

Funding & Legal Identity for Social Enterprise

This briefing mainly related to funding in Scotland for social enterprises although it will also be relevant to those based in the UK. We make the assumption in the following that the core activity of all social enterprises is trading, so we have not addressed this here. In assessing a funding/investment plan for social enterprises, the following should be taken into account regarding legal identity:

- The ability to maximise external grant funding
- The minimisation of taxation
- Protection of individual business operation streams
- Ease of operation.

A number of key factors include whether the social enterprise:

- will hold property/assets
- will perform potentially *charitable* activity
- will perform straight forward *commercial* activity.

Financing Options

There are a number of potential financing options available:

- Crowd funding
- Charity/Trust Grants
- Governmental & Quasi-Governmental Grants
- Loan Finance
- Community Share Issues and their underwriting
- Social Investment and other Tax Reliefs

Pros and Cons of Some Legal Identities

Type	Advantages	Disadvantages
Charity by Guarantee or SCIO	<ul style="list-style-type: none"> • Potential Community control • Some Access to grants • Minimised taxation • Potential Social Investment Tax Relief • Future potential of restricted share issue dividends. 	<ul style="list-style-type: none"> • No ability to extract profit • No financial return on investment for investors • Can only operate “charitable” activities
Community Interest Company Ltd by Guarantee	<ul style="list-style-type: none"> • Community Interest maintained whilst allowing investor input • Some Access to grants • Eligible for SITR, SEIS & EIS. 	<ul style="list-style-type: none"> • Somewhat limited ability to extract profit • Less access to grant funding than a charity

Community Interest Company Ltd by Shares	<ul style="list-style-type: none"> • Eligible for SITR etc. • Investor control • Investor access to dividends 	<ul style="list-style-type: none"> • Little or no access to Charitable/Govt. grants • Little or no community control
Community Benefit Society	<ul style="list-style-type: none"> • Tax advantages for investors through community shares • Investor control • OSCR currently exploring possible charitable status for some Comm. Ben. Socs. 	<ul style="list-style-type: none"> • Currently little or no access to grants • Little or no community control • Investors have “equal” say regardless of investment
A private Limited Company	<ul style="list-style-type: none"> • Eligible for SEIS & EIS • Investor control • Investor access to dividends 	<ul style="list-style-type: none"> • Little or no access to grants • Little or no community control
<p>There is a new format emerging in Scotland which is a Charitable Community Benefit Society being developed between Community Shares Scotland and Stephen Phillips at Burness Paull Solicitors. This is fairly exciting (for us geeks) because it will allow investment by shares at the same time as having the advantages of charitable status. Watch this space!</p>		

Charitable Grants

Most social enterprises draw in some way from charitable grant finance. There are many commercial and free grant databases which can match geography, client group and organisational form:

- [Funding Scotland](#)
- [Grant Finder](#)
- [Funding Central](#)
- [Trust Funding](#).

For start-ups, individuals can access small awards of up to £5000 then £20000 to develop their ideas from [Firstport](#), usually followed, after incorporation, by an [Investing in Ideas](#) or [Awards for All](#) application for up to £10000. The [Big Lottery](#), [Comic Relief](#) and [Children in Need](#) fund revenue and capital projects involving social enterprises.

Governmental & Quasi-Governmental Grants

The EU, Scottish Government, local authorities and the UK Government all have funds available for investment in social enterprise:

- [EU Funding](#): The 2014-2020 EU programmes consist of substantial levels of investment in a number of streams, many of which support the role of [social enterprises](#). Particularly in the field of [employability](#).
- [Scottish Government Funding](#): The Scottish Government has provided multi £million support for the development of social enterprise, from start-up to expansion and



international work. One of our consultants conceived and developed the Governments [Social Entrepreneurs Fund](#). Scottish Government support for social enterprises can also be found in their general [funding programmes](#).

- [UK Government](#): many Scottish social enterprises assume that UK funding is off-limits. Whilst this is largely true, there are occasionally [funding opportunities](#) promoted at UK level which can be missed.

Loan Finance

Loan finance is becoming more popular for social enterprises to develop activities including [new trading areas](#) and [capital development](#) (we helped each of these projects broker their funding). Information on Loan funders can be found here:

- [Scottish Community Investment Trust](#): provides the best summary of loan providers in Scotland currently.
- [Social Investment Scotland](#): offers loans in conjunction with Big Society Capital and others of up to £1m. They offer [flexible terms and start-up loans](#). One of our consultants has been a member of investment decision making panels in SIS since 2007.
- [Resilient Scotland](#) has an excellent [grant/loan combination](#) for certain postcode areas available both to start-ups and developing social enterprises.
- [Big Issue Invest Scotland](#): works in conjunction with [DSL](#) and [Life Changes Trust](#)
- [Triodos](#): offer an ethical lending/investment policy.

Many social enterprises often use generalist business loan funders such as BoS and RBS, However, the noted new private entrants to the field of social enterprise finance include [Airdrie Savings Bank](#) and [Handelsbanken](#).

Crowd & Peer Funding

[Crowd Funding](#) has become a significant new way of raising finance quickly with few strings. There are some crowd funding platforms specialising in crowd sourcing [community share issues](#) and a number which prioritise Scotland:

- The [Lending Crowd](#)
- [Crowd Fund Scotland](#)
- [Just Giving](#)

[NESTA](#), amongst others, are lending their support to this developing area. A typical example of a recent small crowd funder that one of our consultants advised on is [Common Good Food](#).

Community Shares & SITR

Taking a [Community Shares](#) approach would usually mean setting up a Community Benevolent Society. A summary of the attributes are as follows:

- Tax shelter for three years for investments up to £20000
- Board are elected by members – members are investors



- Members have an equal voting rights irrespective of investment
- Interest rates should be reasonable

The disadvantages for potential larger scale investors would be their potential lack of control of the direction of the company. A number of organisations can underwrite share issues, including:

- [Resonance](#)
- [The Coop](#)

An alternative/additional approach would be to utilise investment through [Social Investment Tax Relief](#), [Enterprise Investment Scheme](#) (EIS) or [Seed EIS](#) (SEIS). An analysis indicates that SITR

- is not as generous as SEIS
- offers the same tax reliefs as EIS
- allows for tax relief on debt (unlike SEIS & EIS)
- is much more attractive for you financially than commercial loan finance
- can attract up to £200k investment for start-ups (soon to be £5 million)

[SKS Scotland CIC](#) worked on the very first SITR investments in Scotland, assisting a [community bakery](#) to raise £49k in SITR loans. The defining characteristics of the SITR loan are as follows:

- 30% of the amount invested is deducted from the investor's income tax liability
- Carry back facility for investments made after 5 April 2015
- Investors must hold their investments for at least three years in order to qualify

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