

# MANUAL FOR DEVELOPING SOCIAL ENTERPRISES



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# INTRODUCTION

## What Is A Social Enterprise?

Social enterprises are businesses that trade in the market in order to fulfill social aims. They bring people and communities together for economic development and social gain. Social enterprises have three common characteristics:

**1 : Enterprise Orientated.** They are directly involved in the production of goods and the provision of services to a market. They seek to be viable trading concerns, making a surplus from trading.

**2 : Social Aims.** They have explicit social aims such as job creation, training and provision of local services. They have ethical values including a commitment to local capacity building. They are accountable to their members and the wider community for their social, environmental and economic impact.

**3 : Social Ownership.** They are autonomous organisations with a governance and ownership structure based on participation by stakeholder groups (users or clients, local community groups, etc) or by trustees. Profits are used for the benefit of the community.

There are many different types of social enterprises that cover a wide range of forms and functions. They include local community organisations, mutual organisations such as co-operatives, development trusts

and large-scale companies that operate nationally or internationally. There is no single legal entity that applies to social enterprises. They can be industrial and provident societies, companies limited by guarantee, community interest companies, registered charities, companies limited by shares and unincorporated organisations. The following is a selective list of the different types of enterprise:

**Community Businesses** - Social enterprises that have a strong geographical definition and focus on local markets and local services

**Social Firms** - Provide employment and training to people with disabilities and other disadvantaged groups

**Intermediate Labour Market Companies** - Provide training and work for the long-term unemployed

**Development Trusts** - Key actors in community based regeneration

**Credit Unions** - Provide access to finance

**Co-operatives** - Associations of persons united to meet common economic and social needs through jointly owned enterprises

**Employee Owned Businesses** - Create and rescue jobs as part of economic development strategies

**Charities' Trading Arms** - Enable charities to meet their objectives in innovative ways, such as Fair Trade companies.

This manual is intended as a guide for those wishing to set up or develop social enterprises and can be used independently or with the assistance of a Community Development Officer or Business Counsellor. The different sections can be used independently of the manual for those looking for guidance on a specific issue.

Please note that the information contained within this manual is intended for guidance only and does not constitute or substitute legal advice. The application and impact of laws can vary widely depending upon the specific facts involved. Please make sure that you take appropriate advice on all issues involving company and employment law and insurance requirements.

Information was correct at the time of going to print, but it is advisable to contact appropriate bodies (which have been identified within the manual wherever possible) to ensure that you have the latest versions.

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# 1.1

## GENERATING IDEAS: NEED AND OPPORTUNITY

- Generating Ideas - Deciding What To Do!
- Understanding Project Development
- Working With Groups - The Development Role
- Development Notes
- Shiverston Exercise Notes - Setting The Agenda For The Role Play Exercise
- Shiverston Town Council Population Statistics

# GENERATING IDEAS - DECIDING WHAT TO DO!

Once a group has been formed and information collected, it meets to adopt a priority list of 'good ideas' to pursue. Selecting ideas, testing them, planning and gathering funds and other resources to get off the ground can be lengthy. Take your time and plan thoroughly.

## Finding Business Ideas

There are 3 main ways of finding ideas:

### 1 : What can local people do? What skills do they have?

It is much easier to build a business idea around real people who have particular skills.

### 2 : Is someone else running a social enterprise that you could copy or apply locally?

Particularly if you're not competing, the social enterprise may be willing to share their experience with you or even help you set up.

### 3 : What goods and services are needed in your locality?

There are many goods and services the private sector doesn't think it profitable to supply to some (your?) communities. Make a list of things your social enterprise might provide.

It is usually easier and cheaper to set up a service business than a manufacturing one, especially as the market for the services is more likely to be local, less equipment is needed and less money required starting up. There's usually less risk because market research is easier and there are less likely to be established competitors. You could get ideas from asking local people, advertising in the local paper or radio, asking local businesses or even running a competition with local school children.

At a brainstorming session many ideas will emerge, the more the merrier. But at some stage you will need to prioritise certain ideas and this has to be something the whole group agrees with and is committed to.

## Testing The Idea

In many deprived areas, the local economy doesn't have enough money circulating to support new businesses: there's not enough return on investment for the private sector. But for a social enterprise interested in breaking-even while employing local people there may be enough business to make it worthwhile. Alternatively, you could target more affluent areas and customers who might provide sufficient income to make profit, and then return that profit to your home community through donations or supporting community initiatives or projects.

**The main task is to answer these questions:**

- Is the idea viable?
- Do people have the necessary skills and abilities?
- Will it sell?
- Will it pay?
- Can it be resourced?

Usually, it is fairly obvious whether or not the business can be done and is technically possible. However, a new product or idea may need testing in the market and to see if it will work. You may need to create a prototype, perhaps with the help of workshops in local colleges.

## Skills and Resources

Are there enough of the right people with the right sort of skills locally? Or are you going to have to recruit?

**The people running a social enterprise must have:**

- The technical skills to provide the service or make a product
- The ability to organise themselves and the business, managing people and resources
- The ability to co-operate effectively
- The skill and knowledge to manage finance

Business can be complex and highly competitive. It's important that you assess what skills and knowledge you have, analyse the gaps and come up with strategies for filling them, whether by training, access to expert advice or recruitment. Many skills can be learnt 'on the job' but if you have to be successful from the start, you may need to think about appointing a business manager to ensure the business is set up right and is managed properly.



## Will It Sell?

A common mistake is for a group to decide that because they want something, everyone does. Or that because a service is needed, there are enough people able to afford it. Or that a service is needed and it will be able to capture 100% of the market from existing competitors. These assumptions must be tested. Inevitably, this means market research, and not just 'desk research' in libraries, business centres or via the net but actually talking to people, investigating potential competitors, digging deeply into why people buy things, how much they are willing to spend, how much it costs to provide a service or make and sell particular goods and so on. Remember, you are not the customer and may not know what the customer will buy.

## Will It Pay?

You may be able to sell your product or service but will you make any money doing it? What will people pay compared to all the costs involved in making the product: do you know? How many products will you need to produce a year or how often will the service be bought? What income will that generate? You need to work out how much it will cost to do a thing and then find out if the price you plan to charge (or that people are willing to pay) will cover your costs. Don't be put off if the sums don't add up at first. You may need to change your product or who you are selling it to or how and where you market it. Planning a business is a kind of back-and-forth discussion between the business (you) and the market/your customers.

## Will It Be Funded?

Some brilliant ideas just can't or won't be funded. It is possible to change people's thinking and to persuade them to fund a project they initially oppose or don't see the value of. But you'd be wise to check out the likelihood of getting funding or support for each of your ideas before going too far down the planning stage.

## Does It Deliver A Real Benefit?

Things that do are likely to last longer and be supported politically and financially and by the community when it counts. You may need that support and sometimes it's better to, say, plan to create more employment and less social profit (because that's what people value) rather than employing fewer people but making more money. **It's not just what you would like to do, but also what works out there.**

# UNDERSTANDING PROJECT DEVELOPMENT

## Why Plan Projects?

Any project which is properly planned and managed has a greater chance of success. And success is important if you are trying to create self-sustaining processes of regeneration, development or meeting changing social and community needs.

Project planning involves certain basic and common activities:

- Allocating resources
- Setting timetables
- Identifying targets for achievement

Project planning will also usually depend on the co-operation and support of other people. You usually have to co-operate with others to get a project going or sustain it. People will need to be persuaded the project is a good idea. And those with political or financial support will also need to be engaged with.

## The Project Planning Process

The **first stage** in project planning is to **set goals**

The **second stage** of project planning is to consider the **external factors** that will affect the project (like 'the market' or 'funding opportunities')

The **third stage** is to discuss and adopt **appropriate strategies** based both on your goals and the external environment.

Project planning requires both a clear focus, and appreciation of other people's goals and agendas and flexibility to accommodate both. Any group managing a project planning process needs to be **pragmatic, open-minded** and **willing to adapt**.

## Phases Of Project Development

**Winning Support For The Project** - the project needs to be well thought out and have a match with the goals of key players and stakeholders

**Clarifying Goals** - to work you first have to identify all the people with a stake in the project or who might be affected by it and get them on board through a series of meetings or interviews

**Researching Possible Solutions** - once goals have been identified it's easier to identify potential solutions which will need to be looked into and tested. Are they practical? Will they work locally? What factors for success must be present? Has the idea worked well elsewhere, and why?

**Making Proposals** - these must be detailed statements of the aims, means and requirements of the project in terms of money and other resources. The aim of the proposal is to win or retain the support of the individuals and stakeholders involved. At this stage it's always a good idea to have an alternative proposal to hand in case the first is rejected or needs extensive modifying.

## Reviewing And Agreeing The Action Plan

Your plan must:

- Be broadly compatible with the needs and goals of those involved
- Have a fit with the goals of funders and stakeholders
- Be broadly supported both internally (within the group and community) and externally (with key players and interest groups)
- Be robust and defensible
- Have identified counter-arguments and potential (worse) alternatives

**Undertaking The Project** - once you get approval, start early in order to ward off criticism, damp down scepticism and prevent competing groups 'recalling' the decision to go ahead.

**Make sure you have achievable milestones in place and measurable progress indicators.**

**Make sure decisions can be made quickly, especially decisions about putting things right when they're going wrong.**

**Ensure allies are kept informed about the project's progress.**

**Ensure that there is sufficient time for the project to succeed; don't let people with other agendas impose early evaluation on the project.**

# WORKING WITH GROUPS - THE DEVELOPMENT ROLE

An individual working in the community may have to take on a development role. They may be asked to lead or work as part of a team developing a new local service. They may be assisting an organisation draw up plans. They may be helping put plans into practice.

One mistake that is often made is that 'development' and 'training' become confused. One is seen as a substitute for another or a precondition for progress.

**Training** is any learning situation with an underlying purpose and an ongoing process. **Development** is about putting 'lessons' into practice, actually making use of acquired skills, assisting a group to maximise the benefits from learning. Keeping training and development properly focused and balanced can be very hard to do. Planning group development and having a clear timetable for development, properly monitored, can help.

## Some Development Issues

### 1 : Developing Ideas Together

- a) How will the group share information and ideas? Are there problems in how it plans to use information?
- b) How do the interactions between group members affect the development process?
- c) Is the right information coming to the group in a way that is understood and can be used?

- d) Does decision-making leave members empowered or do they feel left out/disempowered?

Different levels of participation affect how people engage with and contribute to the project or group aim and therefore how a project develops. Those leading the process will need to make decisions about the kinds of information that can be given to all or part of the group and monitor and balance out 'inequalities' that may arise because of different levels of participation in the development and/or learning process.

### 2 : How Do You Combine Training And Development Work?

- a) How will you measure learning success? What access to training will people in the group have?
- b) How will you apply what is learnt?
- c) How will you deal with different levels of competence/confidence/skills?

The development process will go better if all people involved engage and interact positively, share tasks and fairly delegate, get and use feedback, encourage discussion and questioning and develop an agreed decision-making process.

### 3 : Managing Development Work

The first rule is to be flexible. There are no hard and fast rules about the development process. Decisions will need to be made about time and resources (especially). There will need to be some structure. But this may well be different each time. Making the right decisions about who to involve and what needs to be done and how is crucial.

The group will also need to correctly assess its ability to carry a workload, deal with unexpected developments, delegate and co-ordinate work and so on. Some groups accept work willingly, others do not. Some groups depend on outside assistance, others may resist external help or involvement.

#### Difficulties may arise from:

- a) Outsiders playing a leadership rather than a support role. In the reverse case, some groups expect 'experts' to lead and the process stalls when this isn't offered.
- b) Incorrect decisions about task allocation and individual levels of involvement.
- c) Bad resource allocation, misdirected effort or misunderstanding the symbolic significance of situations or decisions.

### 4 : Planning Group Work

Planning involves:

- a) Resource analysis
- b) Assessing and choosing appropriate development techniques
- c) Analysis of group needs
- d) Assessment of skills and experiences

Planning the development process can either be worker-led, group-led or a joint/collective decision between all parties. Whichever applies, **someone must be in control.**

Group involvement in planning the development process can be very important in validating it.

Someone in the group must schedule and manage regular reviews of progress and how development is going. Changes to the process may need to be negotiated and agreed within the group. Sometimes reviewing and making decisions may take place in a formal process, sometimes informal. Both have equal validity but one may be more appropriate than the other.

# DEVELOPMENT NOTES

## Learning And Progress Indicators

### Relationships

How have intra-group relationships developed?

Is there a sense of everyone understanding their roles?

Has the group formed positive relationships with key individuals and stakeholders?

### Focus

Is the group focussed and business-like?

Is the group committed to realistic ideas and achievable goals?

Is there a clear understanding of what needs to be done next?

### Negotiation And Communication Skills

What are the kinds and levels of intercommunication between group members?

Does the group negotiate effectively with external stakeholders and/or with each other?

Are decisions recorded and information shared properly and effectively?

### Leadership

Have strong and effective leaders emerged?

Or do all members of the group share in the leadership role?

Is there clear agreement between 'leaders' and 'followers'?

Are leaders trusted and respected by group members and external stakeholders?

### Practical Ideas

Has the group adopted achievable and realisable goals?

Are all members of the group engaged?

Do they make practical and sensible proposals?

Does the group have the capacity to objectively consider and evaluate ideas?

### Development Of A Culture Of Aspiration

Has a positive and business-like culture developed?

What are energy levels in the group like?

Is effort focused on achievement or discussion and debate?

### Effective Resource Allocation

Are resources being allocated to the right places?

Is there effective delegation and/or co-ordination?

Do certain individuals control the group or command an excessive share of resources?

Does the group assign tasks to the right people?

# SHIVERTON EXERCISE NOTES

## - SETTING THE AGENDA FOR THE ROLE PLAY EXERCISE

(Please note that Shiverton is a fictitious town and any similarity to another area is purely coincidental)

### Role Play Notes

This exercise is about understanding why different people with different roles will come up with different solutions. It also aims to test the listening and consensus-making abilities of any group you are working with.

The background to the exercise is that the Local Authority or other funder/stakeholder is asking community representatives to develop a 'wish-list' or priority program for social enterprise development which will contribute to local regeneration.

There needs to be at least three participants but there is no hard and fast rule about how the roles are divided amongst people present.

The Shiverton Town Council Population Statistics provides the necessary information to structure the discussion. The group needs time to read and assimilate this information.

The list of 'Possible Projects' is simply a list of ideas that people have come up with in the past and currently. The group should discuss and (hopefully) challenge these ideas and come up with new ideas and proposals meeting the needs of Shiverton and its various communities.

Ensure that the participants understand the roles they are playing, then 'convene' the meeting, making clear the aim is to come up with an agreed list which is deliverable and meets priorities.

Allow the 'meeting' up to 30 minutes.

Did the group have the right information to make decisions and how did the different information they possessed effect decision-making?

Did the discussion reveal the differing priorities of the participants? Was communication open and honest?

Did the group properly consider the feasibility of each proposed idea? How good were they at suggesting new ideas?

Were the group able to compromise and develop consensus or did one participant/group dominate decision-making?

Were ideas challenged over their practicality or achievability or did everyone just 'go along'?

How realistic was the list of projects that the group finally agreed?

Did the group agree any next steps?

## Setting The Agenda For Shiverton The Partnership Workers Brief

You are drawing up a program of projects and initiatives from a variety of sources to be commence in Years 1 and 2 of an EU-funded partnership program. £750k has been allocated to cover the costs of this program.

The Local Authority Housing Department has bid for £300k for a Phase 1 housing regeneration program and the Learning & Skills Council locally has successfully bid for £150k of training-related programs designed to get young and long-term unemployed people into work. Your projected support costs are £100k so you have £200k to spend on community initiatives.

Select a program of Year 1 and 2 community initiatives bearing in mind that the priorities already established are:

- Getting up to steam quickly
- Generating favourable publicity to lever in money in Year 2
- Communicating with local residents
- Building public sector partnerships
- Enabling the community to acquire a track record
- Building capacity in the community - acquiring credibility

\* You are free to suggest other initiatives if you think it necessary

## Setting The Agenda For Shiverton The Central Shiverton Residents Association Brief

You represent people living in the inner core of Shiverton, an area of dense housing and often affected by business operations (congestion, lack of parking, litter etc). CSRA has been asked by the Partnership Team in the Local Authority to come up with a list of projects and initiatives it thinks would help with the regeneration of Shiverton **long-term** and address problems of Long-Term Unemployment, Juvenile Delinquency and Lack of Community Facilities.

You have been sent to this meeting to represent the aspirations and agenda of the CSRA. You have heard that the Shiverton Partnership has £500k over 2 years to spend on community initiatives.

Select a program of Year 1 and Year 2 community initiatives you would like to see funded, bearing in mind that the priorities of the Residents Association are:

- Improving the local environment
- Making the area safe for residents
- Job Creation
- Training opportunities for women
- Local Pride

\* You are free to suggest other initiatives if you think it necessary



## Setting The Agenda For Shiverton The Sunnyside-Burnside Alliance Brief

You represent the two overspill /peripheral housing estates of Burnside and Sunnyside on the edge of Shiverton. The main concerns of the Sunnyside-Burnside Alliance (a local community association made up of residents) have traditionally been unemployment, bad housing, lack of opportunities and a poor local environment.

The Alliance have been asked by the Partnership Team in the Local Authority to come up with a list of projects and initiatives you think would help with the regeneration of your community and the town of Shiverton generally. You have been sent by the Alliance to ensure its priorities are catered to under the program.

You are just one of a range of community organisations throughout the area likely to be putting forward proposals and you want yours to succeed.

You have heard that the Shiverton Partnership has £1m over 5 years to spend on community initiatives.

Select a program of Year 1 and Year 2 community initiatives you would like to see funded, bearing in mind that the priorities of the Alliance are:

- Appropriate local employment and training initiatives
- Directly increasing income levels in poor households
- Job Creation
- A community centre
- Childcare and help for young people

\* You are free to suggest other initiatives if you think it necessary

# SHIVERTON TOWN COUNCIL POPULATION STATISTICS

## Population

The population in 2001 was 48,530. A demographic profile of the town showed it to be considerably older than the Borough average. Almost 23% of the population were aged 60+. 29% of all households were occupied solely by pensioners. It is estimated that the population has decreased by 500+ between 1991 and 2001.

## Housing

Shiverton has the second highest proportion of people housed by the Local Authority - almost 35% of households. There were also substantial numbers of houses without inside toilets in 1981 though since then a considerable amount of work upgrading houses has been done. Overcrowding is higher than average.

## The Local Economy

Levels of car ownership are extremely low compared to the Borough average. Almost 60% of households have no access to a car. Shiverton also has the highest proportion of semi-skilled and unskilled people in the Borough, together with the highest rates of unemployment. In 2001 the unemployment rate was 12% with youth unemployment (-21 years) rising to 22%. Women are confined to low-paid, low-skilled and casual work but are often the main or only wage-earner. There are high levels of household debt in the area (20% higher than the Borough average).

## Environment

Shiverton suffers from pockets of very dense housing in the old part of the town with few environmental amenities, 'urban' plantings on roundabouts and roadsides and large areas of expensive-to-maintain verges and green spaces on the Burnside and Sunnyside Estates. Asthma, low IQ /under-achieving and heart and weight problems are due to poor housing, pollution and poor diets. The Council spends a lot on the environment and leisure but there is only a small municipal park and no Sports Centre.

## Social

Burnside district in Shiverton has the highest proportion of single parent households in the Borough. Nearly 8% of households in Burnside are single parent. The ethnic minority population is 2%, slightly lower than average.

## Change In Population Structure Since 1991

Age	1991	2001	Change
0-4	2975	2876	-99
5-14	4292	2951	-1341
15-29	8523	8365	-158
30-44	12721	12641	-80
45-64	13527	14326	+799
65-74	5743	6023	+280
+75	990	1348	+358

Source: Census 1991, 2001

## Possible Projects

Your aim is to select those projects which you feel would best meet the needs of the area and could operate as sustainable social enterprises creating social and economic benefits for local people.

**The currently proposed projects are:**

### Community Enterprise Centre

A community enterprise and training would be based in an empty 'low-rise' block of flats on the Sunnyside estate. This block is a base for drug users, dealers and squatters. The enterprise centre would rent office units to small, new businesses and a fully-equipped training room. The centre would supply office services and a switchboard and reception service. The project would cost £100,000 to set up but would be self-sustaining within 2 years. Funding requirements in the first year of operation would be £30,000 dropping to £15,000 in Year 2 and then zero. 5 jobs will be created directly and there is potential for 100 indirect jobs to be created.

### Community Food Co-operative

The Area Health Authority have recently started a healthy eating campaign in Burnside. Volunteers who have been involved with this campaign have found out that although most people know about healthy eating they can not often afford to buy fresh fruit and vegetables at the prices charged by local shops even when they are available. This group wants to set up a food co-operative with a shop and a van in the shopping centre in Burnside. The business would create 2 full-time and 2 part-time jobs. Funding of £10,000 has been obtained from the Health Authority. The project needs a further £10,000 to start. No further funding will be required.

### Grassroots Volunteers

This is a 'Community Program' type project in which 200-300 young people would be recruited to undertake environmental improvement work on housing estate green space, roadside verges, canal cleaning, improving tourist attractions like the floral gardens, 'gateway' avenues and creating small community gardens and forest-planting initiatives. It would create employment for up to 12 supervisors and managers and the people involved would receive training which would count as credits towards NVQs. It would cost £220k in Year 1, £150k in Year 2 and there is a possibility of 50% matched EU funding and private sponsorship.

### **Landscape And Gardening Business**

This small business proposal is to create 3 jobs for adults with learning disabilities in gardening and landscaping. The partners are qualified landscape gardeners and aim to win contracts for maintaining the council's land and gardens both in Shiverton and Burnside. They will employ adults with learning disabilities at the minimum wage or slightly higher. Funding of £15,000 is needed to provide suitable skills training for future employees.

### **Women Into Enterprise Training**

Women Into Enterprise Training is a feminist group who aim to encourage women into self-employment and business generally. The training will concentrate on new technology, finance and business skills and will 'signpost' appropriate vocational skills courses, in line with the particular business and existing skills. Funding of £30,000 has already been obtained from the ESF but a further £20,000 is needed to refurbish and equip the training centre.

### **Recycling Project**

The project aims to set up paper, aluminium and clothing recycling ventures across the Borough. Appropriate 'banks' will be sited at convenient locations and collections and educational activities will take place in schools, colleges and with community groups. It is not envisaged that the project will become self-sustaining but it will be able to cover about half its costs within three years if paper and aluminium prices remain at current levels. 1 full-time and three part-time jobs created. Funding required is £25,000, £15,000 in Year 2 and £7,500 annually.

### **Project For Elderly Persons**

This group would like to set up:

- a) A 'Meals-On-Wheels' service at a cost of £10,000 annually;
- b) An Elderly Day Centre at a cost of £7,500 annually;
- c) A 'Take-A-Break' service offering relatives of elderly people the chance to hand over care responsibilities to trained personnel for short periods at a cost of either £10,000 annually employing a full-time worker and charging carers or £4,500 if a volunteer-run free service;
- d) Training courses for carers at a cost of £10,000 annually.

### **Credit Union Development Agency**

Loan sharking is a major cause of poverty in Shiverton. Banks and Building Societies are not very interested in the residents of Burnside as potential customers especially as many are in debt. A development agency, based in Burnside, would work to set up a Credit Union on the estate but would then expand to the whole area, setting up 3-5 Credit Unions in the next 3 years. A Credit Union Development Agency would need £60,000 annually and would create 3 full-time jobs: 2 Development Workers and 1 Administrative Worker.

### Canal Banks Project

The Grand Northern Canal passes through an old industrial area scheduled for re-development. It is proposed to refurbish some of the warehouses as a 'foyer project' combining low-cost accommodation with enterprise advice and incubator workshops for young people. The area would be landscaped and retail shops and a theme pub created. Though planned to cost £600k over 5 years, it would lever-in £300k from ERDF. It would house up to 15 businesses and give advice and counselling to 1500 young people per year.

### The Shiverston Steamer

A local group of unemployed people have proposed that a Community Freesheet be set up (The Shiverston Steamer) which would contain local news but also be large enough to attract business advertising and small ads. Because it would use new technology, printing costs would be low and it would stimulate local businesses and generally act to create a good image for the area. It would require £20,000pa for three years but would create three part-time, then full-time jobs at the end of the period.

### Co-operative Nursery

Childcare provision for the under-five's is very poor across Shiverston and childminders are very expensive and not very good. A co-operative nursery would cost £20,000 to set up in a school scheduled for closure, £10,000 to set up in the community centre or portakabins or £50,000 to set up through a self-build project. Running costs would be: nil after 1 year if all places were charged at a commercial level; £10,000 per year if 5 free places were offered; £20,000 per year if 10 free places were offered; £36,000 if all 18 places were free. These figures are based on children aged 2+ years, children younger than this require 50% more money per place because of legal staffing ratios.

# 1.2

## IS IT FEASIBLE?

- What's Your Motivation For Setting Up A Social Enterprise?
- Assessing The Idea
- What Is A Feasibility Study?
- Contents Of A Feasibility Study
- Conducting A Feasibility Study
- The SWOT Analysis
- Setting Up A Business
- Communities And Business - Can It Work?

# WHAT'S YOUR MOTIVATION FOR SETTING UP A SOCIAL ENTERPRISE?

The motivation for setting up a social enterprise can be personal, social or political. This includes the desire to help other people, which for some people is a personal desire, for others a social need and for some a political necessity.

Before you start it is vital that you understand your motivations for being involved.

What are your reasons for being involved? List them in order of importance.

1: \_\_\_\_\_  
\_\_\_\_\_

2: \_\_\_\_\_  
\_\_\_\_\_

3: \_\_\_\_\_  
\_\_\_\_\_

4: \_\_\_\_\_  
\_\_\_\_\_

5: \_\_\_\_\_  
\_\_\_\_\_

What are the advantages and disadvantages of being part of this project?

1: \_\_\_\_\_

\_\_\_\_\_

2: \_\_\_\_\_

\_\_\_\_\_

3: \_\_\_\_\_

\_\_\_\_\_

4: \_\_\_\_\_

\_\_\_\_\_

5: \_\_\_\_\_

\_\_\_\_\_

Think of the barriers you may face if the enterprise gets going.

1: \_\_\_\_\_

\_\_\_\_\_

2: \_\_\_\_\_

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3: \_\_\_\_\_

\_\_\_\_\_

4: \_\_\_\_\_

\_\_\_\_\_

5: \_\_\_\_\_

\_\_\_\_\_



# ASSESSING THE IDEA

## Have You Got What It Takes?

- 1 : Why do you support this particular idea?
- 2 : What effect will it have on you life and that of your family/partner?
- 3 : Are you physically and mentally tough?
- 4 : Will you be able to keep going even if you feel like giving up?
- 5 : What sacrifices will you have to make to get the idea off the ground?
- 6 : Do you have the time to support the project intensively during the start-up period?
- 7 : Do you understand all the things involved in managing a business? What are they?  
Do you need help/advice/training?
- 8 : Are you a natural organiser? Do you have strong nerves?
- 9 : Can you make difficult decisions?
- 10 : Have you worked out the hours you will need to commit to the project?
- 11 : Do you have advisers? Banker, Accountant or Solicitor? Do you need them?
- 12 : Do you see jobs through from the start to the finish?
- 13 : Can you work in a consistent way, juggling a lot of bits of information?
- 14 : Can you work under pressure? Can you work to a deadline?
- 15 : Are you good at managing your own finances?  
Do you know what is in your current account?
- 16 : How good are you at understanding what other people want?
- 17 : Do you enjoy a challenge or do you fear the unknown?

On balance, having thought about these points, do you have what it takes to set up and manage a social business?

Note down any issues that will need tackling:

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## Have you or your group got the skills you need?

You will need a variety of skills to provide the core product or service, manage the business day-to-day and control its financial and operational aspects. Each aspect of the business needs a separate set of skills:

### The Product Or Service

- Do you have experience of buying and selling?
- Do you have experience of negotiating? Can you be persuasive?
- How good is the group at communicating - both verbally and in writing?
- Are you comfortable with both management and staff?
- Would you be able to write your own advertising copy?
- Do you have in-depth knowledge of the product/service? If not, where can you find it?
- Do you understand the principles of marketing?
- Do you know the best way to 'sell' your business idea to supporters and backers?

### Managing The Business

- Who will be doing this? And what skills will they need?
- Are key people computer literate? If not, will this be a problem?
- Are there people involved who are methodical? Or who can plan well ahead?
- Is the group good at time management?
- Can the group be self-critical? Does it learn from its mistakes?

- Do you know the law as it relates to your business and to business in general?
- How easily do you find decision-making?
- How good are you at identifying and assessing risks?

### Controlling The Business

- Are you good with figures?
- Can you keep your own books?
- Do you understand the principles of costing and pricing?
- How will you maintain and control the quality of your output?

Having thought about these, are there any areas where you need training or advice? A key task will be to find out where you can get this training.

## What Do You Know So Far?

- 1 : What are your objectives in setting it up - for the business and for yourself?
- 2 : Have you set a target start date and thought of the timescales involved?
- 3 : Do you have a profile of your 'typical' customer group/s?  
Do you know how to draw one up?
- 4 : Why will customers want your product and service?  
Have you established that there is a demand from people who will pay for it?
- 5 : Have you clearly defined the products or services you intend to sell?
- 6 : Have you worked out why customers will buy from you rather than the competition?  
What is special about you and your products and services?
- 7 : Have you thought how you will get your 'message' across to potential customers?  
What methods of advertising and promotion will you use?
- 8 : Will you have to offer back-up services - delivery, accepting credit cards, long term support etc?
- 9 : Do you know who your competitors are?  
Do you know what their strengths and weaknesses are?
- 10 : Do you know how much money you will need and where to get funds from?
- 11 : If you need stocks or materials, have you identified reliable suppliers?
- 12 : Have you worked out what you need to charge to cover all your costs?
- 13 : Are there likely to be any planning or legal problems with starting the business?
- 14 : What regulations or 'red tape' will apply to the business?  
Do you know who can help you find your way?
- 15 : Are there any other barriers that could hold you back or delay your start up?  
Have you made plans to overcome them?

Your answers will highlight aspects of your business where you may need help and guidance. These are all topics (along with many others) which will need to be incorporated into your business plan.

# WHAT IS A FEASIBILITY STUDY?

A feasibility study is designed to provide an overview of the primary issues related to a social enterprise/business idea. The purpose is to identify any 'make or break' issues that would prevent your organisation from being successful in the marketplace. In other words, a feasibility study determines whether the business idea makes sense.

A thorough feasibility analysis provides a lot of information necessary for the business plan. For example, a good market analysis is necessary in order to determine the project's feasibility. This information provides the basis for the market section of the business plan.

Because putting together a business plan is a significant investment of time and money, you want to make sure that there are no major roadblocks facing your enterprise idea before you make that investment.

**A feasibility study looks at 3 major areas:**

- Market issues
- Organisational/technical issues
- Financial issues

Again, this is meant to be an initial look at these issues. For example, a feasibility study should not do in-depth long-term financial projections, but it should do a basic break-even analysis to see how much revenue would be necessary to meet your operating expenses.

## What Is A Business Plan?

If the feasibility study indicates that your business idea is sound, the next step is a social enterprise business plan. The business plan continues the analysis at a deeper and more complex level, building on the foundation created by the feasibility study. For example, the financial section of the plan would include estimated financial statements and 2-3 years of financial projections.

A business plan gives you an opportunity to find any weaknesses and reveal any hidden problems ahead of time. A good social enterprise business plan is a working document designed to analyse how well the business will work and is also necessary in order to obtain funding.

# CONTENTS OF A FEASIBILITY STUDY

A Feasibility Study may be required whenever there is a proposal for change. This may be a proposal for new products or services or be a proposal for new ways of organising how something is done. It has the same basic aims as a 'Business Plan': to set out in clear terms how something is going to be done successfully and to convince those who need to be convinced that the proposal is sensible and workable.

**A Feasibility Study should consist of:**

## The Proposal

A brief summary of the proposal, the reasons for the proposal and its aims: 'to provide a service', 'to increase efficiency', 'to help clients'.

## Environmental Analysis

This lists the external factors affecting the proposal. It provides the justification for the proposal and places it in the context of the environment in which it will take place. For instance, introducing new machinery to a factory must be tested against the workforce's flexibility, attitudes to change and skill levels. It details the positive and negative factors that will influence it. Are there legal or political implications of the change?

It should detail:

- Who or what is going to be changed\assisted\improved
- How needed is the projected change

- What factors will assist the proposed change take place
- What factors will hinder introduction of the change

## Details Of The Proposal

- What are the intentions of the proposal?
- What is it trying to achieve?
- What measurements are going to be used to test if the change was successful?
- Are there any preconditions for change, for instance finance, training equipment?
- What is the timetable for introducing the change?

## Organisational Analysis

- How is the change going to be implemented?
- Who is responsible for initiating, implementing and monitoring the change?
- What will need to be changed to make the proposal work?
- What factors will assist or hinder introduction of the change?
- What are the short-, medium- and long-term implications for the organisation of the change?
- What other changes (for instance in skills) will need to be made to allow change to take place?

## Conducting A Feasibility Study

- 1 : People undertaking a feasibility study rarely have no other commitments. People involved must take a realistic attitude to the time it will take, likely problems (for instance holidays) and allow some overrun time.
- 2 : Support for the study from colleagues can only be given if they are aware of what is involved, support the aims of the study and are aware of the various stages and timetabling for the study. Time must be allowed for informing and briefing other people.
- 3 : Outsiders, experts and people who might be affected by the study should be informed well in advance so that they can give their input. They may need to be contacted or consulted quickly - don't involve them at the end of the process.
- 4 : Site visits and appointments for interviewing should also be made early in the study since there may need to be revisits/re-interviews.
- 5 : What you need to know or tell other people must be identified early, together with possible sources, allocation of responsibility and timetable for collating the information.
- 6 : If questionnaires are used they need to be targeted at the right people and places. Monitor initial responses so that the questionnaire or other information-gathering can be modified as required.
- 7 : Technical issues must be decided early: how will the study be analysed and presented? Who will produce it? Who will the study go to?
- 8 : Draw up a detailed programme of the stages to be gone through.
- 9 : Set deadlines for each stage. Allow for slippage.
- 10 : Allocate tasks, bringing in expertise as necessary.
- 11 : Anticipate problems, try to use tested methods.
- 12 : Discuss plans with everybody involved, then keep them informed.
- 13 : Begin preparations well before the 'official' start date for the study.
- 14 : Don't leave things to the last minute.
- 15 : The study probably has a high priority for those asking for it. This must be **your** priority as well.

# CONDUCTING A FEASIBILITY STUDY

## 1 : Market Analysis Research

The key question that should be answered in the Market Analysis section of the feasibility study are presented below. In nearly all cases, research is required in order to obtain enough information to answer the questions. If these questions cannot be answered adequately, the project is not feasible.

- a) What is the current or projected demand for your proposed products or services? In other words, how many units can you reasonably be expected to sell each month?
- b) What are the target markets for this product or service? What demographic characteristics do these potential customers have in common? How many of them are there?
- c) What is the projected supply in your area of the products or services needed for your project?
- d) What competition exists in this market? Can you establish a market niche that will enable you to compete effectively with others providing this product or service?
- e) Is the location of your proposed business or project likely to affect its success? If so, is the identified site the most appropriate one available?

The market analysis should be conducted first because it is critical to the success of the enterprise. If you cannot substantiate through research that adequate demand for your product or service exists, or if you cannot obtain sufficient quantity to meet

expected demand then your project is not feasible. You should not continue to the next step in the feasibility study.

## 2 : Key Organisational And Technological Issues

Once market issues have been addressed, it is time to take a look at key organisational and technology issues that are relevant to your project.

### Organisational Issues

Key questions to answer include:

- a) What organisational structure is the right one for your project? (Look at 7.1 Different Structures; Legal Structures)
- b) Who will serve on the board of directors/trustees? What are their qualifications?
- c) What qualifications are needed to manage this enterprise?
- d) Who will manage the enterprise (if possible)?
- e) What other staffing needs does the organisation have? How do you expect staffing needs to change over the next 2-3 years?



Because all subsequent decisions depend on the organisation's legal structure, the first question is critical and should be answered before you continue with the feasibility analysis. It is an important question and may take some research. Don't hesitate to call on a qualified business advisor or relevant development agency to help if necessary.

While you need not know the answers to all the other questions in order for the business to be feasible, they must all be satisfactorily answered before you begin operations. This is a good time to begin the process of identifying appropriate individuals for the board, management and other staff positions and to think carefully about what qualifications are necessary to manage this enterprise.

### Technological Issues

The cost and availability of technology may be of critical importance to the feasibility of a project, or it may not be an issue at all. For example, a service organisation, such as a community café, may have a few equipment and other technology issues to address. A manufacturing enterprise on the other hand, may have a number of complex technology questions to analyse in order to determine whether or not the business is feasible. Key questions to answer include:

- a) What are the technology needs for the proposed business?
- b) What other equipment does your proposed business need?
- c) Where will you obtain this technology and equipment?
- d) When can you get the necessary equipment?

e) How does your ability to obtain this technology and equipment affect your start-up timeline?

f) How much will the equipment and technology cost?

Keep in mind that technology doesn't necessarily mean complex machinery; if your business simply needs a personal computer, printer and fax machine, those are your technological needs. However, making wise decisions on even simple purchases such as office machines may require some research. Obviously there are numerous types of personal computers on the market. Your cost estimates will get plugged into your financial projections.

Naturally, the more complex the technology you need, the more research that will be required to make good decisions about it. Don't skimp in this footwork; you may regret it.

### 3 : Financial Issues

Once your analyses of marketing, organisational and technology issues have been completed, the third and final step of a feasibility analysis is to take a look at key financial issues. Answer the following questions as well as you can at this point and identify key issues that will require additional research.

Note that some of the questions below - specifically revenue projections - are directly based on your market analysis (the first step in the feasibility study) in which you estimated the number of units of product or service you could sell. If you didn't do that part of the feasibility study thoroughly, you won't be able to do the financial analysis adequately.

- a) Start-Up Costs :** These are the costs incurred in starting up a new business, including "capital goods" such as land, buildings, equipment etc.
- b) Operating Costs :** These are the ongoing costs such as rent, utilities and wages that are incurred in the everyday operation of a business.
- c) Revenue Projections :** How will you price your goods or services? Assess what the estimated monthly revenue will be.
- d) Sources of Financing :** If your proposed enterprise needs start up funding, you may need to research potential funders.
- e) Profitability Analysis :** This is the 'bottom line' for the proposed enterprise. Given the costs and revenue analysis above, will your business bring in enough money to cover operating expenses? Will it break even, lose money or make a profit? Is there anything you can do to improve the bottom line?

### Conclusion

Your feasibility study should give you a clear idea whether the proposed enterprise is a sound business idea.

# THE SWOT ANALYSIS

A SWOT Analysis is a way of understanding and organising information about both your organisation and the environment. It focuses on what is important and excludes what is not. Unlike Market Research it requires you to make decisions about information: what is important and what is not, what affects you and what does not, what weight you will give to particular problems or situation, what you will do about them.

A SWOT Analysis is also used to assess information about competitors. What are their strengths and weaknesses? What opportunities are they able to make use of? What are the threats to your competitor's business and how would they be able to respond to these threats. What threats could you generate? The kinds of information you need to collect and analyse are:

## Strengths

- Product quality and customer appeal
- Product range
- Market mix: price, product, promotion, place
- Personnel: skills, costs, flexibility,
- Location/accessibility
- Reputation and customer loyalty
- Market position
- Resources: money, skills, information, communication

## Weaknesses

- Can you exploit poor quality or low appeal? Why do these conditions exist? Is low quality a weakness (check quality-price relationship)?
- Is there demand for different products? Does the range match demand?
- Is the price too high or low? Is the pricing strategy per product correct? Does promotion strategy match the profile, product and price? Where is the product sold and is it an effective and accessible location?
- Is purchasing casual? Has poor availability, quality or reliability affected customer loyalty?
- Is the competitor well-known? Does it dominate?
- Is it cash-rich, or have a strong asset-base? Can it raise money easily? How well does it use resources?

## Opportunities

- Can you introduce new products or remarket existing ones to seem new?  
Is there a gap in the market?
- Can you sell more cheaply? Can you offer a better product-price mix? Are your costs lower? Or production methods more efficient? Do you have spare capacity?
- Do you have resources that can be used or used more efficiently?
- Are there opportunities to co-operate? Or joint market?
- Is the political, economic, social or technological environment changing to your advantage?

## Threats

- Can your competitor offer better quality, lower price, better marketing or a higher 'added value'?
- Will legislative, political, economic, technological, commercial, personnel, resource level, or financial changes threaten your market?

## The SWOT Analysis

### S : Strengths

- The things you are good at  
e.g. marketing or teamwork
- The things on which the business relies  
e.g. good design skills or lower prices
- The advantage you have over competitors
- The resources available to you

### W : Weaknesses

- What you don't know or don't do well
- Things which hold you back  
e.g. lack of certain skills
- Poor marketing or sales techniques
- A poor or over-priced product
- Lack of experience in business or this business

### O : Opportunities

- Changes in the business environment giving you an advantage
- Market opportunities  
e.g. a rival business closing
- Untapped demand for a product or service
- A possible new business relationship

### T : Threats

- Sudden changes in the business environment e.g. price rises or new regulations
- Inability to respond to/cope with change
- New competitors or better products you can't compete with
- Relying on one or only a few customers for your income

## SWOT Analysis

Date: \_\_\_\_\_

Under each heading list the main things that apply to your proposed business today.

### S : Strengths

### W : Weaknesses

### O : Opportunities

### T : Threats

# SETTING UP A BUSINESS

Reading through the following guide will help to prepare the ground for setting up your business.

## Essentials

### You will need:

- Commitment and the support of key people involved in your business idea
- People with the skills needed to operate the business successfully
- A product or service that people want to buy
- Premises to operate from
- A business plan to show that the business is viable
- An estimate of the amount of money needed to start and run the business

## 1 : People

a) Before starting you should be clear about the work that needs to be done and who will be doing it - are you clear about this?

b) Can all the work be done and managed well? Do you need extra people?

c) More preparation usually means a more successful enterprise.

d) If more than one person is involved are you clear about each person's ambitions and needs?

e) Do you know who has authority to do what without discussion with others?

f) You should know what each person involved is expected to put into starting the business and what each person can expect out of it.

g) It's not a bad idea to list where you want to be in one year, two years, five years and so on, to give you something to aim at and for future reference.

## 2 : Skills

- a) You must identify the range of skills needed to run your type of business. Do the people involved have these skills?
- b) If not, or the business would be more successful if people got training for work, do you know where to get advice?
- c) It is important to be fully aware of the various aspects of the business and to break them down into areas of responsibility. You will then be aware of the skill gaps.

## 3 : Product Or Service

### a) Look at:

- Skills available
- Potential markets

### b) You need to work out:

- If you have the skills to make the product/provide the service
- How much it will cost to make the product/provide the service
- The volume of sales over a given period
- Whether or not the calculations show that the business is viable

## 4 : Marketing

- a) Is there a market for your product/service
- b) Why should customers buy your particular product/service
- c) Who are your customers likely to be?
- d) What aspects of your product/service are important to customers?
- e) What can you provide that customers can't get elsewhere?

f) Is the demand for your product/service likely to be long-term?

g) Is the market for your product/service expanding or contracting?

h) Does the success of your business depend on one product/service only or will you need a broader range?

## 5 : Market Research

a) Look at the overall market for your product/service to discover its size

b) Look at your specific market to find out exactly who is likely to buy your product/service.

c) Market information can be found in local reference libraries but you should also make use of any other information you can find

There is information about specific markets to be found in market research publications like 'Mintel Reports' and trade magazines, to be found in the business section of your local library - it can be a very useful resource.

A useful way to find out about competitors is to pose as a customer: this way you can find out about prices, delivery methods and times, quality of product or service, after-sales services and so on. Bigger competitors may be featured in trade magazines or you could even look at their published accounts via Companies House.

Otherwise, specific local market information could be obtained by contacting potential customers in person or by conducting a market survey. This is no easy task and requires careful planning and organisation. A temptation will be to use friends and family as focus groups for your business idea. This isn't a bad idea if they are representative of your target customers but any feedback they give you needs to be treated sceptically.

## 6 : Pricing

- a) Find out what the market will bear in terms of price and delivery arrangements
- b) How much will your customers pay?
- c) How much will your suppliers charge you?
- d) What are your overheads?
- e) Can you match or undercut the prices of your competitors?
- f) Remember that, if you're intending to sell at prices lower than your competitors, you will have to cover all your costs and inflation, as well as making enough to invest in the future of the business.
- g) It's a bad idea for a new business to rely chiefly on lower prices than established businesses since they may have more funds and be able to undercut you temporarily, driving you out of business. A better idea is to focus on higher quality products and services for the same price or new products which can command a higher price.

## 7 : Selling And Advertising

You need to look at the best, most cost-effective ways of promoting your product/service and of reaching your customers. **There are several options open to you:**

- Local papers
- National papers
- Trade journals
- Telephone sales
- Direct mail-outs
- Press releases

## 8 : Costs

Start up costs must be looked at in detail. You will have **fixed costs** - rent, rates, insurance etc which are not affected by how much you produce or sell.

However, **variable costs**, such as the costs of your raw materials will be affected by the volume of sales; that's common sense, isn't it?

Your prices should take into account the fact that you need to sell the number of items required to make your business profitable at a price the market will pay.

You need to look at all your costs in detail in order to be able to set the right price on your product/service.



## 9 : Premises

You need to decide what kind of premises (if any) you will need: Shop premises, office or industrial unit? What kind of facilities do you need to carry out your business?

**You will need to work out or check:**

- Is the location and size right for your proposed business?
- Size of working, loading, storage areas
- What facilities does it have  
e.g. a kitchen or meeting room?
- What laws apply? Does it comply with the Disability Discrimination Act?
- Drains/electricity/gas/water/ventilation/sound insulation
- Parking access?
- Stairs/lifts/hoists/fire escapes? Does it comply with Health & Safety regulations?
- Will you buy or rent?
- Long lease or easy in/easy out licence?
- Who pays for repairs, improvements, insurance etc?
- Sole occupier or share with other business(es)?
- How much does it cost per sq ft in comparison with similar premises?
- What will the rates bill be?
- How much will it cost to heat and light the premises?
- Is there a service charge? What does it cover?
- Are there any planning restrictions?

## 10 : Borrowing Money

Having looked at all these issues, you may decide that you need to borrow money to get started. The Business Plan can be very useful in this situation. It should contain all the information that a Bank Manager or other potential lender needs to know about your business. **A Bank Manager or other lender will want to know:**

- Whether the venture is likely to succeed. Will the loan be repaid?
- Do the group's members have the necessary skills and experience to operate the business successfully and do they inspire confidence that they can achieve what they plan to do?
- Are the financial reports/ budgets and cash flow projections sound?
- Has a realistic appraisal of the market been carried out? Can the business sell in the market at realistic prices?
- Will the business structure allow for effective commercial decision-making and management?
- Will the business be able to change its product/service range, if the market changes?
- What is the ratio of finance requested from the bank/lender to the finance raised by group? The more than can be raised elsewhere, the lower the risk to a commercial lender.
- What are the principal risks to the business' survival as a going concern e.g. changes in personnel, price rises in raw materials etc.
- What contingency plans does the group have for such eventualities?
- What security can be offered for any loan? What security has the group already pledged to other lenders?

