

# 7.1

## DIFFERENT STRUCTURES; LEGAL STRUCTURES

- The Legal Basis Of Social Enterprises
- Other Structures For Social Enterprise
- Choosing A Legal Basis
- Advantages And Disadvantages Of Models Of Organisation
- Community Enterprise - A Model For Local Economic Regeneration
- Reasons For Setting Up A Charity
- Useful Contacts

# THE LEGAL BASIS OF SOCIAL ENTERPRISES

There is no particular 'rule-of-thumb' on which legal structure is best for your project.

- Small projects that want to operate in an informal way and are not likely to need an overdraft or enter into contracts can remain as Unincorporated Associations.
- People who want to work together as equals and share the benefits of their activities often choose to be a Partnership or Co-operative.
- Longer-term projects which employ people, which enter into longer-term agreements or are acting on behalf of other people adopt a set of rules and claim 'limited liability' by incorporating as either a Company or a Friendly Society.
- If you aim to operate altruistically, for the benefit of other people not yourself, then you may seek Registered Charity status, though not all economic development or regeneration activities are charitable.

The main decision to make is whether to remain informal (Unincorporated) or - in exchange for regulation by law - claim limited liability status (by Incorporating).

## Incorporating A Social Enterprise

There are three main ways to 'incorporate' a social enterprise, giving the project a legal status and limiting liability of members for the project's debts (if any).

### 1 : Industrial And Provident Society

The project can incorporate under the Industrial And Provident Society Acts as either a 'Bona Fide Co-operative' or a 'Society For The Benefit Of The Community' - a minimum of 7 people are required. If the aim of your project is charitable and its members wish to share in the benefits then you should register as a 'Society'.

### 2 : Company Limited By Guarantee

A Community Enterprise or Co-operative can become a Company Limited By Guarantee - a minimum of 2 people are required. As a Company Limited By Guarantee, the company has a separate legal identity and the individuals will not have to use their personal possessions to pay off the debts of the company in the event of liquidation: the members are therefore said to have limited liability. On joining the company, a member 'buys' a nominal share - usually of £1 - this is the extent of the member's financial liability for outstanding debts on liquidation (providing that company law has been followed).

### 3 : Community Interest Company (CIC)

There are two main features that distinguish the CIC from other corporate forms. The compulsory asset lock and the community interest test. The asset lock will ensure that assets may only be distributed to a similar organisation and not to members or investors. The community interest test must be passed by all organisations wishing to register as a CIC. CIC's must be registered with Companies House and will either take the form of company limited by guarantee or company limited by shares.

Both Co-operatives and Community Enterprises exist to promote social as well as commercial objectives and part of the annual profits should be used for social activities.

Membership is restricted to those who share the same interest or relationship to the organisation, for instance employment or living in the same area so the members control it. If they raise loans or grants the funder doesn't usually get a vote. In Co-operatives members are equal partners and people work co-operatively. Both are run democratically (in theory!) on the basis of one person - one vote. Community Enterprises are usually run by a small group or committee representing the 'community' and employ people to do the work - they are therefore hierarchical, unlike Co-operatives.

If the project closes down, the assets go first to meet its debts and the remainder passed on to other similar projects or go back to funders.

## Setting Up A Social Enterprise

When establishing a social enterprise, there are a number of legal structures to choose from, defined by:

- Its aims, and the beneficiaries of its activities
- Who owns the social enterprise and can benefit from its success; and
- Who has the final say or authority in it

Whatever the mix of these three, a social enterprise can be incorporated - that is established legally as a distinct and separate thing from its founders or members - in one of three ways. It can be:

- A company limited by guarantee
- A company limited by shares
- An industrial and provident society (IPS)
  - see below

## Aims And Beneficiaries

The decisions you make about aims and beneficiaries often determines what your social enterprise is defined as legally, what rules it can adopt and how it can operate legally.

For instance, a social enterprise to benefit the workers in it is often called a 'worker's co-operative' or 'employee-ownership enterprise' and registers under one set of rules. A social enterprise formed to benefit disabled people is called a 'social firm' and often operates as a charity.

## Ownership

There are two options:

- **Common Ownership** - this is the usual basis of charities and companies limited by guarantee: profits or surpluses can only be used to support the aims of the organisation (i.e. not distributed to members) and if the organisation is wound up, its assets cannot be shared out but must be given away to a designated organisation or one with similar aims.
- **Co-Ownership** - profits and assets can be divided amongst members, usually in proportion to their involvement in the organisation or their investment in it. This is often used for partnerships between social enterprises or 'for profit' co-operatives.

