your workload by breaking jobs down into small, manageable tasks.

**Over to you...**

Use this template to list and prioritise your current tasks. Put the highest priority tasks at the top and then work down to the lower priority ones. Then approach the tasks in their order of priority.
Don’t confuse importance with urgency. Some tasks are urgent without being important at all.

When used effectively, to-do lists can help you manage stress (see Arggghhh! Managing stress). They stop you being overwhelmed or out of control. They also build up a sense of personal achievement once you tick off the tasks on the list.

**Action plans**

Action plans are a bit more sophisticated than to-do lists. They focus on one particular activity and break it down into a number of core components, so you can track whether the activity has been completed. Here’s an example of a completed action plan. It concerns organising a consultation event to decide whether the local community would like to host a carnival.

<table>
<thead>
<tr>
<th>Action</th>
<th>Deadline</th>
<th>Achievement indicator(s)</th>
<th>Who else is involved and how</th>
<th>Status (ie pending, complete)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Publicise event by contacting the two local residents’ associations and distributing posters to community venues</td>
<td>By end of September 2007</td>
<td>Both residents’ associations contacted Posters put up in at least 10 venues</td>
<td>Chairs of the residents’ associations – cascading information to members</td>
<td>Complete</td>
</tr>
<tr>
<td>Draft a simple questionnaire to be completed by people attending the event</td>
<td>By beginning of September 2007</td>
<td>Questionnaire complete and trialled by at least 10 people</td>
<td>Mentor – advice on questionnaire design Members of residents’ associations to trial draft questionnaire</td>
<td>Complete</td>
</tr>
</tbody>
</table>
The final column in the action plan is designed for you to track the ongoing status of each contributory action, signing off when it has been completed.

**OVER TO YOU...**

Select an activity you are working on and complete this action plan.

<table>
<thead>
<tr>
<th>Action</th>
<th>Deadline</th>
<th>Achievement indicator(s)</th>
<th>Who else is involved and how</th>
<th>Status (ie pending, complete)</th>
</tr>
</thead>
<tbody>
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</tbody>
</table>
Arggghhh!
Managing stress

Background
All the tools and techniques we have looked at in this section help to reduce and control stress, if they’re used effectively.

A common definition of stress is: the condition where an individual feels that demands outstrip the personal and social resources that he/she has available and can mobilise.

Altering the balance by making the demands more manageable and/or increasing the resources available to you should reduce the causes of stress.

Excessive stress can be dangerous. For example, there is a well-established link between stress and heart disease.

What is this topic about?
We will introduce you to some simple tools to deal with burn-out.

Burn-out
Getting a complex, challenging and demanding project off the ground means you could be prone to burn-out, which is where you run out of energy and enthusiasm. The following tools can help you deal with potential burn-out:

- Burn-out diagnostic
- Pressure points register
- Stress management checklist

Burn-out diagnostic
The burn-out diagnostic is a self-assessment tool to enable you to gauge whether you are at risk of burn-out.
Assess your stress levels by taking the following test. Tick the most appropriate column in each case and indicate a total for each column at the bottom.

<table>
<thead>
<tr>
<th>Question</th>
<th>Not at all</th>
<th>Rarely</th>
<th>Sometimes</th>
<th>Often</th>
<th>Very often</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Do you feel run down and drained of physical and emotional energy?</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2  Do you feel negative about the work you are doing?</td>
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<tr>
<td>3  Are you less sympathetic towards people than perhaps they deserve?</td>
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<tr>
<td>4  Do you get irritated by minor problems or by colleagues?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5  Do you feel misunderstood or unappreciated by your colleagues?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6  Do you feel that you have no one to talk to?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>7  Do you feel that you are achieving less than you should?</td>
<td></td>
<td></td>
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<tr>
<td>8  Do you feel under an uncomfortable level of pressure to succeed?</td>
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<tr>
<td>9  Are you not getting what you want out of your work?</td>
<td></td>
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</tr>
<tr>
<td>10 Do you feel that you are in the wrong area of work?</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11 Are you becoming frustrated with aspects of your work?</td>
<td></td>
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<tr>
<td>12 Do you feel that factors and influences in the wider operating</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>environment are frustrating?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13 Do you feel that there is more work to do than you can practically</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>cope with?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14 Do you feel that you do not have enough time to do all the things</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>needed to do a good job and to achieve your objectives?</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15 Do you not have enough time to plan as much as you would like to?</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