11 : What Will You Need To Get Started?

List the essential items required to start the business and assess the list item by item.  
Do you need it immediately? Can you get it for nothing? Can it be borrowed or hired?  
Can you buy it second-hand or on credit? When will you need it? Do you have to buy it?

A basic list could include the following:

Item	Is It Really Needed?	By When?	How Can It Be Obtained?	Cash Needed?
Place to work in				
Place to sell from				
Transport				
Advertising				
Equipment				
Materials				
Professional Fees				
Insurance				
Furniture				
Sundry				
Expenditure				
Total Cash Needed				

## 12 : Legal Structures

**Social businesses need to incorporate as a legal entity for these reasons:**

- a) The members of the business are protected by limited liability. In the event of the business ceasing to trade and being unable to pay its debts, the members will only be liable for a nominal sum and their personal assets will not be put at risk.
- b) The business will have a legal status in its own right and will be seen by the world as a separate entity distinct from its individual members.

The best type of legal structure will reflect the principles of the people involved and their aims and aspirations, rather than forcing principles to adapt to a particular structure. It will:

- Define how the business is to be organised in terms of management structures, meetings, voting procedures and quorums etc.;
- State the democratic principle of one person-one vote;
- State how profits earned by the business can be distributed;
- Say what can be done with the assets of the organisation;
- Explain what happens to remaining assets on dissolution;
- State criteria and procedures for becoming and ceasing to be a member

# COMMUNITIES AND BUSINESS

## - CAN IT WORK?

### Communities Of Interest

As long ago as the 1960s, black community activists began to organise businesses specifically aimed at their own 'community'. This may initially have been geographical (the 'ghetto') but quickly spread to embrace the entire community of black people. Being black was more important than where you lived. It was the 'bond' that glued the community together and it spread across already recognised borders and physical boundaries.

In Britain there are similar 'communities' of people organised along ethnic or religious lines, but there are also groups who organise because they have an interest in common, for instance raising money for the Third World or campaigning for Plain English. These groups may be very similar in age or outlook but geographical communities include all age groups and interests. This means they may struggle to meet the competing demands of all sections of the community. But people in a 'community of interest' may already share a common outlook, philosophy and set of priorities.

The 'community of interest' may know exactly what it needs: for instance, a group of disabled people will know the tools and adaptations they need to live independently. If such a group set up a business dedicated to meeting their needs, the only problem they would have to worry about was whether it was viable. Are there enough customers out there to enable the business

to prosper? Also, are they committed enough to our community to buy from us, rather than an outside business?

A good example is that a group of pensioners were hit hard on their estate when the local launderette closed down, as most of the old people did not own washing machines. Although their need was great, the business had found that there were simply not enough customers in that area to keep the shop open. The OAP's needed washing facilities, but re-opening the launderette would not have been viable. The only solution was to look for a 'non-commercial' solution, such as applying to charitable trusts for funds to buy each old person their own washer, or asking the local Church to install a pair of washers in the Church Hall for use by elderly people.

Sometimes there is a great need, but meeting that need cannot be done from a purely 'business' angle.

In the above example, if the Church had set up the facility as proposed, it would have been a non-profit making activity, perhaps run by younger volunteers. It would not have been a community enterprise or community business. If there was any way of setting up a community laundry that made a profit - perhaps by taking in work from outside the estate - as well as offering to wash the clothes of the pensioners, it might perhaps have been a 'community business', especially if there had been a role for the old people, some way in which they could have contributed.

## Communities In Business

In recent years there have been a growing number of groups setting up businesses to promote their own interests: every steam railway society now produces its own badges or tee-shirts. The group trying to relieve Third World poverty may set up their own shop, the 'world shops' we see in so many high streets.

In Manchester there is an area with streets filled with restaurants and shops devoted to Chinese products, 'Chinatown'. Some of the businesses (for instance restaurants) primarily serve the wider community. Some businesses such as travel bureaux or food wholesalers primarily serve the Chinese community. And some businesses, for instance herbalists, serve both.

When thinking about where the income to support a business comes from, it's important to consider whether the business would benefit from serving just one market or whether it needs to target other markets as well.

People considering a social enterprise need to decide:

- What social benefit are they trying to deliver?
- Will this be a direct social benefit (for instance, re-opening a launderette) or indirect (making profits from some other business that could be used to buy washing machines for pensioners)?
- Who are its customers (not beneficiaries)?
- Is there sufficient demand and money amongst customers to make the business viable?

## Promoting Business To Communities

To encourage communities to go into business, there are questions that need to be answered:

### a) What Do Potential Customers Need?

The Chinese restaurateurs mentioned above need supplies of food products as well as services such as accountancy. Could any or all of these be supplied by the community or would they have to buy them from the wider business community?

### b) What Products Would Actually Sell, And Where?

Can the products and services needed by a local community be sold outside? For instance, a joinery co-op may need to make basic, low-cost furniture to meet local needs but couldn't sell it in more affluent markets. They would need to upgrade their product in order to sell it. Alternatively, the pottery and jewellery that Chinese communities import or make locally to meet their own needs may also have a market among people looking for an 'exotic' gift.

### c) Is the Business Sustainable Long-Term?

Does the community have the resources within itself to start making goods or providing a service? If the community can start a business from within its own resources, then it is obviously stronger and more likely to survive later if the business comes under pressure.

### d) What Skills Are Needed?

It is important that before identifying real skills needs that you have a solution to hand. This could be a business skills course, training bursaries or a mentoring program. People will need a structured program of personal and vocational development to enable them to manage a new community business.

# 1.3

## PLANNING AND PRESENTING THE BUSINESS PROPOSAL

- Presenting Your Case To A Funder
- Checklist For Presenting Your Case
- Objective-Setting Role Play
- The Business Plan Game
- Working With Groups - The Business Proposal

# PRESENTING YOUR CASE TO A FUNDER

- 1 : You are trying to 'sell' your idea to a reluctant customer! Put yourself in the funders place: would **you** give/lend the business money on the basis of the presentation?
- 2 : Optimism is not enough, you must be able to **prove** you have a good case. You need a clear, **substantiated** business plan.
- 3 : Be as clear and concise as possible. Don't cover all the points but **be prepared to answer questions!**
- 4 : Start talking to the bank manager or potential funder **early**. Leave yourself plenty of time before you need a decision.
- 5 : Remember, funders of all kinds want a **return** on their investment so they are as often looking for a good reason to say 'yes' as to say 'no'.
- 6 : Make sure the funder has got **RADAR**:  
**Reason** for wanting the money  
**Amount** you need  
**Duration** of the loan or other finance/funding  
**Assets** you can offer as security (if any)  
**Repayment** terms and schedule of payments (if asking for a loan)
- 7 : You need to be very clear about the **reasons** you need funding, clearly stating what the money will be used for. Does the **reason** you need the money clearly match the **amount** and **duration** of the loan, and the type of loan (loan or overdraft, secured or unsecured)?
- 8 : If you are offering **assets** as security, do you know which assets and what they're worth? Security is equipment, other property, stock, work in progress, intellectual rights, cash, leases on premises etc. Can you offer fixed or floating charges over the assets or personal guarantees?



9 : Make sure you understand your business' **finances** and the effect that repaying a loan or changes to business conditions will have on the finances.

10 : **Try to be enthusiastic!** Tell her/him your plans for the business and its future.

11 : The funder needs to be convinced you have a **viable business idea** and if you have the **drive, determination** and **ability** to make it work.

12 : Don't present inaccurate figures showing you only need a small amount of help for a short time; a bank manager will not be fooled! Present **realistic** figures based on your best estimates.

13 : Do prepare **pessimistic** financial projections so you know the worst that could happen and the maximum support the funder may have to give if things don't work out initially.

## The Presentation

### More Hints And Tips

1 : First impressions are vitally important. The first thing funders see is your business plan so make sure it is well-presented but not over-detailed.

2 : Practice the presentation. One idea is to practice your presentation on low-priority funders and analysing how you did before going on to more likely prospects.

3 : Look conventional and like you mean it. Don't over-dress but be serious and determined.

4 : Make sure you have the key facts at your fingertips. You must know your business and business plan inside out. If you don't know, just say you don't and promise to get the information. Don't become flustered over things you don't know.

5 : Be clear in your own mind about the keys to your success and what is so interesting about your project but don't get bogged down in detail and don't 'over-egg' your case.

6 : Listen carefully to questions and make sure you answer the question asked. Don't go off on a long circuit round the issue without dealing with it.

7 : From preliminary meetings or phone calls try to find out who will make the funding/lending decision and if possible, deal with them.

- 8 : If you are asked for further information, provide it quickly but make sure it is well-presented and detailed.
- 9 : Do not be too defensive. Assume information will be analysed critically. It can be useful to practice dealing with criticism or probing questions so long as it doesn't affect the morale of the group.
- 10 : Be certain that the money you ask for is what you will need. Asking for more later is a lot harder.
- 11 : Treat negotiating for money with the same thought and planning you would if buying a house or arranging a wedding. Getting money is like a cup final. You may only get one shot at it.
- 12 : Planning a social enterprise is a long process and once you've reached the money stage you'll want to get on; but don't put all your eggs in one funding 'basket'. You may need to raise money from lots of different sources. Think ahead, do research and remain determined and optimistic even if rejected the first time.
- 13 : Do think about money you, your group or local community could invest. This doesn't have to be a huge amount and could be pledged to the project (i.e. drawn down only if other funding is provided) and repayable from profit. Even a small gesture can raise the confidence of other funders.

# CHECKLIST FOR PRESENTING YOUR CASE

## Can You Talk Confidently About All Of These Issues?

### About You

- Details about the people involved (roles, business skills, other management experience)
- The group's finances (cash, assets, liabilities etc)
- Abilities, factors, experience involved in starting a social business

### Your Business Proposal

- Main factors involved in wanting to start now
- How the business will be organised, your roles in it
- Do you have financial projections for at least two years ahead?
- Description of major assets or equipment to be bought

### What You Want To Achieve

- What will you use the funding for?
- Can you describe the practical aspects of starting/expanding the business?  
The premises you will use (suitability, cost, layout)  
The equipment you will need?  
The staff you will need?

- Contingency Plans - what risks have you analysed and what contingency plans are in place? Legal aspects: permissions, licences etc
- What training will be required to succeed?

### Your Market

- Estimated demand - what evidence supports your estimates?
- Do you understand the market you're operating in?
- Who are your main competitors?
- What's your competitive advantage?
- Do you know what your product will cost?

### Profitability

- Do you know how much profit you will make?
- Do you know which product or service brings most profit?
- Do you have orders currently, or expressions of interest?
- Have you correctly estimated costs? What assumptions have you made?
- Have you correctly estimated sales? What assumptions have you made?

### Finance And Funding

- Will you need financial help beyond the start-up period?
- How long before the business 'breaks even'?
- Is the group looking elsewhere for money? How much?

# OBJECTIVE-SETTING ROLE PLAY

The aim of this role play is to test the ability of participants to understand how objective-setting exercises can be used to assess the unity and shared aspirations of a group and to examine the kinds of things a funder might look for in assessing the groups chances of success.

In the role play, one participant can be assigned the role of Observer, another the role of Advisor, while other participants could play the role of 'the community' or a steering group for the proposed project.

**1 : The task of the group is to come up with an agreed set of aims and objectives and basic priorities for operating a day nursery.**

**2 : The participants should be given a role each, written on an individual card.**

**3 : Playing these roles, they should then try and draw up an agreed list of aims and objectives and/or priority projects.**

**4 : Rather than an advisor or support worker taking on this role, the exercise tests the ability of the group to self-manage an objective-setting process.**

The main purpose of the exercise is to test the ability of the group to set objectives, communicate effectively, negotiate agreements and develop a clear and effective consensus.

## Round-Table Discussion

Following the exercise, convene a round-table discussion about how the group interacted, what feelings the exercise created, the positive and negative aspects of the discussion.

- How well did the group work?
- What conclusions can be drawn about the group's ability to work together?
- Were the interactions fair and equal or did some people dominate?
- What does each person feel about their role in the objective-setting?
- Were there major areas of disagreement? If so, were they resolved, and how?
- Could the 'Advisor' cope with all the group interactions?
- Did the 'Advisor' assist the group by giving proper directions and feeding back the group's work accurately?
- What does the 'Observer' think about what went on?

## The Roles Of The Participants

The roles of the participants are as follows:

### The Observer

The Observer is briefed to observe how the group sets its objectives and how well the Advisor assisted the process. Did the group understand what they were supposed to do? How well did they handle the process of Objective-Setting? Was there agreement at the end of the process? Did the Advisor make the exercise clear? Did the Advisor explore all or any of the issues? Did he/she pull things together at the end?

### The Advisor

The Advisor must explain the Objective-Setting Exercise to the Group and give out the individual role play cards, help the process and write on the flipchart the Objectives agreed. Must be briefed to take note of areas of agreement and disagreement while the Group is discussing the Objectives and to make an assessment of the extent of unity and common vision in the Group.

### Group Member 1

The Group has been formed to set up a commercial day nursery. You originated the group and had the idea for it. You like the idea of running a successful business and making profits, being in charge and having people working for you are the main attractions. You wouldn't mind working long hours so long as you were well-rewarded.

### Group Member 2

The Group has been formed to set up a commercial day nursery. You like working with children and are recently qualified so it's a chance to use your skills. You want a decent wage but the chance to do work you enjoy is more important. You don't mind who runs things so long as they don't interfere.

### Group Member 3

The Group has been formed to set up a commercial day nursery. You have worked in voluntary playgroups but now want to be paid for your time, but only part-time. You resent the fact that people with money or qualifications count for more so having an equal say is important. You don't like to be bossed around.

### Group Member 4

The Group has been formed to set up a commercial day nursery. You're not interested in the Nursery so long as it makes money. You are putting up the money and want a share of the profits but without doing any work. A trouble-free life is important so good organisation and a 'tight ship' are what you value.

### Group Member 5

The Group has been formed to set up a commercial day nursery. However, for you the maximum level of access to childcare for disadvantaged parents is most important. You want high quality care such as middle class parents expect but at an affordable price. You think the Council or all those regeneration programs should put up some cash.

# THE BUSINESS PLAN GAME

This is a role-play exercise in which the participants will first select a series of things they would wish to emphasise when presenting a business plan or proposition and then actually role play the presentation with a friend or advisor (or one of the group) acting as The Banker.

If there is sufficient time (for instance as a training exercise), then both parts of the Business Plan Game can take place with the participants taking part in the role play (see below). If not, the group should meet on their own time to draw up the business plan or proposal then follow this with a short presentation to a friend or advisor, which can be analysed and discussed after.

## The Business

Wood 'N' Tops is a community association with a number of activities based in it. One of these is a furniture workshop that has until now provided work experience and training to people in joinery and carpentry skills, repairing and refurbishing old furniture. This has been provided as a service for the cost of materials. Refurbished furniture has been given away on a 'first come, first served' basis. The local council is now insisting the furniture project become self-financing and it has been decided to draw up a business plan for a furniture showroom in some empty premises.

Involved in Wood 'N' Tops are a series of people with varying roles and skills. The group may simply 'play themselves' or take on these imaginary roles.

**The roles are:**

**Deirdre** is the Chair of Wood 'N' Tops. She works part-time as a playgroup leader and is taking the lead role in the Day Nursery Sub-Committee.

**Arthur** is a carpenter. He used to be employed in the Council Direct Works Department. He is very fussy and a bit set in his ways but a good teacher.

**Amanda** works in the kitchen. This is one of the most successful parts of Wood 'N' Tops because Amanda works hard to get people through the door. She's well-known and popular on the estate.

**Susie** does some secretarial work and also took a course in the furniture shop. She leaves her toddler in the playgroup while she helps out with the Old Folk's Lunch Club.

**Frank** was a Council caretaker and has a wide range of manual skills. He's worked in the furniture workshop but it's more of a hobby as he has to look after his elderly mother.

**Mrs Silverman** is a Tory Councillor from a nearby ward who's taken an interest in Wood 'N' Tops. She sits on the Planning Technical Sub-Committee.

**Jack Haycox** is the ward's Labour Councillor. He sits on the Inner Areas Overspill Community Sub-Committee and three other Council Committees. He has his own business, a fishmongers, and is on the Wood 'N' Tops Management Committee.

**Brian** is a Principal Community Development Officer. He manages a large but rapidly shrinking community development budget and reports to four separate committees. He made the suggestion about the showroom. He pays great attention to detail and is both articulate and persuasive.

**Clarice** is a volunteer in the office. She used to work at MFI and has enthusiastically supported the showroom idea at meetings.

## The Exercise - Part 1

Having decided whether the group are playing themselves or taking roles from the Wood 'N' Tops list, the first stage is to assign tasks. If an advisor is helping, use this as a training/learning exercise. If not the group needs to meet separately to draw up the business plan.

The tasks are:

### 1 : Convene The Meeting

- Convene the meeting and choose a chairperson

### 2 : Products

- Choose one thing the workshop will produce and sell wholesale
- Choose four things the showroom will sell retail

Record the decisions made

### 3 : Customers And Marketing

- Choose 3 typical customers the project will try to sell to
- Identify one problem with each kind of customer
- Identify one source of further information

Record the decisions made

### 4 : Pricing And Selling

- Decide on a price for each of the five things to be sold
- Choose one person to be in charge of the showroom and one person to do the actual selling
- Choose one person to be in charge of advertising and promotion

Record the decisions made

### 5 : Managing Production

- Choose three people to work in the workshop
- Decide how many of each product will be made per week
- Decide how many of each product will be sold wholesale and retail
- Choose four people to make the products
- Choose one person to decide things in the workshop

Record the decisions made

### 6 : Setting Up

- Choose one person to cost repairs to the showroom
- Draw up a budget for repairing and equipping the showroom
- Choose three ways to make the showroom attractive to potential customers
- Choose one person to draw up plans
- List the legal and other requirements before they could begin to operate

Record the decisions made

Record all decisions. One person should present this 'Business Plan' to the rest of the group as a presentation skills exercise and to test how well the group has covered all the issues. If there is an advisor, the group could then present this revised plan to them, in the role of 'The Banker'. This also tests the ability of the group to communicate in a group setting.



## The Exercise - Part 2

Part 2 is the presentation. If the group are playing themselves, the task of 'The Banker' is to judge the quality of the presentation and present feedback. If the group is role playing other people, an advisor can also use the Additional Information to check whether the group have undertaken any research, made good decisions and assigned the right people to the right jobs.

**The main aim of the exercises is to test the ability of the group to:**

- Ask the right questions
- Reach the right conclusions based on information they have
- Make effective decisions about roles, responsibilities and resource allocation
- Communicate effectively

If the group is drawing up a business plan or proposal separately, then give it 'The Business' notes below but not other information. If being done with an advisor (perhaps playing her/himself!), the information should be provided if the right questions are asked.

### 1 : Leadership And Group Interaction

- Did the group select the right leader and/or spokesperson?
- Did the group co-operate in presenting the right information?
- Did those people presenting information provide the right information in sufficient detail?

### 2 : Products

- What product did the group choose to sell wholesale, and why?
- Was there a strong commercial or business rationale?
- Did they provide a market-based justification?
- What products did the group decide to sell retail?
- Was there a strong commercial or business rationale?
- Did they provide a market-based justification?

### 3 : Customers And Marketing

- Did the group identify its potential customers and explain why it had chosen to sell to these parts of the market?
- Have they thought about barriers to selling and how they might overcome it?
- What market research has been done?
- What lessons were learnt from the market research?

### 4 : Pricing And Selling

- Did the group set sensible prices for its products?
- Did they explain why their pricing decisions had a fit with the market and their customers?
- What do you think of their arrangements for selling goods and customer care?
- Did they present a well-worked out advertising strategy?

## 5 : Managing Production

- How good were the proposed production arrangements?
- Did they propose a production plan and did it relate to capacity, demand, available skills and resourcing?
- Was there a clear proposal for decision-making and allocation of tasks?

## 6 : Setting Up

- Did the group identify the steps they would need to take if funded?
- Did the plans have a match with the sales and marketing strategy of the business?
- Were the set-up costs accurately costed?
- Had the group correctly identified all the legal requirements involved in running a business?

## Additional Information

### Advisors Notes

#### The Facts

Wood 'N' Tops cannot fund development of the showroom. It will have to be a commercial operation from the start. There is a demand for children's furniture (cots, desks, beds, bunk-beds etc) and also for decorative furniture (coffee tables etc). The premises suggested by the Council are a dilapidated church that will need extensive refitting and a thorough inspection of the electrics.

#### The People

**Deirdre** is much too busy to get involved and tends to have a fixed idea of what she wants and expects from people.

**Arthur** is no project-leader. Could advise on technical and production issues only. No good as a salesperson.

**Amanda** knows what people want and what they will pay for. Very useful in drawing up ideas about marketing and promoting the showroom.

**Susie** knows about furniture, the elderly and kids - possibly a good ideas person for suggesting products and new lines. Obviously a hard worker.

**Frank** doesn't have a lot of time. Probably a good person to look over the premises and draw up a list of things needing doing.

**Mrs Silverman** could probably get the Council to lend its architects to draw up plans and give advice, also to get help from her business chums in drawing up the Business Plan.

**Jack Haycox** is dangerous since he is powerful. He may not take kindly to a Tory being involved. He probably also pulls Brian's strings and like Brian is more interested in cost-cutting than enterprise.

**Brian** is a devious person who will let people stick their necks out to help him achieve something and drop them later when things go wrong. But if the Business Plan meets his (secret) agenda would be a good spokesman for it.

**Clarice** is one of those people who claims more than they should. She worked in the canteen at MFI and would try to take the project over if involved.

### The Business

The workshop has the necessary equipment to make bookshelves, coffee tables, bedside cabinets, cots, bunk beds, office desks, wardrobes, dressers, TV cabinets and picnic tables. It does not have the equipment (a bandsaw) to make toys or sofas. A second-hand bandsaw would cost £800.

The workshop could sell sofas and picnic tables wholesale and all the rest retail.

Wood 'N' Tops is situated in the middle of a depressed overspill estate, the church is on the outskirts near the main road. Nearby is Shiverton. There are many families with young children and an old people's home but people do not have a lot of money.

It is anticipated that the showroom would be visited by 600 people per week of which 60 would purchase something.

The following are the cost price of the products: Bookshelf £10; Coffee Table £8; Cabinet £8; Cot £15; Bunk Bed £50; Office Desk £45; Wardrobe £12; Dresser £15; TV Cabinet £18; Picnic Table £40; Toy £3; Sofa £70

The following are the person hours to make each item: Bookshelf - 3 hours; Coffee Table - 5 hours; Cabinet - 6 hours; Cot - 10 hours; Bunk Bed - 12 hours; Office Desk - 10 hours; Wardrobe - 5 hours; Dresser - 6 hours; TV Cabinet - 4 hours; Picnic Table - 7 hours; Toy - 1 hour; Sofa - 15 hours.

The current time being worked in the workshop is 100 person-hours. The maximum capacity is 240 person-hours.

The following quotes for fitting out the showroom have been received:  
New floorboards £80; Wiring £300; Glazing £120; Painting £100; Carpets £250; Laying Carpets £50; Making and Fitting Shelf Units £180; Painting Sign £90; Plastering £160; Constructing Office £250.

## Things The Group Should Know And Do

- 1 : **Amanda** is probably the best Chair to signal the importance people attach to the project.
- 2 : It would be best to choose things that can be made without additional equipment. If the group chooses to make things requiring additional equipment, ask why.
- 3 : The best wholesale item is probably Sofas, followed by TV Cabinets and Picnic Tables. The best retail items would be Cots, Beds, Toys, and Coffee Tables. Note, there has been no mention of upholstering because no-one knows how.
- 4 : Does the summary say what the current situation is and what the project hopes to achieve?
- 5 : Do the products chosen match the kinds of people around the estate, what they need and what they could pay? If not, ask why those products were chosen.
- 6 : Problems might be: Old People - showroom too far, no transport; Families - no parking, can only shop on weekends; Young Parents - off bus route, no babysitter.
- 7 : Further information: Library, Local Council, Trade magazines, Yellow Pages, Local Newspapers, Catalogues, Social Surveys.
- 8 : **Amanda** would work well in charge while **Susie** could work well selling. If the group have chosen other people, ask why.
- 9 : **Amanda** would be good at advertising.
- 10 : The best people to work in the workshop would be **Arthur** or **Susie**. In fact 'Wood N Tops' does not have enough production personnel to provide the 240 person-hours available.
- 11 : **Frank** could cost repairs. Note that many of the things quoted for could be done by 'Wood N Tops' volunteers. If there is no allowance for this, ask why not. If the group does not include a burglar alarm or smoke detectors, ask why.

- 12 : Ways to make the showroom attractive could be bigger windows, heating (not mentioned in costings), play area, parking, false ceiling, music, glass doors, big signboard, pictures/murals etc.
- 13 : **Arthur** or Council Technical Department best for drawing up plans.  
If someone else is chosen, ask why.
- 14 : If there is under-capacity (too many things being made) ask how this will be handled. If there is over-capacity (too few things being made) ask why.
- 15 : If the workshop is producing more than 60 items for retail sale ask why.
- 16 : **Arthur** is no project-leader so it would probably be best to make someone else 'boss' of both workshop and showroom. Who does the group choose, and why?
- 17 : Legal requirements could be Planning Permission, Change of Use, Fire Certificate, Employer's Liability Insurance, Public Liability Insurance, Premises Insurance, Tenancy/Lease Agreement, Health & Safety policy, Equal Opportunities policy, Contracts of Employment, Vehicle Insurance

# WORKING WITH GROUPS

## - THE BUSINESS PROPOSAL

Managing the process of making a business proposal to funders and stakeholders is a critical stage in the process. The group must have complete understanding of the business proposal, good communication skills and appear confident and determined. A self-starting group will be all this. If not, then further development will need to take place, perhaps with the group retracing its steps and focusing on basic skills and confidence-building.

There is no substitute for knowledge and experience in building confidence. The difficulty is that most groups don't know what they don't know! A little bit of 'leadership' or 'pro-action' in the early stages - especially in ensuring the right people are occupying the right roles - can ensure the project develops properly later on.

### Some Development Issues

#### 1 : The Development Process

- Has the group got the confidence, knowledge and energy levels to take them through the business proposal stage successfully?
- Does the group understand that funding decisions often take some time to be made?
- Does it have the will and capacity to respond to requests for further information?
- Do all members feel involved and valued and are all equally engaged with the project?

You can have leaders and followers, people with pivotal roles and less important ones. But you can't have different levels of enthusiasm and energy, different agendas or boundaries. Confusion about the purpose of the project, its 'ownership' or levels of risk the group will embrace will all show up in the business plan or proposal. The group must have a high level of practical unity or its chances of success will be less.

## 2 : Language And Communication Skills

It's likely the group will not have dealt with the people who are potential funders before, and have a limited understanding of either the process of making a funding decision or the language of bureaucracies and institutions.

- Developing an understanding of the language of funders may require intensive work
- A major barrier to developing understanding may be lack of confidence
- When stress enters, communication skills can exit. Practice asking for funding in non-threatening environments where coping skills can be built

## 3 : Roles

Funders are often used to dealing with particular people playing particular roles, for instance the lone entrepreneur. How and who presents the business proposal may need to match these expectations. A bank may expect a well-understood and detailed proposal from a single person. Public funders may expect to meet a group or even the group plus community representatives.

The key is that the group understands this and assigns roles accordingly, with each role being thoroughly studied, researched and practiced.

## Development Notes

### Knowledge

- Does the group have the depth of knowledge to make a successful presentation?
- Has the group developed an understanding of what affects stakeholder perceptions and decisions?
- Does it know who will make the funding decision and how to pitch its proposal?
- Has the group formed positive relationships with key individuals and stakeholders?
- Is knowledge shared equally and equally understood?

### Negotiation And Communication Skills

- What are the kinds and levels of intercommunication between group members?
- Does the group negotiate effectively with external stakeholders and/or with each other?
- Can the group communicate effectively with external stakeholders?
- Has the group developed an understanding of the language of business?

### Leadership

- Have strong and effective leaders emerged?
- Are roles clearly defined?
- Is there clear agreement between 'leaders' and 'followers'?
- Are leaders trusted and respected by group members and external stakeholders?
- Are people in leadership roles in 'for the long haul'?

### Development Of A Culture Of Aspiration

- Has a positive and business-like culture developed?
- What are energy levels in the group like?
- Is effort focused on achievement or discussion and debate?
- Has the group got an understanding of what a successful bid for funding might entail?

### Management Of Process

- Is there effective delegation and/or co-ordination?
- Does the group assign tasks to the right people?
- Do tasks get done quickly and effectively?
- Does the way the group is working have a positive or negative effect on its unity, cohesion and focus?
- Is the group properly aware of both timetables and timescales?
- Do tasks done and milestones passed add or subtract from energy levels and involvement?



# 2.1

## FORMING A STEERING GROUP; WHAT MAKES A GOOD GROUP?

- Forming A Steering Group; What Makes A Good Group?
- The Role Of A Chair Or Facilitator
- Planning In A Group Context
- Co-operate Or Be Damned

# FORMING A STEERING GROUP; WHAT MAKES A GOOD GROUP?

## Why Does A Project Need A Steering Group?

Such a group (different names are sometimes used e.g. management committee, review panel, advisory group) can:

- Consider the big picture
- Monitor current project activities against project plans
- Link what the project is doing and planning to developments, problems and opportunities in the wider world

Of course, projects can and should do these things for themselves. Some projects report that preparing for a steering group is almost as valuable as the meeting itself. However, a good steering group meeting can bring good questions, good ideas and a useful distance and perspective to a project team that is often, and quite properly so, working on the details of the project.

## What Is The Steering Group For?

The steering group should:

- Be accountable for the project's expenditure and the overall work of the project
- Encourage and strengthen links between the project and other relevant communities, which may include other parts of the institution, other institutions and professional bodies/subject associations
- Monitor the progress of the project against its goals, and keep these project goals and the overall project plan under review

The purposes of the steering group are considered on page 67 under 'Terms of Reference'.

## Issues To Consider When Setting Up Your Steering Group

### 1 : Membership

Consider what membership will be most appropriate for your project. Some projects like to have senior managers to give status to the project. You may also like to invite people who can give your project practical help, such as representatives from industry or your discipline network. An intended end-user of your project outcomes - a lecturer or a student - can help to keep the work of the project grounded.

Try to have a balance of people with hands-on experience and those who are in a position to bring about institutional change, i.e. those on the relevant committees. The latter are hard to attract, but all you need is one key person who will champion your causes and who will attract others (possibly not on your steering group) for specific working parties, conferences, etc.

A group may need to be **enabled** to understand its problems, acquire skills and implement solutions.

Key people (e.g. the Chair or a support worker) have the **responsibility** to see, confront and solve problems. Key people need to be proactive about dealing with group problems.

Conflicts are often caused by very complex situations or divergent and cross-cutting attitudes. Major problems can arise when problems are not confronted. Typical symptoms are scape-goating, constant criticism, carping, irrational fears and sudden disklikes.

There may need to be both a theoretical and practical understanding of group processes

and an ability to analyse relationships and interactive processes between people. Through this process, the resolution of group problems becomes possible.

### 2 : The Composition Of Your Group

You will need to consider how big your group will be:

#### A small group (say up to five)

**Advantages:** Such a group, if comprised of relatively senior people, can make strategic decisions, give strategic advice, and also give the project influence among the intended users.

**Disadvantages:** A small number may not give the steering group breadth of experiences and perspectives. Busy senior staff may not be able to give enough time to the steering group.

#### A large group (say up to ten)

**Advantages:** A greater range of members can be included. For example, staff from different project sites; senior managers; student representatives; external representatives from subject or professional associations; staff from other disciplines and from relevant administrative departments such as quality assurance, staff and educational development, students' union; and representatives concerned with the accessibility of project outcomes for the widest possible range of students including, for example, disabled students. A wider range of experience can thus be tapped, especially from external sources. There can be greater ownership by the intended user community.

**Disadvantages:** A large group can sometimes lose its effectiveness by its size. Meetings can be difficult to arrange (and conduct!).

## Terms Of Reference

Some projects choose not to have formal terms of reference beyond what was stated in the original project application. If the bid statement clearly sets out the role and responsibilities of the steering group and how often it will meet, this may be all you need. If your project has changed focus or expanded since the application was made, or if the statement in the application seems too general, you should consider drawing up terms of reference. These would include at least:

- How often the group will meet
- Roles of the members
- Reporting procedures (formal minutes or notes and who should receive them)
- Responsibilities of the group

## What Should The Steering Group Be Doing

Here are some suggestions. There are many other possibilities:

- Keeping the project on track to its project plan and budget, and advising when changes to the project plan or budget are required
- Providing a forum for discussion of project related items and its operation
- Providing a high level of debate, which draws on members' experience
- Helping the project to see more effective ways of getting things done
- Motivating project staff and contributors
- Troubleshooting bureaucracy
- Providing a forum for discussing evaluation

- Approving the programmes and strategies proposed by the project team
- Advising on the planning and content of materials produced by the project
- Ensuring that the project meets the terms of any contracts/service level agreements
- Providing a channel of communication between the project and its funders
- Assisting the project to achieve a high profile within the local area and wider community

The group may also have responsibility for specific functions, such as evaluation and dissemination.

## What Makes A Good Steering Group

Steering group members need to be interested in the project and committed to championing its cause. A good group will be made up of a mixture of sex, ages and backgrounds. To assist the group you should:

- Make clear to members what their likely responsibilities and time commitments will be
- Rotate the responsibility for chairing each meeting to engender a sense of ownership
- Include external representatives to allow different perspectives and a wider experience base
- Set performance indicators for the group as well as the project
- Ensure clarity of both individual and group roles
- Produce minutes that include clear action lists showing who will take each action

- Create time for debate of the issues in the meeting
- Issue papers at least a week before meetings to allow the members sufficient preparation time
- Meet as regularly as is necessary to keep abreast of the progress of the project
- Try to maintain enthusiasm for the project at all times!

**Groups are most successful when they involve the following:**

### Interpersonal Factors

Communication, trust, confidence in others, sense of humour, sharing both responsibility and feelings, good conflict resolution, recognition of skills and validation of skills and emotional support.

### Organisational Factors

Common aims, adequate resources, understanding group and working processes, action-taking, an appropriate structure, support from outside bodies and individuals and well managed meetings.

### Human Factors

Vision, confidence and the right people.

## How To Engage Your Steering Group

Many projects find it difficult to involve members of the steering group between meetings as often the types of people who are members have very busy diaries and have little time to commit to the project itself apart from attending the actual steering group meeting.

Some examples of how to keep your steering group members actively involved in the project are as follows:

- Think about including the steering group members at the bid writing stage. Engage their help in writing the bid so that they have ownership of the ideas
- Make steering group members feel valued - it is a privilege to be on the steering group and their contributions will be invaluable; remind them that they are at the cutting edge of project developments
- Ask steering group members to read important articles and provide the project team with feedback
- If you are producing deliverables such as a video, ask steering group members to view a draft copy and provide feedback
- Ensure that steering group members take an active role at any events that you run in order that they identify with the project and keep up-to-date with new developments
- Involve your steering group in team building activities

To facilitate success, group members should:

- Do things (not just sit there)
- Make positive proposals (when ideas are needed)
- Ask questions (if information is needed)
- Offer alternatives (to create agreement)
- Build on proposals (to cement group vision)
- Test ideas (not reject them out of hand)
- Explain opposition (not just flat rejection)
- Help others (to cement solidarity)

### **How can a group be encouraged to act this way?**

Good practices will emerge naturally if the group is based on the following principles:

- Validation of roles and contribution, even of participation itself is the right of every person involved
- Good training is the foundation on which group working is based
- Setting objectives provides the external environment in which the group orients and validates itself
- Endeavour and achievement is positive when it is group-centred, negative when (wrongly) claimed by individuals
- Confidence and ownership (and the two are often linked) provides powerful incentives to action

## **What Role Does A Support Worker Play**

A support worker is in a powerful position because of his/her role but can also play a negative part, shaping or restricting group processes. When groups meet the support worker can employ a number of techniques to enable the group to reach a satisfactory outcome. These techniques must be used appropriately and are:

- Listening
- Observing
- Paraphrasing/summarising discussion
- Feeding back and clarifying discussion
- Guiding
- Asking open-ended questions
- Asking 'what if' questions
- Narrowing and focussing discussion
- Sharing - including everybody in the discussion/decision
- Reflecting feelings
- Confronting issues - when avoidance is distorting group processes

The most difficult technique to use is confronting because it can be an ethical 'minefield' and you don't easily get positive outcomes.

## Work Exercise

### Setting Up The Steering Group

Many items on this worksheet should be completed before the first meeting of the steering group. Doing this activity, will help to set parameters for the group, provide Committee members with an understanding of what you would like for them to accomplish, and help them work efficiently.

Task	Points to Consider	Decision
<b>Steering group name</b>	E.g. <Agency Name> Internal Committee on Integrating Social Enterprise Into the Public Sector; <Agency Name> External Committee on Integrating Social Enterprise Into the Public Sector... use something more creative.	
<b>Approximate size</b>	What is the ideal number of Committee members? Would the agency be best served by a small, efficient committee? Or, is a large committee needed to accommodate appropriate staff (for the Internal Committee) and ample outside representation (for the External Committee)? Will the group be able to meet comfortably around a conference table and converse as a group?	
<b>Position descriptions</b>	What are the desired qualifications and responsibilities of the Committee members (e.g. Chair, Secretary, general members)?	
<b>Meetings</b>	How frequently should the group meet? Where will it meet? What is the proposed format for agendas and minutes, and who will prepare and distribute them? What is the attendance policy?	
<b>Subcommittees</b>	Will it be best to form subcommittees to complete some tasks? If so, how large should they be? Will you appoint subcommittee chairs? Will subcommittee meetings be necessary, in addition to committee meetings?	

Task	Points to Consider	Decision
Reporting	How frequently should the Committee report on its progress to the agency? Which agency staff should receive the reports? What is the proposed format for the periodic and final reports? How will the Committee receive feedback on its reports?	
Communication	Who will be the primary agency and Committee contacts (e.g. Director and Chair)? What are the preferred modes of communication between the Committee and the agency and among Committee members (e.g. email, phone, mail)?	
Evaluation	Will the agency evaluate the Committee's work, or will the Committee conduct a self-evaluation? Will there be an ongoing process evaluation as well as a final evaluation? What criteria will be used to determine whether the Committee has successfully achieved its goals? What methods will be used to perform the evaluation? A self-evaluation tool is included later in the chapter and in the resource section of the Toolkit.	
Staff support	Will the Committee have access to agency staff for assistance with administrative work, such as preparing reports? If so, how much staff time is reasonable? Will the External Committee have a staff representative who will attend meetings and serve as a liaison between the Committee and the agency?	
Mission	What is the Committee's purpose?	



Task	Points to Consider	Decision
Goals and objectives	What specific goals, or results, would the stakeholders like the Committee plan to achieve? What objectives, or intermediate goals, must it accomplish to achieve those goals?	
Work plan	How will the Committee go about accomplishing its work and goals? Which Committee members will be responsible for each task?	
Timeline	When will each task in the work plan be completed? When will milestones be reached along the way? By what date must the Committee complete its work?	

Please also see Unit 8.5 - Leadership; Working With The Committee for a further work exercise.

# THE ROLE OF A CHAIR OR FACILITATOR

## Why Have A Chair?

The chair/facilitator is trusted to use this role to benefit the whole group. A chair/facilitator is there to make it easier for the whole group to reach its goals; not to direct what those goals should be. The chair/facilitator is in a position to have an overview, this means that they can think more clearly about the arguments and issues.

## How Does A Chair Help?

The chair can do a lot to help a meeting run smoothly:

### 1 : Housekeeping

- Make sure everyone knows the time and place of the meeting
- Send out the agenda, minutes of the last meeting and any reports in plenty of time for everyone to have read them
- Check the meeting place is warm, quiet and comfortable, with enough seats for everyone
- See that drinks or other refreshments are available
- Think about the agenda, try to be aware what issues there might be disagreement over

### 2 : Chairing Or Facilitating The Meeting

- Welcome new members or visitors, ask people to introduce themselves
- Make sure that everyone has agendas and minutes of the last meeting
- Explain the agenda, saying which items are for discussion, which for decision
- Ask if there are any other items which need to be discussed
- Items which do not fit the agenda should be included as 'Other Business' or held over

### 3 : The Contract

The chair's authority should come from the fact that the agenda is the 'contract' which exists between all members - this is what they have agreed to discuss at that meeting. Allowing people to defer or add items during the meeting (to an excess) prevents the chair and the meeting taking responsibility for getting through what has been agreed.

## Making Meetings Work

### Going To Meetings

People go to meetings for different reasons and because of this it is vitally important that there is a basic **collective purpose** or **aim**. Everyone must be clear about the power and limitation of what the meeting can achieve.

### Size Of Meeting

Bigger meetings need clear ground rules and a commitment from everyone to keep to these rules. Over-large meetings (where some people feel they will never have their say) should perhaps be organised as smaller ones.

### Timing Of Meetings

Pick an appropriate time for the meeting and allocate sufficient time beforehand for the items you want to discuss. Stick to this timing.

### The Place

The venue should be accessible and comfortable. Seating should make everyone feel equal.

### Information At Meetings

People should know and understand in advance what is to be discussed. Information should be circulated in advance, should be concise and relevant and if non-English speakers are likely to be present should be translated.

### Rules

No large set of rules or 'Standing Orders' are necessarily needed but there needs to be:

- A chair or facilitator through which all discussion is handled
- An agenda, which discussion should follow
- Someone to take notes to be circulated later
- Meetings need an agreed minimum number of people present before starting their work
- It should be clear who has the right to speak (and when) and how decisions will be made

## People Who Disrupt Meetings - How They Do It!

- 1 : They always come late.
- 2 : They always leave early.
- 3 : When the discussion moves to a new subject, they bring up something about the last item.
- 4 : They talk across the group to just one person.
- 5 : They never say anything until the meeting is over and people are socialising together - and then they can't stop.
- 6 : They never stop talking on every subject even if what they are saying is not relevant.
- 7 : When jobs need doing they keep quiet. Then they criticise the person who has done the job.
- 8 : When they are not talking they look bored or distracted.
- 9 : When they are not listening they look at their watch or yawn.
- 10 : When they don't agree with someone they look irritated, try to distract them with 'pen-tapping', 'tut-tut' sounds or sub-audible comments.
- 11 : When they are speaking they use 20 words when 5 will do.
- 12 : Towards the end of a meeting they start to show impatience.
- 13 : They deliberately irritate people in the way they know will most upset them e.g. if a non-smoker they will chain-smoke throughout the meeting.
- 14 : If the subject being discussed bores them they will belittle it by telling a funny story or disrupt the discussion in some way.
- 15 : If the subject upsets them they will do something else rather than participate, often trying to involve others.

# PLANNING IN A GROUP CONTEXT

This role play exercise examines the different dynamics and outcomes that result when particular people take particular roles within a group setting.

The role play centres around a newly-appointed Community Worker bringing forward proposals for reviving a neglected and under-pressure Community Centre on a depressed, low-income 'sink' housing estate ('Burnside') and presenting them to its Steering Committee.

The role play works best if the group discuss the proposals made by the Community Worker while an Observer records what happens **and then people repeat the role play after switching roles**. The role play can be done two to three times to see if there are different dynamics and outcomes depending on who is involved.

First, select someone to be the Community Worker who for the initial session should be sent outside to prepare some proposals. Then select someone to act as Observer, to make notes about how the role play went.

The Observer is looking for:

- People who played a positive and negative role and why
- How suggestions and ideas were treated by the group
- Whether positive suggestions were taken up and recorded for action
- Whether people were clear at the end about what decisions (if any) were made

Issues that might arise from the role play are:

- Did any decisions actually get made?
- Did any priorities get set?
- Did the group stick to the issue at hand?
- Were there any conflicts or arguments?
- How were disputes resolved?
- What role did personal agendas play in the discussions?
- Would the group have made better decisions if different people were involved?
- Were the right people present to make a credible decision?
- Were there people present who shouldn't have been?

## Roles To Be Played

These roles should be printed out separately and given to people participating in the role play. It doesn't matter which roles are picked/assigned and the role play can often be quite educational if key people (like the Chair or the Council Officer) aren't present at the meeting!

When people have read their roles and understand them, the Steering Group 'script' should be read out. When that has been done and understood, the Community Worker can be summoned back into the room to give a presentation of their ideas about reviving the Community Centre's fortunes.

Each role play should last about 40 minutes: a 5-10 minute presentation, 20 minutes discussion by the Steering Group and a 10 minute analysis of what went on by the Observer.

## Steering Committee Script

This should be read out to the people forming the Steering Group.

You are a group that has been meeting regularly for years, you know each other quite well and have worked together on several projects. As a group, however, you are becoming tired and are worried because you are not attracting new members. You would like to start work on a new project, but the problems of Burnside (the local housing estate you live in) seem so many and so huge that you don't know where to start.

A Community Worker has just been appointed and you hope that they will revive the under-used Community Centre. The Centre used to be really active and was very popular as a venue for parties and evening events. The problems of vandalism and drug abuse on the estate have discouraged people from attending evening events and they have gradually ceased.

It is rumoured that the worker can be a bit bossy if you let him/her, so you must make sure that your interests are taken into account in any proposals put forward by the worker.

You don't need people to play all these roles for the role play to work. The roles can be picked and distributed randomly to whoever is present. If numbers are limited or the group is quite developed, you can dispense with the Observer.

## The Community Worker

You're the expert and you expect to be listened to. When you make a decision you stick to it. You want to make your mark but aren't sure who are the key people in the Steering Group. Still, you've got a job to do and the Steering Group have high expectations of you. Your job is to get some kind of agreement to one or more actions that will be taken to begin restoring the Centre's fortunes. However, the agenda of the meeting is very crowded and there is only 30 minutes to present and discuss your ideas before next business.

The ideas you have come up with are:

- A marketing campaign to re-advertise the Centre and its services to the community (needs Council funding)
- A refurbishment program to make it more attractive (needs Council funding)
- 'Hardening' the Centre's defences with shutters and/or CCTV (needs Council funding)
- A youth outreach program to try and reduce vandalism/increase young people using the Centre (needs Council funding)
- A community café that could cater outside events and family functions
- Creating a 'healthy living centre' to combat problems like heart disease (funding available elsewhere)
- Turn part of it into a childcare project (funding could be available for regeneration initiative)

Choose **one** to champion and **one** as your fall-back project. Your task is to get one or other of these ideas accepted.