## Control

Who you want to control the organisation often determines its structure and legal basis.

If, for instance, you want the employees to own and control the organisation and benefit from its success, you are probably setting up workers co-operative on either a common or co-ownership basis.

If you are a group of social entrepreneurs who want to control the organisation but not benefit from it you're probably establishing a social business company limited by guarantee.

A charity can benefit only its beneficiaries but if its controlled by members it usually registers as a company; if controlled by a smaller group who are self-appointing (the 'trustees'), as a trust.

## Registration

Companies must register under the Companies Act. Co-ops can register as companies (see above) or register with the Financial Services Authority (FSA) under the Industrial and Provident Societies Act. Community Interest Companies must register with the CIC Regulator. An organisation that wants to be a Registered Charity must do so via the Charity Commission (see below).

## Action Plan

- Get advice on which legal structure to use.
- Ask for model rules for your organisation. There may be a charge, but this is cheaper and quicker than asking a solicitor to draft a new set of rules.
- Get advice on the different options for raising finance.
- Incorporate your organisation or ask your business adviser or professional registration service to do it for you.

# OTHER STRUCTURES FOR SOCIAL ENTERPRISE

## Partnerships

A partnership is a collection of individuals or organisations rather than a separate legal entity. The business is not separate from the partners and their finances; each partner is liable to pay for **all** the outstanding debts in the event of a liquidation. If a partner runs up debts and disappears, the other partners are liable for all those debts. This usually only becomes clear when the tax man or Customs And Excise present a bill for money not paid.

In theory, if a member joins or leaves the old partnership is dissolved and a new one formed which can cause headaches. You may need to draw up a new agreement between the partners (a Partnership Deed) or re-do your letterheads. The normal maximum size for a partnership is 20 partners.

The partners generally have a say in running the business in proportion to their investment in it and therefore may not be equal; the partners share the firm's profits in proportion to their investment.

There is no reason why a group of social enterprises shouldn't form a partnership, especially a temporary one, but if they want to co-operate on a long-term basis they are more likely to establish a jointly-owned company limited by guarantee or be shares.

## Company Limited By Shares

A company limited by shares is a separate legal entity formed by individuals or organisations who want to operate a business together and for their ownership to match their investment.

Shareholders own the company - having provided the capital - and their liability is limited to the amount of share capital they hold. They have the overall right to control the company's affairs by voting at the general meetings but it is the directors who are entrusted with the task of managing the company on a day to day basis.

One of the major differences between Co-operatives and both Community Enterprises and share-based Companies is that in the latter cases, control of the organisation is in the hands of people who often don't work for the company.

In the event of liquidation, the directors are not generally liable for the company's debts unless they act outside their powers, recklessly or fraudulently. The shareholders are liable only to extent of their investment in the company.

In return for their investment, shareholders are awarded dividends on a yearly basis out of the profit that the company is making; generally no dividends are awarded if the company is making a loss.

## Employee-Owned Businesses

In an employee-owned business all employees control and/or own shares in the company - or have the chance to do so in the future. You can create employee ownership:

- By selling shares to employees
- Through schemes that allow employees to buy or own shares when key targets or a fixed date are reached
- Through governing rules (e.g. for companies limited by guarantee where all members have equal voting rights)

These formats are useful for high-growth start-ups, social enterprises, and employee buy-outs. In large social enterprises, the individual member's share is often less than £100. In employee-owned firms it may be large (£2,500 to £10,000 plus).

Employee-owned businesses can adopt one (and sometimes more) of the following structures:

- Company limited by shares
- Industrial and provident society (IPS)
- Company limited by guarantee
- Partnership
- Co-operative
- Employee share ownership plan (ESOP)

The choice will depend on available finance, number of employees, business size, desired management structure, and the purchase price of the existing business (if relevant).

**Find out more about business structures for employee-owned businesses from the Employee Ownership Options website.**

Some of the **advantages** of employee-owned businesses include:

- Start-up businesses can raise cash by selling shares to employees.
- Employee ownership helps a growing business recruit and retain key employees.
- Improved employee motivation leads to better performance.
- Tax incentives are available for businesses that encourage employee ownership.

One **disadvantage** of employee-owned businesses is that it dilutes control of the business and profit share away from the original owners as it grows.

### Setting Up An Employee-Owned Business

If you want to set up an employee-owned business, your business adviser or accountant can advise you on the most suitable structure or employee share scheme. You can also find a specialist adviser at the Employee Ownership Options website or through the Co-operatives UK website.