**Total for each column**
Scoring system

Allocate the following weightings to your answers:

- Not at all: 0
- Rarely: 1
- Sometimes: 2
- Often: 3
- Very often: 4

Here is an example response and score:

<table>
<thead>
<tr>
<th>(a) Possible responses</th>
<th>(b) No. of questions answered with this response</th>
<th>(c) Weighting</th>
<th>(d) Score (= b x c)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not at all</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Rarely</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Sometimes</td>
<td>4</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>Often</td>
<td>8</td>
<td>3</td>
<td>24</td>
</tr>
<tr>
<td>Very often</td>
<td>2</td>
<td>4</td>
<td>8</td>
</tr>
</tbody>
</table>

Overall score: 41

Diagnosis

<table>
<thead>
<tr>
<th>Overall score</th>
<th>Burn-out diagnosis</th>
<th>Warning lights</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–18</td>
<td>Little or no sign of burn-out</td>
<td>Carry on as normal</td>
</tr>
<tr>
<td>19–35</td>
<td>Some sign of burn-out, particularly if several scores are high</td>
<td>Carry on as normal but monitor stress levels</td>
</tr>
<tr>
<td>36–45</td>
<td>Severe risk of burn-out</td>
<td>Deal with it urgently</td>
</tr>
<tr>
<td>46+</td>
<td>Very severe risk of burn-out</td>
<td>Deal with it immediately</td>
</tr>
</tbody>
</table>

Take Action!

If you find that your risk of burn-out is high, look at the stress management checklist (see below) to help you deal with this.
Pressure points register

Make a list of the things that you find frustrating about the project you are doing. These might include:

- Lack of recognition by funders and other stakeholders
- Spending too much time chasing short-term funds instead of concentrating on the core task
- Red tape or bureaucracy, eg having to account to funders
- Apathy towards your idea within the local community

If you are just starting out and don’t have much or any project experience, draw on your recent life experiences to compile your list of frustrations.

Once you have made your list, think about how you are going to handle these frustrations before they build up into pressure points. This might involve delegating certain tasks to others, using your time more effectively, making sure you get enough time away from your work, etc (see the stress management checklist below).

OVER TO YOU...

List your frustrations here.

Stress management checklist

Here are some tips for avoiding stress and burn-out:

• Set clear, manageable goals and stick to them.
• Set objectives that maximise your strengths and minimise your weaknesses.
• Delegate tasks wherever appropriate and possible.
• Use structured time management tools to manage your time more effectively.
• Develop your assertiveness skills so that you can say ‘no’ to ever greater demands being placed on you.
• Develop and use a support network as a source of practical help and moral support.
• Make sure that you have a life outside of your project work – put aside enough time for relaxation.
Other useful sources of information and resources

Here is a list of useful website addresses for a range of relevant information and resources, building on the topics in this Toolkit.

Take Action!

Talk to your mentor/adviser/Development Manager/guru about other sources of information you might need.

Voluntary Sector Governance Hub
www.governancehub.org.uk

Voluntary Sector Workforce Development Hub
www.ukworkforcehub.org.uk

Voluntary Sector Performance Hub
www.performancehub.org.uk

Voluntary Sector Finance Hub
www.financehub.org.uk

Volunteering England
www.volunteering.org.uk

Social Enterprise Coalition
www.socialenterprise.org.uk

Social Enterprise Partnership
www.sepgb.co.uk

Business Link
www.businesslink.gov.uk

National Council for Voluntary Organisations
www.ncvo-vol.org.uk

NCVO Collaborative Working Unit
www.ncvo-vol.org.uk/collaborativeworkingunit
NCVO Sustainable Funding Project
www.ncvo-vol.org.uk/sfp