## The Steering Group

### The Chair

You have been Chairperson for years and, although a bit vague and rambling, are good-hearted and have worked hard for the community on various projects. Your problem is that you have a 'bee in your bonnet' and will not let it go. The current 'bee' is to bring the local launderette into the ownership of the community. Also, being an old-fashioned 'committee-person', you can be a bit autocratic in meetings and insist on a very formal meeting structure (even an informal meeting, like meeting the new Community Worker, will be subject to the agenda you have in your head), with everyone speaking through the Chair and every decision going to a vote.

### The Secretary

The Chair has you pictured as her/his personal assistant and believes that your only role in a meeting is to take the minutes. You are a bit irritated by this but put up with it for the sake of peace. If you feel strongly enough about something, you do make the effort to speak out, but usually you will complain to your 'best friend', who is always at your side, rather than speak out in the meeting. You are quiet and shy and dislike talking in public, preferring to hope that either your 'best friend' will put your point of view forward, that someone else will, or that because you take the minutes, you can alter things to suit you accordingly.

### The Secretary's Best Friend

You are a very assertive individual and quite enjoy the dependency your friend, the Secretary, has on you. But sometimes you get irritated with 'firing the bullets' for your friend who is a bit shy and unassertive. He/she does have some good ideas and valid points to make; ideas and points which you often don't think of for yourself, being so caught up in the discussion.

### The Treasurer

As Treasurer you take your financial responsibilities very seriously, and you are very conscious that you are accountable to the Council which funds your group. You are a little intimidated by councillors but because you feel that you shouldn't be, you tend to be aggressive with them. You are terrified that some one will 'run off with the money' so you keep a tight grip on all expenditure; you believe the Chair wastes a lot of money and energy with his/her crack-pot schemes, the latest crazy scheme being a community-owned launderette. Everyone knows that launderettes have had their day and the one on the estate is so run down and vandalised, that it will cost a fortune to do up and even then no one will use it! Although there is £500 in the reserves, the Council thinks your group owes them about £3,000 as money not spent on various projects. In fact this 'underspend' comes from the late start of a project and interest earned on the money. It happened years ago and has been used to fund other things since then.

### The Committed Activist

You are very active, very talkative and very concerned. You have a view on everything! You become very impatient with what you see as another's stupidity or lack of understanding and feel quite at liberty to interrupt whenever you feel like it. You are very determined that the rest of the group sees things the same way you do and get upset if the decision is one that you don't agree with. In fact, most of the time you think that a committee is the worst way of making decisions and would much rather make a decision for the group that everyone else would work to carry out, while you got on with the next project you have in mind.

### The Uncommitted Activist

You are a person who is deep into alternative therapies and 'green' issues. You are an animal rights supporter and a committed vegetarian. You have been through several different therapy programs and believe that it is up to each individual to decide his/her own destiny. You think that most of Burnside's problems would be solved if only young people could be provided with a youth club which promoted your ideas and values. You are a graduate, but despite this you do not have or want a job. You believe that society would be much better off if it was cashless and would like to see a job swap/share scheme running locally. You are thinking about standing as an independent in the next borough elections and feel this group could be a useful launch pad for your campaign.



### The Councillor

You are Councillor Fishlock, Chair of the local Parish Council. You are quite elderly but will be standing for re-election next year. The priority for you is to make sure that the 'lefties and trendies' in the nearby middle-class estate ('Grasswell') don't spoil your chances in the election. The Labour Group has asked you to think about retiring in favour of a younger candidate. You are aware that you are slowing down and seem to miss bits of meetings (this is either because you drop off in meetings - difficult to imagine! - or because you don't hear as well as you used to) but your experience makes up for a lot. You are only at this meeting because you were not part of the interview panel which appointed the Community Worker (surprised you weren't invited!) and would like to meet him/her. You are afraid that the new worker is one of the 'lefty and trendy' types and are determined to instil a 'bit of political reality'. When attitudes and opinions are expressed that you don't agree with, you tend to 'kick-off', especially when the individual should know better. You think that the group owes the Council £3,000 from an underspend years ago and think it would do your standing in the Labour Group some good if you could get it back.

### The Council Officer

You are a Council worker for the Neighbourhood Services division of the Council. You haven't been in post long (you've been 'reorganised') and don't know all that much about this group but want to make your mark. You take the responsibility of ensuring money is accounted for properly very seriously. There is a long standing problem over a £3,000 underspend you don't properly understand but which you

think would score a few 'brownie' points if you could claw back. You were part of the panel which appointed the new worker, but you would have preferred someone more experienced. However, he/she was your second choice and you agreed with the majority decision in the end. You think you can work well with the new worker, providing he/she will listen and take guidance from you about community affairs.

### The Grasswell Representative

You are a determined person with the interests of the nearby 'nice' estate of Grasswell very much to heart. You have lived there for many years and remember when the Burnside social housing estate was built. You are keen on collaboration between the two estates because joint ventures tend to pull in funding for Grasswell as well. You are the type who tends to suggest coffee mornings or bring-and-buy sales whenever fund-raising is talked about. You voted Liberal Democrat (the minority party) in the last elections.

# CO-OPERATE OR BE DAMNED

This game is designed to test the abilities of participants to work together, to bring out the social skills required for co-operative action.

The tutor reads the following story to the participants. The participants should then complete a 'values grid' rating each character's behaviour along a scale of one to five, firstly as individuals, then as a small group of four to five. Participants should record their reasons for rating behaviour in particular ways. The group should read out their scores individually and these should then be discussed. The group should then try to develop a consensus on scoring the actions of the people in the story.

The aim of the exercise is to measure to what extent the group has common values and the extent to which they are prepared to compromise when forming views or opinions.

## The Story

Mary is a senior civil servant at a Government Ministry. She must decide whether to build a large dam near her parent's home which will result in a number of villages, including her parent's, being flooded. The inhabitants will have to be moved to a government-built village near the coast. The villagers are all farmers and may not be able to adjust to life near the coast - they may lose both their land and their livelihoods.

A large international construction company led by Jim wants to build the dam and Jim has offered Mary and her boss Patrick (the Minister) £50,000 each to push the proposal through.

Elizabeth, Mary's mother, has begged her daughter to say no to the dam. The village co-operative led by Elizabeth is thriving and has started to improve the economy - people are moving back into the area.

Bernard, Mary's fiancé, says Mary must take the bribe if she wants to be married - they cannot turn down such an opportunity.

Mary would like to co-operate with everyone but decides the dam must go ahead. Unlike her boss, Patrick, she refuses the bribe; he takes the bribe and backs her decision.

Jim gives Patrick the promised £50,000 but keeps the bribe offered to Mary himself.

Elizabeth refuses to see or speak to her daughter, the civil servant.

Bernard and Mary had a long argument over her refusal to take the bribe. He breaks some furniture in a fit of fury and storms out. They still intend to marry.

## Values Grid

1 = Good 5 = Very Bad

### Individual Score

Name	Score	Reason For Score
Mary		
Patrick		
Jim		
Bernard		
Elizabeth		

### Group Score

Name	Score	Reason For Score
Mary		
Patrick		
Jim		
Bernard		
Elizabeth		

# 2.2

## ROLES AND RESPONSIBILITIES; IDENTIFYING TRAINING AND DEVELOPMENT NEEDS

- Committee Members' Roles And Responsibilities
- Team Working
- Key Skills Checklist For Committee Members
- Training Needs Analysis

# COMMITTEE MEMBERS' ROLES AND RESPONSIBILITIES

## Checklist

### Duties Of All Committee Members

Management committee members have overall responsibility for meeting an organisation's legal duties, ensuring it is properly managed, and for promoting good practice in all its activities.

### Legal Duties

These include:

- Ensuring the organisation meets its objectives as set out in the constitution
- Ensuring the organisation complies with the rules set out in its constitution and acts legally in all its activities (getting advice when necessary)
- Acting in the interests of the organisation and its beneficiaries, not for personal benefit
- Informing meetings of any interest in a contract which could lead to conflict of interest
- Providing proper accounts of the organisation's activities to its members, funders (and the Charity Commission, Companies House and other regulatory bodies as appropriate); producing annual reports and directors' reports as required by law; and ensuring that accounts, annual returns and other required information is filed on time
- Seeking professional advice where relevant
- Ensuring resources and assets are well managed and used to pursue its objects

- Keeping up to date with activities to ensure informed decision making at all times
- As far as is reasonable, keeping abreast of legislation that may affect the organisation's work and direction
- Ensuring that the organisation has effective health and safety policies and procedures covering all its activities and that they are effectively monitored
- Ensuring that necessary insurance policies are taken out and periodically reviewed
- Ensuring the organisation meets its contractual and other obligations, including employment contracts, premises agreements, funding contracts and equipment licences
- Ensuring the organisation does not discriminate in employment or service provision
- Regularly attending management committee meetings and working with other members

### Managerial Tasks

These include:

- Setting overall policy and short, medium and long-term objectives
- Identifying and discussing new areas of work
- Ensuring there are systems for regularly monitoring and evaluating the organisation's work
- Being a good employer

- Supervising and supporting senior staff and ensuring other employees and volunteers are properly supported
- Ensuring the organisation's equal opportunities policy is implemented and monitored promoting the organisation

## The Role Of Individual Committee Members

### The Chairperson

The tasks of a chair can be divided into five key areas, some of which could be delegated to a vice-chair.

#### 1 : Acting As A Spokesperson

This could include:

- Representing the organisation at external events
- Liaising with the press on behalf of the organisation (this could be delegated to a press officer)
- Taking an active role in fundraising campaigns

#### 2 : Dealing With Matters Relating To Membership, Other Officers And Users

This could involve:

- Ensuring members' rights as stated in the constitution are met
- Helping to deal with disciplinary action against members and other officers
- Helping to deal with disputes between members, users and the organisation

#### 3 : Planning And Running The Organisation's Meetings

These include the AGM, any other members' meetings and committee meetings.

Planning meetings involves:

- Ensuring the organisation holds the meetings required by its constitution
- Ensuring compliance with the procedures for giving notice of meetings
- Helping to plan the agendas for each meeting, checking the minutes of previous meetings and ensuring that these and any background papers are distributed beforehand
- Being briefed about each item on the agenda
- Ensuring outstanding matters are followed up

Running meetings involves:

- Ensuring the meeting is quorate
- Gaining agreement of the minutes of the previous meeting and then signing them
- Making sure all relevant items on the agenda are discussed
- Ensuring all participants have the opportunity to make a contribution
- Making sure voting procedures are complied with
- Clarifying key decisions that are made
- Ensuring proper minutes are taken

#### 4 : Supervising Senior Staff

The chair is generally responsible for supervising and supporting the work of the senior member of staff.

## 5 : Helping With The Management Of The Organisation

This could include:

- Making decisions and taking action between committee meetings (taking chair's action) if this is allowed by the constitution or has been authorised by the committee
- Acting as a sounding board for senior staff, signing cheques and liaising with the treasurer
- Helping to deal with any staff problems and involvement in staff recruitment

### The Company Secretary

Directors of companies limited by guarantee must appoint a company secretary, whose post requires meeting certain legal obligations under company law. Some of the tasks may be delegated to paid staff (and a member of staff can be the company secretary).

## 1 : Maintaining And Updating The Registers

This involves:

- Maintaining a register of members and a register of directors and company secretaries
- Notifying the Registrar of Companies within 14 days of any changes of directors, and any changes in directors' home addresses, other companies of which they are directors, or any of the other information company directors are required to provide
- If the company has a seal, keeping the sealing register - the list of documents on which the company seal has been used
- Where relevant, maintaining a register of charges i.e. loans made to the company where the bank has a form of security, such as a mortgage

## 2 : Ensuring Meetings Are Called And Recorded

This involves:

- Ensuring that an AGM is held within 18 months of incorporation and then at least every 15 months; ensuring that 21 days' written notice is given to members and auditors and that business is transacted in accordance with the constitution
- Calling other general meetings as required by the constitution, ensuring that 14 days' written notice is given and business transacted accordingly
- Ensuring minute books are kept for general meetings and directors' meetings

## 3 : Administration Of Annual Returns And Accounts

This involves:

- Ensuring an income and expenditure account and balance sheet are prepared or submitted for a compilation report and where necessary properly audited
- Circulating audited or examined accounts to members at least 21 days before the AGM
- Submitting accounts to the Charity Commission within ten months of the end of the financial year
- Submitting the income and expenditure account, balance sheet and directors' report to the Registrar of Companies within ten months of the end of the organisation's financial year
- Submitting an annual return to the Registrar of Companies by the due date
- Keeping copies of all annual returns and accounts for at least six years

#### 4 : Supervising Legal Agreements

Ensuring all legal agreements or contracts are properly discussed, recorded and agreed by the directors.

#### 5 : Meeting Other Registration Requirements

This involves:

- Notifying the Registrar of Companies of changes to the organisation's registered address within 14 days
- Ensuring the organisation's stationery includes its registered name and address, the fact that it is a registered company and its registration number (and where relevant the fact that it is a registered charity)
- If the organisation is registered for VAT, ensuring the VAT number is printed on its invoices
- Having custody of the company seal, if there is one, and ensuring it is properly used

#### The Secretary

'Company Secretary' is a legal position, required under company law. Unless required by the constitution there is no obligation to have an elected secretary, and the relevant tasks can be undertaken by staff (if any).

#### 1 : Companies

In a company the elected secretary might help the company secretary to prepare for and administer meetings and with other administration.

#### 2 : Unincorporated Associations

In unincorporated associations, the secretary takes on responsibilities similar to those of the company secretary - specifically in relation to meetings, membership lists,

management committee names and addresses and ensuring annual reports and accounts are submitted to the relevant agencies.

#### 3 : Preparing For Meetings

This could involve:

- Sending notices of all meetings to members
- Making arrangements for meetings e.g. organising refreshments, booking rooms and ensuring appropriate facilities for participants with disabilities or other special needs
- Preparing the agenda, in consultation with the chair, and distributing the agenda with any background papers
- Checking that members have carried out tasks agreed at the previous meeting

#### 4 : Helping In Meetings

This could involve:

- Making sure the meeting agrees the minutes of the previous meeting and they are signed by the chair
- Taking and producing minutes of the meetings, recording names of those attending and apologies, major decisions, any votes taken and agreed further action

#### 5 : Other Administration

This could involve:

- Keeping records of outgoing correspondence
- Keeping records of membership subscriptions
- Ensuring members are provided with the organisation's constitution, annual report and policies
- Sending out publicity about the organisation



## The Honorary Treasurer

In an organisation with staff, the role of treasurer is usually taken by the manager or by finance staff. However it is still good to have an 'honorary treasurer' able to play a series of roles.

### 1 : Financial Oversight

The honorary treasurer's main duty is to ensure that funds are spent in accordance with the organisation's aims and following the organisation's procedures. This may include examining individual project budgets and accounts to make sure it is being spent as the funder requires.

### 2 : Financial Procedures And Audit

The treasurer should ensure the organisation's procedures for spending and controlling money are effective and being used. The treasurer needs to check that records are being kept and that assets are being controlled and can be accounted for. The organisation needs good financial policies and decisions will need to be made between meetings. Someone needs oversight of negotiations with banks and funders and tendering and procurement within the organisation. The treasurer needs to check financial information before it is presented to the board and ensure that information kept is easily auditable.

### 3 : Fundraising And Budgeting

The treasurer's main role is to ensure financial planning and budgeting take place. They will need to be able to track spending in relation to budgets and work with staff or other board members to decide spending priorities. The treasurer will need to approve funding bids being made and be involved in the drawing up of contracts or service level agreements when funding is won.

### 4 : Presenting Financial Information

It's the board's job to make decisions relating to finance and funding. The treasurer needs to ensure that financial information is presented properly and in time for the board to make decisions. A key task is to ensure that the board understands the finances of the organisation and that information is presented in ways that funders and members at the AGM can easily understand.

### 5 : Social Aims

Social enterprises are increasingly being expected to demonstrate the social value of their operations. One role for the treasurer could be to ensure that the organisation's assets and its financial transactions support the aims and objectives of the organisation. A further role could be in ensuring that financial information is presented to external funders and stakeholders in ways that emphasise the social value and impact of the organisation's spending.

### Handy Tip

There are few better guides to managing a third sector organisation than *Just About Managing?: Effective Management for Voluntary Organisations* from the National Council of Voluntary Organisations (NCVO).

# TEAM WORKING

We may have no or limited experience of team working. Or we may work in a group in ways that are inappropriate for a new project we are planning. We need a framework for working together and deciding things that can help team working no matter what the situation.

A useful framework used widely in the voluntary sector is **DECIDE**.

## Define

Groups need to clearly define the situation and limit discussion to just that topic, without letting new issues or 'red herrings' muddy the waters. They need to control the process of definition and make sure everyone is 'signed up' to the process. They must also decide who needs to be involved in the process, how long it should take or be allowed to go on and what is needed for a good decision to be made.

## Exploring

A good way to disrupt the unity of the group is for one person or a smaller group to define the problem and produce pre-prepared proposals or solutions that people aren't ready for. The group needs time and space to explore problems and solutions.

## Clarifying

To remain engaged and to ensure that decisions - once made - get implemented properly, everyone needs the appropriate information and needs to understand it and the implications of what's been decided.

## Ideas And Information

Rule ideas 'in' rather than ruling them out straight away; you never know. Give ideas to smaller groups to work on and test more intensively. Allow time for people to get information and keep a good record of all the ideas suggested, the discussions about each one and why they were either accepted and implemented or rejected.

## Decisions

A decision supported by all is better than one imposed on the group or accepted only by a majority (or even a minority!). It's unlikely that all decisions will satisfy everyone, so be prepared to compromise from time to time. Ensure that people who don't support the decision will go along with it. Clarify who is doing what and that all tasks are properly defined.

## Evaluate

Once a decision has been put into effect, how it has been implemented, whether the decision had the effect intended and its cost-effectiveness will need to be evaluated and reviewed.

# KEY SKILLS CHECKLIST FOR COMMITTEE MEMBERS

Please tick

The Sector	Existing Skill	Required Skill
Knowledge of other local social enterprises		
Ability to identify opportunities		
Knowledge of funding sources		
Experience of making funding bids		
Experience of assessing funding bids		

Legal Knowledge	Existing Skill	Required Skill
Legal responsibilities of committees		
How charities work		
Responsibilities when employing someone		
Leases and contracts		

Financial Skills	Existing Skill	Required Skill
How to read an income and expenditure account		
How to present financial information		
How to prepare a budget		
Preparing a cashflow forecast		
Preparing a profit and loss forecast		
How to keep simple accounts		
Doing the payroll		

Personal Skills	Existing Skill	Required Skill
Confident in your abilities		
Ability to understand complex issues		
Ability to see pros and cons of a proposal		
Willingness to question people's assumptions		
Ability to assess risk/understand implications		
Good at listening		
Able to say what you think		
Taking the lead/being a leader		
Dealing with authority		

# TRAINING NEEDS ANALYSIS

To be done by each organisation member.

## About You

List any training or experience relevant to your work, including short courses attended.

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## Rate Your Skills

Circle the number closest to your skill level.

5 = Good 4 = Above Average 3 = Average 2 = Below Average 1 = Poor

My publicity/marketing skills	1	2	3	4	5
Organisation's publicity/marketing skills	1	2	3	4	5
My financial skills	1	2	3	4	5
Organisation's financial skills	1	2	3	4	5
Your ability to deal with people	1	2	3	4	5
Organisation's ability to deal with people	1	2	3	4	5
Your ability to do your assigned job	1	2	3	4	5
Your ability to do the job you would like	1	2	3	4	5
Your ability to work with others	1	2	3	4	5
Organisation's ability to manage people	1	2	3	4	5

Do you have plans to take training over the next twelve months? **Yes / No**

If **yes**, please list:

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List the areas you would like training in and assign some priorities where possible:

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**Follow up questionnaire to be done by the whole group.**

What issues did the survey raise?

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Prioritise three areas of training for the organisation over the next year:

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Should you have a training program? If yes, how should it be organised?

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In practice, how much time can the organisation invest in training?

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Does the organisation have money for training? What budget should there be?

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Does the organisation know who can provide required training?

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Is it possible to raise money or get free training?

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Discuss these findings/issues.

Who is going to follow up the discussion with some action?

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# 3.1

## CONDUCTING MARKET RESEARCH; DRAWING THE RIGHT CONCLUSIONS

- Doing Market Research
- Market Research; Examples Of Information Needed
- Market Research 1
- Market Research 2
- Some Market Research Information Sources
- Analysing The Competition
- The SWOT Analysis



# DOING MARKET RESEARCH

Market research means you collect and analyse information about the market, your customers and competitors, then draw up or change plans accordingly. You can do desk research and/or field research.

## Desk Research

This makes use of information already collected ('secondary information'). It can use information from inside the organisation (the 'Internal Market Audit') or information from outside (the 'External Market Audit') using the following sources:

- Yellow Pages, Thomson Local, Kelly's Directory, or other company information
- Trade association yearbooks, trade directories, trade press and newspapers
- Market surveys, MINTEL reports and market reviews
- Local authority, Chamber of Commerce and TEC surveys
- Government statistics, including census, social surveys and purchasing information
- Competitor literature and publicity
- Books on marketing, selling and customer behaviour

## Field Research

Going out and talking to people (customers and competition), counting them or watching what they are doing via:

- **Observation** of peoples' reactions to your product or competitor
- **Interviews** on the street or at home, using written questions
- **Phone interviews**, short and to the point
- **Postal surveys** fill-in questionnaires, best used with existing customers
- **Omnibus surveys** by commercial market surveyors, pay per question asked
- **Focus groups** of typical customers, cheap and effective

## Plan Of Action

No market research can occur until a plan of action has been drawn up. Note this is different from the Marketing Plan. For each item decide:

- How will the information be obtained?
- Who will do the research?
- What can you do yourself and what will you need help with?
- Where will you obtain the information?
- How much will it cost (in time and money)?
- When will it get done (draw up a timetable and deadlines)?

Remember to make these decisions according to what you are trying to decide or achieve. Will the information arrive in time to be used? Will you have to change plans as a result?

Random and informal opportunities to acquire information are also useful: chatting with customers, suggestions for changes to a product or service and conversations with suppliers. Look out for changes, patterns and trends.

# MARKET RESEARCH; EXAMPLES OF INFORMATION NEEDED

## Size of Market

What is the total market - industrial, consumer, home and overseas?

Is it growing or shrinking?

Are there any regional biases or preferences?

What are the seasonal influences?

Where are the big users?

Is it a well developed, saturated market or are new products entering it?

Is it prone to fashions, short runs, cyclical changes?

Is new technology likely to alter the market?

What changes may affect demand?

## The Product

Who uses the product?

Frequency of purchase?

Who else could use the product?

How can it be improved?

What do customers think of it?

Is it branded?

Is the price right?

Are specials produced?

Can it be personalised?

What are the returns?

What new products are envisaged and how will they tie in with existing lines?

## The Competition

Who are the main competitors and what market share do they enjoy?

What is their product range and what do customers like?

What are their strengths and weaknesses?

Where do you have a competitive edge?

## The Customer

How can you reach them?

What is the customer profile?

What are their needs?

## Your Own Performance

Where do you make the most profit and where is the potential growth?

What extra lines or service could be sold?

How do you promote yourself and compare with your competition?

# MARKET RESEARCH 1

Any organisation intending to introduce a new product or service, for instance a group of people starting out in business, needs to establish that there is both a demand for the product or service and that conditions exist for it to be provided. Market research provides the necessary information. There are four stages to any market research.

## 1 : Deciding What Questions Need To Be Asked

The most useful questions that could be asked are: 'how often?', 'how much?', 'when?', 'where?', and 'why?'. A group setting up a restaurant might ask:

- **How often** do people eat out at restaurants?
- **How much** do they spend/are they willing to pay?
- **When** do people eat out?
- **Where** do they go to eat out?
- **Why** do people eat out/**why** would they buy our meals?

In getting this information, it may be useful to know who you are getting the information from. In this way you can decide if particular kinds of people act in particular kinds of ways: 'Young people seem to like fast food', 'older people spend more money', 'people with low incomes only eat out on special occasions' etc. Your marketing strategy may try to make use of these patterns of behaviour.

## 2 : Drawing Up A Research Plan

You must first determine what you are trying to find out, who you are finding this information out from, where the information can be obtained and how best to obtain it. Then tasks must be drawn up matching these aims, responsibility assigned, a timetable set and a method for analysing and reporting the information (if necessary) agreed.

## 3 : Collecting The Information

This depends on information, either **primary information** (that you obtain directly) or **secondary information** (that other people have found out).

**Primary information** can be collected by personal interviews, telephone interviews, or postal questionnaires. It can include street surveys, talking to groups of potential customers, observation (especially of competitors), talking to similar organisations in other areas and talking to suppliers or other people in the industry or sector.

**Secondary information** includes statistics on the product or service area, socio-demographic information, competitor analysis, trade directories and journals, government statistics e.g. the census. All of these should be in or available from the reference library. The Yellow Pages or Thomsons, trade associations, the local Council, research organisations, competitor brochures, the Chamber of Commerce and local enterprise agencies may all provide useful information.

The starting point for market research should be **secondary information** since this has already been gathered, organised and analysed. But **secondary information** may not be enough. **Primary information** is obtained in the following ways:

### **The Questionnaire**

The most common method but usually is disappointing. People see it as a waste of time and intrusive. Postal questionnaires have response rates of 1-5%. The questionnaire works best when it is either face-to-face or the questionnaire has been targeted on key individuals who, perhaps through a letter or telephone call, have been informed about the proposed product or service and see some advantage to them (e.g. saving money) through 'being sold' on it.

### **The Focus Group**

A group of 'ideal' customers or users who represent the kinds of people you are trying to reach give their views on the quality of the product/service, the price, the publicity material, the product's usability and its acceptability. This can be a relatively cheap method (especially where customers or users exist already) of finding out consumer attitudes to a product or service.

### **The Personal Interview**

Very time consuming and not much use unless, used with a questionnaire, it provides an opportunity to market or sell the product/service to the interviewee. The interviewee is made aware of the product or service, interest is created and they may be persuaded to buy or use the product/service.

### **The Telephone Interview**

Perceived as low cost and effective but needs careful preparation to reach the target group. Can be used to obtain sales or users but people called may be hostile or deflationary.

### **Observation**

Just looking can tell you, for instance, what people are doing, how they are buying, who they buy from, where they buy and how often.

## **4 : Analysing And Reporting The Information**

Analysis must begin by returning to the original question of what you were trying to find out. The information must be organised in an understandable way. You must be able to present this information to others so they can understand it and draw the same conclusions. Your analysis must be honest.

# MARKET RESEARCH 2

The Chartered Institute of Marketing's definition talks about satisfying needs /requirements. This definition is expanded to include profits.

## In simple terms:

### 1 : Identifying

Finding out what potential and current customers want now.

### 2 : Anticipating

Finding out and forecasting what they will want in the future.

### 3 : Satisfying

Providing products or services that meet customers needs, and ensuring this is being done to a satisfactory standard.

## Customer-Focused Marketing

Marketing is about serving the customer, placing them first and recognising that customers have many product and service providers from which to choose.

As potential business owners you will be asking yourself, 'where are we now?', 'where do we want to get to?' and 'how do we get there?'. You might approach the same questions from the customer's point of view.

- Who are our existing/potential customers?
- What are their current and future needs and wants?
- How can we satisfy these needs and wants?
- Can we provide a service or product our customers will value?
- Do we have good communication channels to talk to our customers?
- Can we deliver a competitive service/product?
- Why should our customers buy and continue buying from us?

Within the limits of your budgets and resources, you must try to find the answers to these questions.

## The Purpose Of Market Research

The purpose of market research is to provide you with basic information about your potential market to enable you to make informed decisions.

Ask yourself whether you have enough information about your customers, competitors, and trends in the industry in which you intend to trade.

Market research will help you to establish the following:

- Who will buy your products/services?
- Who buys your competitor's products/services?
- What sales level you can realistically forecast?
- What are people prepared to pay for the products/services?
- What is the size of your potential market?
- What the reaction would be to the introduction of new products/services?
- Where the products/services are bought currently?
- Where you should sell your products/services?
- Why people buy specific products/services?

The results of this market research will enable you to make informal decisions, react to changes in the market place (e.g. legislation or technological advances) and confirm or disprove any assumptions you may have.

## Kinds Of Market Research

There are two categories of market research - quantitative or qualitative.

### Quantitative Research

Any information which can be expressed using numbers as a measure is considered quantitative e.g. sales information, accounting details and statistics.

### Qualitative research

This is concerned with information that is based on description e.g. description of consumer behaviour, market segments and product performance.

Market research is not a one-off exercise undertaken before trading. You should undertake market research:

- Before entering the market
- When expanding into new markets
  - either product or geographical
- Continually when operating the business

## Doing Market Research

In order to obtain information you will have to consider two areas:

**1 : Desk Research**

**2 : Field Research**

### Desk Research

Desk Research is the analysis of published material. It is usually the starting point of any research. Its main benefits are that it is quick and inexpensive. Its main failing is that the material is often dated and not comprehensive.

Information for desk research can be obtained from external or internal business data. Examples include:

- Sales information
- Competitor information
- Communication with customers (face-to-face, mailshots, telephones etc.)
- Reference libraries
- Chamber of Commerce, Business Links /Business Eye etc.

Internal business data, however, is mostly applicable to existing businesses as new businesses will not have data to base their work on.

### Information You Need To Gather

You will need information on:

- The market size (how big is the market?)
- The market scope (how wide is the market?)
- The market share (both yours and your competitors')
- Selling methods
- Prices and discounts
- Channels of distribution (how to distribute?)
- The future of the market (what might happen?)
- The factors which influence buying decisions (why the buyer decides to buy?)
- Who makes buying decisions?

In addition you need to profile your potential customers, regarding age, location, income etc. There is a vast array of published information available. This information may be specific or general. Some may carry a cost for purchasing.

Alternatively, try to access the information through libraries.

Sources of published data include:

Trade information produced by trade associations, in **trade press reports and surveys**. There are also specialist publishers who compile **reports and undertake surveys** in specific markets.

Limited companies produce **annual company reports and accounts** that can be obtained through Companies House. **Shareholder reports** are also useful.

Useful information can be gained from **government publications** such as:

- Census data
- Family expenditure surveys
- National income statistics
- Trade and manufacturing trends (in 'trade magazines')

**Competitors' literature** can also be a valuable source of information.

It is worthwhile trying to identify someone in the same line of business in another area who may be prepared to give you information and advice. Try contacting trade and professional associations, banks, business clubs etc. that are related to your business field. Do they have a directory or have local or national support groups? What other services and resources can they offer and at what cost? Obtain as much information as possible - in particular concerning:

- Your existing/potential customers
- Your competition
- Your suppliers
- The sector in which you intend to compete



## Field Research

Field Research is the collection of new or additional data. This involves using one of the following research techniques:

- Surveys
- Observation

To be of value the information must be accurate, current, sufficient and relevant.

### Surveys

Surveys can be divided into three types:

1 : **Postal surveys** are useful in obtaining quantitative information. The main drawback of this method is that there is often a poor response rate and there are few opportunities to follow them up.

2 : **Telephone surveys** are a good way of interviewing people. The main advantage of telephone interviewing is that it is relatively cheap and fast. Their success depends on speaking to the right person and on them being willing to co-operate. The main drawbacks to this type of interview are:

- The interviewee can get interrupted  
- this may be inconvenient
- The interviewee has no proof of who you are - they may think you are a competitor
- Details sought on the phone may not be to hand

However, phoning up competitors and posing as a customer to get information about prices, service details, delivery times and payment terms can be highly useful and effective in helping you design products and services that can compete in the market.

3 : **Personal interviews** are more expensive than either postal or telephone interviews due to the time involved but, on the basis of information obtained, they can be the most useful.

The main advantage of face-to-face conversation compared to telephone conversation is the scope for personal interaction: it gives you the chance to strike up a relationship which can lead to an open question and answer discussion.

### Observation

Observation is another method of conducting field research. Observation can be where customers are observed, or it may involve visiting exhibitions or counting heads. As a research method it can be useful in obtaining quantitative data. It is also possible to pose as a customer to obtain information from your competitors. Getting out and about in the car to find potential customers and competitors comes under this heading.

**Test marketing** is a technique more often used in product research. It literally means testing out the product or service with a group of people and noting what they think about it.

Whichever method of obtaining information you choose you will have to produce a questionnaire. Questionnaires are used to find out all types of information and to make sure that you are asking for the same information from all the people that you deal with:

- Facts
- Knowledge
- Intentions
- Opinions
- Attitudes
- Motivation
- Lifestyle

You will need to 'sell' the idea of completing the questionnaire, to get people to participate.

# SOME MARKET RESEARCH INFORMATION SOURCES

A lot of these sources can be found on the Web or in your local reference or business library.

## The A-Z Of UK Marketing Data

This provides basic marketing data for several hundred UK markets, from adhesives to zip fasteners. It is arranged by product area, size, production, imports and exports.

## Annual Abstract Of Statistics

This is a good source of all UK statistics. Figures are given for each of the preceding ten years, so trends can be recognised.

## BBC Data Enquiry Service

This is a personal information service drawing on the world-wide resources of the BBC. It is an inexpensive and easy way of checking facts and drawing on a statistical data bank which covers people, products, countries and events. You will be charged for enquiries.

## British Rate & Data (BRAD)

This lists all the newspapers and periodicals in the UK and Eire which carry advertising. It gives their frequency, circulation volume, price, executive names, advertising rates and readership classification.

## Business Monitors

This is the medium through which the Government publishes the business statistics it collects from UK firms. The Monitors can

help by indicating trends and tracing the progress of many individual products manufactured by firms in many industries. They are published in three main series: The Production Monitors, The Service and Distribution Monitors and Miscellaneous Monitors.

## Annual Census Of Production Monitors

These cover virtually every sector of industry and include a variety of quite detailed information on UK production.

## Guide To Official Statistics

This is the main guide to all Government produced statistics, including ad hoc reports.

## Key Note Publications

Over 100 market sectors are covered. These are comprehensive reports containing a detailed examination of the structure of an industry, its distribution network and its major companies. They include an in-depth analysis of the market covering products by volume and value; market shares; foreign trade; an appraisal of trends within the market; a review of recent developments within the industry; a financial analysis of named major companies; and an appendix listing further sources of information, recent press articles, other reports and journals.

### **Kelly's Manufacturers And Merchants Directory**

This directory has an alphabetical list of manufacturers, merchants, wholesalers and firms. It gives basic information on each. In addition, entries are listed by trade classification and it has a section listing British importers and what they import. Exporters are listed by the products they export and the countries in which they sell.

### **Kelly's Regional Directory Of British Industry**

This is published in eight volumes and provides a town by town guide to industry and the products and services offered.

### **Key British Enterprise**

This contains information on the key UK companies that are responsible for 90% of industrial expenditure. Each entry gives basic information on the company, but also branch addresses, products by SIC codes (Standard Industrial Classification code), sales turnover and directors names etc.

### **Kompass**

This is published in two volumes. Volume 1 is indexed by product or service to help you find suppliers and indicates whether they are manufacturers, wholesalers, or distributors. Volume 2 gives basic company information on the companies identified in Volume 1.

### **Office Of Population, Census And Surveys**

This office produces demographic statistics for each county in England and Wales from the census. They provide data not only on total populations in each area, but also on occupations, economic groups etc.

### **Overseas Trade Statistics**

Published by the Department of Industry & Trade, these provide a monthly statement of UK imports and exports by volume and value for each product group and individual country.

### **Reports Index**

This is an index of reports in every field published and available for sale. Its sources include Government publications, HMSO and other market research organisations, education establishments etc.

### **The Retail Directory**

This gives details of all UK department stores and private shops. It lists the names of executives and merchandise buyers as well as basic address information.

### **Specialist Libraries**

Apart from your local library, there are hundreds of libraries connected with Government departments, major industrial companies, trade organisations, research centres and academic institutes.

Two publications that list these specialist libraries are:

- ASLIB Economic And Business Information Group Membership Directory  
[www.freebizinfo.org](http://www.freebizinfo.org)
- Guide To Government Departments And Other Libraries

# ANALYSING THE COMPETITION

Do not assume you have no competition - somebody will possibly be offering similar products and services.

Be objective : acknowledge if a competitor is good.

Use this grid to analyse the competition

Name	Better Or Worse Location?	What Is The Main Selling Point?	How Is Their Service Or Product Better Than Yours?	Higher, Lower Or Comparable Prices?

Look at your findings.

What are your competitor's strengths and weaknesses compared with yours?

How will you compete with them in the market?

# THE SWOT ANALYSIS

A SWOT Analysis is a way of understanding and organising information about both your organisation and the environment. It focuses on what is important and excludes what is not. Unlike market research it requires you to make decisions about information: what is important and what is not, what affects you and what does not, what weight you will give to particular problems or situations, what you will do about them.

A SWOT Analysis is also used to assess information about competitors. What are their strengths and weaknesses? What opportunities are they able to make use of? What are the threats to your competitor's business and how would they be able to respond to these threats. What threats could you generate? The kinds of information you need to collect and analyse are:

## Strengths

- Product quality and customer appeal
- Product range
- Market mix: price, product, promotion and place
- Personnel: skills, costs and flexibility
- Location/accessibility
- Reputation and customer loyalty
- Market position
- Resources: money, skills, information and communication

## Weaknesses

- Can you exploit poor quality or low appeal? Why do these conditions exist? Is low quality a weakness (check quality-price relationship)?
- Is there demand for different products? Does the range match demand?
- Is the price too high or low? Is the pricing strategy per product correct? Does promotion strategy match the profile, product and price? Where is the product sold and is it an effective and accessible location?
- Is purchasing casual? Has poor availability, quality, or reliability affected customer loyalty?
- Is the competitor well-known? Does it dominate?
- Is it cash-rich, or have a strong asset-base? Can it raise money easily? How well does it use resources?

## Opportunities

- Can you introduce new products or remarket existing ones to seem new? Is there a gap in the market?
- Can you sell more cheaply? Can you offer a better product-price mix? Are your costs lower? Or production methods more efficient? Do you have spare capacity?
- Do you have resources that can be used or used more efficiently?
- Are there opportunities to co-operate? Or joint market?
- Is the political, economic, social, or technological environment changing to your advantage?

## Threats

- Can your competitor offer better quality, lower price, better marketing, or a higher 'added value'?
- Will legislative, political, economic, technological, commercial, personnel, resource level, or financial changes threaten your market?

## The SWOT Analysis

### S : Strengths

- The things you are good at  
e.g. marketing or teamwork
- The things on which the business relies  
e.g. good design skills or lower prices
- The advantage you have over competitors
- The resources available to you

### W : Weaknesses

- What you don't know or don't do well
- Things which hold you back  
e.g. lack of certain skills
- Poor marketing or sales techniques
- A poor or over-priced product
- Lack of experience in business or this field of business

### O : Opportunities

- Changes in the business environment giving you an advantage
- Market opportunities  
e.g. a rival business closing
- Untapped demand for a product or service
- A possible new business relationship

### T : Threats

- Sudden changes in the business environment e.g. price rises or new regulations
- Inability to respond to/cope with change
- New competitors or better products you can't compete with
- Relying on one or only a few customers for your income

## SWOT Analysis

Date: \_\_\_\_\_

Under each heading list the main things that apply to your proposed business today.

### S : Strengths

### W : Weaknesses

### O : Opportunities

### T : Threats



# 3.2

## PRODUCT AND SERVICE DESIGN

- Marketing Strategies
- The External Market Audit
- The Internal Market Audit
- Product Led Versus Market Led Strategies
- The Marketing Mix; Promoting The Business

# MARKETING STRATEGIES

Success with marketing strategies depends on:

- Understanding both your current and potential customers or service-users
- How current strategies affect the market: Are they working? Do they generate a return?
- What are the current and future needs of the market?
- What resources do you have to change your products and implement a new marketing strategy?
- Overcoming internal factors such as lack of skills, confidence and unwillingness to change
- Whether changes will be perceived positively by customers, users, funders, supporters etc.

## Typical Problems

- Getting community groups or social businesses to take marketing seriously
- Failure to review product or service regularly
- Poor budgeting of time and money (wasted resources with little return)
- Poor monitoring (hard to see results and therefore persuade people to change)

## Typical Strategies

Business	Community
Standardising the product range	Concentrating resources on a few activities
Diversifying into new market areas	New services for new groups
Offering special, unique or added value services	Innovation, one-off events
Changing the product	Cutting back or adding services
Regionalising the selling/marketing area	Focusing in on particular user groups or areas
Changing product in ways competition can't	As Business
Change market perception of its needs	Promotion, information, tasters
Joint marketing with other businesses	As Business
Create situations where competitors have no incentive to compete	Staying local, lobbying to keep a monopoly keeping users isolated

## Success And Failure

- Most successful businesses (and this applies to community groups as well) are market-led i.e. they put the needs of the customer or user before the internal organisation or interests of the organisation.
- This can make the organisation over-dependent on market trends but human needs are slow to change (although perceptions of the extent of that need by funders can change very rapidly!).
- Trying too many strategies without adequately monitoring results can lead to resources being wasted or lead to the organisation becoming unclear on which are the key (profitable) parts of the market.

# THE EXTERNAL MARKET AUDIT

Objective-setting or other planning in an information vacuum is pretty pointless. You will need to analyse the external marketing environment to decide:

- Where there might be opportunities
- Which are the attractive growth areas
- Which areas of activity may be in decline
- How to analyse and plan for the various parts of the market

## Areas To Investigate

### 1 : The Global, Regional, National, and Local Environment

What is the current and future situation in the economic, political, legal, financial, technological, social, cultural, natural and business environments in which the organisation will operate. This might include the political parties in power and their policies (both stated and actual); local economic development policies; the socio-demographic make-up of the area (age, gender, health, skills etc); ethnic characteristics; influence of pressure groups; local social needs; unemployment levels and the industrial/commercial base of the economy; strength of the community and voluntary sectors.

### 2 : The Market

What is the market's total size, geographic split or distribution, growth or other trends, technological/social/cultural developments, products or services, prices, distribution networks and customers/users (who they are/how they can be contacted).

### 3 : The Competition

You will need to locate assess potential and actual competitors looking at: size, market share, strengths and weaknesses, reputation, ability to satisfy demand, distribution methods, promotional methods, people involved, profitability/cash reserves.

This information needs to be related to the **purpose** of your market research and tailored to match the needs of the marketing plan. For instance, if you plan to create jobs and have high skill needs, information on the local labour market would be very helpful as would information on competitors who may be shedding workers. If you are planning to change your product, information on buying habits and consumer preferences would be more useful.

The **external market audit** can be used as the basis of the 'opportunities' and 'threats' part of a SWOT analysis, just as the **internal market audit** can provide the necessary information to determine the strengths and weaknesses of the organisation.

# THE INTERNAL MARKET AUDIT

An internal market audit attempts to assess the ability of an organisation to carry out its marketing strategy, identify potential and actual barriers or constraints, decide if it will benefit from change and assess these benefits.

The **audit** needs to have a clear **purpose**, analyse the **current situation** and impact of changes, identify outcomes for each product/service in relation to each market segment or user-group, assess the **cost-benefit** of change and how the target group will respond to the change in the long-term.

The first stage in an **internal market audit** is to assess the **current situation**. This can be done by looking first at the **marketing mix**: product, price, promotion and place.

## Product

What do we sell (or what service do we provide) and how do our customers and users perceive it? What does it cost in terms of resources to provide the product/service? What effect does the way we provide the product or service have on the organisation?

## Price

What is the cost of the product or service? What price do we charge? What profit do we make? What other costs are there to the customer or user (e.g. travel and parking costs, time, a crowded or unpleasant environment, postage or telephone costs etc.).

## Promotion

How much does promoting the product /service cost? What resources do we devote to promotion? What responses have we had to past promotional efforts? What would be the 'costs' of changing how we promote ourselves?

## Place

Who do we reach? Where do customers /users find out about us? Where do they have to go to access our product /service? Do we reach them directly (e.g. through advertising) or indirectly (e.g. word-of-mouth].

### SWOT Analysis

From this information you should then move on to the first stage of a **SWOT analysis**. A SWOT analysis looks at **strengths**, **weaknesses**, **opportunities** and **threats**. What are the strengths and weaknesses of your organisation in marketing terms? How easy would it be to make changes and improvements? And at what costs?

A similar analysis could be done on competitors. What are their strengths and weaknesses. This is important because it helps you to calculate whether and how they will respond to the changes you propose. If a competitor can make changes quickly and better than you can, watch out!

# PRODUCT LED VERSUS MARKET LED STRATEGIES

## Product Led Strategies

Product led strategies are marketing strategies that emphasise the strengths of the product and try to persuade the market to accept the product on its terms. It is a typical strategy for a new product or for an organisation known for a particular type of product or service.

Product led strategies are more expensive and require more effort but are safer since (so long as people are persuaded that they want your product) they will go on buying it even if the market changes.

## Market Led Strategies

Market led strategies are based on the idea that responding to the market and designing or redesigning your product or service to fit the market guarantees success. More resources are devoted therefore to finding out what the market wants and to being able to quickly and easily change the product and less resources to actually selling it.

Market led strategies depend on good market research and quick development of new products. They offer greater rewards potentially and allow/require higher flexibility, but carry the risk of over-committing to one or other markets or being unable to respond to change quickly enough.

## Exercise 1 : Marketing Strategy

Wood 'N' Tops is a community-based organisation trying to create work opportunities for young, disabled people. It has existed for five years and was initially a church-based initiative. It gets funding from the local authority and Jobcentre Plus. It has discovered that there are not many young disabled women using its service and would like to encourage a higher take-up among this group.

As a team, spend thirty minutes considering the following questions and come up with some answers. Prepare a short verbal report on what you think a product led strategy would require.

- What are the typical strengths and weaknesses of the service Wood 'N' Tops provides?
- What are the opportunities and dangers of a product-led approach for an organisation like Wood 'N' Tops?
- What resources might Wood 'N' Tops want to call on?
- What would be the attractions of such a service to its target group?
- What would be the likely disincentives to its target group?
- In what way could the target group be persuaded to use the service?

**Answers can be found in the appendix on page 407**

## Exercise 2 : Marketing Strategy

Wood 'N' Tops is a community-based organisation trying to create work opportunities for young, disabled people. It has existed for five years and was initially a church-based initiative. It gets funding from the local authority and the Department of Employment. It has discovered that many of its target-group are turned off by its churchy, charitable approach and want more up to date services.

As a team, spend thirty minutes considering the following questions and come up with some answers. Prepare a short verbal report on what you think a market led strategy would require.

- How can Wood 'N' Tops find out just what people want?
- What resources would be most useful to Wood 'N' Tops in carrying out research?
- What sort of changes might Wood 'N' Tops have to make?
- How could Wood 'N' Tops persuade the target group it has changed?
- What are the potential dangers (internally and externally) of a market-led approach?

Compare your findings. Are there significant differences between 'product led' and 'market led' strategies? What are they?

Now try to answer the questions contained within Exercise A and Exercise B for your own organisation or project idea.