## Charities

To be a charity an organisation must have aims - **charitable purposes** - that are exclusively charitable. These can be:

- The relief of financial hardship
- The advancement of education
- The advancement of religion
- Certain other purposes for the benefit of the community

Learn more about charitable purposes and rules and find out which organisations are not suitable for charitable status from the Charity Commission's website.

Some **advantages** of having charitable status include:

- Charities enjoy a wide range of tax benefits and business rate discounts
- Their status helps them raise funds more easily than non-charitable bodies
- They get free advice from the Charity Commission

Some **limitations** of having charitable status include:

- Activities are restricted to those for charitable purposes
- Strict campaigning, trading and financial reporting rules apply
- Trustees are subject to certain rules and restrictions

Read more about the advantages and limitations of being a charity on the Charity Commission website.

## Choosing A Governing Document

There are three main types of governing document. Which you choose determines the type of organisation the charity will be.

Governing Document	Organisation Created
Constitution or rules	Unincorporated association
Memorandum and articles of association	Company limited by guarantee
Trust deed	Trust

To help you set up a charity, the Charity Commission provides model documents for the above structures. Some national charities also produce a standard governing document, for use by organisations associated with them.

## Registering A Charity

You must register with the Charity Commission if your organisation is set up under the law of England and Wales, is established for exclusively charitable purposes, and either:

- Has an income of more than £1000 a year
- Uses or occupies land or buildings
- Has assets that constitute permanent endowment

Find out about exemptions from registration from the Charity Commission website.

Chapter 8, schedule 6 of the Charities Bill 2004 has put forward a new form of incorporated form for charities which will offer the same protection as other incorporated structures (that is limited liability and a separate legal identity). The perceived advantage is that this form will remove the dual registration that exists with charitable companies that register with both the Charity Commission and Companies House. At the time of writing, this structure has not been passed by parliament.

# CHOOSING A LEGAL BASIS

## Unincorporated Associations

A very common form for smaller groups and associations. Sets own aims and objectives, members decide things on an on-going basis, owns assets and liabilities jointly and severally.

## Conventional Companies (Public And Private)

Main aim is to maximise return on investment. Profits are divided on the basis of shareholding. Those who own shares have a proportionate voting power. Members, users or clients who own no shares have no say except through (possibly) an advisory committee. Assets can be divided up amongst shareholders after company is dissolved.

## Co-operative, Mutual Or Friendly Society

Although registered and set up in different ways, these structures have similarities. Aims are to maximise benefits for members whether housing, employment, health, social or economic benefits. Profits are usually reinvested but can be divided amongst members according to shares or contributions. Only members control the organisation. One person, one vote. Residual assets after dissolution may only be transferable to another similar organisation.

## Community Business, Enterprise Or Co-operative

Aims to maximise training and work opportunities and/or to provide socially

-needed goods and services. Profit can only be used for the benefit of the community. Members may be the general public, service users, funders, supporters and/or staff. One person, one vote. Residual assets only to a similar organisation.

## Holding Companies

The community business may operate as a holding company for several 'micro-business' projects. Though the micro-business may be trading, its profits are guaranteed to return to the community. The parent organisation can exercise supervisory control and step in if things go wrong. Typically, the holding company will be a company limited by guarantee with charitable status. The community trading projects covenant their profits to the charity. The holding company may act simply as the means by which trading ventures make efficient use of profits to achieve their (often charitable) aims or may act to develop new micro-businesses.

## Charitable Status

Charities, whether companies or not, may themselves trade where the sale of goods directly furthers the charity's main aims. But when trading activities become a large part of the charity's activities it is probably best to set up trading subsidiaries. Community businesses may covenant profits to a charity they have no connection with; or to a charitable holding company; or set up a charity itself.



## Issues In Establishing A Community Business

### A : Ownership And Control

- People involved must decide what constitutes the 'community' - a geographical area or a community of interests.
- Does control belong solely to the community or can other groups be accepted as members. If so, what is the balance of control between various groups.
- Can experts or important organisations be members? Again, what is the best balance of control between different groups.
- What is the size and composition of any managing committee?
- What role do workers or volunteers have in the day-to-day running of the organisation and its long-term plans?

### B : Benefit

- How are the benefits of the organisation's operations to be shared out, whether work, training opportunities, management responsibilities, money etc.?
- How are profits to be shared out?
- What balance should there be between income-generation, profit-making and employment and socially-necessary activities and services?

### C : Financial Structures

- How is the community business to be financed and what implication does this have for the organisation?
- What contribution is expected from members, whether finance, labour, goodwill etc and what is their liability in case of debt?
- How will financial control and reporting be exercised? And what other measures of performance (for instance job creation) will be used to assess the organisation's performance?