Chartered Institute of Marketing
www.cim.co.uk

VolResource
www.volresource.org.uk

Management Help
www.managementhelp.org

Civicus Civil Society Toolkits
www.civicus.org/new/content/civitoolkits2.htm

ProHelp
www.prohelp.org.uk

ACEVO
www.acevo.org.uk/legalforms/

Charity Commission
www.charity-commission.gov.uk

Funderfinder
www.funderfinder.com

Government Funding
www.governmentfunding.org.uk

Charitynet
www.charitynet.org

Charities Information Bureau
www.cibfunding.org.uk

Directory of Social Change
www.dsc.org.uk

Charities Evaluation Services
www.ces-vol.org.uk
<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset-based development</td>
<td>An approach where social enterprises create or purchase assets, eg. property, which can generate income, eg by being rented out at a commercial rate</td>
</tr>
<tr>
<td>Creative thinking techniques</td>
<td>Creative thinking is the process used to come up with a new idea; creative thinking techniques are tools to assist this process</td>
</tr>
<tr>
<td>Creditor</td>
<td>Someone to whom your business or project owes money</td>
</tr>
<tr>
<td>Debt finance</td>
<td>If you are a social enterprise that can trade effectively in the open market and generate surplus revenue as a result, then debt finance may be a good option for financing the set-up or growth phase of the venture. This is a loan, eg from a bank, which, unlike a grant, has to be paid back with interest over an agreed period</td>
</tr>
<tr>
<td>Debtor</td>
<td>Someone who owes your business or project money</td>
</tr>
<tr>
<td>Equity finance</td>
<td>Equity finance is an alternative to loans for financing social enterprise development. It involves social investors buying shares in the company (the enterprise would need to be established as a CIC or share capital company) for which they would receive dividends payable on any profits generated</td>
</tr>
<tr>
<td>European Social Fund (ESF)</td>
<td>ESF funds projects that tackle labour market disadvantage and help improve business competitiveness. It only funds revenue activity. ESF makes a contribution (not normally more than 50%) to projects</td>
</tr>
<tr>
<td>Exit strategy</td>
<td>An organisation’s or project’s plan for what it will do after a time-limited grant has finished</td>
</tr>
</tbody>
</table>
**Funding-driven**
The state of being led by your funding ambitions, ie constantly adapting your project practice to meet funders’ requirements rather than being mission-led, which involves pursuing only funding opportunities that match with what you are trying to achieve.

**Incorporation**
This simply means an organisation setting up as some form of company.

**Joint venture company (JVC)**
A JVC describes a company where two or more organisations/companies agree to collaborate over a business venture. Each partner would hold shares in the company and agree how it should be managed.

**Learning and Skills Council (LSC)**
The LSC is the national body that funds post-16 education and training. It has 47 local arms.
There is a range of funding pots within the LSC, including ESF co-financing, where the LSC uses its own funding from the Department for Education and Skills to match ESF funding at source.
The most common route for accessing LSC funding for grassroots organisations is via voluntary/community sector consortia.

**Payroll giving**
Anyone who is paid through PAYE can use payroll giving to donate to charity. The employer needs to have a payroll giving scheme in place for employees to make donations in this way.
The attraction of this form of giving is that it is tax effective. This is because if an individual gives through the payroll, then his/her gift is made from his/her salary before it is taxed. So a monthly gift of £10 will only cost him/her £8 and a higher rate tax payer only £6.

**Procurement agenda**
This refers to the environment in which funders (typically public bodies/statutory agencies) commission services from voluntary sector organisations (and private bodies). Key to this is the relationship of ‘buyer to seller’ rather than ‘donor to beneficiary’ within the gift economy or grant aid culture.

**Self-financing**
A project or organisation that pays for itself through earned income rather than having to rely on philanthropic donations or public subsidy.
### Shares and share ownership
A share is one of a number of equal portions in the capital of a company, entitling the owner to a proportion of the distributed profits and of the residual value if the company goes into liquidation.

### Single Pot
Single Pot funding has replaced the Single Regeneration Budget (SRB), being the amalgamation of 11 separate funding streams within the Regional Development Agency (RDA). The focus of Single Pot funding is on implementing the RDA’s Regional Economic Strategy (RES) and economic regeneration activity.

### Social enterprises
The Department of Trade and Industry (DTI) defines social enterprise as “a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community” (Social Enterprise: a strategy for success, DTI, July 2002).

### Social entrepreneur
A person who uses earned income to pursue social objectives.

### Social sponsorship
Social sponsorships are negotiated between voluntary and community organisations and the corporate sector. The benefit for companies is that they get their name attached to a ‘good cause’, while the benefit to voluntary/community organisations is that they receive financial support.

### Working capital
k,-to-day operations of a business.