**Answers can be found in the appendix on page 408**



# THE MARKETING MIX; PROMOTING THE BUSINESS

A business will succeed if its product and how it is marketed has a close fit with how, when and why the customer makes a buying decision. Put simply, if people never listen to the radio or don't trust credit cards, advertising on the radio won't reach them and selling goods on-line just doesn't work for some customers. Your 'advertising method' must have a match with customer's usual way of making buying decisions.

- Not everyone gets their product information in the same way
- Not everyone trusts the same kinds of information when making a buying decision
- Not everyone makes a buying decision in the same way. Some buy on impulse, some make highly 'rational' decisions

You need to think about your customers and try to categorise them or group them together in some way, designing particular advertising, sales and pricing strategies to suit each category.

This process is called '**Segmenting The Market**'.

For instance, if you were planning a CCTV scheme, you might want to group potential customers according to the following questions:

- Do particular kinds of customer have more money to spend than others?

- Are some customers more at risk of theft or vandalism?
- Would some customers be more affected by a break-in than others?
- Do they have security arrangements already or not?

Once this work has been done, it's possible to move on to thinking about how to advertise and sell to potential customers. Your advertising has to create **AIDA**. It must:

- Generate **Awareness** (of your product)
- Create **Interest** (in buying it)
- Stimulate **Desire** (for the product) or **Decision** (to buy)
- Produce **Action** (an actual enquiry or purchase)

But the way you create **AIDA** will be different for each kind or category of customer or 'segment' of the market.

Marketing Mix Exercise 1 - Community CCTV

You are running a community CCTV service for public and other buildings (such as churches, community buildings, businesses, housing offices, industrial estates etc). You want to increase the number of customers you have. You must decide the best way to advertise your service. Decide first how you think someone running a business or managing premises might buy the service. Tick the boxes where the customer buying decision and the advertising method match. **Note:** as this is a group exercise and social businesses are group-led, the group must discuss and agree how they categorise the customers. **Don't just tick every box, not everyone acts the same.**

Customer Buying Decision	Advertising Method					
	Yes/No?	Yellow Pages	Radio Advertising	Send A Brochure	Unsolicited Phone Call	Fax Campaign
Customer makes impulse buy when hit by advertising						
Customer makes decision and looks for supplier						
Customer buys product regularly						
Customer only buys at certain times						
Customer ask colleagues for recommendations						
Customer takes note of supplier and buys later						
Customer only buys when absolutely necessary						
Customer checks several suppliers before buying						
Customer is at work when decision is made						
Customer buys from first supplier they find						

Look at the pattern. What does this tell you about the way in which the customer should be approached?  
Answers can be found in the appendix on page 409

Marketing Mix Exercise 2 - Childcare

The local Council has approached a local community trust and proposed developing a childcare social business for people in the local area. Access to the service will be partly subsidised for low-income families. You are developing a marketing strategy as part of business planning. What would be the best way to reach prospective customers? Tick the boxes where the customer buying decision and the advertising method match.

Customer Buying Decision	Advertising Method					
	Yes/No?	Yellow Pages	Radio Advertising	Send A Brochure	Unsolicited Phone Call	Fax Campaign
Customer makes impulse buy when hit by advertising						
Customer makes decision and looks for supplier						
Customer buys product regularly						
Customer only buys at certain times						
Customer ask colleagues for recommendations						
Customer takes note of supplier and buys later						
Customer only buys when absolutely necessary						
Customer checks several suppliers before buying						
Customer is at work when decision is made						
Customer buys from first supplier they find						

Look at the pattern. What does this tell you about the way in which the customer should be approached?  
Discuss why you think customers act in particular ways and why the advertising methods selected are most appropriate.  
Answers can be found in the appendix on page 410

# 3.3

## THE SALES PLAN

- Prices And The Market
- Pricing Strategies
- Marketing Segmentation And The Marketing Mix
- The Marketing Process
- Sales And Finance In Marketing
- The Sales Plan Exercise - Calculating Financial Impact Of Sales

# PRICES AND THE MARKET

There are a number of different approaches to pricing. Most businesses use a mix of these approaches or use a different approach to different customers and at different times.

## How Your Product Or Service Compares

The price of your products and services will, to a certain extent, depend on the competition. Make comparisons based on the following where appropriate:

- How your product performs
- How it looks
- What is its quality?
- How is it packaged and presented?
- Whether your level of service is better or worse than your competitors
- Your image

Do not be afraid of setting a higher price than your competitors if your product or service has advantages over theirs.

Customers often associate higher prices with higher quality - therefore it may be that a higher price can help the image or reputation of your products and services.

## Pricing Strategies For New Products

If you are offering a new product there are two approaches you could adopt:

- **Price Skimming** - opts for a high price initially to take advantage of demand for a new product
- **Penetration Pricing** - attempts to gain a large share of the market for your product before the competition appears on the scene, by setting a fairly low price to dominate the market

## What The Market Will Bear

Some argue that the price should be set by what the market would bear, but there are no easy methods for calculating this. If your prices were high would your customer choose another supplier? If you dropped your prices would you gain new customers? Generally if your products are bought infrequently they are more likely to be less sensitive to price change. Alternatively, if your products are bought on a regular basis your customers are more likely to be price sensitive, as they know the price they should pay. You will have to establish a price by looking at the market you are in and your particular product in relation to competitors.

## Cost-Plus Pricing

Many businesses use the total of their overheads and drawings to fix a price. Although this may seem a straightforward option it has its drawbacks. For example, if your costs are very low, should your prices automatically be low?

It is more realistic to think in terms of price ranges. The lowest price will be fixed by the cost plus contributions to overheads, the break even point. You should not go below this price.

## Pricing For Profit

There are five ways to increase profits:

- Cut your costs
- Sell more
- Change your product mix
- Increase your prices
- Combine elements of all these

You will aim to set your prices at a level which will provide you with the highest profits possible.

# PRICING STRATEGIES

The price you charge your customers usually (but not always) has to cover the costs of making a product or providing a service. As important is the idea that pricing strategies can change people's behaviour. For instance, very low prices could persuade them to buy more.

The different kinds of strategy are:

**Cost Plus** - the basic cost of each item to make/provide, plus your profit margin.

**Mark-up** - traditional to add a simple percentage to your cost price, especially in retailing.

**Basic Plus** - charge a basic price for the product but add on 'extras' like delivery, servicing etc which may have a different price depending on the customer.

**Uniform** - the same price for all customers no matter who they are or how much they buy.

**Differential** - offering a different price to different customers depending on what they expect to pay or get for their money, or their eagerness to buy.

**Access** - offer a low price to get customers, knowing that you can put the price up later to recover any losses - introductory offers.

**Skimming** - selling a product at a high initial price to people who can afford it, then dropping the price when the market becomes saturated.

**Negotiated** - negotiating a different price with each customer.

**Marginal** - offering a price which is actually below cost but which will make a contribution to overheads you have to pay anyway.

**Price Lining** - if selling a range of products to different customers, setting prices so that they are balanced, better quality products clearly costing more than cheaper ones.

The majority of these pricing strategies are concerned with an organisation's marketing plans and customer needs and expectations. If you can, always adopt a strategy that charges more than your costs and only charge below cost when you have a particular aim in mind.

# MARKETING SEGMENTATION AND THE MARKETING MIX

## Market Segmentation

In planning how to market a product, service or the organisation itself, the first step is to decide whether or not to segment the market. A **market segment** is a group of customers, users or supporters who share similar requirements. Each segment should be different enough from others to need special treatment and be able to be communicated with. Markets can be segmented in different ways:

### Customers

Where they live, where they buy, purchasing power, average spend, type of industry, loyalty to supplier, age/gender /ethnic group/language, class, benefits sought (price, quality, delivery, reliability) required, life-style, attitudes, personality, or family structure

### Users

Where they live, accessibility, extent of need, disposable income, socio-economic, relative dependency, or age/gender/ethnic/language

### Supporter

Directly/indirectly involved, ethical supporter, bureaucrat, representative or advocate, or status-seeker

## The Marketing Mix

A marketing plan consists of four elements and a decision. The four elements (the 'Four Ps') are:

### Product

### Price (or cost)

### Place (where its advertised or located)

### Promotion

How these four elements are combined is called the **marketing mix**. The decision is where to **position** your product, service or organisation in the market, on the basis of the marketing mix.



## Positioning Your Product/Service In The Market

If you know the needs and expectations of your users, supporters or customers, what they want from your service or product, what they value and what they are prepared to give to obtain the service, then you can 'position' yourself and your organisation correctly.

### Product

Any product or service must be tailored to meet the needs of the customer or user. A Meals On Wheels service, for instance, must offer familiar and popular meals, be nutritious and cheap to satisfy the needs of users, funders and supporters.

### Price

If your service is expensive to 'purchase' (for instance it is expensive and can only be funded by grants), then the people who take the decision to give a grant and who must justify it are the targets (the chief executive of a Health Authority or Committee Chairperson). If it requires little public subsidy, then those who recommend projects (Local Authority officers, often trying to manage small budgets) should be the targets.

### Place

Your advertising or promotional literature must get to the right places. The people reading your literature must be the right (targeted) people. Your premises or the place you deliver your service must be in the right place or the right time. What is involved in accessing your service must not put people off.

### Promotion

Must reach the users, supporters and funders effectively and appropriately. Must use language and emphasise aspects of the service each group values. The right advertising, publicity and image must all be used, matching and reinforcing your 'position' in the market.

## Four P's Exercise

You are a community-based transport initiative on a depressed estate with high levels of unemployment and social exclusion.

### Product

You must match the quality, price and availability of the product to customer/user's needs and expectations. **What features of your product(s) would be most attractive to your customers?**

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### Price

Customers expect to pay a certain amount for goods. Users will only incur so much 'cost' to obtain a service. Supporters have limits. You must know what they each can 'afford' also ensure that they value what they receive. **How will you price your products to maximise sales/use/support?**

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### Place

Where do people or organisations acquire your product/service? How easy is it for you to deliver to them or them to come to you? **Think about the location and accessibility of the service and where people would find out about it.**

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### Promotion

You must make what you do and how you do it attractive and desirable to potential customers or service-users in order to generate a desired response: a purchase, a referral, extra demand, more money or resources or members. **What kinds of promotion would persuade your customers, supporters or users to buy your product or use your service?**

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# THE MARKETING PROCESS

Marketing is not a single activity (for instance, putting an advertisement in the local newspaper), it is a process. Typically it involves planning and implementation, to develop the business, with the aim of consolidating or expanding the organisation. The marketing process has five stages:

1 : Deciding goals/objective-setting

2 : Conducting research/  
gathering information

3 : Drawing up a marketing plan

4 : Implementing the marketing plan

5 : Monitoring and reviewing results

Have you completed all of the tasks that might be involved in stages 1 - 3? If not, discuss what you still have to do and decide who will do them.

## 1 : Deciding Goals/ Setting Objectives

You must decide what you are trying to achieve. Is it more customers/users, more sales/visits, more loyalty to the product, increased support or membership, higher prices, more profits/resources. A person given responsibility for achieving these goals must have the backing of the whole organisation and access to necessary

resources. The organisation must itself set these goals and decide what resources to commit.

What goals does the marketing plan have and what objective measures will you use to test success?

## 2 : Conducting Research

The organisation must look at the external situation (demand, supply, trends, legislative or technical change, attitudes etc) and the internal situation (ability to deliver, effect of marketing, costs, change required etc). This is called a Market Audit. It is a large subject for even a small organisation and can only be tackled successfully if the research is broken into small subject areas (such as suppliers, product quality, market perceptions of our product, pricing strategy, human resources/skills and so on).

What research have you done in to the 'external environment' and what in to the ability of the organisation to implement any marketing strategy (the 'internal environment')? What problem areas are there?

### 3 : The Marketing Plan

The plan consists of five elements:

- The market audit
- Making assumptions about behaviour based on research you have carried out
- Setting marketing objectives (based on the audit and assumptions)
- Selecting marketing strategies
- Making plans for implementation

### 4 : Implementing The Plan

Assigning responsibility, allocating resources, setting a timetable, systems for monitoring outcomes, physical implementation, reporting back.

Who is doing what? When by?

### 5 : Monitoring And Reviewing Results

Unless the organisation has objectives (agreed by, for instance, a Board of Directors, Management Committee or funder-supporters) there will be nothing to report and no way to decide if marketing has been successful. Both objective criteria (e.g. 'sales', 'increased use', 'more profit') and subjective criteria ('the picture in the paper was good', 'the kids enjoyed the day', 'I learned some new skills') should be used.

Very often in community groups those who direct and those who implement are different people with different perspectives on the marketing process: its goals, methodology, importance, timing, outcomes and so on.

All people involved must agree to the importance of marketing and this can only be a reality if marketing is driven by shared perceptions or ambitions.

# SALES AND FINANCE IN MARKETING

The aim of marketing is to increase sales of the goods or services produced or to increase take up of services offered. There is no point in stimulating demand, for instance, if the cost of buying extra stock or machinery, tooling up the factory, or providing more staff to work with people are beyond the resources of the organisation. Nor is there any point in making forecasts of sales without the means to measure the change and a set of criteria to determine if extra sales have actually improved the position of the business.

Additionally, for any community organisation with a tight budget, there has to be both a guaranteed return and no adverse effect on the organisation as a whole.

All organisations will require a **sales plan** to determine the costs of extra sales both directly (for instance extra stock, more sales staff, new machinery) and indirectly (increased warehouse space, extra transport costs). It will also need a **financial plan** to help it know when costs will be incurred, what for and at what level and also when income will be generated.

## The Sales Plan

Once the purpose of a marketing plan has been identified and market research carried out, a sales plan can be drawn up. A sales plan consists of the following:

### Market Segmentation

For each market segment or group what 'sales pitch' or promotional techniques are being used? When will they occur? What are the projected kind and levels of demand? What are the projected sales?

### Resource Development And Allocation

Based on the internal market audit, decisions will need to be made about the resources to be committed to the sales plan, the personnel, physical resources, financial resources etc required and how they are to be acquired. For instance, will people need retraining? Will you need a bank overdraft? Will there need to be an internal reorganisation? Will you need to bring in consultants? Or hire extra production, sales or administrative staff?

### Advertising Strategy

This consists of decisions about where you will advertise and when, using what methods and to achieve what ends. For instance, radio advertising which reaches many people can help increase brand-name recognition but not generate many actual sales. An advert and coupon in the paper might not generate sales without that recognition. Inducements at the point of sale, for instance discounts, money-back

guarantees, price cuts etc will not generate sales unless staff are offering them. Additionally it is important that each advertising method has had a cost-benefit analysis done in terms of both actual cost Vs sales income and resources allocated Vs marketing return.

### Marginal Cost Analysis

This consists simply of a calculation of what extra sales will be generated at what cost in terms of the advertising budget and wage costs. How much extra income is generated and does this generate a gross profit or 'margin'. It is not necessary for a marketing drive to generate a profit since it may have other purposes: to increase market recognition prior to introducing a new product for instance or to clear a warehouse of stockpiles etc. But the 'marginal cost' or 'marginal benefit' of the marketing drive (i.e. what is lost or gained compared to the situation now) must be calculated.

### The Financial Plan

The Financial Plan takes the information contained within the marginal cost analysis and fits it into the overall financial situation of the organisation. If the information exists the impact of the Sales Plan on the organisation's finances should be compared to the threats that exist from competitors and others. An advertising strategy that will bring in results in, for instance, six months is no good if a competitor can capitalise on demand generated to obtain those sales in three months. Or if a marketing drive starts a price war the organisation can't win. Or persuades a funder to withdraw support because they feel money would be better spent on core activities.

Firstly you will need to calculate projected sales for each product or service. This must then be multiplied by the selling price to provide the **sales revenue**.

Secondly the **sales revenue** must be analysed in terms of when it will arrive. If you are using a mix of sales methods - retail, wholesale, credit, mail order, post-sale invoicing etc - then when the extra income generated arrives it can be very complicated. An allowance must also be made for the fact that some sales will be bad sales and payment will never materialise.

Finally, the **sales cost** must be calculated. Sales costs consist of capital costs such as extra machinery, premises, fixtures and fittings etc; and revenue costs such as stock, wages, distribution, extra overheads, advertising. As with sales revenue, when this cost is incurred and when payment is made must also be determined.

Usually this information is put into a **cash flow projection** covering the period of the marketing strategy and afterwards. If sales are projected to rise and then fall slowly afterwards, the point at which there is no **sales revenue** being generated can be calculated and a date identified for the development of a new marketing strategy.

# THE SALES PLAN EXERCISE

## - CALCULATING FINANCIAL IMPACT OF SALES

Acting as the marketing team for the Wood 'N' Tops community organisation and using the information below, draw up a **sales plan** for next year. There can be up to 30 trainees in the workshop able to work 30 hours a week each and 1 joiner is required to supervise 15 trainees. A training allowance of £36 per week is paid to each trainee. A training subsidy of £1000 per trainee per year has been announced. A joiner's wage is £12,000pa, the manager's is £16,000.

### Wood N Tops Projected Budget

Income		Expenditure	
Grant (LA)	£10,000	Salaries	£40,000
Grant (LSC)	£30,000	Rent And Rates	£3,000
Grant (ICP)	£8,000	Trainee Costs	£54,000
Sales (last year)	£26,500	Materials/Tools	£24,300
Donations	£14,800	Office Costs	£12,000
Training Subsidy	?	Transport	£6,000
New Sales	?	Promotion	£2,000
Total    £89,300		Total    £13,1300	



## Sales Projections And Cost Analysis

### a) Carefree Cot (maintain production of at least 5 per month)

Unit Cost is £20 of which £15 is materials. It takes 10 person hours to make.

Sales projections are: month 1 = 5, month 2 = 10, month 3 = 15, month 4 and after = 20.

Could be sold for £65 (local) or £90 (outside retailer).

### b) Sleepzeze Bed (maintain production of at least 6 per month)

Unit Cost is £80 of which £30 is materials. It takes 15 person hours to make.

Sales projections are: month 1 = 6, month 2 = 8, month 3 = 10, Month 4 = 12, Month 5 = 8,

month 6 = 12, stabilising at this level. Could be sold for £150 (local) or £190 (outside retailer).

### c) Noah's Ark (new product)

Unit Cost is £3.50 of which £2 is materials. It takes 3 person hours to make.

Sales projections are: [retail : wholesale] month 1 - 10 : 30, month 2 = 15 : 40,

month 3 = 20 : 60, stabilising at this level. Could be sold for £20 retail and £14 wholesale.

### d) Park Bench (new product)

Unit Cost is £60 of which £20 is materials. It takes 30 person hours to make.

Sales projections are: month 1 = 4, month 2 = 6, month 3 = 8, month 4 = 10, stabilising at this level. Could be sold for £100 to Local Authorities in which case sales would be double or retail for £130 (local) or £170 (outside retailer).

### e) Picnic Table (new product)

Unit Cost is £50 of which £30 is materials. It takes 20 person hours to make.

Sales projections are: month 1 = 3, month 2 = 5, month 3 = 5, month 4 = 8, month 5 = 10, stabilising at this level. Could be sold for £60 wholesale (month 6 onwards at treble the quantity) or retail for £90 (local) or £120 (outside retailer).

The cost of packaging and distribution on all products sold to outside retailers always adds 20% to the unit cost.

Sales Plan Exercise

Develop a sales strategy that will enable the workshop to break-even next year.

The workshop has a maximum annual amount of 23,400 person-hours of trainee labour available to it but due to day-release and unauthorised absences this is reduced to 17,550 (1,460 per month). This labour does not have a direct cost (i.e. wages) but does have an indirect cost (supervision). The task of the group is to distribute the productive capacity of the workshop over the next six months across a range of products produced for and sold into two kinds of markets which will generate the required additional income and cover any additional costs.

Income															
Product	Hours Required	Number Produced	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Cot	10														
Bed	15														
Ark	3														
Bench	30														
Tables	20														
Total															

Can the workshop break-even or does it either need to a) expand or reduce production; b) focus on particular products; or c) introduce new products in order to break even?

How easy was it to balance costs, sales and production/capacity?

What were the relative advantages of selling locally Vs outside and retail Vs wholesale?

Answers can be found in the appendix on page 412

# 4.1

## CONTENTS OF A BUSINESS PLAN; WHAT MAKES A GOOD BUSINESS PLAN

- Writing A Business Plan
- Social Enterprise Business Plan Guide
- Constructing A Business Plan Exercise

# WRITING A BUSINESS PLAN

At this stage, you have the idea for a business and have thought a little about how it might actually operate. Now you have to describe the business in much more detail and be able to show that it is feasible and properly planned. You will have to write the business plan.

The **business plan** is a planning tool. It is written for a purpose and describes an actual or intended organisation, what the organisation is trying to achieve or become and how it will achieve its objectives, including both timing and how tasks will be allocated.

## What Do We Use A Business Plan For?

Drawing up a business plan helps an organisation to:

- Control finance, to get a realistic idea of the financial implications of a business idea and future finance needs;
- Establish objectives, especially directions for the future;
- Set targets, which can encourage better-directed and purposeful work;
- Define actions, priorities and the timetable for actions;
- Analyse performance, and correct weaknesses;
- Assess needs, in terms of human and other resources;

- Test assumptions, especially if the idea is realistic;
- Identify strengths and weaknesses.

A business plan has two purposes: firstly, to bring in extra resources; and secondly, to help us manage resources better.

It is designed therefore to influence the **external environment** and the **internal environment**. It is both outward-looking and inward-looking. A business plan is used to review the operations of an organisation, to draw up a list of necessary changes in a coherent and easily understood form, and to get the agreement and support of everybody required to bring about or live with those changes.

## Proving The Feasibility /Making The Case

At the 'ideas stage' you probably chose the most feasible idea. Now you have to prove exactly how viable the business will be. This is the most important part of the business plan. The first stages of any feasibility study are straightforward and common-sense. It is only later that you may need to bring in the experts.

You need to look in more detail at the following questions:

**Can it be done?** If the answer to this is 'no' then you have to find another idea.

**Will it sell?** This question is also crucial as if there are not enough people your business will not be viable.

**Will it pay?** If the business does not pay enough, then your 'outgoings' will be more than your 'in-comings' and the business will fold.

**Can you get all the resources?** If not, you are going to be in difficulties and perhaps you have to think again.

The heart of the business plan is you describing your product or service, explaining how you will make and sell it, what it is going to take to do this and describing both the resources you have and the resources you will need to make it happen. **Can you do this?**

## Ensuring It Will Pay

Work out how much it will cost you over one or two years to provide a service or make your product. Include everything that will cost the business money i.e. raw materials, wages, administration costs, rent, rates, insurance, heating, lighting, maintenance, postage, stationery, telephone, travel, advertising, professional's fees, bank charges, fixtures and fittings, plant and machinery, vehicles and staff training.

Can the number of products you plan to produce be sold at a price to meet these costs and make a profit?

Will customers buy your services often enough to cover your costs and what price will they have to pay?

Calculating the costs is not complicated - but it can be disappointing to discover that there is no way you can do what you want to do at the right price and be viable. Too often the idea is possible, the market is there, but the sums just don't add up.

## Writing The Business Plan

The business plan is the document at the centre of your enterprise. It states what you intend to do, how and when you will do it, how much it will cost and how to fund it and keep it going. In looking in more detail at the feasibility of your idea you have now got nearly all the information to bring together into a business plan. Its first function is to demonstrate the potential viability of your idea to possible backers. Its second function is to give you a model plan for the development of your business and a model against which you can compare what actually happens.

## Presentation

The presentation of a business plan is very important as it will be read and assessed by possible funders.

Leave nothing to chance and make sure that you make good use of photographs, graphics, tables, etc.

Be as meticulous as possible in writing the plan on a computer and make sure it all hangs together in a nicely presented form.

It is a good idea to try to get hold of other successful business plans to give you an idea of what is required.

Also enterprise agencies should be able to give you advice on the plan, its contents and possible ways of presenting information.

# SOCIAL ENTERPRISE BUSINESS PLAN GUIDE

## 1 : Basic Information

Name of the business or organisation;  
What stage are you up to?  
What is the business selling or producing?  
What money or other resources do you  
need to start the business?  
What do you hope to achieve?

## 2 : People Involved

Names, abilities, qualifications,  
experience of people involved  
How will your business be managed?  
Describe the jobs involved running your  
business and the skills required  
Will people need training? What training  
do you need?

## 3 : The Product Or Service

Describe in detail what you plan  
to make/sell  
What research have you done?  
Do you plan to develop your  
product/service?  
How well does your planned  
product/service fit the market?

## 4 : Marketing

Customers : location, age, spending habits  
and buying power  
What are the trends in the market?  
What share of the market will you need?  
Who are your target customers  
(those buying often)?  
Who are your main competitors?  
Does the way you plan to price your  
product fit the market?  
How will you prevent or deal  
with complaints?

## 5 : Production/Delivering Your Service

Premises needed, their layout and  
their suitability for producing/delivering  
the service  
Machinery, equipment, fixtures and  
tools required  
Suppliers, their terms and the availability  
of alternatives  
Sub-contracting (if any)  
Stock and quality control

## 6 : Legal Issues

Legal status of the business or organisation  
 Licences, permits, agreements needed,  
 leases on premises  
 Ownership of assets, patents,  
 commercial information

## 8 : Other Information

Research findings, other information,  
 CVs of key personnel  
 Publicity materials or photographs  
 Premises plans/layout

## 7 : Financial Issues

Prices and basic costs  
 Budgets or projections of your costs:  
 labour, materials, overheads  
 Cash-flow forecasts; When will you break  
 -even? When will you start to be profitable?  
 How profitable is the business? How large  
 will your mark-up be?  
 How much money will you need - grant,  
 loan or overdraft?

# CONSTRUCTING A BUSINESS PLAN EXERCISE

This is a simple exercise about planning to draw up a business plan. Participants must decide about the contents of the business plan, its structure and then allocate resources to it.

## The Business

The Wood 'N' Tops furniture workshop provides work experience and training to people in joinery and carpentry skills, repairing and refurbishing old furniture with items sold or repaired for the cost of materials. Refurbished furniture has been given away on a 'first come, first served' basis. The local council is now insisting the furniture project become self-financing and it has been decided to draw up a business plan for a financially self-sustaining business.

### A business plan consists of the following:

- Basic information
- The people involved
- The product or service
- Marketing information
- Operational information
- Legal, governance and management
- Financial information
- Other information

## Exercise 1

A funder has told you that they will consider a business plan from the group so long as it is not more than 5,000 words long. Assign a number of words to each part of the business plan.

## Exercise 2

The group has 45 'person-days' to devote to drawing up a business plan. Look at the information you have. Then for each section assign a number of person-days which will enable the group to: **a)** gather more information, **b)** undertake analysis and **c)** prepare the information.

## Exercise 3

Using the information presented overleaf, assign one part of the business plan to each member of the group. That person should write not less than 100 and not more than 300 words on the topic and present the information to the group. If they don't have the information they need, they should list the things they don't know and which the group will need to research before they can complete the plan.

Answers can be found in the appendix on pages 413 and 414



## The Business

Wood 'N' Tops is situated in the middle of a depressed overspill estate. The main town, Shiverston, is three miles away but a busy main road passes along the estate. There are many families with young children and an old people's home but people do not have a lot of money.

The workshop has the necessary equipment to make bookshelves, coffee tables, bedside cabinets, cots, bunk beds, office desks, wardrobes, dressers, TV cabinets and picnic tables. It does not have the equipment (a bandsaw) to make toys or sofas. A second-hand bandsaw would cost £800.

The workshop could sell sofas and picnic tables wholesale and all the rest retail.

It is anticipated that the showroom would be visited by 600 people per week of which 60 would purchase something.

The following are the direct unit costs of the products: bookshelf £10; coffee table £8; cabinet £8; cot £15; bunk bed £50; office desk £45; wardrobe £12; dresser £15; TV cabinet £18; picnic table £40; toy £3; sofa £70.

The following are the person hours to make each item: bookshelf = 3 hours; coffee table = 5 hours; cabinet = 6 hours; cot = 10 hours; bunk bed = 12 hours; office desk = 10 hours; wardrobe = 5 hours; dresser = 6 hours; TV cabinet = 4 hours; picnic table = 7 hours; toy = 1 hour; sofa = 15 hours.

The current time being worked in the workshop is 100 person-hours. The maximum capacity is 240 person-hours.

The following quotes for fitting out the showroom have been received: new floorboards £80; wiring £300; glazing £120; painting £100; carpets £250; laying carpets £50; making and fitting shelf units £180; painting sign £90; plastering £160; constructing office £250.

There is a Steering Committee consisting of Jack Haycox (Chair), Deirdre (Secretary), Frank (Group Member), Susie (Group Member), Brian (Group Member).

The workshop has a health and safety policy written in 1990, an equal opportunities policy adopted in 1995 and insurance is provided by the Council.

# 4.2

## BUSINESS PLANNING

- Business Planning

# BUSINESS PLANNING

## The Importance Of Planning

Business plans and other planning documents are vital to winning agreement and support. Writing a strong, clear proposition can mean the difference between a project going ahead or surviving or not. Developing a business plan requires a lot of time and energy, but it's invaluable for one primary reason - it forces you to come to terms with your business idea.

Think about what sets your business apart before approaching potential investors and lenders. Develop a fall-back plan and consider other options and contingencies. Decide what your basic business strategy is, whether to develop a solid customer base, go for growth or seek to constantly re-shape the business to attract new customers chasing new products or ways of selling; then try to decide what this will take, whether it plays to your strengths and what resources will be required, especially those you don't already have.

Growth-based strategies require the group to be experts on the market, on industry features and the products and services being sought by customers. You can't rely on other people to do it since it's this knowledge that can make or break a business.

Once in business, key personnel can be overwhelmed by the day-to-day demands of managing. Yet there are many strategic decisions that have to be made as well. Periodic business planning and review can help to avoid sudden crises in the business, expensive problems developing, under-performance at critical times or over long periods that will kill the business.

## When Do You Do Business Planning?

Business planning obviously takes place in a variety of ways and for a variety of reasons. Businesses generally plan when they find themselves in the following situations:

- Starting a new business or activity or launching a new product
- Developing new strategies to defend an existing market position
- When attempting to grow the business or maintain growth rates in changing situations
- Fighting back against new competitors or adverse market conditions
- Regular review of activities and forward-planning
- Risk and contingency planning to cope with unforeseen eventualities
- Preparing things likely to occur in the short-term: a recession, take-over or campaign by a competitor
- Coping with other events

## Planning - Getting Started

Business planning is a journey. The plan is your road-map. It describes a route from where you are to where you want to be. It identifies risks and barriers but if done well will also enable you to develop risk-avoidance and risk-minimisation strategies.

Start planning by thinking about two key questions: What are you trying to achieve? Why are you planning? When you have answered these questions, you have already begun the business planning process.

A plan reviews the current status of the organisation and plots an overall business strategy for a particular period or set of events. The plan(s) should cover all areas of the business.

## Who Writes The Business Plan?

The chief executive, manager or a small executive group of the business' management group should take overall responsibility. In some businesses smaller units will need to write their own development or business plans, in which case the chief executive will delegate responsibility to the service team while shaping its overall approach and conclusions.

The best approach is top down, bottom up, where the management group decides the strategy, the manager develops the plan in line with that strategy and the whole process is reviewed, changed, corrected and improved, then re-approved.

The key will be in how well ideas, strategies and proposals are communicated. A joint effort combining the strategic with the operational and between management and operational personnel, is a good way to get co-operation, understanding and commitment.

There is no point to planning if the people charged with implementation have no confidence in the plan, do not understand it or have different priorities, leading them to implement the plan in the wrong way. This means planning should involve everybody who will be involved in implementation, even if its only to hear objections which can be incorporated before the final version is produced. It should be your plan. If you do use outside experts, look for someone who understands your business, your abilities, the resources available to it, its aims and operating environment.

## The Process Of Business Planning

Business planning begins by deciding what you are trying to achieve and the outcomes you are seeking or the problems you are trying to solve. Having identified these, planning proceeds by a series of steps, as follows:

- Describe your business activities or plans
- Outline the current status of the business or its planned activity in Year 1
- Describe the external market, any competition and where you place yourself in the market
- Decide the objectives of the plan over a given period of time
- Develop strategies for achieving these objectives
- Identify risks and opportunities of various strategies
- Develop coping strategies that limit risks and exploit opportunities
- Develop a series of working plans
- Calculate costs and income as part of an overall financial plan
- Ensure the strategy is set down clearly and concisely

Be flexible. Particularly when estimating likely risks and opportunities you may be forced to go 'back to the drawing board', selecting different strategies that might be less good but contain fewer risks.

The planning process and writing a business plan are almost the same thing. Document your plans and the planning process will have written most of the business plan for you.

## Using The Plan : Implementation

The business plan creates the basic foundation from which you can build a business and something you can compare progress and development to. Are you achieving what you set out to achieve? Has implementation followed the plan and if not, why not? Were the risks properly predicted and have opportunities been realised? Have costs been in line with forecasts?

## Making It Happen

- 1 : Communicate the plan widely. Make sure that you have the widest possible understanding and commitment to its aims and delivery plans.
- 2 : Organise the business in ways that ensure the business plan is at the heart of operations throughout the business.
- 3 : Clearly define roles and responsibilities and communicate them to staff and other key people.
- 4 : Set personal objectives for every employee and volunteer, agreed with that person.
- 5 : Develop individual budgets to support various aspects of implementing the plan and assign responsibility for managing the budgets - with clear spending limits - to individual staff or staff teams.
- 6 : Distribute the budgets and operational/delivery plans.
- 7 : Monitor progress, performance and outcomes; control spending and timetables.
- 8 : Reward successful performance.
- 9 : Take corrective action as required. Revise strategies and plans if necessary.
- 10 : Ensure people who need to know are kept informed and ensure that issues, outcomes and other information about implementation are available when the next planning exercise comes along.

While you are implementing the business plan, don't forget to keep checking progress. Review developments against the plan. Learn from events; adjust the plan as required within the constraints of the business (time, money, and people).

# 4.3

## PRESENTING A BUSINESS PLAN

- The Business Plan - Drawing One Up And Getting It Accepted
- Presentation Skills
- Controlling The Interview - Getting Outcomes

# THE BUSINESS PLAN

## - DRAWING ONE UP AND GETTING IT ACCEPTED

### Why Have A Business Plan?

Organisations frequently draw up business plans because outsiders (especially sources of finance) expect or demand them. Great efforts are made to produce business plans which are then only superficially assessed and discarded once they have achieved their real objective (usually raising money).

Organisations need to plan far more than they do and need the focus and clarity a business plan can give.

If a business plan is drawn up it is vital that it is implemented. Implementation depends firstly on everyone understanding and having faith in the plan. Next, the people implementing it or having to change what they do must support the plan, and have the necessary time and skills to make the change.

### The Role Of Outsiders

An advisor or counsellor can play a vital role in [validating](#) the business plan, effectively reinforcing the organisation's faith in it. For businesses this has often been done by accountants, bank managers, marketing professionals etc. For community-based organisations this role has often been played by supporters, professionals, Local Authority officers or councillors.

However it is important that the business plan is not written by such people but by the organisation itself. The organisation

must gather the information, evaluate and understand what it will mean to the organisation so that it can present the plan to outsiders and implement it afterwards.

An advisor or someone asked to draw up a business plan can take the lead role but must involve those affected by the plan. They must remain objective and not let loyalty blind them to reality. It is usually a good idea to be cautious but not to operate a veto on implementing the plan. And finally, to tell the truth, no matter how bad things are.

### Basic Principles Of The Business Plan

- The business plan must be firmly based in reality. If it is not no-one will believe it and it is unlikely to succeed. The organisation may need to 'go back to basics' or 'start with a clean sheet' but hard as it is this has to be done.
- Knowledge and understanding are powerful tools when trying to create belief or faith or to win support. If the people drawing up and presenting the plan understand and can project their understanding at other people it is more likely to be accepted.
- The business plan helps to compare 'what is' with 'what might be', us with them. From this comparison pathways to improving performance can usually be found.



## Presenting A Business Plan

- The business plan must be presented in a form the 'audience' expects and understands. If the proposals are complex or people have a low level of understanding (or cannot devote much time to understanding and evaluating the business plan) then it must be summarised (either in writing or verbally).
- Presenting a business plan in a particular way is intended to win support or create belief in it. Both the style in which it is presented and the belief and confidence the presenter has in the business plan will have a major impact on the business plan's chances of being accepted.
- However, a slick or spurious 'professional' quality is no guarantee of success, nor is something badly presented guaranteed to fail. If the Plan has been soundly drawn up and is based firmly on the experiences and principles of the organisation and its members, it is likely to be accepted.
- Winning the support of key players, talking with them and ensuring they understand and accept the business plan prior to formal presentation can be a major factor. However 'key players' are not always the people in charge. They could be shop-floor workers or union representatives, the man who cooks the meals or the woman who drives the van. They are people vital to the implementation of the business plan and/or who can play a key role in explaining the plan, building support or creating conditions for it to succeed.

- Presenting a business plan is a two-way process, a dialogue between you and the person(s) you are trying to influence. Not only must you be able to present your case well but you must have a thorough understanding and knowledge of your business plan. If you do you will be able to answer their questions and deal with any doubts they have.

## Why Business Plans Don't Win

If business plans are rejected after first scrutiny, it is usually because they fail to reassure the reader that the marketing and sales strategies will deliver the promised outcomes. The second most-frequent problem is a lack of operational detail in terms of implementing the plan.

Both of these weaknesses derive from not having a clear understanding of your own strategy, lack of confidence or engagement with the strategy or a failure to communicate the strategy effectively.

A great deal of the potential for success lies in being able to get key people to engage with it and support it. This has as much to do with (justified) optimism and enthusiasm as it has to do with dry statistics and over-planned detail.

## Ten Reasons Business Plans Fail To Convince

- 1 : The business plan document or presentation is poor or too slick - it feels false.
- 2 : The text is too long, with too much waffle and generalisation.
- 3 : The text is too short, too weak, shallow or vague.
- 4 : There are not enough hard facts, operational details or market information.
- 5 : It's just wrong about certain facts, information or conclusions.
- 6 : Failure to cover everything expected in the plan suggests that skills, resources or knowledge to deliver it are missing.
- 7 : There is not enough contingency analysis - What if sales are 10% less than expected? Or more than expected? If financial terms and conditions change?
- 8 : The financial projections are overly optimistic or simplistic (for instance there is no seasonal variation or they take no account of finance required, labour or factory capacity etc). There should also be some alternative financial scenarios based on some (reasonable) pessimistic assumptions.
- 9 : The plan has been to raise finance and doesn't go into enough detail about business operations and management issues.
- 10 : The plan was clearly produced by outside consultants, suggesting that the people responsible for the plan didn't have the time, knowledge, expertise or ability to draw it up.

# PRESENTATION SKILLS

Aside from actual techniques, confidence and experience are big factors. Making a presentation or a case for your business in public - even in a private office with someone you don't know - can be nerve-wracking. A common physical reaction is a release of adrenalin, which makes us both nervous and assertive (the fear and flight syndrome). The important thing to remember is that your audience probably wants you to succeed. Good preparation is the key to confidence, which is one key to success.

## Some Facts About Presenting Information

Preparation and knowledge are the pre-requisites for a successful presentation, but confidence and control are just as important. Remember also that believing in yourselves and being persuasive can be far more important than reams of statistics churned out nervously. A good presentation will leave your target audience relaxed, positive and supportive.

You have four to seven seconds in which to make a positive impact and good opening impression, so make sure you have a good, strong, solid introduction. Try to win over your audience. Smiling will create rapport and confidence in you. If you don't know the answer to a question say so and deal with it after. The average attention span of a listener is only six to eight minutes, so try not to stay on one topic too long. This requires you to control the interview and keep it focussed and moving along.

Presenting a business plan or proposal should use every tool at your disposal. People access and retain information in particular ways: read it - 10%, heard it - 20%, saw it - 30%, heard and saw it - 50%, said it - 70%, said and did it - 90%. Simply giving someone a business plan without asking for an interview, showing them the product or touring the factory greatly reduces your chances of success.

## Preparation

Think about your audience, your aims, their expectations, the surroundings and the likely process you will have to go through. What are your aims? To inform, demonstrate, prove and persuade. Think clearly about the information you want to get across, in what order and with what emphasis. Organise this information coherently and ensure that you and other members of the group have the facts and issues you want to focus on at your fingertips. Plan to start and finish strongly - this is when impressions can be most important.

Practise the interview, presentation or conversation. Get someone to role play your audience, run through the presentation. Ask for their comments and how you can improve, especially whether they understood everything.

## Creating And Giving Presentations - Step By Step Guide

- Define purpose
- Gather content and presentation ideas
- Structure the subject matter
- Develop how to present it
- Prepare presentation
- Practise
- Plan, experience, control the environment
- 'Dress rehearsal' if warranted

# CONTROLLING THE INTERVIEW - GETTING OUTCOMES

Presenting a business plan will usually consist of a series of interactions between you and funders or stakeholders. Some you will have no control over: an officer of the funding body will present the proposals for final decision to a distant committee, for instance. So it's important that you do not let a decision be made until you have done everything you can to get the right information across. And that you use every opportunity you have to persuade and convince.

## Planning Issues

- Do you know what you want from the interview?
- Who will decide what you want and by when?
- Where will the interview take place and when?
- Who will be present?
- Will notes be kept? By who? Why?
- What will you do if you don't get what you want?

## Preparation Issues

- What information will you need to take to the interview?
- What will you wear?
- Will you want to take notes individually? Why?

- Is the interview a negotiation, interrogation, introductory session or what? What attitude should you have to the process?
- How much time will you allow for the interview? When will you arrive?
- What attitude should you take to the interviewer?

## Control Issues

- Who is in control of the interview? Is this acceptable to you?
- Will you try to take control? What will you do if the other party tries to take control?
- What outcomes do you want? How will you assert the importance of these outcomes?
- Is there an agenda agreed by all parties? Do you have your own agenda? How will you get it accepted?
- Who controls the outcomes? Who will take action to implement the agreed outcomes?

## Outcome Issues

- Are you likely to be trading off outcomes? If so what value do you give to each of your outcomes?
- What will you do if you are unable to get your preferred outcomes?
- What outcomes will constitute an acceptable compromise?
- What will you do with the outcomes? What will follow from the decisions reached?
- Who 'owns' the outcome? Whose responsibility is it to take action?

Presenting a business plan requires a period of preparation, development of agreement on the kinds of outcomes being sought and agreement on who has the authority to make decisions. It might seem hard to have worked so long to produce a business plan and maybe you want or need a quick decision. But getting the wrong offer can be as dangerous as getting a refusal is disappointing. But at least with a refusal you can look elsewhere. Putting all your eggs in the wrong basket could be potentially disastrous.

## Types Of Interview - Roles Played

The outcome of interviews and the way they play out are primarily governed by the following issues:

- Are the parties to the interview equal or unequal?
- Is there an imbalance in the relationship? For instance, is one party trying to get something from the other without offering anything in return?
- Is the aim of the interview to discover information? Get across a set of opinions, beliefs or perspectives to assert authority? Change a relationship in some way? Pass on information?
- Who initiated the interview and who has most say in the outcomes likely from it?

Most interviews are initiated by one party or the other. The person initiating the interview usually also controls it. They alone usually know the rules of the interview process, possess facts not known to the other parties, have a preferred outcome in mind and can control, direct and end the interview as they wish. When seeking a bank loan, for instance, a 'levelling' strategy can be to invite the bank manager to your premises to view operations and discuss finance; now you control the interview process.

## Planning The Interview

- Decide what you want to get out of it
- Decide what facts you will need at the interview or get from the interview
- Draw up your own agenda for the meeting
- Decide how much time you will allow for the meeting
- How much time will you give to the other party's needs?
- Decide your priorities for the meeting
- If able to, decide the time, place and atmosphere of the meeting. Is it to be formal or informal, for instance?
- Dress accordingly
- Decide what agreements you want out of the interview

## Roles Played

In formal situations like interviews we tend to play formal roles. The roles being played often determine the outcome of the interview. Success at interviews can depend on you spotting and controlling the following types of roles being played:

### The Controller

The interview agenda will have been prepared by this type and it is usually only their interests which get on it. They do not allow departure from the agenda. **Strategy:** You must take control, refusing to meet (if possible) until there is an agreed agenda.

### The Dominator

Exerts authority in the interview, may intimidate, belittle or accuse to control process. School teachers are good at this as is anyone whose authority is under threat or diminished. **Strategy:** If you accept the points being raised ask what outcomes are wanted. If not, turn them back one by one.

### The Silent Type

Gives up as little information as possible. If initiating the interview, keeps asking questions that involve complicated answers. Gathers information together but does not reveal outcomes. **Solution:** Try to change things, get him/her to do the talking.

### The Suppliant

Will ask for help or information without knowing (often) what kind or why. Expects other party to come up with the answers. May have infinite needs or the interview itself is the outcome required, with no solution or benefit. **Strategy:** Keep interviews short and focused on one issue only.

### The Helpless Babe

Similar to suppliant. Wants other party to take over interview, or to take responsibility for problem, project whatever. Primarily interested in avoiding work, blame, responsibility etc. **Strategy:** Keep asking what the problem is. Keep asking what stops other party from taking (appropriate) action. Put a limit on your involvement.

### The Righteous One

Has rights/needs/demands and believes that having got this far, they should be settled here and now. May also have a long list. Wants to be allowed to recite a long list of grievances/excuses/injustices to force compliance. **Strategy:** Keep asking what it is they want - eventually outcomes rather than emotions will come to the fore.

### The Prevaricator

Avoids issue by putting up (imaginary /petty) obstacles or trying to move on to other (irrelevant) subjects. If initiating the interview will avoid issue as long as possible to soften other party up, then accept any reason possible for ending interview. **Strategy:** Go with your own agenda and stick to it. Take control.

Many interviews are in fact a set of negotiations carried out in stages, not a continuous process. Its important therefore to clarify requirements and get agreement to decisions made or outcomes agreed at each stage. The most important time for this clarification is at the start when you should state clearly what your purpose is. Don't allow the interview to end until all of the points on your agenda have been discussed. Don't be afraid to go over what's been agreed at the end.

# 5.1

## BASIC FINANCIAL PLANNING

- Financing The Business
- Financial Planning
- Financial Statements
- Calculating Cost-Values And Negotiating To Win Exercise



# FINANCING THE BUSINESS

All businesses of whatever size will need some money (often called capital) to start up ('start-up capital') and to support the business during the early stages ('working capital').

There will probably be 3 types of spending to consider:

## 1 : The Business' Start-Up Costs

## 2 : Your Own Survival Budget

(and therefore the wage members working in the social business would need to be paid)

## 3 : The Business' Day-To-Day Running Expenses

You will need to calculate these costs separately and then make provision to cover them. Where possible, this should be done using your own resources or money raised from grants or supporters. Bear in mind that there could well be a long period when outgoings exceed receipts: for some businesses this situation could last six to twelve months.

If you do not have all the money you need, you will have to borrow. This will usually mean approaching a bank (they are still the major source of funding) or specialist social enterprise lender. A detailed business plan, supported by thorough market research, will be essential. Banks often require a financial contribution from

you and/or security - this can be a major stumbling block. Specialist lenders to social enterprises usually don't want these things but may charge a slightly higher interest rate.