# ADVANTAGES AND DISADVANTAGES OF MODELS OF ORGANISATION

There are 3 ways in which organisations that are common in community environments can be defined. They are:

1 : Formal or informal

2 : Hierarchical or democratic/egalitarian

3 : Open or closed (membership)

## Formal Organisations/Structures

**Advantage** : Good at covering everything; Structured decision-making may help; Provides clear roles and authority; Better at representing and maintaining a diverse group; Provides familiarity or security.

**Disadvantage** : Slows down new ideas; Puts many people off; Resistant to change; Restricts Roles and Tasks to particular people (officers, old timers etc).

## Informal Organisations/Structures

**Advantage** : More energy; Open to new ideas and members; Able to allocate tasks flexibly.

**Disadvantage** : Information/Decisions may get lost; Easily manipulated/diverted; Not good at reviewing progress; shorter life.

## Hierarchical Organisations/Structures

**Advantage** : Quicker decision making; Clear authority/responsibility; Better delegation; Information flows controllable.

**Disadvantage** : Inequality of participation and reward; Formalised decision making; Can't always accommodate differences; Information is controlled.

### Egalitarian Organisations/Structures

**Advantage :** Greater participation levels; Better ideas generation; More familiar to most people; Able to generate approvals.

**Disadvantage :** Doesn't allocate tasks easily; Dispersed authority and responsibility; Consensus may result in bad/poor decisions; Vulnerable to faction forming.

### Open Organisations/Structures

**Advantage :** Greater participation; Better representation; More welcoming; Greater diversity of aims and objectives.

**Disadvantage :** Vulnerable to take-overs; Members don't always share aims; More likely to have poorly focussed priorities or objectives; Less loyalty from members.

### Closed Organisations/Structures

**Advantage :** Unity of culture and participation; Clear status of members; clearer boundaries of organisation. Membership confers clear rights/duties.

**Disadvantage :** Inward looking; Relatively immune to new ideas/criticisms; Vulnerable to decay from within; Can create/maintain a destructive culture.

In each case the way in which the organisation actually operates may be stated or unstated. Very often community organisations are theoretically or formally one thing and practically or informally another. They often have unstated rules, sub-cultures, a language often varying from what they do or how they act.

Anyone working in the community needs to first analyse the real structure of the organisation, work out from its history or activity why the organisation operates this way, and assess whether its structure is positive or negative and the cost benefits of proposing or initiating change.

# COMMUNITY ENTERPRISE - A MODEL FOR LOCAL ECONOMIC REGENERATION

## What Is A Community Enterprise?

### Defining The Community Enterprise

A Community Enterprise is an organisation which provides a legal framework for a group of people who wish to create social and economic benefits for the community in which they live. There can be two kinds of 'community':

- A **geographic community**, such as a housing estate
- A **community of interest**, perhaps people who share a common cause or culture.

### How Do Community Enterprises Achieve Economic Regeneration?

A Community Enterprise succeeds by reflecting the needs of the community it serves. It must take into account all social, economic and cultural factors that are important to it. It is usual for two main targets to emerge:

#### 1: The Creation Of Economic Wealth

The creation of economic wealth for the benefit of the community can involve the establishment of projects to stimulate the local economy, the financing of local employment initiatives and the provision of facilities to help create employment opportunities for people in the community.

#### 2 : The Creation Of Social Wealth

Social wealth is created through environmental improvements, provision of amenities such as childcare, and services such as community transport.

## The Role Of Community Enterprise

The Community Enterprise can act as catalyst, advisor, financier, sponsor or initiator. Whatever its activities, the Enterprise must be based on and actually practice these principles:

- Wealth created is kept in the community and used for its future benefit
- Democracy and local participation reduce dependency
- Skills are acquired and passed on to benefit the whole community
- The enterprise must be accountable to the community
- Plans and projects meet the needs and interests of the whole community

## Steps In Establishing A Community Enterprise Or Community-Based Enterprise

### The Holding Company

The model proposed makes use of the idea of a holding company or charitable trust (commonly called a Community Enterprise or Community Business) which is a stimulus for a variety of estate-based projects, mostly economic but others which are mainly social in nature but may generate income through surpluses. The holding company owns all assets and is democratically-controlled by members from the local community. Its aims are primarily to provide opportunities for work, volunteering or training.

### Main Features Of A Community Enterprise

#### 1 : Enterprise And Social Development

A Community Enterprise is concerned with the creation of community wealth, both social and economic. Therefore, it can sponsor projects that are subsidised but provide a useful service and support small business ventures which provide local employment. Community benefit ranks equally with commercial and employment objectives. Profits generated by trading are fed back to the community to benefit all. Improving the quality of life of people is the motivating force behind all Community Enterprise ventures.