An overdraft can be an alternative for day-to-day working capital, but this can be called in any time.

Remember that you are the customer and should 'shop around' - if one bank accepts your plan, then it is likely others will follow suit.

You will need to buy equipment depending on your type of business. Think carefully before you spend money, can you justify the expenditure? What is the best method of purchase? It would be wise to discuss this with your accountant - should you buy outright, use hire purchase or lease?

## Some Examples Of Start-Up Costs

- Equipment (information technology, communications, plant, tools, vehicles, etc)
- Fixtures/fittings/furniture
- Repairs
- Alterations
- IT and communications (computers, fax, phones, internet, email, etc)
- Professional fees
- Stock
- Insurance (public liability, employers, business, etc)
- Rent and rates
- Marketing (brochures, flyers, leaflets, logo and graphic design, etc)
- Trade association fees, memberships and subscriptions
- Consumables (stationery, printer cartridges, staples, etc)
- Licenses
- Training
- Wages/recruitment costs
- Security/health and safety equipment

## Personal Survival Budgets

Very few businesses make much money in the first year. This form has been designed to help those people planning to work in a social enterprise to work out how much they need to survive over the first twelve months.

Estimated Expenditure	Weekly	Monthly	Yearly
Mortgage			
Council tax and water rates			
Gas, electricity and oil			
All personal and property insurance			
Food, general housekeeping expenses			
Clothing			
Telephone			
Travel expenses (other than car)			
Hire charges (video, TV, etc)			
Entertainment expenses			
Subscriptions			
Car - tax and insurance			
Car - running expenses			
Car - service and maintenance			
Children's expenditure			
Saving plans			
HP repayments and loan repayments			
Contingencies			
Credit card payments			
Holidays			
Estimated Expenditure			
Income Coming In (NOT from business)			
Income Minus Expenditure = Survival Income Needed			

(This figure is the share of the businesses profits each person/employee would need as a minimum to survive - can the business afford it?)

# FINANCIAL PLANNING

Financial planning, record-keeping and control is so large a subject that you can only learn so much from a short training program. There are many books on the subject available from libraries or bookshops.

## Keeping Control

It is important to know how much running an organisation or business will cost and whether you can generate enough income to cover these costs. This is done by preparing a **budget** including wages, material costs, rent, power etc - the business' overheads. From this a **break-even analysis** can be worked out.

A **break-even analysis** is an estimate of future income and expenditure which will help you decide if the business will become profitable and when. It is vital in planning, especially deciding if you will need a loan or overdraft.

If the organisation is operating commercially these figures will help it calculate the selling price of its product or service. Adding together all the costs of operating the business and fixing a profit margin will give a total cost that can be matched to expected sales to produce a selling price.

Every business must calculate costs accurately, monitor changes (such as wage rises) and review its pricing policy. At least one member must have the skills to draw up budgets and cash flows though it is better if all members have good financial skills so they can cover for sickness and question reports. The organisation should discuss its financial situation regularly.

## Keeping Records

Accurate and up-to-date records of sales and spending are necessary to:

- Show where money comes from and where it goes
- Help planning and budgeting
- Foresee problems before they become a danger
- Draw up reports to members, funders and the bank
- Make out VAT, tax, PAYE and national insurance returns

Records must be appropriate to the size of the business, the time and skills of members and legal requirements. Some are as simple as a box for receipts but you will probably also need ledgers and cash books.

Some businesses sell goods or services on credit and it is important that they organise records in such a way that they can keep track of customers and what they buy, how long they will have to wait for payment and have some idea of how trustworthy clients are.

# FINANCIAL STATEMENTS

## Main Means Of Presenting Financial Information

The main statements useful in a business are the **profit and loss account** and the **balance sheet**.

The **profit and loss account** shows the cost of operating a business over time, together with adjustments for depreciation, bad debts and creditors.

A **balance sheet** shows what a business is worth on a given date. It is made up of what the business owns (like equipment) and money owed to it (assets) and money it owes (liabilities). Assets minus liabilities is the company's value.

This information can be used to investigate ways of improving performance or to obtain new loans, for expansion for instance.

## Using Information

Information must be managed properly and some skill specialisation will develop. To prevent an 'us and them' situation where a few members have more power simply because they deal with finances all the time, it is important to find ways for all members to be kept properly informed of the organisation's financial affairs. Information must also be presented in ways they can understand and respond to and this means the organisation should ensure democratic control and that members get a chance to put their point of view.

# CALCULATING COST-VALUES AND NEGOTIATING TO WIN EXERCISE

## The Shiverton Community Enterprise Centre

The Local Authority is opening a Community Enterprise Centre and is inviting community groups to bid to provide certain services. Each 'concession' is predicted to generate a certain amount of profit and is granted for a number of years. Each player or group of players represents one community group 'bidding' to run one or more of the services. The game requires one participant to act as the 'Council', to organise and manage the process of bidding and make the awards of the concessions.

After dividing into four players or teams, each is given a card that has their priority and must-win concession on one side; the six concessions, their cost and duration on the other.

The six concessions are:

Concessions	Profit	Duration	Min. Price
Canteen	£500 pa	5 years	£1,800
Creche	£4,000 pa	1 year	£3,000
Secretarial	£2,000 pa	3 years	£4,000
Cleaning	£800 pa	4 years	£2,000
Training	£3,000 pa	1 year	£2,000
Counselling	£2,000 pa	2 years	£2,400

### Team 1

Priority concessions are secretarial, counselling and training;  
Must-win concession is the training concession.

### Team 2

Priority concessions are canteen, cleaning and secretarial;  
Must-win concession is the secretarial concession.

### Team 3

Priority concessions are creche, cleaning and training;  
Must-win concession is the creche concession.

### Team 4

Priority concessions are counselling, canteen and training;  
Must-win concession is the counselling concession.

Each team has an allocation of £7,000 that they can spend to gain their must-win concession plus any other they care to bid for.

The first thing is for the teams to negotiate the bidding order. If no agreement can be reached, then the bids go from the oldest player/team member in each team to the youngest. Then the teams circulate, trying to find out the other teams' priorities and trying to make deals on bidding. 10 minutes maximum.

Each team announces its bid for the first concession. If no bid reaches the (secret) minimum price, the Council may go to the team making the highest bid and ask them if they wish to increase their bid. If not, the second highest can make a bid. If no team will increase their bid, the concession is not awarded. This process continues for each concession or until all teams have spent their money.

The winning team is the one making the most profit from its concessions as follows:  
(total value concessions + money left) - (must-win cost - its minimum price)

Answers can be found in the appendix on page 415



# 5.2

## BUDGETING; CASH FLOW FORECASTS

- Introduction To Budgets And Cash Flow Forecasts
- Cash Flow Forecasts
- Budget And Cash Flow Exercises
- Cash Flow Exercises

# INTRODUCTION TO BUDGETS AND CASH FLOW FORECASTS

A cash flow forecast shows the anticipated income and expenditure of the business and resulting surplus or shortfall which will occur each month. While a thorough knowledge of your business profitability is vital, it is even more important to know the state of the business cash flow i.e. where your money is, where it is coming from and where it is going to. Many businesses fail because they fail to control their cash flow.

## Reasons For Producing A Cash Flow

A cash flow can be used as follows:

- It establishes how much money is needed and when it will be needed
- It helps to ensure that capital expenditure is properly controlled (e.g. the 'what if' situation)
- It encourages efficient use of resources through budgeting and the analysis of over and under spending
- It helps with facing facts and decision making

Remember, as this forecast monitors cash movements, the figures must include VAT, whether or not you are VAT registered and some income and expenditure will be treated differently from the profitability forecast.

## Notes On Producing Cash Flow Forecasts:

- Estimate the money to be received each month. These figures should be directly related to any agreed payment terms i.e. sales created in January may generate a payment in March
- Show money introduced by the partners or shareholders as capital
- Include grants, etc.
- Calculate total of all receipts expected
- Estimate the money to be spent each month. These figures should be directly related to the timing of payment for goods and service i.e. sales created in January may have generated material costs in the previous November
- Remember payments that are made on a monthly or quarterly basis e.g. telephone. Spread your payments to even out cash flow
- Do not show any rent/rates/power costs, unless these relate to premises specifically taken for the business
- Show all significant expenditure items separately and remember to include, where appropriate:
  - Commissions and other bank charges
  - Repayment of bank loans and interest
  - Repayments to be made on hire purchase or other similar finance agreements
  - Purchases of plant, machinery, tools etc. (whether new or second hand)
  - Your drawings

Should you show a significant negative closing balance in successive months after taking into account any initial capital injection, you will need to review your assumptions or, alternatively, consider how you will find the shortfall.

The cash flow is probably the single most important document in your business plan - it is the document that will receive the most scrutiny by any investor or lender. Some examples of income and expenditure are given below.

## Income - Sales

Income from sales is the most important source of income and the most difficult to estimate. Two of the things you should bear in mind when trying to estimate your monthly sales figures are the age of your business and seasonal variations. If you are a new business you will need time to build up your trade. Your sales forecast should reflect this. It is advisable to begin with low monthly figures i.e. be conservative or 'realistic'.

You should separate cash sales and cash from debtors.

### Cash

Cash from sales is cash you would expect to receive immediately after you sell your products. If your business is a shop, for example, most of your sales will be cash ones. If you are registered for VAT enter the figures you would expect to receive including VAT. In this context 'cash' includes cheque and credit card payments.

### Debtors

If you sell your product or service but will not receive payment at once, either because you have sent out invoices or have agreed a credit facility, you will have to allow for this. These customers who owe you money are known as debtors. You should aim to get payment for your invoices as quickly as possible, but most of your customers will expect to delay payment of your invoice by at least one month. It is the month in which you expect to receive the money that is most important, not the date you expect to sell the product. Again, if you are VAT registered enter the figure you expect to receive inclusive of VAT.

## Other Income

Apart from sales there may be other sources of income that flow into your business:

**Personal savings** : Any money you are going to invest from your own savings

**Grants** : If you expect to receive any grants enter the amount you expect to get

**Loans** : Loans may come from other people or organisations such as banks or specialist social enterprise loan funds

## Outgoings Or Expenditure

### Stock And Raw Materials

The stock figure should include initial stock purchases and the subsequent replenishment of stock. The stock figure should bear a direct relationship to the sales figures i.e. if you buy an item for £25 and intend to sell it for £50. Then the stock should represent 50% of sales. A distinction needs to be made between your cash purchases and your credit purchases.

**Cash :** This is straightforward entry if you have to pay cash immediately for purchases from suppliers. The figure will be entered in the month of purchase.

**Credit :** It is the month you expect to pay your suppliers which is more important, not the month you bought the supplies. Remember the longer you delay paying supplier's invoices, the better it can be for your cash flow. A realistic assumption for your cash flow will be that you will not have to pay your supplier's invoices until one month after you receive them.

### Rent

Enter the amount of rent you will pay in the months you will have to pay it. Some landlords expect three months rent in advance.

### Business Rates

Enter the amount of the business rate in the month(s) when you expect to pay it. Do not forget you can opt to pay your rates monthly over a ten month period.

### Heating/Lighting

These bills will be paid quarterly in arrears. As with domestic bills you may be able to delay payment by up to one month.

### Insurance

Decide what insurance's you will need for the business and establish how much they will cost. If you can spread payments, do so.

### Vehicle Costs

When estimating your vehicle cost include not only the actual cost of the vehicle, (if on hire, purchased or leased) but also all the other costs e.g. road tax, insurance, repairs, renewals, petrol, etc. If purchased outright, see 'capital allowances' under taxation.

### Loan Repayments

Most bank loans are repaid by fixed monthly amounts spread over an agreed period. The interest rate may be either fixed or varied depending on the agreement you make with the bank. Remember to include interest payable in your cash flow.

### Bank Charges And Interest

Bank charges will vary depending on the usage of the account. If your cash flow shows an overdraft requirement then include the interest charges on the overdraft and the arrangement fee. Where possible, try to negotiate a period of free banking.

### Professional Fees

Obtain quotes from professional organisations such as solicitors, accountants, etc. for any professional work required and build into your cash flow the cost of their services based on their quotations. Try and negotiate the timing of payments to suit your business. This could take the form of a retainer.

### Capital Equipment

Make a list of all the equipment required to run your business then obtain prices for all items. Establish what you need to obtain at the outset and what could be bought later on in the year then budget accordingly. Consider the options of obtaining these items by outright purchase, hire purchase, leasing, etc. One advantage of hire purchase and leasing is that the cost can be spread over a specified period and this can aid your cash flow. The interest incurred has to be considered.

### Wages (If Appropriate)

Make a list of the staff that will be required and work out what is an acceptable wage to pay them. Build the wage cost into your cash flow and do not forget to add the cost of national insurance.

### Stationery/Printing

Include into your cash flow the costs of all stationery and printing requirements for the rest of the year.

### Telephone/Fax

Include telephone and fax charges for the year. Remember to build in extra costs for the initial installation. The cost should also include rental charges.

### Advertising, Promotion, Marketing And PR

The amount allocated for this should correspond to your marketing plan. Do not underestimate these costs as there will be a direct relationship between this item and your sales.

### Consumables/Miscellaneous

These are costs made up of all the other expenditure that you are likely to incur e.g. toiletries, tea, coffee, stamps, etc.

### VAT

If you are VAT registered, calculate the VAT you will charge your customers in any three month period and the VAT you will have to pay on your purchases and expenses. Calculate the difference between the two - this is the amount you will have to pay to H.M. Revenue and Customs (HMRC) with your VAT return.

## Interpreting The Cash Flow

Once your receipts and expenditure have been estimated for each month of the year, you will then be in a position to establish your cash flow and interpret what it is telling you. The cash flow should show the monthly totals for:

- Total inflow i.e. the sum of all the income received for each month
- Total outflow i.e. the sum of all expenditure incurred for each month
- The net cash flow i.e. the difference between your total income and total expenditure
- The opening balance each month
- The closing balance each month

## Opening Balance

This shows how much should be in your business bank account at the start of the month. When starting up you should put the figure of available funding or capital into the cash flow as its 'opening balance'.

## Closing Balance

Work out the closing balance for the month by adding any opening bank balance to the total receipts and deducting from this the total payments figure. The closing bank balance becomes the opening bank balance automatically at the start of the next month. The closing balance figure for each month is very important: if it's a minus figure it means you may have to make use of an overdraft facility or plan a sales drive for the months preceding it to avoid 'going into the black'. The cumulative figure tells you whether your bank balance gets bigger or smaller over a period of time and highlights the duration of any borrowing requirements.

## Assumptions

When preparing a cash flow, you should provide details to explain any figures in the cash flow which are not self explanatory, for instance what calculations are your sales figures and prices based on? Remember that while you may understand all the ins and outs of your business, another reader may not.

# CASH FLOW FORECASTS

## 1 : The Future

A cash flow forecast looks to the future. It allows you to forecast what will come into the business and when. It predicts when bills will have to be paid, and allows you to set aside money to budget for that.

## 2 : Budgeting

A cash flow forecast is a budget. If you record the real figures (the 'actual') next to your predictions, you will be able to see how you're doing, and whether you need to change your actions - either increase trade or slow it down to match your expectations.

## 3 : When Things Happen

'When' things happen is all important in the cash flow; write down when you expect to receive money, for instance, not when the goods go out. If you buy equipment in May and expect to pay for it in June, for instance, the figure goes in the 'June' column, not May.

## 4 : Isn't It All Guess Work?

Most of the figures you write down will be guesses. However, you may have good reasons for arriving at them. For instance, next year's heat and light bills may be similar to last year's, (if the business hasn't expanded much), and the wages may be how much you've already agreed to pay. If figures need explaining, add 'Notes' to the cash flow, so that the reader (a Bank Manager, for instance) can understand your reasons. For instance, a figure of £100 for

'Travel' may be based on using a certain van, doing a particular number of miles per month, and allowing annual figures for insurance and maintenance. Explain this.

## 5 : Income

'Income' has to include all in-goings, whether donations, sales, grants or loans. If this is your first year of operation, you may wish to put 'start up' costs before the first month's column; otherwise, put it in with the other first month in-goings. Income may vary from month to month: trading may be seasonal, also, trade may build up in time.

## 6 : Expenditure

'Expenditure' covers everything you have to pay out. The biggest item is usually 'stock', though it may be called 'cost of sales' or 'cash purchases'. The other main items are wages and costs of running premises.

## Remember

- If sales go up, costs usually go up also
- Some bills are paid monthly, some quarterly, some annually
- Seasonal factors: e.g. fuel bills go up in winter!
- Loan repayments usually include interest too
- Depreciation is an expense (cost of replacing equipment)
- 'Drawings' are your own minimum income, not staff wages

# BUDGET AND CASH FLOW EXERCISES

## Exercise 1 : Income And Expenditure Budget

Budgeting involves two processes: predicting income and expenditure in a particular period and allocating available finance to meet current and future needs. Community-based projects usually do this on an annual basis for the year ahead, but rarely analyse expenditure while it is happening. They exercise only limited control of their finances.

Draw up two budgets for the Wood 'N' Tops project (one for Year 1, the other for Year 2) based on the following information, using the sheet provided.

### Year 1 (Costs Per Year)

#### Staff Costs

2 part-time workers get £3,000 in wages, inclusive of employer's national insurance. It makes volunteer payments of £1.50 to 50 trainees an average of 6 times per month in the 8 months beginning September. It pays £3 per day expenses to a volunteer joiner who trains 20 days per month for 6 months beginning in September.

#### Office Costs

Stationery : £200  
Postage : £180  
Telephone Rental : £80  
Telephone Calls : £240  
Printing : £120

#### Utilities

Gas : £160  
Electricity : £300  
Water Rates : £0

#### Premises Costs

Rent : £1,200  
Rates : £80  
Repairs : £100  
Painting : £200  
Insurance : £250

#### Travel Costs

The project runs a van to collect free and other furniture. It costs £500 for diesel; £300 insurance and tax; £200 repairs and tyres.

#### Equipment Costs

New Equipment : £300  
Repairs : £50

#### Advertising And Promotion

The project advertises monthly in a local newspaper costing £20 per month. It holds an Open Day each year with a budget of £200.

#### Legal And Professional Costs

Solicitor : £0  
Accountant : £200

#### Petty Cash

Beverages : £100  
Postage : £40  
Miscellaneous : £100

#### Income

Furniture Sales : £3,000  
Grant : £11,000  
Donations : £200  
Removals : £800

### Year 2 (Costs Per Year)

All costs rise 10%. To balance income and expenditure, how much must the grant be increased to?



## Income And Expenditure Budget

	Year 1	Year 2
<b>Income</b>		
Furniture sales		
Grant		
Donations		
Removals		
<b>Total</b>		
<b>Expenditure</b>		
Wages and national insurance		
Volunteer payments		
Trainer		
Stationery and printing		
Postage and telephone		
Heat and light		
Rent and rates		
Repairs and painting		
Insurance		
Operating van		
New equipment and repairs		
Advertising and promotion		
Accountant		
Miscellaneous		
<b>Total</b>		
Income/Expenditure		
Surplus/Deficit		

Answers can be found in the appendix on page 416

## Exercise 2 : Cash Flow Forecast

A budget can tell you how much money you should be allocating to a particular kind of expenditure in any period. But it cannot tell you **when** expenditure occurs or income is received. This is the job of the **cash flow forecast**.

Draw up a cash flow forecast using the information provided for year 1 **only**.

- 1 : The financial year begins in April.
- 2 : Grant is paid quarterly in arrears.
- 3 : Workers are paid monthly throughout the year. Volunteer payments occur 6 times a month for 8 months beginning in September. The joiner trains an average of 20 times a month for 6 months beginning September.
- 4 : Stationery purchases occur twice a year in January and July. Postage is £15 per month. Telephone rental is paid quarterly in advance beginning in April. Telephone bills are an average of £60 per quarter, paid in arrears. There is a one-off bill for printing in November.
- 5 : Gas and electricity are paid quarterly in arrears.
- 6 : Rent is paid monthly. Rates are £10 per month starting in June. Repairs are done in January, painting in July. Insurance is paid in May.
- 7 : The project has a diesel account. They pay quarterly in arrears. Tax and insurance is paid in March. Repairs occur in February.
- 8 : The project is buying a jig saw for £300 in August. It will need to be repaired in December.
- 9 : The project advertises in a local newspaper costing £20 per month. The Open Day is in July.
- 10 : The accountant is paid in March.
- 11 : There is an allowance of £20 per month for petty cash.
- 12 : The project earns £300 per month from furniture sales September - May, £100 per month June - August and a donation of £200 in October.

Answers can be found in the appendix on page 417

# CASH FLOW EXERCISES

## Exercise 1

Draw up a cash flow forecast for the Wood 'N' Tops furniture project for 'Year 2', using the 'Year 1' figures from the budgeting exercise but with the following changes for 'Year 2':

**Sales** will increase in value by 5% per quarter beginning in April

**Grant** will be cut to £5,000 per year

**Diesel** costs will increase 10% beginning April

**Utilities** costs will increase 10% beginning June

**Wages** costs will increase 7% beginning August

**Volunteer payments** will be made to 50 trainees, 10 days per month for 9 months beginning in September

**Volunteer joiner** will receive £5 per day, 15 days a month for 6 months

What is the financial position of Wood 'N' Tops now?

Does it have a deficit at the bank?

When is the first month this occurs?

## Exercise 2

Wood 'N' Tops has decided it must generate new income for the project. It has asked the finance committee (trainees) to draw up a cash flow forecast based on the following assumptions:

**New equipment** will be bought in April costing £5,000, requiring a bank loan of £5,000 available from April

**Bank loan** will cost £5,766 over 3 years (£167 per month capital repayments for 30 months, £21 per month interest repayments for 36 months)

**Capital repayments** begin in month 6 while **interest repayments** begin April

**New income** of £1,700 per month will begin in August

Has the financial position of the project improved?

Does the project have a positive balance at the bank?

When does this occur?

# 5.3

## FUNDRAISING

- Writing Funding Bids
- Developing Relationships With Funders
- Funding Exercise

# WRITING FUNDING BIDS

## Introduction

Organisations approach funding in many different ways but the reason for it remains the same. For many projects the pressure to keep generating income for survival is immense and can mean that funding applications are made on a reactive rather than strategic basis.

It needs to be recognised from the beginning that funding is a tool that will enable an organisation to achieve things that may otherwise not be possible. However as with any other tool funding needs to be applied correctly if it is to be of any benefit.

Chasing funding indiscriminately is poor practice and can result in an organisation straying from their objectives in order to obtain income and in some cases distorting and deskilling the organisation in the process.

It is evident that people who write successful bids are clear about what the project is for, how it will be delivered and what the result will be for stakeholders (stakeholder meaning a group or an individual who has an interest in or is affected by the proposed project).

## What Is The Funding Required For?

It may sound obvious but it is crucial to remain aware that the majority of bids for funding are intended only to assist in the piloting, start-up or development of projects and not to provide a permanent revenue source, regardless of how good or needed the project actually is.

(Sustainability meaning to keep in existence or maintain). Sustainability is a key word in any funders vocabulary and it is therefore vital to consider right from the start how the project will support itself financially after the initial funding period. If an organisation does not have a sufficiently specific sustainability plan and can not show how it will survive after the lifetime of the funding, then the likelihood is that the application will be refused.

The sustainability plan has to be measurable and achievable and should ideally link to the business planning process carried out by the organisation and any partners in the project. Simply referring to plans by the steering group to identify ways to make the project sustainable throughout the lifetime of the project is insufficient.

Relying on one route to project sustainability can be problematic and ideally the funding application should identify a number of ways to continue the project that the funder is 'pump priming'. (Pump prime meaning to encourage the growth or action of something i.e. assisting the start of the project).

The plan for sustainability needs to be linked to the key milestones of the project including time indicators and should clearly state who is responsible for deciding the best way forward and how it will be achieved.

The term 'exit strategy' is often used in this context however in real terms exit strategy means a plan of what will happen at the end of a project and how it will be wound down.

The language used in a funding bid needs to be clear and incorporate what the project will do, who will do it, what will be different because of these actions and how the changes/benefits that have taken place can be demonstrated in terms of achievement. When a clear view of what the project is seeking to achieve has been decided upon, potential funders can be sought. Being clear about what is trying to be achieved makes it easier to search for funders.

Sources of finance and funding for social enterprises include:

- Trading income
- Retained profits
- Bank, community development finance institutions and other loans
- Member share purchase
- Voluntary investment by members
- Grants
- Loans

Social enterprises may qualify for grants in the same way as other types of business. In addition social enterprises in disadvantaged communities, or which address social exclusion, may qualify for start-up and capital grants. However it is important to remember that to rely on grant funding alone is dangerous and can result in a project running only for the lifetime of the funding provided.

## Getting Started

When deciding whether to seek funding for a project the organisation should consider some basic questions such as:

- Identified and able to clearly demonstrate the need for the project?
- Gathered information/research material to prove the need?
- Considered whether the project should have partners to help share the workload?
- Decided who within the organisation can drive the project forward and can they show that they are capable of running the project and have enough free time to spend doing so?

## Funding Searches

The next step is to draw up a list of potential funders. To do this, you will need to do some research. For example:

- Research potential funders;
- Choose funders whose criteria the project fits;
- Make contact before you prepare your application to ensure your project fits the funders' criteria;
- Find out the funders' timetables or timescales for reply;
- State clearly where you hope to find all the funding.

There are a number of options to look at when searching for funding to get the project started including:

### Local Government

It is always a good idea to approach local government to see if there are any funds available to assist local social enterprises.

### Regional Funding

A considerable proportion of funding is now distributed at a regional level. Information can be obtained from the DTI and the relevant Regional Development Agency [www.dti.gov.uk/regions/index.htm](http://www.dti.gov.uk/regions/index.htm)

### Central Government Funding

For England the website [www.governmentfunding.org.uk](http://www.governmentfunding.org.uk) is dedicated to giving the voluntary and community sectors access to grants from various central government departments. For Wales, the contact is The Welsh Assembly [www.wales.gov.uk](http://www.wales.gov.uk)

### Local Council For Voluntary Services/County For Voluntary Council

A Council For Voluntary Service (CVS), or the Welsh equivalent County For Voluntary Council (CVC), is a voluntary organisation, which is set up, owned and run by local groups to support, promote and develop local voluntary and community action. CVS/CVC's support their members by providing them with a range of services and by acting as a voice for the local voluntary and community sector. The local CVS/CVC will have access to local funding initiatives. To find the nearest CVS contact [www.nacvs.org.uk](http://www.nacvs.org.uk) and in Wales [www.wcva.org.uk](http://www.wcva.org.uk)

### Lottery

The lottery has a number of funding programmes that assist social enterprises. The following site provides information on how to get Lottery funding, the latest news on the organisations that distribute Lottery money, and case studies on projects that the Lottery has funded in the past. [www.lotterygoodcauses.org.uk](http://www.lotterygoodcauses.org.uk)

### Charitable Trusts and Foundations

Some charitable trusts or foundations provide finance for social enterprises, the following websites assist organisations in finding grant funding - Directory Of Social Change [www.dsc.org](http://www.dsc.org) and Funding Information [www.fundinginformation.org](http://www.fundinginformation.org)

Examples of trusts that have supported social enterprises in the past are Esmée Fairbairn Trust [www.esmeefairbairn.org.uk](http://www.esmeefairbairn.org.uk) the Sainsbury Family Charitable Trust and UnLtd - The Foundation For Social Entrepreneurs [www.unltd.org.uk](http://www.unltd.org.uk)

## Loan Finance

A variety of loan finance options are available to social enterprises from banks and building societies to community development finance institutions (CDFI's). Below are some helpful links on this topic:

[www.charitybank.org](http://www.charitybank.org)

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

[www.ncvo-vol.org.uk](http://www.ncvo-vol.org.uk)

[www.uksif.org](http://www.uksif.org)

[www.financewales.co.uk](http://www.financewales.co.uk)

All funders publish guidelines that detail what they will and will not support and also offer assistance in submitting an application with regard to the information that organisations need to provide.

Guidance information should be read carefully, read again and read some more! Projects that are dreamt up to fit the priorities of the funder are obvious and are less likely to succeed. It is crucial to check the objectives and funding criteria to ensure that the project will fit. If there is any doubt then a call made to the funder will result in establishing this. Some funders are happy to take telephone enquiries and others may request a project brief prior to accepting an application.

## Writing The Application

This is where the case is made for financial support and it must be made well. Remember there is vast competition for support so ensure that the application is well written and clear, fits the funders criteria, is within any deadline date, that all of the questions have been answered and any requested supporting information such as business plans or accounts have been included.

The following questions may help with this process:

- Is the finance plan clear and explicit?
- If the funder has asked for specific outcomes, has the bid demonstrated how they will be addressed?
- Is the language used unambiguous?
- Is the bid interesting?
- Has evidence of the organisations effectiveness that underpins the proposal been brought out in the application?

Acronyms should be avoided unless they are clarified the first time that they are used. Technical jargon and obscure professional language should also be avoided as this masks the meaning of what the bid is actually trying to say.

It is a good idea to get a colleague or external partner to read the application to check for spelling/grammatical errors and also to logic check it. One of the problems with writing bids is that the writer can be too close to it and although may have clear vision as to the project and its aims, forget to include key information.

## Application Structure

An application should have clear structure. The following can be used as a guide but always follow the specific guidance provided by the funder.

- Project title
- Introduction - who the organisation is
- Proposal summary
- The problem or need and who will benefit from the project



- What the project aims to achieve
- How it will be achieved
- How results will be monitored
- How much money is needed; and
- How much money will be raised from the organisation and/or other funding sources

Always remember to include in-kind support. For example, if you are being given the hire of a venue for free, have volunteers working for the project or staff seconded from another organisation then spell out that cost-saving - this helps to demonstrate that your application represents value for money.

When putting together your application, always remember:

- **Project Need** : What? Where? When? Aims and Objectives?
- **Beneficiaries** : Why? For whom? Scale of demand and local support?
- **Management** : Who will manage the project? What track record do they have?
- **Budget** : How much will it cost to set up and run? How much money will be raised locally?
- **Match Funding** : From whom does the organisation expect to get the other funding? What assumptions have been made in the calculations?
- **Monitoring** : How will the projects success be measured and what targets will be set?

## Practical Tips

- If the Trust or funder has a website, check it out before making the application
- If possible and unless the funder stresses otherwise, type up the application form it is far neater
- Choose any requested referees carefully
- Make sure referees have a copy of the proposal
- If an assessor calls to make an appointment, make sure that there is plenty of time, and peace to speak to them
- Letters of support from relevant prominent people may be useful
- Don't hassle the funders
- Try and raise some money locally as a 'community contribution to the project'
- Don't give up. If in doubt, ask the funder for help

## Application Checklist

- ☐ Is the application being made to an appropriate funder?
- ☐ Does the project fit into the funders priorities and criteria?
- ☐ Is the amount being sought in line with the funder's normal range of grants?
- ☐ Is the timing right? What is the deadline and when is the money needed by?
- ☐ Is the application addressed to the right person at the most recent address?
- ☐ Has the project an appropriate title?
- ☐ Is the application easy to read with no jargon or abbreviations?
- ☐ Is it the right length? Does the application say clearly who the organisation is and what it does?
- ☐ Is a contact name, address, telephone and email included?
- ☐ Has the project proposal been spelt out clearly - what the money is for and why it is needed?
- ☐ Has this been backed up with facts and figures to prove need?
- ☐ Does the application include how the money will be used and who will benefit?
- ☐ Does the application show other funding to be included as match and has in-kind funding been taken into account?
- ☐ Has a detailed sustainability plan been included to show how the project will continue after the funding has ceased?
- ☐ Do all the figures add up?
- ☐ Have all costs been included and are they realistic?
- ☐ Does the project represent 'value for money'?
- ☐ Have monitoring and evaluation procedures been included?
- ☐ Has the supporting information been included e.g. accounts/business plan?
- ☐ Has a copy of the bid been taken for the organisation records?

# DEVELOPING RELATIONSHIPS WITH FUNDERS

The best policy for dealing with funders is to treat them as the organisation would treat a client.

Some funders like to be sent ongoing information or to be invited to things to things - openings, celebrations. Others prefer a more arms-length relationship. Developing relationships with those funders that are happy to be involved is important for the organisation and the project. Give funders the opportunity to do more than simply purchase a product - engage them. People fund people and that funding becomes more sustainable when the two are in the relationship, not simply sitting at opposite ends of a funding application.

Always keep funders fully informed as to the progression of projects that they have funded. And always keep a copy of everything that is sent out to potential or actual funders.

Think too about responding (especially to trusts and businesses) which turn down an application for funding. If funding comes from elsewhere consider writing, saying that the organisation understands why they chose not to fund the project on that occasion but thought they might be interested in how things have developed since and flag up forthcoming plans for their interest. Even a rejection can be the opening of a longer term relationship.

# FUNDING EXERCISE

## The WLP Trust - General Grants Programme

Your trust covers all of the UK and is for 'general charitable purposes' though you specialise in heritage. However, you keep £50,00 a quarter for a general grant programme under which applications of all kinds can be considered on their merits. £5,000 is given in your guidelines as the minimum individual grant and the maximum is the full £50,000. It is the quarterly trustees meeting and you have been working all morning on the main grants. You now have between 30 and 45 minutes remaining to decide the general grants. Unfortunately your Clerk, Brigadier Rainsbury has rung in sick. He has previously circulated the attached list of applications that he has checked out and considers to be good for their kind. **You must now make the decisions.**

## York Cathedral Appeal

No amount specified. Appeal target £5 million. The main cathedral appeal this year. Members of the public have donated a total of £520,000 a year (excluding tax) and hope to raise a further £100,00 from Gift Aid payments.

## Childline

Big appeal to pay the reversed charges for desperate children (It is a telephone line to help abused children). They want £10,000 from us to pay for the service in the ten most disadvantaged wards in Liverpool.

## Wrexham Women's Aid

The only major appeal from Wales this time, for £12,000 a year for three years for a part time worker to encourage mothers to return to work. It's a new project and they've approached six other trusts of which, one has agreed to put in £5,000 a year.

## The Music Machine

They commission new music to be performed by entire communities. Last year they had over 4,000 singers in Stafford rehearse and sing a four hour epic. This year they have enthused 8,000 citizens of Portsmouth but need another £10,000 to add to existing sponsorship from local companies. The money will pay the composer and run the show.

## Craven College, Fulham

An inner city project to help people who have left school early to go back to studying. They want £15,000 a year for an outreach worker.

## Parents Choice

Last year we gave them £5,000 for a training scheme for school governors. From information received, the project went well and this year they have asked for another £5,000 to develop a financial skills course for governors.

**Harris Homes**

Want £120,000 to buy another house to become a home for adult mentally disabled people in Bolton. They run 15 similar houses all models of their kind. They have not approached us previously, no other income detailed.

**Age Concern Oldham**

£12,000 to employ a professional negotiator to win contracts from the local authority to provide accommodation for elderly people in the area.

**Humberside Wildlife Trust**

Require £50,000 to buy a wood threatened by a Tesco development. Wood seems to be unremarkable environmentally but is well used by county's population.

**Fifth Ear Project**

Teaches severely dyslexic children up to the age of 18 to sight-read music, using it as an unthreatening opportunity for the children to learn skills very close to normal reading. They want £5,000 for an independent evaluation to verify their apparently striking success rate.

**Evesham Respite Care**

They used trained volunteers to let the carers of older people with dementia have a break. On tapered funding (starting with £13,000 this year) they want £25,000 to develop financial independence through a direct-mail donor base.

**Wildlife Rescue**

Experts at saving stranded whales, dolphins, horses in canals etc. They are all volunteers and only want £2,500 for VHF radio kit so they can talk to coast guards and the like.

All of the above are eligible for support under our rules.

The case study applications should promote a debate around who should be funded. There is no right or wrong solution to this exercise as it is purely on individual interpretation and choice. However there has to be a decision reached and it will get the group working together and coming up with a way of reaching the final decision.

The exercise shows just how difficult it is to be in the shoes of the funder and the competition for funds. To even reach this selection stage a bid has to be well written and clear and of interest to the panel.

# 6.1

## UNIT COST CALCULATIONS AND THE BREAK EVEN

- Working Out Costs - The Terminology
- How To Work Out Your Break Even Point
- Costing And Break Even Exercise
- Costing The Job Exercises
- Glossary Of Financial Terms

# WORKING OUT COSTS - THE TERMINOLOGY

Costing means looking at the amount to be spent on selling a product, running a production process or delivering a service.

## Fixed And Variable Costs

Costs in a business are either fixed or variable:

**Fixed costs :** These are things that are always there, like plant, heating, lighting and rent. Sometimes called 'indirect' or 'standing' costs or simply overheads.

**Variable costs :** These include things like raw materials that vary in cost and quantity used. Sometimes called 'direct' or 'running' costs.

It is necessary to know which costs are fixed and which are variable before you can start to work out the true production costs of a product, or how much it costs to deliver a service.

In general major costs are broken down like this:

**Materials :** A variable cost as it will change depending on how much is produced.

**Direct labour :** This is labour directly involved in production and not administration etc. This is usually seen as a variable cost, since people theoretically can be hired and fired according to need; in practice, this is not always easy to achieve.

**Production Overheads :** This is usually considered a fixed cost, although increased levels of production can raise the amount of energy used.

**Research And Development :** A fixed cost, budgeted for in advance and overlong periods.

**Marketing And Distribution :** These are mostly fixed costs but there are some exceptions; for example, the amount of a salesperson's commission will vary with the amount they sell.

**General Administration :** A fixed cost

A typical costing might look like this:

Sale price	200
Variables/direct costs	40
Gross profit	160
Fixed/overheads	95
Net profit (before drawings)	65
Drawings	40
Actual profit	25

Direct costs, overheads and drawings would all be calculated. The profit figure would be based on your objectives. The sale price is therefore arrived at last, based on the totals.

The method of calculating what to charge for overheads is set out on the following pages. The first example can also be used to work out a price to charge per hour when selling a service.

## Calculating An Hourly Rate

This example demonstrates the calculations needed to establish your cost price per hour to cover your overheads and/or to work out an hourly rate for your services.

To calculate hourly charge:

Decide realistic number of weeks worked during year	46
Estimate chargeable (productive) hours worked per person	30
Calculate total of estimated fixed costs	£20,000
Annual total of chargeable hours	$46 \times 30 = 1380$
Hourly charge to cover fixed costs	$\frac{20000}{1380} = £14.50$

Therefore a costing for a particular job would be:

Any materials + direct labour charge + £14.50 hour + drawings

The selling price would be the above plus your profit.



## Calculating The Cost

To calculate the cost of a manufactured item:

The cost is the variable costs (the raw materials plus the direct labour) plus the percentage of the overheads that this item represents. Every item produced must carry its fair share of the overheads.

An example:

Your sales are estimated at £100,000 and one particular product line represents half of that - £50,000. This is made up of 100 items at £500 each.

It is then valid to presume that this particular product is likely to have 50% of the overheads allocated to the costings for that product.

Therefore, if your overheads are £30,000 - 50% of this is £15,000.

To include this in the costing for the product you would calculate as follows:

Variable cost (per item)	+	$\frac{£15,000}{100}$	=	Cost of item
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Therefore, if the materials and labour to produce one item cost £50 then:

The cost of the item is £50 + £150 = £200

The cost price is £200 not £50

The selling price is £500, therefore the profit figure is £300

## Costing Exercise

Imagine you are setting up a small business making wooden toys.

You will not be employing anyone and you will be working from a small rented unit.

1 : Name some of the variable costs you are likely to have?

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2 : Name some of the fixed costs you are likely to have?

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To establish the **cost** of your product you would have to calculate exactly how much wood, paint, etc. each toy takes to make.

Let's estimate this cost as £5 for each toy.

You have done some market research and you expect to sell 200 toys in the first 6 months.

Your fixed costs are:

Rent : £100 per month

Rates : £20 per month

Heat and light : £250 per quarter

Advertising : £40 per month

Telephone : £50 per quarter

You are proposing to sell toys for £10.00

3 : How much profit do you make in the first 6 months?

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4 : If there is a shortfall, what can you do to remedy this?

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# HOW TO WORK OUT YOUR BREAK EVEN POINT

The break even point is the point where your income from sales is equal to all of your business expenses (cost of sales and overheads) and also the money you need to take from the business to survive.

There are two different calculations for two different types of business:

**Service Trade** i.e. where goods are not bought/manufactured and sold  
e.g. plumbers, hairdressers, etc.

**Retailers And Manufacturers** i.e. where goods are bought/manufactured and sold  
e.g. sweet confectioners, furniture makers and so on.

## Calculating Break Even For A Service Based Business

The level of sales required to meet all costs and personal requirements is simply:

Overheads (per checklist)	£ _____
+	+
Drawings/personal survival budget	£ _____
=	=
Sales required	£ _____

You may also wish to calculate how many hours you would have to work or the number of services you would need to carry out in order to break even. This would be as follows:

Number of hours required to break even	=	$\frac{\text{Overheads} + \text{Drawings/personal survival budget}}{\text{Average charge per hour}}$
Number of services carried out to break even	=	$\frac{\text{Overheads} + \text{Drawings/personal survival budget}}{\text{Average charge per service}}$

Examples of each of the above are given below:

Shiverton Community Building sub-contracts labour-only to various building firms at a charge of £10.00 per man-hour. Its overheads per year are £24,600 and the wage bill is £62,000. How many chargeable man-hours would it have to contract for to break even? The business expects to work 48 weeks in a year.

**Answer**

$$\frac{£24600 + £62000}{£10} = \text{Break even is 8660 chargeable hours per year}$$

**Or**

$$\frac{8660}{48} = 180 \text{ chargeable man-hours per working week to break even}$$

Sunnside Therapy Collective has an average charge per client of £12.00. Its overheads are £15,956 and the therapists take £8 from every commission/charge. How many clients does the Collective need to serve in a year to break even? The therapists are unavailable five weeks a year and are available to work 47 weeks in the year.

**Answer**

$$\frac{£15956}{£12 - £8} = \text{Break even is 3989 clients served per year}$$

**Or**

$$\frac{3989}{47} = 85 \text{ clients per week to break even}$$

## Calculating Break Even For A Product-Based Business

The break even is usually calculated in terms of the number of sales a business needs to make each year. This is calculated by subtracting the 'direct costs' of producing the product (the materials, power costs, direct staff costs and so on) from the price. What's left, the gross profit, is often called the 'contribution per unit'.

$$\frac{\text{Indirect costs (wages, overheads etc)}}{\text{Contribution per unit or sale}}$$

This is best shown by way of an example:

Burnside Park Furniture makes park benches and sells them for £80. Materials and other direct costs are currently £14,000 a year. It has overheads of £8,180 and a wage bill for support staff of £32,000. The gross profit per sale is calculated to be £38. Therefore the break even point is:

**Answer**

$$\frac{£8,180 + £32,000}{£38} = 1058 \text{ benches per year is the break even}$$

Another way to calculate the level of sales required to break even is to use contribution per £ of sales. For instance, if the price is £80 but the direct costs are £60 then the percentage contribution or contribution per £ of sales is  $(80 - 60) / 80\% (= 25\%)$  or  $£80 - £60 / £80 = £0.25$  in the pound.

$$\frac{\text{Overheads + Indirect wages}}{\text{Contribution per pound of sales}}$$

This is best shown by way of an example:

Community Electrical Appliances refurbishes old gas cookers. It has overheads of £18,200 and staff support costs of £22,000.00. Its gross profit per £ of sales is 25p. Therefore the break even point is:

**Answer**

$$\frac{£18,200 + £22,000}{25\text{p (or } 25\%)} = £160,800$$

You must plan to do better than survive. In addition to your drawings you are likely to have to pay some Income Tax and National Insurance. Part of your profit will also be needed to fund your business as it grows.

The highest price will be the highest the market will bear without sales dropping. Somewhere between the two will be the price that will give you the highest possible profits. Remember, you only have to please enough customers who are prepared to pay your price - you do not have to please everyone, all of the time. The best price is the highest that the greatest number of customers are prepared to pay.

You could use the following as the basis of your costing calculation. The right hand column details where the figures will come from.

Costs	Sources
Variables/Directs	Suppliers
Fixed/Overheads	Research
Drawings	Calculation
Profit	Objectives set
Start up Costs	Research
VAT	Calculation
Tax	Calculation

The total of these will help establish the **minimum** figure to charge, when divided by the number of items you can make and sell, or the number of hours you can work and be paid for. You then need to go to a level which the market will stand.

# COSTING AND BREAK EVEN EXERCISE

Wood 'N' Tops Community Enterprises has a furniture-making project which has decided to sell hi-fi tower units on a commercial basis. From the information given below, calculate:

1 : The **cost** price

2 : A **selling** price that will

(a) enable the project to **break even** (i.e. where income covers costs)

(b) cover costs plus a 10% **net profit**

## Materials Costs (Per Unit)

Wood : £3.00

Laminates : £6.00

Screws and nails : £0.50

Rods and plates : £1.50

## Labour Costs (Per Unit)

1 hour : £4.00 per hour

2 hours : £2.50 per hour

## Direct Costs (Per Unit)

Power costs attributable are £50 per 100 units made

Transport costs are £12 per 50 units delivered

## Indirect Costs (Per Unit)

Costs of insurances, permits, other labour, overheads, etc are calculated at £1500 per 1000 units.

## Other Information

It is predicted the project can make and sell 3000 units per year, of which 01% would be sold but no income generated due to defaulting by debtors (bad debt). The lost sum would need to be included in the **selling price** and **break even** calculation. There is no VAT on this product.

Use the space below for your answers

1 : The cost price

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2 : A selling price that will:

(a) enable the project to break even (i.e. where income covers costs)

(b) cover costs plus a 10% net profit

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Answers can be found in the appendix on page 418



# COSTING THE JOB EXERCISES

## Exercise 1 : Costing The Job

You are an interior decorator asked to quote to paint a large room.

To cost up this job, the following information is required:

1 : Total amount of materials (paint) required = £ \_\_\_\_\_

120 sq metres requiring 2 coats, 4 tins at £3.65 wholesale and £8.00 per tin retail.

2 : Time taken in terms of labour costs = £ \_\_\_\_\_

1 hour to paint 20 metres, at £4.50 per hour

So the cost will be = £ \_\_\_\_\_

**Note:** When costing a job do not charge the wholesale cost for materials but the retail cost since you will have costs of storage, delivery, waste etc.

## Exercise 2 : Costing The Job

Suppose you were asked to paint 3 rooms with total area 500 sq metres and wallpaper a fourth room. The paint costs the same as the above example and the wallpaper costs £2.75 per roll and 15 rolls are needed. You can paint at the same rate as before and wallpapering the fourth room will take 4 hours. The job is out in the country and will take two days. The distance to the house is 11 miles and you figure that the petrol for the journey costs 25p per mile and the trip will take 30 minutes. What are the costs of this work to the business?