#### 2 : Democratic Accountability

The membership of a Community Enterprise consists of local residents who run the organisation on a democratic one person/one vote basis. The activities of the enterprise are under the direct ownership and control of people actively seeking to promote the well-being of their community.

#### 3 : Empowerment

The Community Enterprise model is an empowering framework that actively works against discrimination, disadvantage and neglect.

#### 4 : Mutual Support

The protective management and financial umbrella allows projects to develop securely and get encouragement from mutual support among members.

#### 5 : Good Employment Practice

Because working life is part of the overall quality of life we enjoy, Community Enterprises typically try to be good employers and promote this concept in their activities.

#### 6 : Social Accountability

Social audits and councils, typically part of the internal structure of the Enterprise, allow both the registered objects and the yearly objectives to be reviewed and the effectiveness of their implementation to be measured.

## Typical Structure Of A Community Enterprise

### Owning And Controlling Community Assets

The Community Enterprise acts as a holding company for assets such as buildings and vehicles for the benefit of the community. It tries to set up a number of small businesses and community projects which are independently run but which rent community-owned assets.

Independent projects may adopt any legal form (charity, a workers' Enterprise, a partnership, private company, an unincorporated voluntary organisation or another company limited by guarantee). Each project or business is free to develop and move out of the community, but the assets remain in the community to be used by new groups.

### Involving People In The Life Of The Enterprise

Employees of all parts of the Enterprise are encouraged to take up membership of the holding company whether they live in the community or not. Additionally projects that provide work for volunteers or the volunteers themselves can take up shares. Users of the services provided and for community organisations may take up shares if appropriate.

### Managing The Enterprise

The members of the holding company annually elect a Council of Management. The constitution of the holding company may ensure that residents of the community always have at least 50% representation. The Council of Management can support or create businesses by:

- Employing staff to provide common services
- Employing staff or using specialist agencies to provide advice
- Raising funds through grants or loans
- Applying rental income to subsidise certain projects

### Making The Enterprise Socially Useful

The Community Enterprise must be socially accountable. It should define its social aims and audit these aims annually and publicly. It should ensure that its members and employees are part of a democratic organisation practising equal opportunity procedures. It should make the enterprise accountable to its community and to the consumers of its goods and services.

The Enterprise may require independent ventures to act for the social good by writing in conditions in any agreement made for the renting of assets or in any loan or grant agreement.

## Advantages Of The Community Enterprise Concept

- Any well-run Community Enterprise contributes to the strengthening of the economy of a community by circulating money within a locality and by bringing assets under community control.
- There is a high degree of worker control in day-to-day running and participation in longer term policy-making. The skills and experiences of workers are always available to the Enterprise and they have a direct incentive to work for success.
- The two tier structure maximises the sources of revenue for the community - the holding company can attract grants and as a private company can also raise share capital or loans. If a charitable structure exists, independent but associated enterprise can covenant profits back to the Enterprise in a tax-efficient way.
- The total flexibility of the Community Enterprise allows for outside professionals and local people to participate fully for the benefit of the community:

**Professionals** can be brought in to advise and support either the autonomous projects or the holding company itself;

**Local people** have the advantage of being able to become involved as volunteers on one of the projects, developing skills and confidence before becoming either employees or elected Council of Management members.

- The profits made from any trading business within the Community Enterprise can be distributed according to the wishes of the workers or volunteers who created the profit. A profitable business can loan money to the holding company to support other ventures.
- Any venture can decide to move away from the Community Enterprise in order to develop, leaving the assets with the community.

## Stages In The Development Of A Community Enterprise

### Initial Steps

#### 1 : Choosing A Steering Group

A steering group of between 10 - 20 residents and professional workers form a company limited by guarantee and become the founder directors.

#### 2 : Defining/Establishing The Vision

Members decide on initial or priority projects, balancing need with a program of development that attracts resources, support or funding.

#### 3 : Is It Feasible?

The steering group draws up a list of required community assets (e.g. premises or transport) and negotiates transfer of ownership.

#### 4 : Gathering Resources

The steering group builds resources through a fund-raising and resourcing strategy.

#### 5 : Legal Status - Charitable?

The steering group draws up and adopts a legal structure for owning and controlling assets on behalf of the community. The constitution should ensure that the controlling body (for instance, a Board of Directors) will never be dominated by workers within the project and that community interests are safeguarded.

#### 6 : Making Decisions

The steering group widens its membership and develops an executive body to get things done on a day-to-day basis or, if funded, appoints a manager or co-ordinator to manage the whole Community Enterprise. The post should have both business and community work skills. The manager is entitled to join the controlling body.