1 : Cost of materials = £ \_\_\_\_\_

2 : Labour costs = £ \_\_\_\_\_

3 : Travel costs = £ \_\_\_\_\_

So the cost will be = £ \_\_\_\_\_

Answers can be found in the appendix on page 419

## Working Out The Unit Cost

Some businesses will not be selling labour (by providing services like painting or car repair) but goods. They will need to work out what is the basis or **unit cost** of each item they are selling.

The **unit cost** is the cost of everything required to make and sell the item: labour, materials, power, packaging etc. These are called **direct costs**. To get a **selling price** each business adds on something to cover other costs like rent on premises, phone bills and travel costs. These are called **indirect costs**.

The **indirect costs** and the amount of profit each business wants to make on each item are added to the **direct costs** usually in the form of a mark-up.

## Working Out The Unit Cost Exercise

Work out the unit cost of the following items:

**1:** A factory produces ball-bearings for industry. It makes 100,000 a year, all the same type. Materials cost £5,000, labour £30,000, power £10,000 and packaging £1,000 per year.

Unit cost = £

**2:** A small craft workshop produces two wooden toys, a 'Noah's Ark' and a 'Rocking Horse'. What is the Unit Cost of each item?

**a:** The ark requires wood costing £2.50, paint costing £0.35, varnish costing £0.10 and 2 hours labour at £3.50 per hour.

Unit cost = £

**b:** The horse requires wood costing £24, paint costing £1.20, varnish costing £0.90, nails costing £0.30 and 5.5 hours labour at £4.50 per hour.

Unit cost = £

Answers can be found in the appendix on page 419

## Pricing The Job/Working Out The Selling Price

The price you charge the customer will need to cover the basic **direct costs** of producing the item or selling your labour. To make a profit you also need to add something for the **indirect** or **fixed costs** (overheads) of the business and the profit you want to make to safeguard and expand the business.

But how much you add on depends on how many of each thing that you produce you actually sell. If you produced 100,000 ball bearings a year and had **fixed costs** of £10,000 we would need to add on:

$\frac{\text{Fixed costs}}{\text{Number of items sold}} = \frac{£10000}{£100000} = £0.10$
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**Note:** The amount you add on is based on the number of ball-bearings **sold** not the number of ball-bearings **produced**. Unsold goods can't contribute to the fixed costs of the business. To work out your selling price **you need to know how many things you will sell each year**.

### Exercise 1 : Working Out The Selling Price

Using the above example, with **direct costs** of £46,000 per 100,000 ball-bearings, **indirect costs** of £10,000 and a **profit margin** of £5,000 what would be the selling price for our ball-bearings if we produced:

1 : 100,000 ball-bearings per year

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2 : 50,000 ball-bearings per year

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## Exercise 2 : Working Out The Selling Price

But suppose instead of making ball-bearings we sold services like vehicle welding or gardening. In this case what we are selling is not ball-bearings but time. We need to work out the **unit cost** of our labour, then add on other costs. This is calculated as follows:

$$\text{Hourly rate} = \frac{\text{Fixed costs (excluding materials and profit)}}{\text{Total chargeable hours}}$$

Suppose you were a painter and decorator, you pay yourself £9600 and there are other **indirect costs** of £5000 per year. If you calculated you could work seven hours a day, six days a week, each week of the year, what would be your hourly rate?

$$\text{Hourly rate} = \frac{£14600}{7 \times 6 \times 52} =$$

Many people make the mistake of assuming they can work long hours continuously but in fact they can't. Firstly there are Bank Holidays when you can't usually trade. Then there are your holidays, periods of sickness and times when you aren't working but advertising, selling, doing your books, talking to suppliers or simply waiting for work to come in. All this time has to be deducted from the total number of chargeable hours to get your hourly rate.

Suppose in the above example, you could only deliver 6 hours work per day and you calculated that out of 365 days a year you would only actually be working on 250 of them (no work weekends and Bank Holidays and 3 days sickness). What would be your correct hourly rate?

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### Exercise 3 : Working Out The Selling Price

Go back to the painting example, [Costing The Job Exercise 1](#). Suppose you could work 2100 hours per year and paid yourself £9600. Fixed costs are £5000 and direct costs for this job are given below. You will need to work for twelve hours and you will need help for a further twelve hours though at a lower rate. What should the price to the customer be?

1 : Your labour = £

2 : Materials (paint) required, 4 tins  $\times$  £8 = £

3 : 12 hours sub-contract labour at £4.57 per hour = £

The price to the customer will now be:

Direct costs of materials	+	Sub-contract labour	+	Your labour at new rate
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Answers can be found in the appendix on page 420

# GLOSSARY OF FINANCIAL TERMS

## Accruals

Services or goods received but not (fully) paid for yet for example electricity bills or accountancy fees. They are treated as a current liability.

## Balance Sheet

A statement of how much the business or organisation is worth and what form assets and liabilities take e.g. equipment or loans.

## Capital Expenditure

Money spent to buy assets e.g. premises or equipment.

## Cash In Hand

Actual money either in a float, petty cash or at the bank. Treated as a current asset.

## Cost Of Sales

The direct costs of making the sales: materials but also possibly direct labour, sub-contracting, delivery, packaging - whatever is appropriate to the business.

## Creditors

People or businesses you owe money to.

## Current Assets

Assets easily convertible into cash.

## Current Liabilities

Money owed which you would expect to pay soon.

## Debtors

People or businesses that owe you money.

## Depreciation

The nominal loss in value of machinery or equipment due to usage. It is a business cost.

## Expenditure

All expenses of the business, adjusted for prepayments and accruals.

## Factoring

An agreement for another organisation to provide you with cash while collecting money on your behalf. It chases your debts and charges a commission in return.

## Fixed Assets

Capital equipment or other physical resources likely to last more than one year. The value is reduced each year by the amount of depreciation.

## Fixed Costs

Costs of an organisation that do not change even if sales or other activities increase or decrease e.g. rent.

## Gross Profit

The surplus after direct costs have been deducted from sales. Often expressed as a percentage.

**Invoice**

A written record that a customer has incurred a debt, issued when something is sold but not paid for immediately.

**Leasing**

An agreement to rent a piece of equipment. At the end of the agreement or if you stop paying the equipment goes back to the owner. You are never the legal owner.

**Liabilities**

All the debts and obligations of the organisation.

**Liquidation**

When a company announces it intends to sell its assets to pay its bills and then cease trading.

**Loans Falling Due**

The value of loans which you will have to pay within the falling year e.g. an overdraft. Treated as a current liability.

**Margins Or Profit Margins**

The difference between the value of sales and the cost to make them, expressed as a percentage.

**Overdraft**

Money you can draw on as you need it, up to a limit agreed with (usually) the bank.

**Overheads**

All business expenses other than the cost of sales.

**Prepayments**

Items paid for in advance but not received (in full), for example prepayments of rates, insurance, vehicle tax. They are treated as a current asset.

**Profit**

The amount left after taking expenditure from gross profit, often called pre-tax or trading profit. After tax or extraordinary expenditure has been made, the net profit is what is left for reinvestment or distribution.

**Sales**

In a profit and loss account, this is the value of the sales made, regardless of when payment is received.

**Stock**

The value, usually at cost price, of materials owned by a business and intended for future sales. Often based on a stock-take at the year's or accounting period's end.

**Turnover**

The total amount of money that has passed into the organisation over period of time.

**Variable Costs**

Costs which change when the volume of business or level of activity changes.

# 6.2

## COST CENTRE ANALYSIS AND CONTROLLING FINANCES

- Cost Centre Analysis
- Cost Centre Analysis Exercises



# COST CENTRE ANALYSIS

Any activity can be analysed by its costs and the 'output' it generates. Business may want to know the cost of administration compared to its level of bad debt. Or it might want to know the cost of running a production line compared to other production lines or ways of producing things.

Social benefit organisations that want to use financial systems for analysing performance may look at the cost of parts of its operation compared to the social benefit. For instance it might want to look at the total cost of running training courses (salary, rents, training materials, utilities and so on) compared to the number of people actually trained.

Cost centre analysis tries to attribute all costs involved in a particular activity to one 'location' or 'cost centre'. To calculate costs involved in a particular activity it is necessary to calculate the cost of:

## Materials

All materials used directly (including wasted materials) and materials used indirectly (for instance packaging).

## Labour

All labour costs directly involved (including National Insurance and pensions, for instance) and the proportionate cost of any supporting labour (for instance administrative staff).

## Sales And Marketing Costs

Regular, on-going costs of advertising and promotion of that activity's product or service.

## Overheads

Proportionate costs of regular expenses associated with that activity such as rent, rates, power, interest repayments, other charges.

## Additional Costs

Other costs solely attributable to the activity (for instance higher insurance costs for a new machine).

## Example

The Wood 'N' Tops management committee want to know the real cost of manufacturing toys. Materials used cost £2,000 per year. Production involves 5 trainees paid £500 expenses each per year. The single machine used is used for toy production 20% of the time and full depreciation is valued at £1,000 per year. Electricity costs £600 a year and toy production takes up half of a workshop costing £2,000 in rent, rates and repairs per year. The paid administration worker calculates that she spends 30% of her time on book-keeping, sales and marketing toys. She is paid £8,000 per year. The total income of the project is £25,000 per year and sales of toys contribute £5,000 to this. Its total costs are £24,500 per year.

### Cost Centre Analysis

Materials	£2,000
Labour (5 x £500)	£2,500
Depreciation (£1,000 x 20%)	£200
Electricity (£600 x 20%)	£120
Rent (£1,000 / 2)	£1,000
Administration (£8,000 x 30%)	£2,400
<b>Total</b>	<b>£8,220</b>

From these figures we can calculate the following:

Toy making is responsible for 34% of all costs ( $£8,220 / £24,500 \times 100$ )

Toy making generates only 20% of all income ( $£5,000 / £25,000 \times 100$ )

In a social benefit organisation like Wood 'N' Tops which is providing training to young people and cheap toys to local people who suffer many disadvantages this might not matter. But cost centre analysis gives a decision-maker the power to focus in on any part of a process that might be going wrong or where change might be beneficial or necessary.

Could work be organised more efficiently?

Does the equipment cost too much electricity? Could lower rates be negotiated?

Could prices be raised in a different market?

Another point is that community-based projects are increasingly being judged according to financial criteria. In the above example, Wood 'N' Tops could argue that the cost of toy-making may be £8,220 but that its cheap toys save local people money (higher prices in the high street shops and bus fares to the city centre, for instance), so that for the community as a whole the real cost is actually less than £8,200.

Measuring such 'savings' and 'costs' is increasingly feasible but using such calculations to convince funders and decision-makers remains difficult and little understood.

# COST CENTRE ANALYSIS EXERCISES

## Exercise 1 : Manufacturing Sector

The Wood 'N' Tops Furniture Project needs to generate income and is trying to work out if it should start a new production line making simple wooden toys as well its traditional activity repairing and making furniture. The joiner it employs has come up with the following figures:

- Materials to make toys would cost £2,000 per year
- Direct labour involves 5 trainees full-time, paid £500 expenses each year.
- The joiner would spend 40% of her time supervising; her salary is £8,000.
- A band saw would be required 20% of the time. Electricity bills associated with using it are £600 a year and full depreciation is £1,000 a year.
- Toy production takes up half of a workshop costing £2,000 in rent, rates and repairs per year.
- The paid administration worker calculates that he spends 30% of his time on book-keeping, sales and marketing toys. He is paid £8,000 per year.
- The total income of the project is £30,000 per year and sales of toys contribute £8,000 to this. Its total costs are £28,500 per year.

1 : What is the **total cost** of producing toys?

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2 : What are the costs of producing toys as a % of total costs?

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3 : What is the total income from producing toys?

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Suppose the project produces and sells 2,000 toys a year for £4 each and the joiner calculates a customer saves £1 per purchase over normal shop prices.

4 : Does toy making have a positive social benefit (in financial terms)?

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Answers can be found in the appendix on page 421

## Exercise 2 : Service Sector

The training and development officer for Wood 'N' Tops reports that she spends her time as follows:

- 50% training; 30% attending management meetings; 20% administration
- Her salary is £10,000 a year and training generates £100 for every 1% of her time spent delivering training.
- Administrative support costs £1,200, advertising £200, training materials and associated expenses cost £600 while a proportion of the overheads costs £500 a year.

1 : What is the **total cost** of delivering training?

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2 : How much extra time would the training officer have to spend training to cover the full costs of what she does?

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3 : Is there any way she can find the extra time?

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Answers can be found in the appendix on page 422

# 6.3

## PROFIT AND LOSS AND BALANCE SHEETS

- Simple Financial Calculations
- Analysing Performance - The Balance Sheet
- Analysing Performance
- Analysing Financial Performance
- Profit And Loss Forecast
- Profit And Loss Calculations
- The Balance Sheet Exercise

# SIMPLE FINANCIAL CALCULATIONS

- Your books tell you what's happened in the past.
- Your cash flow forecast is about what **may** happen in the future.
- **What about now?** How are we doing right now?
- Wouldn't it be nice to know if you were making a profit?

For every single bit of goods or services you supply to others, there will be costs to pay (money going out) and money coming in from the sales you make. If there's more coming in than going out, then you should be making a profit. Let's look at working that out:

## Sales

This includes everything you've supplied, even if not paid for yet! It is your usual trade. It does **not** include sale of assets.

If you supply goods, you need to know how much stock you've purchased, and how much stock is left. (In a service trade, you won't.) This is known as the '**cost of sales**'.

### Cost of sales is:

$$\begin{array}{r}
 \text{Value of stock at start of time period} \\
 + \\
 \text{Value of stock bought in this period} \\
 = \\
 \text{Total stock available to be sold} \\
 - \\
 \text{Value of stock left at end of period} \\
 = \\
 \text{Cost of sales for the time period}
 \end{array}$$

This works for retail businesses. But for manufacturing, you need to think about 'cost of production', and that means taking off completed products (ready to be sold) and incomplete (work in progress).

<b>Cost of sales is:</b>	
Value of stock (raw materials)	
+	
Materials bought in this time	
-	
Value of stock at end of time	
+	
Direct costs related to production (wages, power etc)	
+	
Work in progress	
+	
Value of products at start of period	
-	
Value of products at end of period	
=	
Costs of production/cost of sales for period	

**Don't forget:** your stock of raw materials is valued at what you paid for them, even if that is more or less than what you could get for them.

## Calculating Gross Profits

$$\text{Sales} - \text{Cost of sales} = \text{Gross profit}$$

$$\text{Opening stock} + \text{Purchases} - \text{Closing stock} = \text{Costs of sales}$$

$$\text{Gross profit} / \text{Sales} \times 100 = \text{Gross profit margin (\%)}$$

## Calculating Depreciation

Equipment wears out and has to be replaced. That costs the business money. You should allow for that. For instance, you may buy a computer for £1,000 and have to replace it in 5 years. To get the same amount of money ready for that, you'll have to put aside £200 per year.

Also, how much is that computer worth right now? If it's only going to last a few years, it will be worth less each year.

## How Do You Work Out Depreciation?

### 1: The Straight Line Method

It's the original cost or value of the computer divided by its life in years. A computer with a value of £1000 and a life of five years loses  $\text{£}1000 / 5 = \text{£}200$  per year. That's how much it depreciates.

2: Or, we could allow 20% off the (decreasing) value each year. That means it's 20% off £1,000 this year, and 20% off £800 next year...



## Accruals And Pre-payments

Looking at your bank balance now, you'll know that you may have paid for things in advance - for instance, the insurance policy you took out in January will last clear through to December.

That's a **pre-payment**.

Also, you'll be receiving goods or services **now** that you haven't paid for yet - for instance, heat and light used in January may not have to be paid for until the end of March. That's an **accrual**.

To get a fair picture of your finances, you need to **add in** pre-payments to your assets and **take away** accruals.

## Profit And Loss Account

Using all the totals you can get from the above calculations:

**Sales** take away **cost of sales** equals **gross profit**

**Take away** running costs and expenditure in this period (allowing for pre-payments and accruals) equals **net profit**

Now you can answer that question, 'Are we making a profit?'

You look at the amounts coming in, and going out, in this time period, and you've got the answer. If you do this **regularly**, you will be informed as to the health of the project.

**Are things getting better?**

**Are things getting worse?**

Combined with information in your cash flow forecast, you can check on progress and have time to act, if things are going wrong.

# ANALYSING PERFORMANCE - THE BALANCE SHEET

The balance sheet for your business gives you a 'snapshot' view of what the business is worth, its assets and liabilities, at one particular moment in time. Usually this is at the end of the financial year and allows you to compare the situation of the business from one year to the next but you can also draw up quarterly or even monthly balance sheets. The balance sheet should be produced once your trading profit and loss account has been drawn up.

## The Balance Sheet

A balance sheet shows:

- The financial situation of the organisation at a particular time
- The change from one period (usually a year) to the next
- How much money is in the business
- The balance of assets Vs liabilities and fixed assets Vs liquid assets

A balance sheet is concerned with 3 things:

- Assets
- Liabilities
- Capital

It will include:

### 1 : Assets

All assets must be given a value.

They include:

**Fixed Assets** : Land, property, plant, machinery, fixtures and fittings, equipment, vehicles

**Current Assets** : Stock, work in progress, unpaid invoices (debtors), cash

### Fixed Assets - Valuable Items Not Easily Turned Into Cash

The balance sheet should include all fixed assets - the value of buildings, land, large machinery and so on - minus any depreciation that period that you have already allowed for in your profit and loss account. For fixed assets this must be what the asset could be sold for - its 'book value'. Land and property often has an increasing book value because the value of such things generally rises. Other assets are valued at what they could be sold for and usually have a decreasing value as they are used and wear out. This is called 'depreciation'.

### Current Assets - Cash Or Things Whose Value Can Be Realised More Easily

The value of fixed assets is usually estimated but can be very accurate. Not so 'current assets'. Their value is only partly 'real'.

The main kinds of current assets are:

- Cash
- Debtors
- Stock
- Work In Progress

**Cash :** The figure for your cash should be the final balance in your cashbook at the end of the period. If you are preparing a forecast balance sheet then the cash figure will be the closing balance from your cash flow forecast.

**Debtors :** Debtors are the value of money or debts owed by your customers at the end of the period (although you may have to write off a proportion of old or bad debts that you expect will never be paid).

**Stock :** This figure will be the value of the stock that you have at the end of the year, not yet sold. Usually this is based on what you paid for it but in some situations the

stock will either have gained (appreciated) or lost (depreciated) in value, for instance if there's a shortage and you could sell it for a much higher price?

**Work In Progress :** This is the price of stock plus the value of work so far; but suppose a customer has cancelled an order?

## 2 : Liabilities - The Value Of Debts Owed By The Business

Examples of kinds of liabilities are:

- Loans - only count the residual amount owing not the original amount
- Bank overdrafts - this will either be the amount you are overdrawn or the closing balance of your cash flow forecast (if negative)
- Creditors - money you owe which you will have to pay
- Tax payable - your accountant can calculate the tax liability based on the year's performance and change in the value of your assets and liabilities.

Liabilities are either 'long-term' or 'short-term'.

- Long Term Liabilities - Loans (the remaining amount), bank overdraft
- Short Term Liabilities - Money you owe on bills not paid (creditors) or accruals\*

\* Accruals are the value of things that you have received but not yet paid for. It could be the value of power from the power company, or materials that have yet to be invoiced for or rent on the building which you pay in arrears.

## 3 : Capital

Capital is the money raised so far from 'start-up' finance and 'profits' on trading year after year.

## Drawing Up A Balance Sheet

- 1 : Add up the (depreciated) value of all fixed assets (premises, machinery, equipment) and enter the figure on the balance sheet. As part of this procedure, you may want to list the fixed assets owned by the organisation and enter their individual values on an 'asset register'.
- 2 : You may wish to enter the value of these assets at the start of the year and deduct depreciation to create a 'net asset value'.
- 3 : Add up the value of all current assets (cash, stock, work in progress and debtors) and enter the figure on the balance sheet.
- 4 : Add up the value of all liabilities (loans, overdraft, creditors). Don't forget to include any tax owed.
- 5 : Subtract the value of liabilities from current assets. This gives you a figure for 'net current assets' which is a useful measure of just how secure the organisation is financially. If all your debts fell due immediately, could you raise enough money by using your current assets.
- 6 : Add the fixed assets to net current assets to create a figure for 'total net assets'. If the final figure is positive, the organisation is 'solvent'. If negative, the organisation is 'insolvent'.
- 7 : Now draw up a statement of where the total net assets have come from.  
This would include:
  - Money invested at the start of the business
  - Grants and loans made when the business started (their full value)
  - Reserves (profits kept in the organisation year after year)
  - Profit (or loss) this year

## What Can The Balance Sheet Tell You?

A balance sheet can tell you how much the business or organisation is worth. For community-based organisations it also can tell you how much the community has increased the assets under its control and therefore how powerful or healthy it is.

This can only ever be a 'general' figure, showing the underlying value of the funds in the organisation at that particular time. No-one can safely predict the future. But compared with previous years it is a simple measure of performance.

## Example Of A Balance Sheet

	This Year	Last Year
	£	£
<b>Fixed Assets</b>		
Property	12,000	14,000
Plant and machinery	10,000	12,000
Motor vehicles	6,000	9,000
Office equipment	3,000	4,000
<b>Total fixed assets</b>	<b>31,000</b>	<b>39,000</b>
<b>Current Assets</b>		
Stock	8,000	6,000
Debtors/Work in progress	2,000	4,000
Cash	1,000	800
<b>Total current assets</b>	<b>11,000</b>	<b>10,800</b>
<b>Total assets (fixed + current assets)</b>	<b>42,000</b>	<b>49,800</b>
<b>Current Liabilities</b>		
Creditors	3,000	13,000
Overdraft	4,000	8,000
Loan	1,500	5,000
<b>Total liabilities</b>	<b>8,500</b>	<b>26,000</b>
<b>Net assets (total assets - total liabilities)</b>	<b>33,500</b>	<b>23,800</b>
<b>Represented By</b>		
Grants invested	20,000	20,000
Accumulated	13,500	3,800
<b>Total</b>	<b>33,500</b>	<b>23,800</b>

1 : How much profit did the business make this year?

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2 : What are the main positive things that have changed about the business?

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3 : What are the main negative things that have changed about the business?

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The net assets should always balance off against the value of the funds invested originally and the accumulating profits.

If the value of the net assets is positive the business is 'solvent' and can carry on trading. If it is negative the business may be 'technically insolvent'; in this case it can carry on trading but may have to cease trading if there are no sound prospects for recovery.

Answers can be found in the appendix on page 423

# ANALYSING PERFORMANCE

## The Profit And Loss Account

The profit and loss account (also called the 'income and expenditure account' or the 'trading account') is the basic measure of the financial performance of an organisation. It tells you:

- What the value of the work done was
- What the value of goods, labour and services used to do that work was
- Whether the value of the work done was more or less than the value of what was put in to it i.e. whether you made a profit or a loss.

The profit and loss account **does not** tell you how much money the organisation received and how much money was spent since at a given point in time money will be owed by the organisation to its creditors and by debtors to the organisation.

**Include** in the profit and loss account:

- All money paid out (wages incl. tax and national insurance, overheads, etc.)
- All money received (sales, rents, grants etc.)
- All unpaid invoices generated in the period covered
- All unpaid invoices received in the period covered
- Depreciation of equipment

**Do not** include in the profit and loss account:

- Loans (either loans received or loan repayments), but do include interest
- VAT

## Setting Out A Profit And Loss Account

The profit and loss account should show the period covered, the sales (and other income), and the directly attributable cost of the sales. For instance, a restaurant would show the sales from meals and the cost of the food purchased to make the meals.

$$\begin{aligned} &\text{Sales} - \text{Cost of sales} \\ &= \text{Gross profit} \end{aligned}$$

The profit and loss account should then list all other items of expenditure.

$$\begin{aligned} &\text{Gross profit} - \text{Expenditure} \\ &= \text{Net profit} \end{aligned}$$

If the organisation has more than one division, then the profitability of each could be measured by drawing up separate profit and loss accounts.

The profit and loss account is most useful when **comparing** departments or periods and so spotting trends, or assessing the impact of changes made to the way the organisation operates.

## The Profit And Loss Account

A profit and loss account always covers a particular period. This may be a day, week, month, quarter, half-year or yearly period. To prepare a profit and loss account you need to know the following information:

- Opening stock at the start of the period (valued at cost price)
- Total value of purchase invoices you receive for the period.
- The cost price of stock in hand at the end of the period.
- The rate of depreciation of equipment.
- The value of all **pre-payments** (things you have paid but not received full value of, like insurance paid in advance) and **accruals** (things you have received but not paid for (like telephone use or heating)).

## Terminology

**Cost of sales** is the cost of selling goods or services. It will include the cost of materials and may also include direct wages costs or power costs.

$$\begin{aligned} \text{Cost of sales} = \\ \text{Stock at start} + \text{Purchases} \\ - \text{Stock left at end} \end{aligned}$$

**Gross profit** is the profit made by selling goods or services **before** deducting the other (fixed) costs of the business.

$$\begin{aligned} \text{Gross profit} = \\ \text{Income from sales} - \text{Cost of sales} \end{aligned}$$

**Percentage cost of sales** measures the ability of the business to cover its costs. Many businesses are expected to have a higher or lower '% cost of sales' and people appraising them will judge a business proposal by these expectations.

$$\frac{\text{Gross profit}}{\text{Income from sales}} \times 100 = \text{Percentage cost of sales}$$

**Stock turnover** is another way in which bank managers (for instance) or other financial experts analyse business performance. It's the rate at which goods are being sold. It is calculated by:

$$\begin{aligned} & \frac{\text{Cost of sales}}{(\text{Opening stock} + \text{closing stock}) / 2} \\ & = \text{Rate at which stock has turned} \end{aligned}$$



# ANALYSING FINANCIAL PERFORMANCE

Analysing financial performance and comparing it with previous performance can help identify weaknesses in an organisation's performance and suggest solutions. Generally this is done by calculating what are called 'ratios' in three key areas: profitability, efficiency and finance. In each case, you are aiming for a higher figure each year.

## Profitability Ratios

$$\text{Gross margin} = \frac{\text{Gross profit}}{\text{Sales}} \times 100$$

$$\text{Net profit margin} = \frac{\text{Net profit before tax}}{\text{Sales}} \times 100$$

$$\text{Return on net assets} = \frac{\text{Net profit before tax}}{\text{Assets - current liabilities}} \times 100$$

## Efficiency Ratios

$$\text{Net asset turnover} = \frac{\text{Sales}}{\text{Net assets}}$$

$$\text{Stock turnover} = \frac{\text{Sales}}{\text{Stock}} \quad \text{or} \quad \frac{\text{Stock} \times 365}{\text{Sales}}$$

## Finance Ratios

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{The acid test} = \frac{\text{Liquid assets (debtors and cash)}}{\text{Current liabilities}}$$

$$\text{Net worth} = \text{Total assets} - \text{Liabilities to outsiders}$$

# PROFIT AND LOSS FORECAST

A profit forecast should show what level of profit you expect your business to produce at the end of the period.

A profit and loss forecast or account is not based on money or cash alone but rather on the value (positive or negative) of what's been going on in the business during a particular period. For instance, a quarterly profit and loss account would include the value of a sale or an order undertaken in the period even if the customer had not paid for it. Similarly, the costs of running the business should include (for instance) a calculation of your power costs even if the business hasn't paid its utility bill.

The profit and loss calculation is fairly simple at heart, though can be complex for large businesses. It's based on the following formula:

Total income	100
-	-
Direct expenditure	20
=	=
Gross profit	80
-	-
Overhead expenditure	50
=	=
Net profit before tax	30

A forecast will obviously be a 'guesstimate' but the figures used should be based on real information and hard facts about costs, processes, production levels and so on.

A profit and loss account will use actual figures, apportioning costs to particular periods and particular activities. You should always keep notes on how you have worked out the profit and loss statement.

## Notes On Producing A Profit And Loss Forecast

- Estimate the amount of income and expenditure you expect to generate this month. VAT should be excluded from these figures if you are, or expect to be, VAT registered.
- When estimating sales take into account seasonal variations such as Christmas, bad weather and holiday periods etc. You should analyse your sales by product groups as they may have different markets and therefore different sales patterns. Sales usually will build up slowly. Be realistic rather than optimistic.
- Show any other business income expected e.g. grants etc. If you're aiming for full financial viability, calculate the profit and loss before receiving any grant revenue - its shows you how far you have to go or whether the business will ever be financially sustainable.

- Calculate the total of all the income expected but don't include loans.
- Show all significant expenditure items separately. Items such as rent may be paid quarterly or half yearly, but the figures should be spread over the months involved. In this forecast you are concerned with when the income or expenditure is generated, not when it is paid.
- Unless you're producing a forecast covering all income and expenditure (for instance an annual forecast) remember that you may be spending a lot of money on stock or materials in one period that you won't be using until later. For, say, quarterly profit and loss forecasts or accounts, only count the value of the sales and expenditure related to the activity of the business in that quarter.
- Include an estimate of the wear-and-tear on equipment and premises caused by the business activity. This is usually calculated as the 'depreciation', the loss of value of an asset over time - if you estimate that a piece of machinery may last five years before it is worn out and needs replacing, then the depreciation per year is 1/5th of its value.
- Calculate the total of all expenditure expected but don't include loan repayments, only the interest paid on the loan that period: it's a cost of the business like all the others.
- Calculate the difference between the monthly income and expenditure. Where expenditure exceeds income (i.e. a loss) these figures are usually shown in brackets.

## Depreciation Of Fixed Assets

Fixed assets are those with a long life expectancy and which would have a value in the open market. Those can include:

- Equipment
- Pictures and fittings
- Premises
- Land
- Machinery
- Motor vehicles etc.

The total cost of these assets should not be put in the profit and loss account. The cost should be spread over the number of years you expect the assets to last for. This process of spreading the cost is known as 'depreciation', or in some cases capital allowances.

## Profitability Forecast Year 1

		Total 12 Months Forecast
	Sales:	
1	Cash sales	
2	Credit sales	
<b>A</b>	<b>Total sales (1 + 2)</b>	<b>£</b>
B	Materials/Stock bought	
<b>C</b>	<b>Gross profit (A - B)</b>	<b>£</b>
	Overheads:	
3	Heating and lighting	
4	Printing, stationery and postage	
5	Insurance (excl. vehicles)	
6	Telephone	
7	Advertising and promotions	
8	Transport costs : licence/insurance	
9	Transport costs : petrol	
10	Transport costs : repairs/other	
11	Professional fees	
12		
13		
14		
<b>D</b>	<b>Total overheads (lines 3 - 14)</b>	<b>£</b>
<b>E</b>	<b>Net profit before drawings and National Insurance (C - D)</b>	<b>£</b>

# PROFIT AND LOSS CALCULATIONS

## Exercise 1 : Debtor And Creditors

The first step in drawing up a profit and loss account for a particular period is to work out the **value of sales** in that period. Costs and bills incurred in other periods are excluded as are advance payments for future work.

When a business makes use of goods and services in a trading period but has not yet paid for them, the value of these goods (which they have used to add value to their products) must be deducted from the value of any sales made. People or organisations you owe money to are known as **creditors**.

When a business has sold goods or services but not yet received payment, then the value of these goods can be added to any sales made. People or organisations that owe you money are known as **debtors**.

Calculating the **value of sales** is complicated by the fact that not all payments, either from the business to its **creditors** or to the business from its debtors, will have been made in a trading or accounting period. Some invoices for work done will be sent out at the end of the month and will not yet have been paid. Some bills will have been received for goods or services used to run the business but payment will not have been made.

$$\text{Value of sales (turnover)} = \text{Value of sales} + \text{Debtors} - \text{Creditors}$$

Try this exercise.

ABC Engineering manufactures metal pipes for the water industry. It had apparent sales, shown in its ledger, of £25,000 in the quarter. It owes £900 for power, £2,000 for materials and £3,000 rent. It has recently invoiced three customers for the supply of pipes with the invoices valued at £2,500, £1,700 and £2,200.

1 : What was the actual value of ABC Engineering's sales?

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Suppose it owed an additional £1,200 rates and £900 to a packaging company and that an outstanding invoice from the previous quarter of £5,000 had finally been paid in this quarter.

2 : What is the new value of ABC Engineering's sales?

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Answers can be found in the appendix on page 424

## Exercise 2 : Sales And The Cost Of Sales

Once you have calculated the **sales** for the period you then need to calculate the cost of generating the sales. This tells you the real value of the business' activities in the period. It is common when drawing up a profit and loss account to calculate the **gross profit** on selling goods or services before going on to calculate the **net profit** or **pre-tax profit**.

The first step in calculating **gross profit** is to calculate the **cost of sales**. This is calculated as follows:

$$\text{Cost of sales} = \text{Stock at the start of the period} + \text{Purchases} - \text{Stock at end}$$

**Note** that when calculating the **cost of sales** we use the **cost** value of stock. We may also wish to add in **direct costs** of making and selling goods such as labour, marketing, packaging and power.

**Gross profit** is calculated as follows:

$$\text{Gross profit} = \text{Value of sales in the period} - \text{The cost of sales}$$



Try this exercise.

ABC Engineering manufactures metal pipes for the water industry. At the start of the trading period it had stock of metal valued at £10,000. It bought extra stock valued at £5,500 and had stock of £3,000 at the end of the period. The value of its sales was £35,000. ABC Engineering includes power and direct labour costs in its **cost of sales**. These were £1,000 for power and £8,000 for labour.

1 : What was ABC Engineering's gross profit?

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Suppose ABC Engineering had bought and used additional stock worth £12,000 in the period.

2 : What would it's gross profit have been?

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Answers can be found in the appendix on page 424

### Exercise 3 : Loans And Depreciation

A profit and loss account measures changes to the **value** of things as a result of trading or carrying out other activities. It does not measure just how much money was earned and how much was paid. It also measures hidden costs (like **depreciation** of equipment) and additional costs (like **loan charges**).

Try this exercise.

ABC Engineering makes pipes for the water industry. It owns 4 machines each valued at £5,000. It's gross profit in the current quarter was £3,000 but now depreciation of the machinery must be deducted. It is estimated that each of the machines will last another 10 years.

1 : How much depreciation was there and how does this affect the gross profit?

Depreciation	=	$\frac{\text{Value of machinery now}}{\text{Number of periods of life left}}$
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2 : Therefore gross profit = £3,000 - ?

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Suppose ABC Engineering’s equipment was calculated to have 15 years of life.

3 : What would be the new figure for depreciation and gross profit?

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Suppose it was proposed that an increase in production would mean extra gross profits of £3,000. But the oldest machine would have to be scrapped and a machine costing £15,000 with a life expectancy of 15 years would have to be bought.

4 : Would ABC Engineering make a profit this quarter?

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Answers can be found in the appendix on page 425

## Exercise 4 : Dealing With Loans In A Profit And Loss Account

It is very easy to treat loan repayments as part of the cost of the business. After all, money is going out of the bank account, isn't it?

In fact, a loan is **not** treated as part of the profit and loss account. But the **cost** of a loan (interest and service charges) is. This is because making a monthly repayment hasn't really affected the **value** of your activities. But paying interest (which is a cost to the business) does.

Try this exercise.

ABC Engineering makes pipes for the water industry. It's **gross profit** in the current quarter was £3,000 but now it must make a loan repayment. It currently has loans worth £15,000 and must repay £625 per month and pay interest and service charges of £175 per month.

1 : What would ABC Engineering's net profit be after deducting these costs?

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Suppose ABC Engineering renegotiated its loan so that it was repaying £15,000 over 5 years instead of 3 years. Repayments would now be £417 and interest and service charges £183 per month.

2 : What would ABC Engineering's net profit be after deducting these costs?

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Suppose a machine had to be bought with a new loan of £15,000 over 5 years. ABC Engineering now has loans of £15,000 costing £625 in repayments and £175 in interest per month and a loan costing £417 in repayments and £183 in interest per month. The new machine increases gross profit to £6,000 gross profits of £3,000.

3 : What would ABC Engineering's net profit be after deducting these costs?

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Answers can be found in the appendix on page 425

# THE BALANCE SHEET EXERCISE

Wood 'N' Tops a community-based organisation is preparing a balance sheet for the Local Authority. The following financial information is available:

## Fixed Assets

There are fixed assets of £19,960 (mostly wood-working equipment and fixtures) and these are to be depreciated over 5 years by the 'straight-line method'.

## Current Assets

There is currently £4,917 in the organisation's bank account. The Local Authority owes £1,700 from this year's grant and there is stock of £500 unsold furniture and furniture undergoing construction valued at £600.

## Current Liabilities

Wood 'N' Tops owes the following bills: £708 to an equipment supplier, £280 to the electricity company, £400 rent to the Local Authority and £300 wages. The last quarter's gas bill was £205 but no invoice has been received. There is a loan of £2,055 outstanding.

## Reserves

As well as cash in the organisation's current account, it holds £13,182 in a deposit account as a general reserve.

## Profits

The organisation made a profit on the year's trading activities of £7,005.

**Note:** You may wish to substitute real information from a community-based organisation or enterprise you are involved with for the purpose of these exercises.

## The Balance Sheet

Balance Sheet Of _____	For The Period Up To 31/03/20____
	£
<b>Fixed Assets</b>	
Capital equipment	
Depreciation	
<b>Total fixed assets</b>	£
<b>Current Assets</b>	
Stock	
Debtors/work in progress	
Cash	
<b>Total current assets</b>	£
<b>Total assets (fixed + current assets)</b>	£
<b>Current Liabilities</b>	
Creditors	
Accruals	
Loans outstanding	
<b>Total liabilities</b>	£
<b>Net assets</b> (total assets - total liabilities)	£
<b>Represented By</b>	
Members loans	
Reserves brought forward	
Profit/loss	
<b>Total</b>	£

Answers can be found in the appendix on page 426

# 6.4

## MEASURING VALUE ADDED

- Value Added - Appropriate Measures For Social Enterprises
- Value Added Exercise
- Measures Of Added Value Exercise



# VALUE ADDED - APPROPRIATE MEASURES FOR SOCIAL ENTERPRISES

Social enterprises should assess their performance in both financial terms and according to their stated aims. They may also want to decide if a new venture or changes to working arrangements will bring benefits. Traditional measures of financial performance may not be appropriate for these kinds of organisations.

Business performance is measured by 'profitability', profit made compared to resources used. Social enterprises must make a surplus but cannot be judged by net profits made. For instance, when members use wealth created to increase benefits (e.g. increasing wages) profits apparently go down.

## Value Added

'Value Added' is the amount left over after all material and overhead costs have been deducted from sales, leaving an amount for wages and social benefit. This seems similar to 'Gross Profit'. However, Gross Profit typically includes labour costs in the calculation. The owner can easily see how wage levels affect gross profits and act to drive them down. In contrast, Value Added calculates the amount of wealth left to the organisation for its true purposes: wages and/or social benefit.

## The Return To Labour

Performance has usually been measured by calculating the 'Return To Capital', how much profit is made from money used. In co-operatives this measure must be

the return to labour or 'Value Added Per Worker', basically wages and other measurable benefits. In community enterprises 'Value Added' might measure money spent on socially beneficial activities (training, volunteer expenses, childcare, transport etc.

## Measuring Value Added

Calculating value added does not help the organisation compare its performance with other co-operatives or traditional companies which may have different levels of skills or work in different sectors. Value added can provide a measure of performance over time or determine the effects of proposed changes. There are a series of measures that can be used:

- Value added per worker/average gross wage
- Value added : turnover  
Wealth used for wages compared to the total turnover of the organisation
- Value added : net assets  
How well resources are being used to generate wealth
- Net assets per head  
Measures the increasing capitalisation of the organisation or the increase in the quantity of assets under community control in community enterprises.

## Statement Of Value Added

### Wood 'N' Tops Community Enterprise

Wood 'N' Tops, a community-based furniture project for young people with special needs operates at a very low level (Year 1) and creates very little Value Added (£500). It gets a grant to buy new equipment which enables it to triple its sales (from £6,000 to £18,000), employ a part-time workshop supervisor and increase the number of trainees it has from 5 (costing £500 pa in expenses) to 12 (costing £1,200 pa). The changes in Value Added in Year 2 are significant (see below).

	Year 2	Year 1
	£	£
Grant	0	6,000
Sales income	18,000	0
Other revenue	2,000	1,500
<b>Total</b>	<b>20,000</b>	<b>7,500</b>
Cost of materials	-3,000	-1,000
Overheads	-7,000	-6,000
<b>Total</b>	<b>-10,000</b>	<b>-7,000</b>
<b>Value added</b>	<b>£10,000</b>	<b>£500</b>
<b>Distribution</b>		
Net wages	8,000	0
Volunteer/trainee payments	1,200	500
Social benefit	300	0
Reserves	500	0
<b>Total</b>	<b>£10,000</b>	<b>£500</b>

**Value Added Per Worker**

Year 1 = £10

Year 2 = £200

The higher the amount the more money is being used to benefit members.

**Value Added : Turnover**

Year 1 = 1 : 15

Year 2 = 1 : 2

If the ratio is low, the more wealth is being created from a given level of economic or other activity.

**Value Added : Net Assets**

Year 1 = 1 : 6

Year 2 = 2 : 1

The lower the ratio (or if value added is higher) the better since this measures the way in which assets are being used to create wealth.

**Net Assets Per Head**

Year 1 = £60

Year 2 = £170

The community of 50 trainees (members or beneficiaries) now controls £8,000 of capital equipment and £500 in cash reserves, compared to only £3,000 of assets originally. The more assets owned and controlled by the community the better.

**Other Measures Of Performance In Social Benefit Enterprises**

**Revenue** : Price multiplied by quantity sold or amount of activity compared to income received (whether sales or subsidy), including measures of quality and customer satisfaction.

**Price** : Comparison of prices charged by alternative suppliers enabling an assessment of community benefit. Lower prices equal higher real incomes for individuals, stable prices give greater economic strength to the community.

**Delivery** : Customer complaints set out in a table of commonly occurring complaints against quantity and brief details of any actions taken.

**Productivity** : Look at production methods and quantity produced per person.

**Output - Subsidy Ratio** : What is the value of the work done in terms of the value of any subsidy received? Does purposeful subsidy (e.g. employment creation) actually work? For instance, Wood 'N' Tops could reduce productivity per person to increase employment for others using the subsidy.

**Real Cost (Of Goods)** : The most basic measurement would be the actual money cost compared to the environmental and social effects on the community of obtaining goods from particular suppliers. Could another social benefit organisation supply these goods?

**Distribution** : Is the value added created being used properly via decent wages, good terms and conditions, local employment, flexible working, access to training opportunities and other benefits, democratic procedures etc?

**Balance Of Payments** : Is more money flowing into the community than out? i.e. more goods sold outside the community than bought in? Are there more subsidies received than taxes paid out? Are more people employed from the local community than from outside?

# VALUE ADDED EXERCISE

Wood 'N' Tops, a community-based furniture project for young people with special needs, has income and expenditure as follows:

<b>Income</b>	
Sales of toys	£5,000 to local shops / £3,000 to local organisations
Sales of furniture	£8,000
Grant	£3,000
Donations	£500
<hr/>	
<b>Expenditure</b>	
Salaries	£10,000
Materials	£3,000
Trainee expenses	£2,000
All other overheads	£4,000
Donation to national charity	£300

Statement Of Value Added	£	Traditional Profit Account	£
+ Sales income		+ Sales	+ £16,000
+ Other revenue		- Direct costs	- £15,000
- Cost of materials			
- Overheads			
- Grants/donations			
Value added	£	Gross profit	£1,000
Distribution		Other costs	
+ Net wages		Overheads	- £4,000
+ Volunteer/ trainee payments		Donations	- £300
+ Social benefit			
+ Reserves			
Total Value Added	£	Profit/(Loss)	(£3,300)

1 : What do you think a 'traditional' business would do when presented with these figures?

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2 : Does a 'value added' statement make it easier to justify the grant to Wood 'N' Tops?

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Answers can be found in the appendix on page 427

# MEASURES OF ADDED VALUE EXERCISE

## Exercise 1

Wood 'N' Tops was a wholly grant-funded organisation (Year 1) but took a decision to buy equipment to make higher quality wood products which it can sell to local and national charities. Using the figures for Year 2 from the earlier Statement of Value Added, calculate the ratios below. You will need the following additional information:

- a) It spends £5,000 on new equipment to add to £3,000 of equipment held already and
- b) The project trains 50 young people in both years but increases its payments for expenses from £10 per trainee to £60 per trainee.

## Exercise 1a : The Return To Labour

How much is being used to benefit labour (employees and trainees) in Years 1 and 2?

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## Exercise 1b : Value Added And Turnover

What is the ratio of Value Added : Turnover in Years 1 and 2?

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### Exercise 1c : Value Added And Net Assets

What is the ratio of Value Added : Assets Held By The Project in Years 1 and 2?

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### Exercise 1d : Net Assets Per Head

What is the value of assets held per trainee (the members or beneficiaries) in Years 1 and 2?

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Answers can be found in the appendix on page 428

# 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)

# 7.3

## MANAGING RISK

- Managing Risk



# MANAGING RISK

## What Is Risk Management?

All of us encounter risks in everything we do - driving a car to work or even shopping in the supermarket. Most of us try to reduce the likelihood of risk affecting our everyday activities.

A risk is the chance of something happening as a result of a hazard or threat, which will have a negative impact on your organisation. Risk arises out of uncertainty. It is measured in terms of the likelihood of it happening and the consequences if it does happen. Some risks can be insured against, fire or theft for example. Others such as low demand for your product or service can not.

Risk management is a process used to avoid, reduce or control risks. There should be a balance between the cost of managing risk and the benefits you expect from taking that risk. When you set out on a car journey, you are subconsciously going through a process to minimise the risks you may meet. For example, you check the car's fuel level to ensure you avoid the risk of running out of petrol before you reach your destination. This is risk management. Ignoring the risk that your car may run out of fuel puts your car at risk and may also delay your arrival at your destination.

Ignoring the risks which apply to your organisation and activities or the events you have planned could impact on the following:

- Health and safety of workers, audiences, customers, volunteers and participants

- Your reputation, credibility and status
- Public and customer confidence in your work
- Your financial position
- Your assets, equipment and the environment

A systematic approach to managing risk is now regarded as good management practice.

## Risk Management Process

The process of managing risks involves a series of steps. At each step, you should consult with others to get their points of view. Each situation is different and requires its own risk management strategy. The risk management process is:

**Establish Context** - think about the environment in which your organisation operates, outcomes that you want to achieve and identify internal and external partners and stakeholders

**Identify Risks** - arising from all aspects of the environment you established in step 1. The aim should be to develop of complete list of the risks and what each involves.

**Analyse Risks** - decide on the likelihood and the consequences of the risks identified. The level of risk should be analysed in relation to the control measures in place.

For example, the risk control measure for a wet, slippery floor may be to put up a sign warning the audience about it. There is still a risk remaining that a patron may slip on the floor.

**Evaluate Risks** - compare the level of risk with the risk criteria established in steps 1 and 2. Decide whether risks are acceptable or not.

**Manage Risks** - the options available to you are:

- **Avoid The Risk** - For example, an organisation may move an event from an unrestricted open public space to a venue to minimise the risk of participants being injured and secure insurance cover
- **Control The Risk** - For example, attaching non slip strips to a walkway will reduce the risk of people slipping and injuring themselves
- **Transfer The Risk** - For example you may decide to hire a professional conference organiser rather than take the risk of organising an event yourself
- **Retain The Risk** - For example, you have reduced the likelihood of a risk occurring by training your volunteers on how to show visitors around the premises. There is still a low level risk remaining for a visitor to have an accident. You may decide to retain this small risk.

**Communicate And Consult** - ensure that you communicate and consult with all of the identified partners/stakeholders to ensure that you have considered all risks.

**Monitor And Review** - constantly monitor and evaluate the strategies that you are using to manage risk. Risks do not remain the same (i.e. can increase decrease/new risks can appear)

## Tips To Manage Risk

### Identify Risk And Have A Plan

For each possible negative event, identify what can be done to prevent the event and develop a contingency plan of how to respond if necessary.

### Offload Risk To A Partner

In many cases an outside partner can assume some of your risk. For example a distributor may be willing to pay some of your upfront costs in return for an increased share of profits.

### Develop Exit Strategies

Know how and when you will close the business if things go wrong. This should include setting evaluation points and triggers.

### Write A Business/Social Enterprise Plan

Business planning in itself helps to reduce your risk by looking at all possibilities including where the organisation is going and how it will get there.

### Conduct A Sensitivity Analysis To Identify Points Of Vulnerability

Estimate your financial outcomes in the worst case on several variables. By knowing the impact and causes of negative events, you can know when they are occurring and manage the most important issues.

### Obtain Legal Advice

Lawyers specialise in reducing risk. Make sure you use lawyers for contracts and issues of corporate structure. Ensure your legal advisor specialises in charity law.

### Use Clear Written Contracts

Don't be vague in contracts or rely on verbal agreements - even for internal agreements. Set clear expectations for each party and include a termination procedure.

### Create A Test Pilot Before Fully Launching A Product/Service

Whenever possible, try your idea on small scale with limited investment. Prove your idea works and use the pilot to improve on your concept.

## Case Study : An Event Risk Management Plan Triathlon Race

Runco Promotions, a triathlon promotions company, is planning a triathlon race on the Gold Coast over the holiday period. The race will host some of the best triathletes from both Australia and around the world competing for prize money and competition points in a summer type carnival.

The organising committee from Runco Promotions is aware that certain legal risks result from running such an event. To protect themselves from legal action from involved parties the organising committee wants to develop an event risk management plan. The event risk management plan is designed to identify, evaluate the likelihood, plan and deal with potential risks in conducting a triathlon event. The main areas of risk include that of risk to spectators, athletes, staff, volunteers and the general public.

Each potential risk will receive a rating according the probability of occurrence, severity of damages both physical and financially to the organising committee. The risks will be grouped into three categories:

**1 : High Risk** - High priority for Runco Promotion management to deal with. Risks likely to contain a high probability of occurrence and substantial financial impact on the organising committee.

**2 : Moderate Risk** - Some impact on Runco Promotions. Likelihood of occurrence is probable. Special attention from management may be necessary to alleviate risk.

**3 : Low Risk** - Minimal likelihood of occurrence and minimal impact on the organising committee of Runco Promotions.

Each risk will also receive an action plan under the following headings:

**Avoid** - Management will choose not to conduct activities with the potential of associated risks.

**Transfer** - Purchase insurance policies in order to transfer the risk of a particular risk occurring.

**Control** - The organising committee will develop policies and procedures to minimise risk.

**Retain** - Self-funding to provide compensation to personnel involved in the event of a potential risk occurring.

Create a risk management plan for the above event placing your risks, likelihood and action/contingency under the following categories : **weather risks, medical risks, security risks, miscellaneous risks.**

## Possible Scenario Answer

The following scenarios outline some of the areas of risk that are evident in running a triathlon and the resultant actions that can be taken to protect the organising committee from legal action.

### Weather Risks

Risk	Likelihood	Action
Lightning	Low	Transfer/avoid
Extreme heat	Moderate	Control/avoid If temperature reaches 38 degrees celsius cancel event
Extreme cold	Low	Control
High wind	Moderate	Control
Large surf	Moderate	Control

### Medical Risks

Risk	Likelihood	Action
Needle stick injury	Moderate	Control/transfer (ie grade the relevant strip of beach each day prior to competition)
Fall of personnel/spectators	Moderate	Transfer
Slip on wet surface	Moderate	Transfer
Marine animal attack	Low	Transfer
Dehydration	Moderate	Control (ie provide numerous drink stations for competitors)
Person being hit by motor vehicle	Moderate	Transfer
Medical emergencies - heart attack	Low	Control
Sunburn	Moderate	Control (ie provide sunscreen purchase stalls for spectators)

### Security Risks

Risk	Likelihood	Action
Crowd crush	Moderate	Transfer
Spectator conflict	High	Control/transfer (ie limit sales of alcoholic beverages to reduce intoxication of spectators)
Athlete protection	High	Control/transfer
Terrorist threats	Low	Avoid
Bomb scare	Low	Avoid
Monetary or physical loss of property	Moderate	Control

### Miscellaneous Risks

Risk	Likelihood	Action
Food poisoning	Low	Control (ie make sure catering meets industry standards)
Drowning	Moderate	Transfer/control
Fire	Low	Transfer
Cancellation of event	Moderate	Transfer

To transfer the risk associated with some of the above elements the committee of Runco Promotions may decide take out some or all of the following types of insurance:

**Comprehensive General Liability** - This policy covers fire, theft and injury, however, the organising committee should also take steps to minimise the chances of these risks occurring.

**Cancellation or Contingency Insurance** - This policy provides coverage for the cancellation of events due to such occurrences as inclement weather conditions or non-appearance of athletes.

**Compensation Insurance** - This policy provides for reimbursement and coverage of all staff, volunteers and officials should these people incur an injury during the event.

# 8.1

## COUNTDOWN TO STARTING THE ENTERPRISE

- Countdown To Launching A Business

# COUNTDOWN TO LAUNCHING A BUSINESS

## 1 : Premises - Have you...

Signed a **lease** or **rent agreement**?

Checked your liability for **business rates**?

Checked whether you need **planning permission**?

Checked whether you need and the premises has, a **fire certificate**?

## 2 : Insurance - Do you have insurance on...

Stock and equipment

Premises and building contents

Loss of trade

Public liability and employers liability

## 3 : Legal Status - Have you...

Adopted a **legal form** for the business?  
Partnership, Company or Co-operative?

Drawn up a set of **rules** or **constitution**?

Checked your **business name**?

Checked the **laws** relating to your business?

Informed the **inland revenue**?

Checked your obligations under **VAT law**,  
contacted the Customs office?

Checked **data protection** laws?

Do you know the legal implications  
if your business fails?

## 4 : Employment - Have you...

Got information on **employee rights** and  
**employer obligations**?

Decided about working hours, wage rates,  
holiday and sickness entitlements, overtime  
and bonus payments?

Drawn up a **written set of terms**  
and **conditions**?

Drawn up a **written employment contract**?

Set up a **paye** system if you need one?

## 5 : Finance - Have you...

Got an **accountant**?

Set up your **book keeping system**?

Set up systems to pay wages?

Found out what records **inland revenue**  
and the VAT man require you to keep?

Made good contact with your **bank manager**  
or **enterprise advisor**?

## 6 : Stationery - Have you...

Printed up or bought in Letterheads?

Receipts? Petty cash slips? Wage slips?

Stock sheets? Order sheets? Wall-planners?

Rota sheets? Things to do sheets?

## 7 : Do you know where to get more help if things go wrong?

# 8.2

## MARKETING AND PROMOTION

- Advertising And Image Making
- Producing A Marketing Plan
- Promoting Community Organisations
- Why Are You Promoting Yourself?
- Generating Publicity
- Selling
- Promotion And Social Marketing



# ADVERTISING AND IMAGE MAKING

Your image is largely controlled by what you do (or don't do), where and when people encounter your organisation and who is receiving the information and in what way. So when thinking about advertising yourselves or trying to create a positive image, you need to think about the following things.

## Creating An Image

When creating an image, you can make use of:

- **Logo**
- **Vehicles**
- **Stationery** : Letterheads, continuation sheets, business cards, invoices, statements, envelopes, franking, stamps, email, e-business cards
- **Signs** : Office signs, shop fascias, window signs, display cards, ticketing labels, stickers
- **Publicity** : Adverts, leaflets, price lists, sponsorship material
- **Presentation** : You, your equipment, your vehicle, your operations

Image is created not just by what you say but how you do things. For instance, answering phones promptly says one thing, being unable to help a caller say another. Getting to know your customers says one thing, creating distance and bureaucratic walls say another.

## Planning Your Advertising

Having looked at a number of options for advertising and promotions, you need to decide which ones you might use. Keep things simple and consistent. Remember that you are an advert for your business. Make your choices according to what you can afford (budget), what fits with your business (image) and where you have the expertise i.e. what you can do yourself.

Choose five or six approaches and list them.

# PRODUCING A MARKETING PLAN

A marketing plan is a key component of a business plan. The contents of the plan will vary depending on the particular business.

The plan should:

- Define customers needs/wants and the benefits they seek
- Clearly define product/services including after sales back up
- Establish the size of the market
- Set promotional strategies and budgets
- Identify how and when targets will be achieved
- Establish your position in the market place in relation to the competition
- Show pricing calculations and reasons for the pricing strategy proposed

You will need to build all of this information into your business plan.

## Marketing The Product Or Service

Remember that marketing and selling are different activities. Your market is the individuals and organisations who buy the business's products or services. Identifying who they are is the function of marketing. Selling is the activity of persuading people to buy the goods or services.

With marketing there are two important questions that should be asked: What is your market? And; What is so special about you? You have to understand who are your customers and then decide what is the advantage that you have that will attract customers to buy from you. There are four key factors in considering this - often called the 4 Ps or 'marketing mix'.

## Marketing Mix

### Product/Service

What is it that you are selling? What is its quality? How will it be packaged or presented?

### Price

This plays a critical role in a marketing strategy and there are three ways you can approach it:

- Cost pricing means that you work out what it costs you to do something and then add a bit for a profit
- You find out what you think the customer will pay
- You discover what the competition is doing and find out the 'going rate'

### Promotion

Products or services need the support of well-devised schemes of promotion. It is a good idea to plan how you will promote what you are selling with leaflets, advertisements in newspapers, etc. Don't do it in a haphazard way but plan it over the year.

### Place

This refers to where the product or service will be made available to the customer. For some businesses this is more critical than for others but it is an important consideration as it directly influences the market you will be targeting.

It is important that all the 4Ps complement each other. You must tailor what you plan to do, to the price you want to charge, and which you believe your chosen customers will pay. Also you should promote your product or service in areas where you can properly provide it to the people you believe will want it.

There has to be a continuous process of marketing planning which involves attracting more customers (market penetration); or making additional uses for your product to attract new customers (market development); or improving the product or service (product development); or moving into different products/services and different markets (diversification).

# PROMOTING COMMUNITY ORGANISATIONS

Marketing and promotion are all about finding, getting and keeping customers.

But who is the customer of a community-based organisation or social business?

The customer is, crudely, whoever pays the wages, usually the funder but also can be stakeholders. Doing what you do well is sometimes less important to your funder or stakeholder than you think.

A community-based organisation often has to face two ways, towards the funder and the service-user. Organisations often fail because they are unable to resolve the competing demands of the funder and the user. The funder wants a low-cost service, the user (and you) want the best service! Providing something that is high-value and low-cost requires hard decision-making and good management. If members of the organisation resist changes needed to 'keep the customer satisfied', the organisation may eventually lose the funder's support. Additionally, community organisations often have only one or two customers. Marketing is easier but you are totally dependent on the funder's goodwill and continued support.

Organisations must also market to the user. Most rely on word of mouth or recommendations from existing users. How you promote your service to the user must meet the user's needs, be simple common-sense, make sensible use of resources, monitor results (particularly the cost-effectiveness of advertising) and work to increase awareness and understanding of your role.

## Resources And Conditions Necessary For Successful Promotion

- Appropriate skills must be matched to the organisation's resources, people and time
- Appropriate information must be available
- A receptive audience is needed (they have to like/trust you)
- A SWOT analysis so you know what will stop you succeeding
- Your aims must match the user's needs
- Pre-implementation preparation and research

## Promoting The Organisation

### Typical Outreach Strategies

- Schools and educational projects
- Surgeries/advice centres
- Targeting particular groups of users
- Community liaison
- Media exposure : newspapers, radio, community service announcement, newsletters
- Mutual support by other agencies, and networking
- Using colleges, information points, libraries
- Using associated organisations
- Training, foundation and taster courses/seminars
- Social centres, careers offices, other outlets

## Useful Strategies For Different Types Of Outreach

### Educational Outreach

Use real life examples, offer free incentives, do familiarisation and awareness days, use mediated outreach, provide information, offer rewards, get feedback.

### Employment Outreach

Offer clear benefits, use a hard sell approach, get your timing right, make sure you are hitting the right locations, target your audience.

### Promoting Your Organisation

Build links, do networking, image-building, exhibitions, appropriate events, high profile shows and other events.

### Targeting Key Players

Identify key decision-makers and their needs, use appropriate forms of outreach for these decision-makers, get your presentation right, do information and analysis.

## Community Enterprise Marketing

If you are unable to sell, then your business will decline and fade away. You have to know your market and with community enterprises there is a 'market' in two directions. Firstly, there is the obvious market consisting of potential customers and those that will fork out the money to buy whatever it is you are selling. But there is also a second 'market' and that is the wider community in which you are located. As a community enterprise you have to pay attention to both.

## Marketing The Community Enterprise

A community enterprise is different from other businesses as it must be accountable to the community where it is located. The story of the community enterprise needs to be told to members of the local community and we can call this local marketing. In the hurly-burly of running a business it is easy to forget that the local community and particularly the members are stakeholders in the community enterprise. You will want people to know about the community enterprise and get involved. This requires effective communication and you have to:

- Understand who you are wanting to communicate with and what they want from you
- Be aware that you are talking to the most appropriate people (targeting)

You will want to attract other people to your organisation in order that they get involved and there is a useful acronym that you can use to plan to get more community involvement.

It is AIDA, or

**Awareness, Interest, Desire, Action**

Local people should be aware of the community enterprise, be interested in what it does, show a desire to support it, and get actively involved.

## Planning How To Market The Enterprise

In order to be involved with local marketing, it is an idea to write down the name of your community enterprise in the middle of a blank sheet of paper and then surround it with the names of all the groups of people who are affected by what you do. This might include council officials, other organisations, employees, etc. When you have decided who the stakeholders are, prioritise them and then develop ways in which you can communicate effectively with them. Some methods that have been used are: good contacts with the local press; circulation of main points from meetings; community enterprise newsletters; leaflets for customers and other stakeholders; open days; customer involvement and feedback questionnaires; membership drives by knocking on doors; sponsorship of a local club or football team; exhibitions; etc.

The strength of a community enterprise can partly be measured by its community involvement and having a wide membership is an advantage. A director should be identified to be responsible for increasing membership and communicating with the wider community. It may be possible to publish the list of stakeholders and keep a register of members and interested parties.

# WHY ARE YOU PROMOTING YOURSELVES?

## Do You Want To...

- Get orders or generate income?  
If so, how many and what kind?
- Generate enquiries for more information?  
Get buyers or purchasing managers to call? How many?
- Attract visitors to your exhibition/shop /special event? How many?
- Change the image or profile of your organisation in some way? If so, how and in what way?
- Celebrate some positive occurrence or achievement?

## What Are The Aims Of Your Strategy?

- Will you achieve it with your first approach, or will you need to contact your target audience several times?
- How much extra business will you get?
- By when?
- Will you offer any incentives to order or purchase? If yes, what?
- Can you afford it?
- How will you measure the success of your advertising or promotion?

# GENERATING PUBLICITY

Any attempt to generate publicity must be part of a coherent promotional strategy. This depends on answering why, what and who questions.

## Why?

- To create a consistent image
- To identify and reach target groups
- To raise the profile of the organisation
- To change attitudes
- To widen the customer, funder and user base

## What?

Are you trying to say or achieve (a better image, better understanding, awareness or appreciation).

## Who?

Are you trying to reach (existing or potential customers, funders, users or supporters).

The information put out, in whatever form, must match the:

- Needs of the target groups
- Benefits they themselves are seeking
- Types and ways they get information

For instance, when preparing a campaign to **women returners** for instance you might emphasise that volunteering is an alternative way of working, an easy path back to work, offers learning opportunities and a reference from the 'employer'.

Any public relations strategy or advertising campaign will have certain objectives and make certain claims. When advertising a new service, for instance, you will need to be able to answer questions such as:

Is it relevant?

Will it be news?

Can you provide the benefit?

Can you deliver it?

Will it improve the organisation's reputation?



## How To Get Free Publicity

- Many of the articles you read in newspapers and magazines and most news items are provided by public relations firms, advertising agencies, and marketing companies; the media are used to getting such items.
- Using the media carefully, courting journalists, finding out their interests and what they consider important can get you both local and national publicity.
- Local media like a local angle, use it.
- You have to have confidence, personal communication skills and persistence to get your message accepted.
- The media looks for items that will interest their readers/listeners and your message needs to bear that in mind.
- Create human interest stories, if one exists, and make sure the story gets to the media. Even if not about your organisation, it creates goodwill that can be used when you need it.
- Contact various publications to see if they would like articles of interest. Journalists like pre written articles that they can edit and attach their by-line to.
- Make sure you have a good action photo to go with your news item or other message and make sure it goes to the relevant editor.
- When you get coverage, reprint/record it and use it as a promotional device: a letter, poster, exhibition boards etc.

# SELLING

**In order to be a viable business a community enterprise has to sell whatever it does or makes to obtain an income. Without an income your business will cease to exist. Therefore, you have to get out there and get others to buy what you have to offer.**

Not everyone enjoys selling - so find someone who has the skills. A common problem of many small businesses is an inability to sell. No matter how good your product is or how marvellous your service, you have to convince other people. Here are some points worth bearing in mind:

## Presentation

It is important that the goods or service being offered are well presented. Packaging should be pleasing and smart. Services should be offered in a professional way which gives an immediate impression that you know exactly what you are doing.

## Reliability

You must be able to do what you say you will do. Time schedules must be adhered to.

## Promptness

Dealing with enquiries promptly and delivering promptly always gives a good impression. In many cases this will ensure repeat orders.

## Punctuality

Nothing is more irritating than sales personnel continually arriving late for appointments. In the present economic climate small things like this may be crucial in selling.

## Personal Appearance

From the customer's viewpoint, the initial impressions of the community enterprise may well be formed by the personal appearance of the individual doing the selling. It is therefore important for this person to look neat, tidy and smart. This is not to say that smart looking people can sell poor quality goods or services; simply that signs of scruffiness may inhibit potential customers from further investigation.

## Telephone Manner

A telephone call is often the first contact between a business and its customers. A pleasant telephone manner, quickly and accurately answered enquiries all help to create the right image for the community enterprise.

# PROMOTION AND SOCIAL MARKETING

Promotion is generating positive information about your product or service and generating a positive image. But social businesses don't just need to promote their products to customers; they must also promote themselves to funders, supporters, service-users and stakeholders. This is **social marketing**. The main forms of marketing and promotion are:

## Advertising

Useful in introducing a new product or service, special offers or when customers are many or geographically scattered. Advertising often reaches a larger (and uninterested) audience than needed and (consequently) is expensive. Cost-effective marketing begins with thinking about how customers and users get and use information. Focused forms of advertising are community or user newsletters, direct mailings, in store advertising (e.g. posters).

## Packaging (Image)

The way a product or service is presented greatly influences the decision to purchase or use it. You need to know what customers value. If low price is a priority then a 'cheap and cheerful' image might work. If a quality service is required then efficiency is a powerful image. Social businesses often provide services satisfying emotional needs such as for security, recognition, companionship, self fulfilment etc). The 'feel good' factor is powerful in persuading people to buy, use a service or go on providing funding.

## Name (Identity)

This refers both to the name of your organisation and a product or service you offer. A name can carry a lot of information. New campaigns or services are often given catchy, informative names. This is known in marketing as 'branding'. 'Branding' creates an identity between the product, the organisation and certain (hopefully positive) values.

## You

The most important form of promotion is communication between you and your customer. People need to feel wanted, welcome. They need appropriate information they can understand. They need to be 'introduced' to the product or service by trained staff. This creates a positive relationship between the buyer and seller, customer and supplier. In a world of (bad) instant responses, feeling someone is interested in our needs or issues helps create a bond which brings customers back time after time.

The most important thing in social marketing is to live up to promises. Customers buy in to the commitment, aspirations, integrity and honesty of a social business when they buy from it. Nothing dissolves the 'selling advantage' social businesses possess quicker or makes them seem like 'just another business' than letting people down.

# 8.3

## BUSINESS RESPONSIBILITIES

- Business Responsibilities
- Business Responsibilities Of Company Directors

# BUSINESS RESPONSIBILITIES

## Committee Responsibilities

### Aims And Objectives, Governance

The management committee/board of directors is responsible for ensuring the organisation carries out its aims and remains within the powers given to it by the constitution. Committee members must understand both their powers, duties and responsibilities.

### Accountability

The committee is responsible for ensuring the business is run properly, that it is acting according to the law or other regulations. The constitution or governing document sets out how the organisation should act and the committee should ensure that this is being followed and that it can be held accountable by ensuring its procedures are open and transparent.

### Legal Responsibilities

Social enterprises have legal obligations to funders, some stakeholders, employees, customers and service-users. The committee has to ensure that it is obeying these legal obligations and responsibilities.

### Financial Responsibilities

The committee must ensure the business has enough money to operate with, meet all its financial obligations and undertakings and that money received and spent is properly accounted for. In some cases it is also responsible for ensuring that money

is not misused or only used for purposes allowed under its rules. The committee should ensure that proper records are kept, it receives regular financial reports and that funders, members or stakeholders get at least annual financial reports for its general obligations to be met.

### People Responsibilities

The board of directors of a social enterprise - like any organisation - are responsible ('have a duty of care') to employees, volunteers and people using their services or visiting their premises. It also has a legal responsibility for the actions of its employees or volunteers, whether overt acts or negligence.

### Equal Opportunities

It must ensure it complies with acts about equal opportunities and discrimination.

### Premises

The committee has responsibility for the state, use and security of its premises, particularly in relation to legal uses and health and safety. This includes ensuring there is proper insurance, it complies with fire and safety regulations, public health requirements and planning consents and regulations.

### Insurance

There is both a legal and general requirement to maintain proper insurance cover. Compulsory insurance includes:  
a) Employers Liability Insurance; b) Public

Liability Insurance; c) Vehicle Insurance; d) Buildings Insurance; e) Contents Insurance. Some organisations may conclude that professional indemnity, fidelity, accident /medical or contingency (e.g. loss of trade) insurance is sensible for their business.

### Legal Status

Whatever the legal status of the business, the committee must ensure it complies with the relevant laws and regulations: company, charity or society.

### Committees And Contracts

Committees often shy away from knowing too much about contracts or service-level agreements, leaving them to staff to deal with. But they cannot escape both a general and legal responsibility for all contracts entered into by the organisation.

### Authority

The committee should ensure that it has given permission for contracts or service level agreements to be entered into and that it is taking the decision about entering into any such contracts or agreements. It is the organisation that contracts, not staff, and ultimately it is the organisation that will be held accountable or liable, not staff.

### Grants Or Other Financial Assistance

The committee is ultimately responsible for ensuring funding is used properly and can be held accountable if it is not. Such failure involves a 'breach of trust' and may fall under contract law as well and is therefore potentially very serious.

### Contracts And Trading

The members of an incorporated body usually possess limited liability for loss or

debts and therefore are protected from a contract going wrong and remedy being sought so long as they were not party to the problem or negligent in not supervising the operation of the contract. If unincorporated, then the committee members can be individually or collectively liable for debt, loss or damages arising from a contract.

### Charges

Some finance agreements (such as mortgages, loans, lease or hire purchase agreements) may include 'charges' over some asset of the organisation, a physical asset such as a building or (for instance) future income or cash. It is the responsibility of the committee to know about and understand the implications arising from such charges.

### Agency

In some cases (VAT, National Insurance, Benefits and Tax), the organisation is acting as the agent of various government departments or agencies, collecting, distributing and transferring money on their behalf. The committee needs to ensure that this is being done properly and regularly. When businesses are struggling, one of the first 'savings' made is to fail to pass on Income Tax or National Insurance collected to the Inland Revenue; committees should be alert to this problem.

### Reviewing And Monitoring

The committee should regularly review the terms and operation of any contract the organisation is party to. This ensures that the organisation is not generating potential legal problems for itself and offers the opportunity to consider how they are working and whether they should be re-negotiated.

# BUSINESS RESPONSIBILITIES OF COMPANY DIRECTORS

## UK Law

Companies are primarily governed by the Companies Act 1985 and the Companies Act 1989. The main stipulations regarding companies are as follows:

- Directors can be either individuals or corporate bodies (which means that charities or social enterprises can control other social enterprises registered as limited companies)
- At least two people are required to form a company
- There's no requirement to live or be in Britain or to be British to be a director
- The Company Secretary can be either an individual or a corporate body
- All companies must have a registered office in England or Wales
- It is your responsibility to check the name of your organisation is not already being used by some other company but Companies House will do a check when your formation papers are sent in
- Companies are no longer legally required to use a company seal on important documents

## Duties And Responsibilities Of Directors

### Directors

All directors should be over 18 and at least one director must be over 18. The directors are the decision-making body of the company and are liable in law for its actions. They have a duty of care to customers, service-users, employees and members even if it conflicts with their personal interest. The company is a separate legal entity from the directors, who are not liable for the company's actions so long as they have not acted in a negligent, fraudulent or reckless manner. So long as directors act in good faith they are protected by the law from the consequences, even if loss occurs.

### The Secretary

The Company Secretary has the legal responsibility to maintain company records, file annual returns and carry out other activities which the rules of the company set out. As an officer of the company (even if not a director), they have the same duty of care as directors.

### The Registered Office

This is where the company is officially located, where legal or official documents are sent; it's usually the office of the company's solicitor or accountant but can also be where you trade from. All documents from Inland Revenue, Customs & Excise and Companies House or relating to legal action go to the Registered Office so don't think it's a 'dead letter' address or something you need only when you first register the company. The company's official records must be kept at the Registered Office so they can be inspected by interested parties.

### The Memorandum And Articles Of Association ('The Mem And Arts')

A company's rules consist of two documents, the Memorandum of Association and the Articles of Association. The Memorandum of a company sets out what the company may do and how it will attempt to achieve its aims and objectives. This is generally drawn fairly widely (to allow for flexibility) but many ethical businesses (including social enterprises) can be highly proscriptive. The Articles set out how the company will govern itself and therefore deals chiefly with membership, voting rights and how decisions get made and approved.

### General Meetings

There is no requirement to hold a General Meeting of members except that once each year a company must hold an Annual General Meeting to report on the performance of the company, receive the annual accounts and make major decisions. Companies House requires an Annual Return (of who are the directors and other officers of the company) by a set date and

this is something you can only really fix at the AGM. Similarly they require the submission of accounts annually (although this can be delayed) and again, accounts can only usually be submitted after an AGM has approved. Its best, therefore, always to try to hold an AGM every twelve months.

### Delegated Powers

The directors can delegate responsibility for some of its roles and responsibilities to ad hoc committees or working groups only if it has the power in its Articles of Association.

### Ultra Vires

A good set of rules will cover most eventualities but it is important that the directors of a company understand what they are legally empowered to do and what they are not empowered to do ('ultra vires').



# 8.4

## HUMAN RESOURCES

- Contracts Of Employment
- Understanding Employees' Rights
- Resolving Problems With Employees

# CONTRACTS OF EMPLOYMENT

Many businesses require employees to operate. Not all kinds of work can be handled on a self-employed basis. And the Inland Revenue will often treat people working for you as employees no matter what your arrangements. You or your business are very likely at some point to be an employer and your role as an employer is governed by law. You need to know your legal duties if you want to avoid trouble later.

## When?

As soon as an employee agrees to work for an employer, a 'contract' exists, and some legal rights and duties arise immediately. However, most rights and duties only apply when the employment starts and some of them take time to come into effect, (for example, you have to work for an employer for two years before you can claim unfair dismissal at an industrial tribunal).

## In Writing?

A contract of apprenticeship must be in writing. Terms and conditions can be verbal, not written down. Some part time workers do not have to be given a written statement, for example, someone who works less than 16 hours per week must work more than 8 hours a week for over five years before they are entitled to a written statement.

## What's In It?

Most employees must be given a written contract within 13 weeks of starting work, (says the Employment Protection (Consolidation) Act 1978). Details must include:

- The employer's name
- The employee's name
- The date employment began
- The job title

And

- The amount of pay and how often payments are made
- Hours of work
- Holiday pay/entitlement
- Sick pay arrangements
- Pension arrangements
- Periods of notice
- Disciplinary/grievance procedures
- Appeals procedure

## What's Left Out?

Items spelled out in detail (as above) are called 'express' terms, because they are expressly agreed. Other things may be agreed but not be put in writing. They may be implicit. The courts have established that the following are implicit in all contracts, whether expressed or not:

- To maintain trust and confidence through co-operation
- To act in good faith towards each other
- To take reasonable care to ensure health and safety at work

Implicit terms can become part of the contract through:

- Repeated conduct of the two sides
- 'Custom and practice', especially if usual in the same trade
- Written rules of the company

## Statutory Rights

Other Acts Of Parliament cover employees' rights, and these cannot be set aside, even if the company tries to, in rules or contracts.

- No discrimination on grounds of race
- No discrimination on grounds of sex or marriage
- Entitlement to equal pay for equal work
- Entitlement to an itemised pay statement
- Entitlement to maternity benefits
- Entitlement to protection from the Wages Councils, (if they exist)
- Entitlement to minimum notice
- No deductions from pay without written permission

- Entitlement to pay if laid off (if allowed in their contract)
- Entitlement to redundancy pay (and time to look for work)
- Entitlement to safety at work
- Entitlement to statutory sick pay
- Entitlement to time off for civic duties or Trade Union work
- Entitlement to protected rights if the firm is taken over
- Entitlement to protection from unfair dismissal
- Entitlement to written reasons for dismissal

## Changing It?

To avoid problems later, any changes should be agreed by both sides and detailed in writing. Changes can be brought about:

- By individual agreement
- By collective bargaining
- By working to new terms without disagreement
- By short term agreed variations e.g. place of work

## Ending It?

Either side can end the contract by giving the required notice. If notice is not given, either side can claim damages. However, no notice is necessary: (a) in cases of dismissal for Gross Misconduct, or (b) where Constructive Dismissal occurs, (that is, the employee resigns because the employer has broken the contract).

# UNDERSTANDING EMPLOYEES' RIGHTS

## Workers And Employees

An 'employee' is someone who works for you under the terms of a contract of employment, whether it is written down, agreed orally or implied by the nature of the relationship. Many casual workers are likely to be employees with short-term contracts.

A 'worker' is any individual person who works for you, whether under a contract of employment with you or not, who provides a personal service e.g. a casual worker, agency worker or some freelance workers. In terms of the rules and regulations in this section, genuinely self-employed people or businesses to whom you subcontract are not defined as 'workers'.

All employees are workers, but not all workers are employees. Many rules, regulations and rights apply only to employees, but some apply to all workers.

Where 'workers' are referred to in this guide, everyone working for you who isn't self-employed or employed by someone else is entitled to the employment rights in question.

## Insuring Your Employees

You must insure against any claims arising from illness, diseases or injuries your staff may pick up as a result of working for you.

Employees' liability insurance, which protects your business against claims from employees for accidents or sickness they may suffer as a result of working for you, is a legal requirement. The statutory minimum cover is £5 million and you should display the certificate in any place of work. Keep your certificates even after they have expired - employees could make a claim many years after they have worked for you.

If you are an employer, you must purchase employees' liability insurance.

## Duty Of Care

The basic rule is that irrespective of the relationship between the social enterprise and the individual worker or employee, it, its employees and its committee members have a duty of care which, if breached, may make them liable for prosecution or civil action. It is important therefore that all people involved understand their responsibilities to employees and act upon them.

## Terms And Conditions Of Employment

### The National Minimum Wage

Nearly everyone who works for you is entitled by law to receive a minimum level of pay - the national minimum wage. This includes bonuses and incentive payments - but not overtime or shift-work premiums.

You must pay everyone who works for you at least the national minimum wage. This typically includes freelance and casual workers as well as employees who have a contract of employment.

The rates current from October 2004 are:

- £4.85 an hour - main (adult) rate for workers aged 22 and over
- £4.10 an hour - development rate for workers aged 18 - 21 inclusive
- £3.00 an hour - rate for 16 and 17 year olds (above compulsory school leaving age)

**N.B. 16 and 17 year old apprentices are exempt from the young workers rate**

When calculating whether you're paying the minimum wage, you can take into account any incentive or performance -related payments, bonuses and tips paid through the payroll. But extra money above basic pay - such as overtime or shift-work premiums - doesn't count.

Most benefits other than money can't be included, apart from a small amount for free accommodation.

Workers' average pay must be at or above the minimum wage for the period for which they're being paid. For workers on a wage or salary, the number of hours worked will generally be clear. If you have pieceworkers or workers paid to do set tasks, you can agree with them a fair number of hours for the work to represent.

You'll need to keep records to prove you're complying. Workers can ask to see them if they think they're being underpaid. If most of your staff have earnings well above the minimum wage, you probably won't need to keep any specific records beyond those you already keep for PAYE.

### Payments To Staff Who Are Off Sick

Staff who can't work for four days or more because of illness are entitled to a minimum level of sick pay. You can claim some of the money back from the Inland Revenue if your business's sick pay exceeds a set level.

You must pay statutory sick pay (SSP) to employees who can't work for four or more calendar days in a row because of physical or mental illness or disablement. The rate in the tax year 2004/05 is £66.15 a week.

All full and part-time employees and agency workers who are employees for National Insurance purposes, aged between 16 and 65, qualify for statutory sick pay provided they earn more than the National Insurance lower-earnings limit, which is £79 per week (2004/05 tax year). But you can withhold statutory sick pay if the employee has recently drawn incapacity benefit or severe disablement allowance or is in custody.

If your own arrangements are more generous than the statutory sick pay scheme you can opt out. But you must keep detailed records.

Statutory sick pay is subject to income tax and employee's National Insurance contributions. It's payable for up to 28 weeks for any one period of sickness.

You may be able to recover some SSP by deducting this money from the National Insurance contributions you pay to the Inland Revenue (and from income tax if necessary). Full details on what you can claim back is available in the Inland Revenue booklet *What To Do If Your Employee Is Sick*. Any sick pay you recover has to be recorded on your Inland Revenue P14 and P35 forms at the end of the tax year.

You must keep full records of sick pay for three years. A form for this purpose can be found in the Inland Revenue booklet *What To Do If Your Employee Is Sick*. It is also a good idea to record sick pay paid to an employee in the relevant column on your P11 form.

### Employee Pensions

If you've got five employees or more, you may need to offer employees access to a stakeholder pension scheme. The business is not required to make contributions to an employee's scheme - but you must deduct an employee's contributions from their pay if they ask you to.

You are exempt from having to offer a stakeholder pension scheme, even if you employ five or more people, if:

- They all earn less than the National Insurance lower earnings limit
- You offer access to an occupational pension scheme which all employees can join within a year of starting work
- You offer to pay a contribution of at least 3% of employees' basic pay to a personal pension scheme and to deduct their contributions if requested. The scheme shouldn't penalise members who stop contributing.

If you aren't exempt, you must choose a stakeholder scheme which is registered with the Occupational Pensions Regulatory Authority (OPRA).

You should consult employees about your choice and then write to the scheme provider to say you've formally chosen their scheme. Keep a copy of the letter.

Give employees details of your chosen provider and a contact name. You can give information about the scheme to employees - but you mustn't advise them about its financial benefits.

Employees aren't obliged to sign up to the scheme. Tell staff you can take their contributions from pay through PAYE but that they can pay directly into the scheme if they prefer.

You must deduct the employee's contributions from pay if asked to do so and forward them to the scheme provider. Keep records of the payments.

Employers don't have to make contributions. If you want to, tell staff how much you intend to put in.

## Length Of The Working Week

Rules on working time fix the maximum average working week for most worker at 48 hours. Workers can agree voluntarily to forgo this limit - but you mustn't put pressure on them to do so.

For calculation purposes, hours are averaged over a 17-week period, though this can be extended by agreement. The calculation must add in hours spent on holiday and sick leave which would otherwise have been worked.

Workers can voluntarily agree to waive the 48 hours' limit - but you mustn't force or put pressure on them. You must ask those who do opt out to sign a written agreement. The limits don't apply to employees who have the freedom to choose their own hours of work - typically senior managers - nor to self-employed contractors. But freelance or agency staff who get paid a regular wage or salary do qualify.

Work-related training counts as part of the working week, as do travel as part of a worker's duties and working lunches. But journeys to and from work and lunch breaks don't.

Staff have a right to 11 hours rest between each working day; young workers get 12 hours. You mustn't force staff to work more than six days in every seven, or 12 days in every 14. Young workers should get two days off a week.

You need to keep a record to show you're complying with the 48-hour limit - but you may be able to do this by using records you already keep for pay (a payslip quoting hours worked, for example). You have to keep an up-to-date record of workers who've agreed to work more than 48 hours a week.

## Rest Breaks

Workers have a right to minimum rest breaks during and between shifts, and a set number of days off each week. There are special rules concerning young workers.

Most people who work for you - employees, freelancers, casual or agency workers - are entitled to minimum rest breaks. Workers must have a minimum 20-minute rest break in each shift lasting more than six hours. Young members of staff - who are over the minimum school-leaving age but under 18 - are entitled to at least 30 minutes break for each 4 1/2 hours they work.

In certain specified circumstances, rest breaks, rests between shifts and days off can be accumulated and used later. For example, this may happen during busy peak periods, when an emergency crops up or where someone works a long way from home and wants to work longer hours over a few days to complete a task more quickly.

A young worker's entitlement to breaks can only be changed or not taken in exceptional circumstances. Young workers must not work more than eight hours a day and 40 hours a week.

If you are covered by the Disability Discrimination Act and you have a worker who requires extra work breaks, for example to take medication privately, you may be discriminating by unreasonably refusing.

## Night Work

There are special regulations governing night worker's hours and they must also be offered a free health assessment to check they're up to working at night. Nearly everyone who works for you, including employees, freelancers and agency workers, are covered by these rules.

Night time is defined as a period of at least seven hours between 10pm and 7am. Unless you agree otherwise with your staff, it is defined as the period between 11pm and 6am.

Night workers - people who regularly work at least three hours during night time - shouldn't average more than 8 hours in 24-hour period. This is normally calculated over 17 weeks, though it can be extended by agreement with staff. If a night worker's job involves special hazards or physical or mental strain, there is no averaging - they mustn't work more than eight hours in any one 24-hour period.

You must offer workers a free health assessment before they start working at night and repeat it regularly (typically once a year) after that. This will generally be in the form of a questionnaire, with a medical examination following if you have any doubts about the employee's fitness for night work. You should pay particular attention to young (under 18) workers' suitability for night work - specific regulations on the times at which they are allowed to work became law on April 6, 2003. A sample assessment questionnaire is available from [www.dti.gov.uk/er](http://www.dti.gov.uk/er). You must keep records of these assessments for two years.

### **Paid Annual Leave**

People who work for you must get a minimum of four weeks' paid annual leave a year - though this can include bank holidays.

Most people who work for you, including your employees, freelancers and agency workers, are entitled to a minimum of 4 weeks' paid annual leave, with part-time workers enjoying leave proportionate to the

amount of days they work each week. You are of course free to specify a longer period in your employees' contracts if you wish.

So a full-time worker who works five days a week is entitled to 20 days' annual leave, while a part-timer who works two days a week is entitled to eight days.

The minimum leave period can include bank holidays. There's no automatic right to take bank holidays off.

The leave entitlement starts building up from a worker's first day at work. With your staff's agreement, during their first year of work you can use a system in which they get one twelfth of their annual leave entitlement for each month they work, rounded to the nearest half day.

Holiday pay must be based on the worker's average pay. If, for example, their normal pay includes additional money for working unsocial hours, so must the holiday pay.

You should agree with staff how much notice of leave they should give. If you don't have an agreement, the notice period should be twice the length of the leave requested.

If someone stops working for you, they're entitled to be paid for any leave they haven't taken.

### **Time Off Work Other Than Annual Leave**

There is a range of other circumstances in which employees will be eligible for paid or unpaid time off - including acting as a safety representative, going to antenatal appointments and dealing with an emergency involving a dependant. You must allow staff time off in a number of circumstances.



If an employee is pregnant, she is entitled to time off for any appointments made on the advice of a registered medical practitioner, midwife or health visitor.

You must give time off to employees who are:

- Carrying out duties or receiving training as a safety representative
- Carrying out industrial-relations duties or being trained as an official of a recognised trade union
- Carrying out duties as a pension scheme trustee
- Looking for another job or arranging training for future employment when being made redundant
- Carrying out duties or receiving training as an employee representative for consultation over collective redundancies or business transfers
- Young people doing studying or training leading to a relevant qualification

In the following instances you have to give employees time off but you're not obliged to pay them if you don't want to:

- Taking action to deal with an emergency involving a dependant, such as helping a dependant who falls ill, is injured or assaulted, arranging a dependant's funeral, helping a dependant give birth, dealing with an unexpected breakdown in care arrangements for a dependant or dealing with an incident at a school attended by a child of the employee
- Taking part in certain trade union activities

- A range of public duties, including acting as a magistrate; a member of a local authority, police authority, health authority or NHS trust; a member of a school governing body. If you don't release an employee for jury service, you could be prosecuted for contempt of court

If you are covered by the Disability Discrimination Act and you have a worker who requires time off for reasons related to the disability, for example for treatment or rehabilitation, you may be discriminating by unreasonably refusing.

In other cases, you only have to allow 'reasonable' time off.

### Right To Belong To A Trade Union

You mustn't penalise employees for joining - or refusing to join - a trade union. You mustn't base recruitment decisions on whether or not an employee belongs to a trade union. Staff don't need your permission to belong to a union. You can't dismiss or threaten to dismiss someone for being a member.

You cannot take any other action to prevent, penalise or deter an employee from belonging to a union - such as refusing to promote them. Nor can you make an employee join or stay in a union.

If you employ more than 20 people and refuse to recognise a union for bargaining purposes, you may be required to do so after a ballot or if the majority of the relevant workforce are union members.

## Race And Sex Discrimination

People have the right not to be discriminated against on the grounds of race, sex or marital status. And this doesn't just mean giving all your staff access to the same opportunities - you must also protect them against verbal or physical harassment.

You mustn't discriminate against anyone who works for you (including self-employed contractors) or treat them less favourably because of their: colour; race; nationality; ethnic or national origin; sex; status as a married person.

Apart from yourself, you also have to ensure that other managers or members of staff don't discriminate against their colleagues.

The way you recruit staff mustn't discriminate against anyone because of their race or sex.

You mustn't offer less favourable contractual terms - including those covering pay and benefits nor deny people access to promotion, transfers, training or any other schemes, facilities or services. Under equal-pay laws, you must offer the same level of pay to men and women doing the same or similar work as someone of the opposite sex.

You mustn't dismiss an employee because they are married or because of their sex, race, nationality or ethnic or national origins and any attempt at separating people of a particular race from other staff counts as discrimination.

You must also avoid indirect discrimination - where you apply a seemingly unbiased requirement or practice which members of one sex or a racial group are much less likely to be able to comply with. Examples of indirect discrimination might be creating

new shift patterns which make things hard for working mothers or introducing a uniform banning headgear when some people wear headwear relating to their religious or ethnic background.

Staff have the right not to be subject to racial or sexual harassment - which might include lewd, sexist or racist remarks, graffiti, jokes, verbal abuse or physical assault. Remember that you may be held responsible for any discrimination or harassment practised by your employees, so you must deal with any problems. You mustn't victimise anyone who makes a complaint of discrimination against you.

There are a few limited exceptions to the rules - for example, in jobs such as acting and modelling where someone from a particular racial group or sex may be needed for the purposes of authenticity. Some restaurants where food is served in a particularly authentic setting may also be allowed to recruit from particular racial groups.

Some welfare or social workers may be able to serve the interests of a particular racial group better if they're a member of that group. And in areas such as care work, it may be necessary to appoint someone of a particular sex for reasons of privacy and decency.

It's best to take advice if you intend to apply one of the exceptions. You may also take positive action to help men or women or members of a particular racial group compete on equal terms when looking for work - perhaps by running a training course or offering work experience. You can encourage people to apply for work - but you must always select the best person for the job when recruiting.

## Workers With Disabilities

You mustn't treat staff less favourably on the grounds of their disability unless you can justify such treatment.

Disability is defined as a physical or mental impairment which has a substantial and long-term adverse effect on a person's ability to carry out normal day to day activities.

You must be prepared to make 'reasonable adjustments' for disabled people - changes that would assist them to work or continue to work for you. Examples might include:

- Making alterations to your premises
- Giving some of the disabled person's duties to another member of staff
- Buying special equipment
- Changing the person's working hours

In some circumstances you may be justified in refusing such adjustments. This might include when the adjustment would:

- Make no significant difference to the disabled person's ability to do the job
- Not be practical
- Cost more than you could afford, particularly when there is no financial help available to you
- Contravene other legislation, such as health and safety rules

The way you recruit staff (including self-employed contractors) should not discriminate against people with a disability.

You may need to make reasonable adjustments to your recruitment process to make sure people with disabilities are not disadvantaged in their application.

For example, this may mean holding an interview in a room that is more accessible to a wheelchair user, removing a requirement that people phone in to discuss a vacancy or providing special equipment or a sign language interpreter for an interview.

You mustn't offer less favourable contractual terms - including those covering pay and benefits - to staff because they're disabled. Nor can you deny them access to promotion, transfers, training or any other schemes, facilities or services.

You mustn't dismiss staff on the grounds of disability or victimise anyone who makes a complaint of disability discrimination against you.

## Rights Of Part Time Workers

Part time workers are generally entitled to the same treatment as full timers - from the same hourly rates of pay to access to promotion opportunities, pension schemes and training.

You mustn't treat part time workers less favourably than a comparable full timer - anyone working for the same employer doing the same or broadly similar work. The rules cover employees, freelancers or casual workers, but not the genuinely self-employed. However, you may be able to treat a part timer differently from a full timer if you can show that it's necessary and appropriate to achieve a real business aim.

Part time workers should get the same hourly rates of pay as comparable full timers. Overtime rates must be the same, too - but legally you do not need to pay overtime rates until they have exceeded normal full-time hours.

In addition, part time employees enjoy leave proportionate to the amount of days they work each week. So if a full time employee who works five days a week is entitled to 20 day's annual leave, a part timer who works 2 days a week is entitled to eight days.

You must also treat part timers the same as full timers when calculating entitlement to maternity and parental leave and calculating levels of sick pay and maternity pay.