#### 7 : Planning In Detail

Members form into sub-committees, project teams or action groups to establish projects or to deal with constitutional and fund-raising matters, led by members of the steering group.

#### 8 : Getting Additional Help

Local professionals should be co-ordinated by the manager and there should be formal agreement about the roles of experts and the boundaries for their activity on behalf of the Community Enterprise.

### Years 1 - 3

- Membership has expanded and Directors are now elected after the first AGM
- As the role of the Manager expands, more staff should be employed to form a management team that services the board of directors and provides 'common services' to all projects.
- The first trading company has been set up as a wholly-owned subsidiary in which members work democratically and take charge of the day-to-day running of the trading company. The workers are either the members of the original project team or sub-committee or are recruited, or both. The workers automatically become members of the Community Enterprise.
- The trading company eventually becomes independent after 2-3 years, with a legally incorporated constitution but renting assets, which remain within the Community Enterprise. A licence agreement is drawn up.
- A Credit Union is formed, members are automatically members of the Community Enterprise.



- New projects with social benefits are formed to deliver services to the local community (for instance, welfare rights advice) and provide opportunities for volunteering. Workers are automatically members of the Community Enterprise and volunteers may be.
- The management team and directors continue to set up sub-committees to establish new projects.
- As activities expand, the Community Enterprise continues to draw in professionals and residents, but now brings in skilled people to enrich the residents skills: literacy and numeracy, job-seeking and vocational skills, advocacy and lobbying, communication skills, confidence and assertiveness, childcare.
- By the second year, some founding members will begin to leave. Some will have acquired skills and confidence and want to move on. Others will find themselves less relevant or there may have been conflicts over direction and speed, casualties of growth and change.
- If the Community Enterprise is successful it will attract marginalised or multiply disadvantaged groups. Such groups and individuals should be encouraged to join to widen its representational base.

#### Years 4 - 10

- Membership is now large. The board of directors confines itself to policy decisions and continues to set up sub-committees. Membership ceases to be individual but representational. The projects themselves are the members and send delegates to the board of directors.
- The independent projects have developed into 4 types: Project Teams, Wholly-Owned Subsidiaries, Worker Enterprises, New Community Enterprises. Involvement in the projects entitles individuals to become members of the Community Enterprise.
- Subsidiaries continue to exist, either because it is appropriate for projects which rely on volunteers to have direct management support, or it can be an intermediate stage for some projects before they become independent.
- Projects leave the Community Enterprise in increased numbers due to: **growth, collapse or change in aims.** In all cases, the assets remain with the Community Enterprise.
- The Community Enterprise should establish some mechanism for setting and monitoring its social aims, either regular social audits should be carried out or a separate Social Committee set up, or both.
- New project development should continue, projects which will expand and assist the common services being provided. As the Community Enterprise grows, so will its confidence in setting up larger and more adventurous projects.
- Residents, volunteers, skilled people and professionals will be recruited now through involvement or employment with the many projects.
- There will be a high turnover of members and the Community Enterprise must by now have a pool of talent available and be able to accept departure as a natural phenomenon: the Community Enterprise must plan for this, accept the positive leavings as part of achieved social aims and seek to minimise the negative leavings.
- The common services should expand to provide extra facilities such as training, advice, project development and a loan fund.

## Planning A Community Enterprise In More Detail

### Human Resources 1 : Experienced People

It is probable that, in the early stages, members of the initial steering group will be recruited from the membership of Community and Tenants' Associations, political and campaigning groups, or active interest groups such as social clubs or event-based groups. It is vital that residents with experience of community and collective action are interested and involved in the activities of the steering group at this time for the following reasons:

- They will find it easier to accept the procedures necessary to create and establish the organisation, especially if it is to be legally incorporated.
- They will have experience of the formation process and the means to make decisions. Their presence is vital to establishing the 'culture of enterprise' and organised activity amongst the members, as well as providing a sense of respectability to outside observers.

Such people may be moving on from established projects or ones winding down and see the new group as an opportunity. Or they may join, work within the group and then move on once it is well-established.

**Warning :** Every community contains its share of busybodies, people who may be active and involved, but unpopular with their neighbours or negative in outlook, and therefore destructive to organisations. Great care must be taken in recruiting people who can not only do the work, but are acceptable to the local community and will contribute to the Community Enterprise's positive image and good reputation.

### Human Resources 2 : Newcomers

A forming group (a steering committee) must find room for inexperienced members, since it is often these people who continue longest with the project. But they will not develop organisational skills unless provided with the active example of well-run meetings and activities. Later, as new projects are launched, prospective members of each group must be given training appropriate to each activity.

There is value in providing as many opportunities as possible for new members to join the enterprise, perhaps as volunteers, and a Community Enterprise holding company may sometimes be pursuing a local activity mainly, if not solely, to offer this way in.

**Warning :** There is no evidence that residents of an estate who have no experience of community and collective action will spontaneously take on responsibilities or possess the necessary confidence or skills to establish or maintain a Community Enterprise.

## Forming A Steering Group

There is no certain mix of people who should go to make up an effective steering group. Commitment, energy, vision and enthusiasm are important but there also need to be people who are practical and determined, people who possess good communication and presentation skills.

Professionals assisting the development of a Steering Group should carry out an assessment of the group's abilities and try to get the forming group to accept and identify with the Group's needs for particular kinds of people and skills.

What is certain, however, is that there are two key factors which can undermine the development of an effective Steering Group and, indeed, the whole project. They are:

- Every estate has 'subcultures', and their priorities and perceptions will affect the types of projects chosen for development and help to determine the level of involvement people are prepared to offer.
- Every estate has established cliques, often grouped around points of activity such as the local community centre, labour club or tenants' association. If people with established jobs or titles feel the new activity threatens their status or position, they may be apathetic or hostile to the Community Enterprise.

## Other Resources

### Premises

Community Enterprises and projects on housing estates often have the same 'look' to a visitor, primarily because so many are based in Local Authority converted flats and shops. This occurs because on such estates it is often the only property that can be acquired. Premises are a vital component of any Community Enterprise, and if none are available in the area, it is unlikely that projects can start.

### Vehicles And Other Assets

Since one role of the holding company is to build up a stock of assets under community control, the Community Enterprise will need access to money or goodwill in order to acquire vans, cars and equipment such as photocopiers and computers. The enterprise may be able to obtain grants from say, the Local Authority, sympathetic charitable trusts or local fund-raising bodies, but if no sources of funds are readily available, the group may well never take off as a viable Community Enterprise.

### Experts

Estates usually contain a range of 'professionals', be they social or community workers, teachers, vicars, welfare rights advisors, housing managers etc. The steering group will benefit from having an early sympathetic input from such people, and most successful Community Enterprises have been able to draw on a long-term commitment from one or two professionals.

## Using Experts

Such experts may become involved as part of their work, or the development of a community Enterprise may overlap with part of their workload or they may have a political or philosophical commitment to community self-management.

Their participation should be encouraged, provided, of course, that it fits in with the overall strategy and structure of the Enterprise; some community development workers may have a different approach to the one detailed here, and other professionals may have differing aims or the sections of the community they feel particularly responsible for. It is important to ensure that all these local experts are made fully aware of the aims of the Community Enterprise from the beginning and are not allowed to divert or distract the Steering Group by introducing a different agenda.

The participation of professionals must be controlled, a few actually on the controlling body with more behind in support. Professionals must never be allowed to outnumber local people. Moreover, their participation should be seen as declining with time. They must understand that theirs is an enabling role, providing information, training and support.

A good technique to encourage is the 'shadowing' or 'deputising' role: a professional worker may take the Chair at early meetings, but appoints a local person as shadow or deputy, who is trained into the role and allowed to gather experience and confidence, until they are finally able to take over the position and the professional can step down. To ensure the procedure is followed, a time limit should be set, such

as one year, after which the professional worker will not be allowed to continue in the role, no matter what the 'need'.

## Starting Work

A useful first step is to propose and carry out an estate profile covering areas such as income and employment, skills and resources, demographic profile, education and training, participation and take up of benefits, training opportunities, employment opportunities and so on. A review of physical resources (community and authority held assets) and access to expertise based in the community could also be included.

There are advantages and disadvantages in this approach as follows:

### Advantages

- Introduces research element, funders feel they can justify any policy decisions they make (in retrospect) and gives them a clear proposal to vote for.
- Tangible work produced immediately.
- Helps the community to assess the ability of experts, professionals and others assisting the process of community development.
- Provides a clear assessment of both the actual and potential capability of the community.
- Introduces outside bodies and new members to all activists.
- Provides the opportunity for a comprehensive survey of the community not just the parts those involved are familiar with.
- The profile can be used to raise awareness where it counts.

- It brings publicity to the work.
- It dispels myths about the community which may set artificial boundaries or lead to a focus on problems that don't exist or which are less important than other problems.

### Disadvantages

- The profile can become an end in itself not a means to secure resources and make plans.
- It may take too long to produce, sapping morale and reducing energy levels and commitment among community activists.
- It may seem academic, remote and irrelevant. This is especially true of profiles written for funding bodies that may need a lot of technical information. The community too must be given the chance to learn about itself.

## Setting Up A Community Enterprise

### How To Get Started

- Form the steering committee - (a group of people representing the range and variety of groups and individuals within the local community)
- Gather information, carry out research, identify resources, begin training
- Identify ideas for business/projects
- Register the community enterprise as a legal entity
- Raise money, gather resources, recruit helpers
- Choose the first business/project to develop
- Draw up business/development plan
- Raise the money required to finance the first business/project
- Launch the first business/project
- Choose the second business/project to develop
- Hold the first annual general meeting - (hold elections, affirm aims/objectives)

# REASONS FOR SETTING UP A CHARITY

There are 6 reasons for setting up a charity:

- 1 : Public benefit
- 2 : Relief of poverty
- 3 : Advancement of education
- 4 : Advancement of religion
- 5 : Other beneficial services
- 6 : Recreational facilities

## How Could A Charity Help?

- A charity for the relief of the poor could give cash or other benefits.
- A charity to advance education could operate vocational training facilities
- A charity to provide recreational facilities could only do so if it was open to the general public
- A charity for other beneficial purposes could help the mentally or physically handicapped

## Contacts

### Charity Commission

2nd Floor, 20 Kings Parade,  
Queens Dock, Liverpool L3 4DQ  
0151 703 1500

8th Floor, Clarence House, Clarence Place,  
Newport, South Wales, NP19 7AA  
0845 300 0218

### National Council For Voluntary Organisations

Regents Wharf,  
8 All saints Street, London N1 9RL  
0207 713 6161

### Welsh Council For Voluntary Action

13 Wynnstay Road, Colwyn Bay,  
Conwy, LL29 8NB  
01492 539800

### Directory Of Social Change

Radius Works, Back Lane, London NW3 1HL  
0208 435 8171

### Charities Aid Foundation

48 Pembury Road, Tonbridge TN9 2J2  
0732 771333

## Options For Charitable Structures

### Not For Profit, Not A Charity

An organisation that is not-for-profit and does not distribute benefits to members and which, because of this, is able to claim some discretionary help such as rates relief. Would not be recognised as a charity by Charity Commissioners or Inland Revenue.

### Worker/Member Owned (Not Managed) Charity

Members of the organisation work for it but appoint trustees from outside. It would therefore be co-operative in spirit but not legally. Extremely unlikely to be recognised as an acceptable charitable structure.

### Worker/Member Controlled Exempt Friendly Society

Charitable objects but controlled by the members. The Commissioner does not accept it as a registered charity; Inland Revenue gives it charitable status for tax purposes.

### Organisation Sponsoring A Charity

The organisation could sponsor a charity and money could move between them (unless members of the organisation were also trustees). Members of the organisation could earn money from their work and receive charitable donations providing the work they did for the charity supported its charitable aims.

### Charity Supporting An Organisation

The obvious way to 'launder' money in a tax efficient way. Profits made by the organisation are given to the charity tax-free and this money is then used to benefit members directly or indirectly. But this relationship could not be sustained in the long-term and the only contracts that could be awarded would be for clearly charitable work only.

### Charity With Trading Subsidiary

Increasingly common structure enabling charities to trade without danger of incurring tax or losing charitable status. Although the trading subsidiary is independent of the charity, the charity exercises ultimate control through shareholding. It will probably appoint some members of the trading organisation's management. But separate accounts must be kept and the charity should not pay any of the trading organisation's bills - it needs to be kept at arms' length.

## USEFUL CONTACTS

### Social Enterprise Coalition

Enquiry Line 020 7968 4921

[www.socialenterprise.org.uk](http://www.socialenterprise.org.uk)

### Financial Services Authority Consumer

Helpline 0845 606 1234

[www.fsa.gov.uk/consumer](http://www.fsa.gov.uk/consumer)

### Companies House

Contact Centre 0870 333 3636

[www.companies-house.gov.uk](http://www.companies-house.gov.uk)

### CIC Regulator

0292 0346228

[www.cicregulator.gov.uk](http://www.cicregulator.gov.uk)

### Inland Revenue

Self Assessment Orderline 08459 000 404

[www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)

### Employee Ownership Options

Enquiry Line 0845 603 9197

[www.employee-ownership.org.uk](http://www.employee-ownership.org.uk)

### Charity Commission

Contact Centre Enquiry Line 0870 333 0123

[www.charity-commission.gov.uk](http://www.charity-commission.gov.uk)