You must give them the same access as full time workers to promotion opportunities and pension schemes.

Part timers mustn't be treated unfavourably if you're selecting position for redundancy.

You shouldn't exclude people from training because they work part time. Where possible, training should be organised when all staff can attend.

You mustn't victimise part timers who've made a complaint of unfair treatment against you.

## Maternity, Paternity And Dependents

### When An Employee Is Pregnant

A pregnant employee automatically qualifies for ordinary maternity leave. Those with a minimum length of service can also take additional, unpaid leave if they wish. You mustn't dismiss a pregnant employee - or single her out for redundancy - for reasons connected with her pregnancy, childbirth or maternity leave. Nor must you treat her unfairly. Regardless of the size of your business or the hours she works, a pregnant employee is entitled to a minimum standard

of treatment - though you can be more generous if you wish.

You must give pregnant women paid time off to attend antenatal care appointments which may include relaxation and parenting classes attended on the advice of a registered medical practitioner, midwife or health visitor. They're also entitled to up to 26 weeks' ordinary maternity leave. Ordinary maternity leave can start any time from the 11th week before the baby is due to be born. The employee must give you three weeks' notice of the leave, where possible.

Many women will be entitled to receive statutory maternity pay during ordinary maternity leave (see 'Pay While On Maternity Leave' page 318).

A woman expecting a baby must notify you by the 15th week before the expected week of childbirth. You'll have to write to her stating when you expect her to return to work if she takes her full maternity leave entitlement. A pregnant employee must give you a certificate giving details of the expected week of childbirth from her doctor or midwife. Keep this as a record.

A pregnant woman keeps all her normal terms and conditions except wages or salary while she's on ordinary maternity leave. Her holiday will continue to build up as normal, for example. If her job becomes redundant during the maternity leave, you must offer any suitable alternative work available. You must also 'seriously consider' any request by the employee to return to work part time. Refusal to offer such an option may amount to indirect sex discrimination.

If a woman has worked for you for 26 weeks by the beginning of the 11th week before the baby is due to be born, she can also take up

to 26 weeks' unpaid additional maternity leave, and the period of unpaid additional leave runs from the end of ordinary maternity leave.

Only some terms and conditions of employment remain during the unpaid additional leave period - relating to compensation in the event of redundancy, notice periods and discipline and grievance procedures, for example.

After additional maternity leave, an employee is entitled to return to the same job. If this job has been made redundant, you must offer any suitable alternative available. But if her job has been made redundant and you've got five employees or fewer, you don't have to re-employ her if it wouldn't be practical to do so and there's no suitable alternative work. However, you may need to prove this to an employment tribunal.

If there's an unavoidable health or safety risk to a new or expectant mother or her baby, and you can't find other suitable work for her, you must suspend her on full pay.

It is illegal for new mothers to return to work within two weeks of giving birth (four weeks for factory workers).

### **Pay While On Maternity Leave**

Many pregnant women also have the right to receive a minimum level of pay during their ordinary maternity leave. You can claim most - or all - of this money back from the Government.

Women who've worked for you for at least 26 weeks into the 15th week before the baby is due and earn more than the lower earnings limit for National Insurance contributions (£79 for the 2004/05 tax

year) will be entitled to receive statutory maternity pay during their ordinary maternity leave. Women are entitled to 26 weeks' statutory maternity pay, and will receive 90% of average weekly earnings for the first six weeks. This is followed by a standard rate of £102.80 per week or 90% of average weekly earnings, whichever is the lower.

Statutory maternity pay is subject to income tax and National Insurance contributions in the same way as normal earnings.

Employers recover statutory maternity pay from the income tax and National Insurance contributions they pay to the Inland Revenue.

If your business's total annual National Insurance contributions are £40,000 or less, you can claim back all statutory maternity pay plus a compensation payment on top from the Inland Revenue. Otherwise you can claim 92% of the payments you make.

You must record maternity payments in the relevant sections of your P11, P14 and P35 tax forms from the Inland Revenue. You can also use for SMP2 to keep a record of statutory maternity payments if you wish. These are available from the Inland Revenue (see References page 322). All records must be kept for three years.

### **Paternity Pay**

Working fathers can take up to two weeks' paid leave following the birth of a baby. Their pay will be set at the same level as statutory maternity pay.

To qualify, an employee must:

- Have or expect to have responsibility for the child's upbringing
- Be the child's biological father or the mother's husband or partner
- Have worked continuously for you for at least 26 weeks by the 15th week before the baby was due and have continued working for you until after the birth
- (When paternity leave is being taken by an adoptive parent) have worked for you for at least 26 weeks by the week in which they were told they had been matched with a child, and have continued working for you until the child was placed with the adopter

You can ask the employee to fill in a self-certificating form as evidence of their entitlement to statutory paternity pay. You can use the Inland Revenue's form *Becoming A Parent* (SC3).

Fathers can take a block of either one or two whole weeks' leave - but not odd days. Leave must be taken within 56 days of the child's birth or, if the child is born early, in the period from the actual date of birth until 56 days after the expected week of birth.

Employees have the right to return to the same job after taking paternity leave. You must not dismiss an employee or treat him unfairly because he's taken paternity leave. Working fathers are entitled to keep their normal terms and conditions - except those relating to wages or salary - while taking paternity leave.

Most fathers will be entitled to statutory paternity pay - the lower of £102.80 or 90% of the employee's average weekly earnings.

Staff who earn less than the lower earnings limit for National Insurance contributions don't qualify for statutory paternity pay.

You can recover statutory paternity pay from the income tax and National Insurance contributions you pay to the Inland Revenue.

If your business's total annual National Insurance contributions are £40,000 or less, you can claim back all statutory maternity pay plus a compensation payment on top from the Inland Revenue. Otherwise you can claim 92% of the payments you make.

You must record maternity payments in the relevant sections of your P11, P14 and P35 tax forms from the Inland Revenue. You can also use for SMP2 to keep a record of statutory maternity payments if you wish. These are available from the Inland Revenue (see References page 322). All records must be kept for three years.

### **Paid Leave For Adoptive Parents**

Employees who are newly matched with a child for adoption by an adoption agency can take adoption leave if they have worked for you for at least 26 weeks. While they are off work they will also be entitled to a minimum level of statutory adoption pay.

One member of a couple - or an individual - who adopts a child will be entitled to adoption leave and pay. The other member of a couple may qualify for paternity leave and pay.

To qualify for adoption leave, an employee must have worked continuously for you for at least 26 weeks when they've been matched with a child by an adoption agency.

Employees must give you evidence from the adoption agency as proof of their entitlement to adoption leave and pay: for example, a letter on headed paper confirming the matching.

Adoptive parents will be entitled to up to 26 weeks' ordinary adoption leave. Leave can start from the date of the child's placement or from up to 14 days beforehand.

You mustn't dismiss employees or treat them unfairly because they've taken adoption leave. They'll be entitled to keep their normal terms and conditions of employment - except those relating to wages or salary - throughout this period. They'll also be entitled to statutory adoption pay. From April 6, 2003 this will be the lower of £100 a week or 90% of the employee's average weekly earnings - though you can pay more than this if you wish.

Employees with average weekly earnings below the lower earnings limit for National Insurance Contributions don't qualify for statutory adoption pay. Employers can recover statutory adoption pay from the income tax and National Insurance contributions they pay to the Inland Revenue.

If your business's total annual National Insurance contributions are £40,000 or less, you can claim back all statutory adoption pay plus a compensation payment on top. Otherwise you can claim 92% of the payments you make.

You must record statutory adoption payments in the relevant sections of your P11, P14 and P35 forms available from the Inland Revenue; a number of Government explanatory booklets are also available.

All records must be kept for three years.

Parents who take ordinary adoption leave can also take 26 weeks' additional adoption leave. This is unpaid unless the employee's contract states otherwise.

Some terms and conditions of employment remain during this period - relating to compensation in the event of redundancy and notice periods, for example.

### Unpaid Leave For Parents

Parents can take extra, unpaid time off during the first few years of their children's lives. Generally, you agree with your employee how this parental leave is taken.

Mothers and fathers have a right to take unpaid parental leave to look after young and disabled children. Parents can take 13 weeks' unpaid parental leave for each child born or adopted on or after December 15 1999. They can take leave until the child's fifth birthday or until five years after they have adopted a child. They must have completed a year's continuous service with you.

Regulations have also been introduced to help parents with children born before the original starting date of December 15 1999. As a result, parents with children born between December 15 1994 and December 14 1999 can claim 13 weeks' unpaid leave until March 31, 2005. In this case, parents must have completed one year's continuous service with an employer - not necessarily you - between December 15 1998 and January 9 2002. Parents of disabled children born on or after December 15 1994 can take 18 weeks unpaid leave until the child's 18th birthday.



Employees remain employed while on parental leave. Some contractual terms and conditions - such as those relating to notice periods and redundancy - still apply. You must allow staff returning from parental leave of four weeks or less to return to the same job.

With longer periods of leave, you must let them go back to the same job or, if that's impractical, to a job with similar or better terms and conditions.

You can agree how and when leave is to be taken with staff or their representatives, though there's a fallback scheme if there isn't an agreement. Under this, up to four weeks' leave can be taken in one year, in blocks of one week at a time.

You can postpone parental leave if you think an employee's absence would disrupt the business too much - perhaps when work is at a seasonal peak or when an employee's skills are essential to the business at a particular time. You must discuss the postponement with the employee and then give them written notice. The leave can be postponed for a maximum of six months.

## Employees And Flexible Working

**Flexitime, job-sharing and term-time working - all examples of the kind of flexible working patterns parents can request from you from April 2003.**

From April 6, 2003 you have to consider seriously requests to work flexibly from parents of children under six or disabled children under 18. To make a request, parents must have worked continuously for you for at least 26 weeks. Where you may have a clear business reason why the work

pattern cannot be accommodated, you may refuse the request.

Flexible working includes working patterns such as annualised hours, flexitime, job-sharing, shift-working and term-time working. Or it might simply be starting half-an-hour later and making up the time later in the day.

Employees have to make a written application to work flexibly. You are required to meet them within 28 days to discuss their request.

You then have 14 days to write to the employee with your decision. Staff have a further 14 days to appeal if they disagree with it.

If you are covered by the Disability Discrimination Act and a disabled person needs to work different hours for a reason related to their disability, for example to avoid travelling on public transport during rush hour or because their disability means that they work better later in the day, you may be discriminating if you refuse this.



## References

### Employers' Liability (Compulsory Insurance) Act 1969: A Guide for Employers (HSE40)

Contact HSE Books 01787 88 11 65  
[www.hsebooks.co.uk](http://www.hsebooks.co.uk)

### National Minimum Wage (ERF05)

Contact 0870 150 2500  
[www.businesslink.org](http://www.businesslink.org)

### National Minimum Wage

Helpline 0845 600 0678  
 Decision trees to check if staff are eligible for the national minimum wage are available online at [www.tiger.gov.uk](http://www.tiger.gov.uk)

### What To Do If Your Employee Is Sick (E14); Employee's Statement Of Sickness (SC2); Statutory Sick Pay Manual For Employers (CA30)

Contact 0845 7 646 646  
[www.inlandrevenue.gov.uk/employers](http://www.inlandrevenue.gov.uk/employers)

### The Occupational Pensions Regulatory Authority (OPRA) offers a decision tree for employers and a register of stakeholder pension providers.

Contact 01273 627600  
[www.stakeholder.opra.gov.uk](http://www.stakeholder.opra.gov.uk)

### Stakeholder Pensions

- A Guide For Employers (PME)  
 Contact 0845 7 646 646  
[www.thepensionservice.gov.uk](http://www.thepensionservice.gov.uk)

### Your Guide To The Working Time Regulations (URN 00/633)

Contact 0870 150 2500  
[www.dti.gov.uk/er](http://www.dti.gov.uk/er)

### Holiday And Holiday Pay

Contact Acas Publications 08702 42 90 90  
[www.acas.org.uk](http://www.acas.org.uk)

### Time Off Work (ERF12)

Contact 0870 150 2500  
[www.businesslink.org](http://www.businesslink.org)

### Time Off For Public Duties (PL702); Redundancy Entitlement: Statutory Rights (PL808); Time Off For Your Dependents (URN 99/1186)

Contact 0870 150 2500  
[www.dti.gov.uk/er](http://www.dti.gov.uk/er)

### Time Off For Trade Union

#### Duties And Activities

Contact Acas Publications 08702 42 90 90  
[www.acas.org.uk](http://www.acas.org.uk)

### Racial Discrimination In Employment (ERF09); Sex Discrimination And Equal Pay (ERF10)

Contact 0870 150 2500  
[www.businesslink.org](http://www.businesslink.org)

### The Commission For Racial Equality's Employment Code Of Practice

Contact 020 7939 0000  
[www.cre.gov.uk](http://www.cre.gov.uk)

### Equal Opportunities Commission

provides a number of publications: Equal Opportunities Is Your Business Too; Code Of Practice - Sex Discrimination; Code Of Practice On Equal Pay  
 Contact 0845 601 5901  
[www.eoc.org.uk](http://www.eoc.org.uk)

### Equality Direct can offer more advice

Contact 0845 600 3444  
[www.equalitydirect.org.uk](http://www.equalitydirect.org.uk)

**Disability Discrimination In Employment (ERF01)**

Contact 0870 150 2500

[www.businesslink.org](http://www.businesslink.org)**The Disability Discrimination Act 1995: What Employers Need To Know**

Contact the Disability Rights

Commission 08457 622 633

[www.drc-gb.org](http://www.drc-gb.org)

**The Employers' Forum On Disability** is an organisation led by businesses which examines the issues of disability in the workplace and generates best-practice advice

Contact 020 7403 3020

[www.employersforum.co.uk](http://www.employersforum.co.uk)**Part-Time Workers (ERF06)**

Contact 0870 150 2500

[www.businesslink.org](http://www.businesslink.org)**Part-Time Workers:****The Law And Best Practice**

Contact 0870 150 2500

[www.dti.gov.uk/er](http://www.dti.gov.uk/er)**Trade Union Membership (ERF13)**

Contact 0870 150 2500

[www.businesslink.org](http://www.businesslink.org)**Union Membership: Rights of Members and Non-Members (PL871)**

Contact 0870 150 2500

[www.dti.gov.uk/er](http://www.dti.gov.uk/er)**Trade Union Recognition And Derecognition**[www.cac.gov.uk](http://www.cac.gov.uk)**Representation At Work**

free online, £3.95 hard copy

Contact 08702 42 90 90

[www.acas.org.uk](http://www.acas.org.uk)**Acas Codes Of Practice: Disclosure Of Information To Trade Unions; Time Off For Trade Union Duties And Activities**

Contact Acas Publications 08702 42 90 90

[www.acas.org.uk](http://www.acas.org.uk)**Maternity Rights (ERF04)**

Contact 0870 150 2500

[www.businesslink.org](http://www.businesslink.org)

**Maternity Rights: A Guide for Employers and Employees (PL958); Maternity Leave Changes: A Basic Summary (PL507); Suspension From Work On Medical or Maternity Grounds (PL705)**

Contact 0870 150 2500

[www.tiger.gov.uk](http://www.tiger.gov.uk)**Acas Flexible Working**

Contact 08702 42 90 90

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

**What To Do If Your Employee Is Pregnant (E15SD); Pay And Time Off Work For Parents (E15); Information of paying an employee is available with Statutory Maternity Pay Record Sheet (SMP2)**

Contact 0845 7 646 646

[www.inlandrevenue.gov.uk/employers](http://www.inlandrevenue.gov.uk/employers)**Inland Revenue Employers' Helpline**

information and advice on statutory maternity pay

Contact 08457 143 143

**Inland Revenue Employers' Orderline**

provides all relevant forms

Contact 0845 7 646 646

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

Paternity Leave And Pay: A Basic Summary (PL514); Working Fathers: Rights To Paternity Leave And Pay (PL517)  
Contact 0870 150 2500  
[www.tiger.gov.uk](http://www.tiger.gov.uk)

Statutory Paternity Pay Record Sheet (SPP2); Becoming A Parent: Self-Certificate (SC3)  
Contact 0845 7 646 646  
[www.inlandrevenue.gov.uk/employers](http://www.inlandrevenue.gov.uk/employers)

Adoptive Parents: Rights To Leave And Pay - A Basic Summary (PL515)  
Contact 0870 150 2500  
[www.tiger.gov.uk](http://www.tiger.gov.uk)

Pay And Time Off Work For Adoptive Parents (E16); Statutory Adoption Pay Record Sheet (SAP2)  
Contact 0845 7 646 646  
[www.inlandrevenue.gov.uk/employers](http://www.inlandrevenue.gov.uk/employers)

Parental Leave: A Short Guide For Employers And Employees (PL510). Parental Leave: A Detailed Guide For Employers And Employees (PL509)  
Contact 0870 150 2500  
[www.dti.gov.uk/er](http://www.dti.gov.uk/er)

Flexible Working: The Right To Request And A Duty To Consider - Guidance For Employers And Employees (PL520)  
Contact 0870 150 2500  
[www.dti.gov.uk/workingparents](http://www.dti.gov.uk/workingparents)

Changing Patterns Of Work  
free on-line, £3.95 hard-copy  
Acas Publications 08702 42 90 90  
[www.acas.org.uk](http://www.acas.org.uk)

The Acas Helpline can offer advice  
Contact 08457 47 47 47

# RESOLVING PROBLEMS WITH EMPLOYEES

## Discipline And Grievance Issues

Basic information on disciplinary and grievance issues must be included in your employees' written statement of employment details. There's currently no requirement to have a formal disciplinary or grievance procedure - but putting procedures in place can help you defend any claim an employee might make at an industrial tribunal.

You must include details of disciplinary rules and grievance procedures if you have them in your written statement of terms and conditions. You must explain:

- What your disciplinary rules are (if you have them)
- To whom the employee should apply if they are dissatisfied with a disciplinary decision or want to put right a grievance
- How to apply and what further procedures, if any, will follow

For the first and last of these you can also refer employees to a separate document that they should be able to easily get hold of if these details are not fully contained in the written statement.

Being able to show you've followed a procedure will help your case if an employee makes a claim at an employment tribunal.

You should draw up disciplinary rules to set standards of conduct at work and explain what behaviour is unacceptable. The rules should cover areas such as:

- Timekeeping
- Absence
- Holidays
- Health and safety
- Standards of work
- Personal appearance
- Use of company facilities
- Smoking
- Discrimination

Your disciplinary procedure sets out the action you will take against staff who break these rules. A typical disciplinary procedure will have the following stages:

- Formal oral warning for a minor offence
- Written warning for subsequent minor offences or a more serious offence
- Final written warning for further misconduct
- Dismissal with appropriate notice if there is insufficient improvement in the employee's conduct

Minor breaches of rules should be dealt with informally. Examples of conduct you might deal with using your disciplinary procedure could include persistent lateness or unauthorised absence.

Gross misconduct is an action so serious that you may dismiss an employee for their first offence without notice or pay in lieu of notice. In practice, however, you should generally suspend the employee on full pay and investigate the incident before dismissal.

Examples of offences which are normally regarded as gross misconduct include: theft; fraud; fighting; assault; deliberate damage to company property; being under the influence of alcohol or illegal drugs; serious negligence which causes unacceptable loss, damage or injury; serious acts of insubordination.

An employee accused of misconduct or gross misconduct should be given the chance to have their say at a disciplinary hearing. They have the right to be accompanied by a colleague or trade union representative at any such hearing.

A grievance procedure allows individual workers to raise grievances with management about their employment.

A simple grievance procedure should cover:

- Who an employee should raise a grievance with and how
- Who they should appeal to if they're not satisfied
- Time limits for each stage of the process
- An employee's right to be accompanied by a colleague at a grievance hearing

Disciplinary and grievance procedures should follow the Acas Code of Practice of Disciplinary and Grievance Procedures (see 'References' page 332).

## Monitoring Email And Web Use

You must inform employees if you intend to monitor their web and email use - preferably making it part of their employment contracts. You can only inspect the content of individual emails in a number of restricted circumstances.

There are legal restrictions on how you can monitor employees' use of the Web and email. But this is a complex area which is covered by three laws; The Regulation of Investigatory Powers Act, the Data Protection Act and the Human Rights Act. If in doubt you should seek legal advice.

You must inform employees if you intend to carry out any monitoring of their email and Web use - whether this is of Internet and email traffic or the contents of emails. Include this in their employment contracts or refer to a separate internet policy which mentions it.

In general you can monitor email and Internet traffic, installing software which logs websites visited and emails sent and received together with addresses (but not their contents). You can inspect the content of individual emails without a worker's consent for a number of specific business purposes. These include:

- Recording transactions or other important business communications
- Making sure employees are complying with the law and your internal policies
- Preventing abuse of your telecoms system
- Checking emails when staff are on leave

If you want to monitor communications for other purposes, or are not sure whether you have the right to read an email, you must get permission to do so - from both the sender and the recipient. The law can be complex and you should act carefully or consult a solicitor.

## Valid Reasons For Dismissal

If you're dismissing an employee, you must make sure you're acting fairly and reasonably. There are a number of potentially valid reasons for dismissal - from redundancy to the employee being unable to do the job.

Employees with at least a year's service with you who are under 65 (or the normal retirement age for a person doing that job) have the right not to be unfairly dismissed.

They can complain to an employment tribunal if they think they have been unfairly dismissed. If the reason for dismissal is one of a number which the law regards as 'automatically unfair', an employee can make a tribunal claim regardless of their age or length of service.

For a dismissal to be fair, you must have a valid reason for dismissing the employee. Potentially valid reasons will relate to:

- The employee's ability or qualifications to do the job
- The employee's conduct
- That the employee's position is redundant
- Any legal requirements preventing the employee from continuing to do their job (for example, if a van driver is banned from driving)

- Some other 'substantial' reason not covered by the four reasons above

You must also act reasonably in dismissing the employee (rather than giving them a chance to improve or taking some other form of disciplinary action, for example).

There are no set rules on what's reasonable - it will depend on all the circumstances, including your business's size and administrative resources.

You may be required to prove you have acted reasonably to an employment tribunal if an employee makes a claim. You should be able to show you've acted fairly and consistently and followed a disciplinary procedure in line with the Acas Code Of Practice On Discipline And Grievance Procedures.

Remember that a dismissal also takes place when an employee's limited-term contract expires but isn't renewed.

## Dismissals Which Are Automatically Unfair

Some reasons for dismissal are regarded as automatically unfair. You must not dismiss an employee for reasons that include pregnancy, taking certain actions on health and safety grounds or seeking to assert statutory employment rights.

If you dismiss an employee or select them for redundancy when others in similar circumstances aren't selected it will automatically be unfair, regardless of their age or length of service. If your reasons include one or more of the list below. The list is not exhaustive - the DTI publication, Dismissal - Fair And Unfair provides more detailed examples.

- Pregnancy
- Taking particular kinds of action on health and safety grounds, such as carrying out or proposing to carry out duties as a health and safety representative
- Carrying out or proposing to carry out functions as an employee representative
- Membership or non-membership of a trade union, or taking part in the activities of an independent trade union
- Carrying out or proposing to carry out duties as a trustee of a company pension scheme
- Seeking to assert a wide range of statutory employment rights, including rights under minimum wage, tax credits or working time legislation
- Disclosing certain kinds of wrongdoing in the workplace
- Taking - or trying to take - parental leave or time off for dependants

- Taking lawfully organised industrial action lasting eight weeks or less (or longer if you don't take reasonable steps to resolve the dispute)

## Dismissals Which Are Automatically Unlawful

Some reasons for dismissal are automatically against the law.

It is unlawful to dismiss a worker or select them for redundancy because of their:

- Sex
- Marital status
- Race, nationality or ethnic origins
- Disability

A worker - which can be an employee or any individual that works for you who is not genuinely self-employed - who believes they have been dismissed for such a reason could make a discrimination claim against you.

## Giving Notice Of Dismissal

If you dismiss an employee, they're entitled to a minimum amount of notice - unless it's for gross misconduct.

The minimum amount of notice you must give an employee you're dismissing depends on how long they've been continuously employed. You can include longer periods of notice in your employment contracts if you wish.

You must give one week's notice to staff with at least one month's service. Employees with two years' service must get at least two weeks' notice.

You must then give an extra weeks' notice for each further year of continuous employment with you up to a maximum of 12 weeks' notice for service of 12 years or more.

You're not obliged to give notice if you're dismissing an employee for gross misconduct.

You must pay employees at their normal rate during their notice period. They have the right to a minimum rate of pay if they're on sick leave, holiday or ordinary maternity leave during the period of notice.

If you don't provide work for an employee on a day when you would normally do so because the business isn't working at its normal level, the employee is 'laid off'. But you can't refuse to pay them because work isn't available unless their contract of employment states that you have the right to do so.

Employees may agree to be laid off without pay in particular circumstances - such as where redundancy would be the only alternative. But this does not give you the right to lay them off in future.

Most employees are entitled to a statutory guarantee payment for any complete day of lay-off without pay - but with a limit of five days' payment in any three-month period.

## Written Reasons For Dismissal

There are cases in which you may be obliged to provide written reasons for dismissing an employee.

If an employee who has been continuously employed with you for at least one year asks for the reasons for their dismissal - orally

or in writing - you must provide a written statement of the reasons within 14 days.

If you dismiss a woman who is pregnant or on maternity leave or an employee who is taking adoption leave, you must give them a written statement of your reasons whether they ask for one or not and regardless of their length of service.

## Constructive Dismissal

An employee may be entitled to resign and make an unfair dismissal claim to an employment tribunal if you breach a fundamental term of their employment contract - perhaps by cutting their salary or failing to provide a safe place of work.

An employee may be entitled to resign if you breach a fundamental term of their employment contract. This is known as constructive dismissal. If the employee considers the constructive dismissal unfair and has at least one year's service with you, they may make an unfair dismissal complaint to an employment tribunal. Breaches of contract that may give rise to constructive dismissal claims might include anything which makes it impossible or intolerable for the employee to continue doing the job. Examples include:

- Cutting - or attempting to cut - an employee's wages or salary or other contractual benefits
- Transferring an employee to a different job or location in the absence of any stated or implied contractual right to do so
- Failing to provide a safe place of work
- Subjecting a supervisor or manager to unwarranted criticism or abuse in the presence of colleagues or subordinates



## Handling Redundancy

If there is a change in the way your business operates or you experience a reduction in business, there may no longer be a job for an employee to do, so their position becomes redundant. Redundancy can be one of the most intimidating aspects of running a business, but following established guidelines will ensure you follow the correct path.

Redundancy is when you dismiss an employee because:

- You close your business
- You close the employee's workplace
- There is a diminishing need for the employee to do work of a particular type

Normally the job must have disappeared before you consider redundancy, for example through a decline in business or the introduction of automated equipment. You must take reasonable steps to avoid compulsory redundancies by considering alternatives such as short-time working, early retirement or shedding temporary or contract labour.

Selection should always be objective. If you base it on performance, you'll need to back it up with evidence - perhaps from an existing appraisal system.

People whose jobs are made redundant have the right to be offered suitable alternative employment wherever possible. And most employees who are made redundant have the right not to be unfairly dismissed. Employees with less than one year's service don't have this right, unless the reason for dismissal is automatically unfair (see the sections above, Valid

Reasons For Dismissal and Dismissals which are Automatically Unfair).

Employees who are made redundant have the right to reasonable time off on full pay for job-hunting or to arrange training. There are minimum levels of redundancy pay that employees may be entitled to (see Qualifying For Redundancy Pay below).

If you are making more than 20 employees redundant within a 90-day period, you must consult with employees' representatives (or a trade union that the employees belong to which is recognised to negotiate on their behalf). You must also notify the Department of Trade and Industry by letter or using form HR1.

When the consultation begins, you must give employees, their representatives or the union written details of:

- The reason for the redundancies
- Numbers and types of the employees involved
- The total number of employees of each of these types you employ at the establishment
- How you plan to select the employees to make redundant
- How you'll carry out the redundancies
- How you'll calculate redundancy payments

Consultation with employees or unions does not have to end in agreement, but it must be properly carried out. And while consultation is not a statutory requirement if fewer than 20 employees are to be made redundant, it is advisable as best practice.

ACAS provides comprehensive guidance on handling redundancy that is strongly recommended.

## Qualifying For Redundancy Pay

You are required to pay certain minimum amounts to employees who qualify for redundancy pay when they lose their jobs.

Employees are entitled to statutory redundancy pay if they are made redundant and have at least two years' continuous service since their eighteenth birthday and are under 65 or the normal retiring age for the job.

Payments are based on the length of the employee's continuous service and their weekly pay - though you can pay more if you wish:

- Service is counted up to a maximum of 20 years
- Service between the ages of 18 and 22 counts for half a week's pay
- Every year's continuous service between the ages of 22 and 41 is worth one week's pay
- Every year's continuous service from the age of 41 onwards entitles the redundant employee to 1.5 weeks' pay

A week's pay is based on actual income or average weekly earnings, but is currently capped at £260.

Statutory redundancy pay is free of tax and National Insurance contributions; any additional severance pay can usually be paid tax-free up to a current total of £30,000, though this may depend on the terms of employment contract.

## Sale Or Transfer Of A Business

Employees' rights are protected when the business they work for is sold or given to another member of the owner's family to run. They cannot be fairly dismissed unless you can prove there are good economic, technical or organisational reasons for doing so.

Regulations protect employees' terms and conditions of employment when the business they work for is transferred to a new owner (often known as the transfer of an undertaking). This can be when all or part of a business is sold as a going concern or given member of your family to run.

An employee's period of continuous employment isn't broken by the transfer.

If you're the new owner of a transferred business, you can't pick and choose which employees to take on. You take over the contracts of all employees who were employed in the business immediately before the transfer - and those who would have been employed if they hadn't been unfairly dismissed for a reason connected with the transfer.

If you're transferring your business to someone else, you must let employees who will be affected know and consult their representatives. These can be officials of a recognised trade union or representatives elected by the employees.

Neither the old employer nor the new one can fairly dismiss an employee because of the transfer unless there's an economic, technical or organisational reason that involves making changes to the workforce. You'll need to be able to show that you acted reasonably in using one of these justifications.

You can't change the terms and conditions of transferred employees unless their contracts allow you to do so.

The only contractual rights which aren't transferred relate to occupational pensions. However, if you don't provide very similar overall terms and conditions - including pension arrangements - an employee may have a claim for unfair dismissal. You can also take over any collective agreements made on behalf on employees.

## References

**Producing Disciplinary and Grievance Procedures (ACAS/G02); Discipline At Work Handbook (ACAS/H02)**  
- free online, £4.95 hard copy  
Contact 08702 42 90 90  
[www.acas.org.uk](http://www.acas.org.uk)

**ACAS Code Of Practice On Disciplinary And Grievance Procedures (ACAS/CP01)**  
- free online, £2.95 in hard copy  
Contact 08702 42 90 90

**Dismissal And Notice Periods (ERF02)**  
Contact 0870 150 2500  
[www.businesslink.org](http://www.businesslink.org)

**Dismissal - Fair And Unfair (PL714)**  
Contact 0870 150 2500  
[www.dti.gov.uk/er](http://www.dti.gov.uk/er)

**Rights To Notice And Reasons For Dismissal (PL707); Guarantee Payments (PL724)**  
Contact 0870 150 2500  
[www.dti.gov.uk/er](http://www.dti.gov.uk/er)

**The ACAS publication Lay-Offs And Short-Time Working** provides more details  
Contact 08702 42 90 90  
[www.acas.org.uk](http://www.acas.org.uk)

**Redundancy Handling (ACAS/B08)**  
Contact 08702 42 90 90  
[www.acas.org.uk](http://www.acas.org.uk)

**Redundancy (ERF09)**  
Contact 0870 150 2500  
[www.businesslink.org](http://www.businesslink.org)

**Redundancy Entitlement: Statutory Rights (PL808)**  
Contact 0870 150 2500  
[www.dti.gov.uk/er](http://www.dti.gov.uk/er)

If you make more than 20 people redundant within a 90-day period, you should obtain form HR1 available from the Redundancy Payments Office or your local Jobcentre Plus.  
Redundancy Helpline 0845 145 0004  
[www.dti.gov.uk/er](http://www.dti.gov.uk/er)

For more on consultation read: **Redundancy Consultation And Notification (PL833)**  
Contact 0870 150 2500  
[www.dti.gov.uk/er](http://www.dti.gov.uk/er)

**Transfer Of An Undertaking (ERF14)**  
Contact 0870 150 2500  
[www.businesslink.org](http://www.businesslink.org)

**Employment Rights On The Transfer Of An Undertaking (PL699)**  
Contact 0870 150 2500  
[www.dti.gov.uk/er](http://www.dti.gov.uk/er)

# 8.5

## LEADERSHIP; WORKING WITH THE COMMITTEE

- What Is Leadership? What Do We Mean By Leadership?
- Leadership Styles
- Committee Members' Roles And Responsibilities
- Consensus Decision Making
- Characters You Might Meet in Groups
- How To Destroy A Supportive Community
- Decision Making By Consensus - The Desert Survival Problem

# WHAT IS LEADERSHIP? WHAT DO WE MEAN BY LEADERSHIP?

## What Is Leadership?

Leadership may be the ability to initiate, propose, agree, implement and effectively review **successful strategies**. Therefore 'leadership' is not a single thing and cannot be expressed solely through playing a single role ('Chairperson', 'Co-ordinator', 'Manager') but a process involving a series of tasks that can be shared with others.

## What Do Leaders Or Leadership Groups Do?

Leaders need to contribute positively in these fields:

### Common Purpose And Shared Vision

Leaders create, communicate, maintain and restate the organisations vision and sense of purpose.

### Strategic Management

Leaders plan how to achieve identified goals.

### Effective Structures

Leaders set up, monitor and improve an organisations internal structure.

### Effective Systems

Leaders create and maintain effective methods of getting things done.

## Managing Human Resources

Leaders recruit, empower, unite with, direct and develop the human resources available to the organisation.

## Skills Development

Leaders recognise what the organisation or people in it do well and build on that.

## Organisational Style And Culture

Each organisation will have or be expected to have a particular culture or style. This could be 'businesslike', 'caring', 'democratic', 'practical'. Whatever the culture of an organisation, it is the task of leaders to ensure this culture contributes positively to the work of the organisation.

# LEADERSHIP STYLES

## Hierarchical Vs Collective Leadership

In hierarchical leaderships, leaders get their authority and power to control rewards and punishments by occupying a particular position (Chair, Committee Member, Manager). They are expected to perform certain functions and act in particular ways by the people who put them there (whether imposed or elected). In collective leaderships, the process of planning, implementing and reviewing is shared and in theory all are equal. In reality, many people are not equal and the leadership may become inward-looking or self-destructive.

## Task Oriented Vs Human Oriented Leadership

Task-oriented leadership focuses on getting things done and the people doing them. Human-oriented leadership focuses on the social and emotional needs of people involved. Although task-oriented leadership seems to be more effective and productive in the short term, human-oriented leadership may offer longer term success and less strain on management resources.

## Positive Leadership Styles

- Positive leadership recognises that not all groups are alike and that leadership must be moderate and flexible.
- Leadership is not a one way street. Users, volunteers and members can effect and may have as much to offer leaders as the other way round!
- Getting positive responses to leadership may involve providing or generating rewards which may change behaviour positively. This applies to individuals, employees, stakeholders and funders.
- Positive leadership also involves leaders understanding what is expected of them. Sometimes this is decisive decision-making, reassurance or pointing out solutions. At other times leadership may be merely symbolic or to take the blame when things go wrong.
- Positive leadership recognises the limits and constraints the organisation and its resources, methods and complexity imposes.
- Successful organisations often have a positive leadership style that includes: shared decision making, participation as a practice not a theory and joint goal setting.

## Creative Leadership: Organising, Productive and Emotional

Leadership can be very productive when it is held by the right people. But as the organisation changes and moves on, going through a developmental cycle, leadership should move from person to person and group to group.

Leadership is most successful when it combines people's desires and the production of something useful in a creative or effective work cycle. It's a process where leadership ought to be held by the people best able to help the process. In stalled or destructive groups, this is rarely the case!

Effective leadership has three aspects. Sometimes one person is able to provide all kinds of leadership. In some organisations well established groups have a particular leadership role (the 'Social Activities Sub Committee' for instance or the 'Campaigns Group'). As the organisation develops, leadership may change from person to person.

One kind of leadership is called 'organising'. It is about having an overview and being able to see what tasks are necessary.

Another kind of leadership is called 'productive'. It is about actually getting things done, managing a productive process.

Finally, there is 'emotional' leadership. It provides ideas and energy, support in tough times and celebration when things go right. Many organisations go through a clear cycle, although projects within an organisation may be at different stages in the cycle at the same time! These stages are **development**, **energising**, **implementing** and **relaxing**.

### Organising Leadership

In the development phase of an organisation or project, people who can offer information and helpful ways of looking at problems provide one kind of leadership. In an organisation's energising phase they are the ones who know how to take risks or who can be trusted to make decisions. In the implementing phase leadership is usually unnecessary. In the relaxing phase organising leaders recognise when a process has finished and draw conclusions.

### Productive Leadership

In the development phase, people who can analyse tasks and prepare often provide effective leadership. In the energising phase people with the skills and energy to get things done often emerge as leaders. In the relaxing phase productive leaders complete the work and tidy up.

### Emotional Leadership

In the development phase emotional leaders draw people together and instill confidence. In the energising phase they are enthusiastic and energetic, firing people up. In the relaxing phase emotional leaders help us to celebrate and focus away from the task.

# COMMITTEE MEMBERS' ROLES AND RESPONSIBILITIES

## Duties Of All Committee Members

Management committee members have overall responsibility for meeting an organisation's legal duties and ensuring it is properly managed, and for promoting good practice in all its activities.

### Legal Duties

These include:

- Ensuring the organisation meets its objectives as set out in the constitution
- Ensuring the organisation complies with the rules set out in its constitution and acts legally in all its activities (getting advice when necessary)
- Acting in the interests of the organisation and its beneficiaries, and not for personal benefit
- Informing meetings of any interest in a contract which could lead to conflict of interest
- Providing proper accounts of the organisation's activities to its members, funders (and the Charity Commissioners, Companies House and other regulatory bodies as appropriate), producing annual reports and directors' reports as required by law and ensuring that accounts, annual returns and other required information is filed on time
- Seeking professional advice where relevant
- Ensuring the organisation's resources and assets are well managed and used to pursue its objects

- Keeping up to date with the organisation's activities to ensure informed decision making at all times
- As far as is reasonable, keeping abreast of legislation that may affect the organisation's work and direction
- Ensuring that the organisation has effective health and safety policies and procedures covering all its activities and that they are effectively monitored
- Ensuring that necessary insurance policies are taken out and periodically reviewed
- Ensuring the organisation meets all its contractual and other obligations, including employment contracts, tenancy and/or licence agreements, funding contracts and equipment licences
- Ensuring the organisation does not discriminate unlawfully in employment or service provision
- Regularly attending management committee meetings and working jointly with other members

### Managerial Tasks

These include:

- Setting overall policy and short, medium and long-term objectives
- Identifying and discussing new areas of work
- Ensuring there are systems for regularly monitoring and evaluating the organisation's work



- Being a good employer
- Supervising and supporting senior staff and ensuring other employees and volunteers are properly supported
- Ensuring the organisation's equal opportunities policy is implemented and monitored
- Promoting the organisation

## Main Duties Of The Chair

The tasks of a chair can be divided into five key areas, some of which could be delegated to a vice-chair.

### Acting As A Spokesperson

Including representing the organisation at external events; liaising with the press on behalf of the organisation (this could be delegated to a press officer); taking an active role in fundraising campaigns

### Dealing With Matters Relating To Membership, Other Officers And Users

Including ensuring members' rights as stated in the constitution are met; helping to deal with disciplinary action against members and other officers; helping to deal with disputes between members, users and the organisation

### Planning And Running The Organisation's Meetings

Including the AGM, any other members or general meetings and committee meetings.

Planning meetings involves:

- Ensuring the organisation holds the meetings required by its constitution

- Ensuring compliance with the procedures for giving notice of meetings
- Helping to plan the agendas for each meeting, checking the minutes of previous meetings and ensuring that these and any background papers are distributed beforehand
- Being briefed about each item on the agenda
- Ensuring outstanding matters are followed up

Running meetings involves:

- Ensuring the meeting is quorate
- Gaining agreement of the minutes of the previous meeting and then signing them
- Making sure all relevant items on the agenda are discussed
- Ensuring all participants have the opportunity to make a contribution
- Making sure voting procedures are complied with
- Clarifying key decisions that are made
- Ensuring proper minutes are taken

### Supervising Senior Staff

Including supervising and supporting the work of the senior member of staff.

### Helping With The Management Of The Organisation

Including making decisions and taking action between committee meetings, if this is allowed by the constitution or has been authorised by the committee; acting as a sounding board for senior staff; signing cheques and liaising with the treasurer; helping to deal with any staff problems; involvement in staff recruitment.

## Main Duties Of A Company Secretary

Directors of companies limited by guarantee must appoint a company secretary, whose post requires meeting certain legal obligations under company law. Some of the tasks may be delegated to paid staff (and a member of staff can be the company secretary).

### Maintaining And Updating The Company Registers

Including maintaining a register of members and a register of directors and company secretaries; notifying the Registrar of Companies within 14 days of any changes of directors, changes in directors' home addresses, other companies of which they are directors, or any of the other information company directors are required to provide; if the company has a seal, keeping the sealing register - the list of documents on which the company seal has been used; where relevant, maintaining a register of 'charges', i.e. loans made to the company where the bank has a form of security, such as a mortgage.

### Ensuring Meetings Are Called And Recorded

Including ensuring that an AGM is held within 18 months of incorporation and then at least every 15 months; ensuring that 21 days' written notice is given to members and auditors and that business is transacted in accordance with the constitution; calling other general meetings as required by the constitution, ensuring that 14 days' written notice is given and business transacted according; ensuring minute books are kept for general meetings and directors' meetings.

### Administration Of Annual Returns And Accounts

Including ensuring an income and expenditure account and balance sheet are prepared or submitted for a compilation report and where necessary properly audited; circulating audited or examined accounts to members at least 21 days before the AGM; submitting accounts to the Charity Commissioners within ten months of the end of the financial year; submitting the income and expenditure account, balance sheet and directors; report to the Registrar of Companies within ten months of the end of the organisation's financial year; submitting an annual return to the Registrar of Companies by the due date; keeping copies of all annual returns and accounts for at least six years.

### Supervising Legal Agreements

Including ensuring all legal agreements or contracts are properly discussed, recorded and agreed by the directors.

### Meeting Other Registration Requirements

Including notifying the Registrar of Companies of changes to the organisation's registered address within 14 days; ensuring the organisation's stationery includes its registered name and address, the fact that it is a registered company and its registration number (and where relevant the fact that it is a registered charity); if the organisation is registered for VAT, ensuring the VAT number is printed on its invoices; having custody of the company seal, if there is one, and ensuring it is properly used.

## Main Duties Of A Committee Secretary

'Company Secretary' is a legal position, required under company law. Many organisations, both companies and non-companies, also have an elected Committee Secretary.

### Companies

In a company the elected secretary might help the company secretary to prepare for and administer meetings and with other administration.

### Unincorporated Associations

In unincorporated associations, the secretary takes on responsibilities similar to those of the company secretary - specifically in relation to meetings, maintaining lists of members' and management committee names and addresses, and ensuring annual reports and accounts are submitted to the relevant agencies.

Unless required by the constitution there is no obligation to have an elected secretary, and the relevant tasks can be undertaken by staff.

### Preparing For Meetings

Including sending notices of all meetings to members; making arrangements for meetings, for example organising refreshments, booking rooms, ensuring appropriate facilities for participants with disabilities or other special needs; preparing the agenda, in consultation with the chair, and distributing the agenda with any background papers; checking that members have carried out tasks agreed at the previous meeting.

### Helping In Meetings

Including making sure the meeting agrees the minutes of the previous meeting and they are signed by the chair; taking and producing minutes of the meetings, recording names of those attending and apologies, major decisions, any votes taken and agreed further action.

### Other Administration

Including dealing with incoming correspondence; keeping records of outgoing correspondence; keeping records of membership subscriptions; ensuring members are provided with the organisation's constitution, annual report and policies; sending out publicity about the organisation.

## Main Duties Of An (Honorary Treasurer)

In small organisations, the Treasurer may play a 'hands-on' role controlling spending and supporting staff in making financial decisions. In larger organisations and many social enterprises, the Treasurer chiefly provides oversight and manages the role of ensuring the committee or Board of Directors get regular reports.

The role of the Treasurer is, broadly:

- To provide general financial oversight;
- To have knowledge of all funding agreements, contracts and other legal agreements with a financial aspect to them (for instance leases);
- To undertake or commission financial planning and budgeting;
- To make financial reports;

- To ensure that banking, book-keeping and record-keeping systems are being followed;
- To control the use of fixed assets and stock.

### **General Oversight**

Includes ensuring funds are used in accordance with committee decisions or policies; that funding is spent according to agreements with funders; that committee members understand the organisation's finances; drawing up or developing financial policies and procedures; making financial decisions between committee meetings and reporting actions taken; liaising with funders, banks or lenders; preparing accounts for audit.

### **Knowledge Of Funding Agreements And Contracts**

Including knowing about finding sources and their terms and conditions; drawing up funding applications; liaising with funders; drawing up and submitting tenders or ensuring staff do so in compliance with tender specifications; ensuring funding is spent for the purposes given; ensuring goods and services are provided/sold at an appropriate price.

### **Budgeting And Planning**

Including preparing budgets and financial projections like cash-flow forecasts; presenting and explaining budgets and forecasts to the committee or other stakeholders; controlling and monitoring income and expenditure and adjusting budget forecasts; broadly defining the priorities for spending.

### **Financial Reporting**

Including making regular reports to the committee or ensuring it receives reports from staff; ensuring that committee members and ordinary members at the AGM understand financial information and reports; preparing financial reports and accounts; ensuring the committee and members receive an end-of-year financial report; ensuring accounts are audited and presented to the AGM (if required).

### **Banking And Book Keeping**

including choosing and opening accounts; acting as a signatory on accounts; drawing up and monitoring financial systems and procedures; ensuring money owing is collected and payments owing are made; ensuring proper records are issued and kept; ensuring all income is paid into the bank and monitoring financial accounts and records to detect theft or fraud.

### **Controlling Assets**

Including that materials are not stolen or wasted; that major assets are being used properly and their value maintained as much as possible; keeping records of leases or titles to property; and that property is properly insured and protected from loss.

# CONSENSUS DECISION MAKING

Most organisations do not use consensus to make decisions. Either they are based on an unequal power relationship and authority is focussed in either an individual or a small decision making elite (for instance, most businesses and many families) or they use majority-rule decision making (for instance political parties).

But consensus can be a powerful tool for building group unity and choosing more creative, better courses of action. But consensus must be made to work or it can lead to confusion, stalled decisions or unrest in the group.

Using consensus, each member must be treated as if they had an important opinion worth listening to. The goal of meeting is to create unity, not winning the argument. Because everyone is contributing, more creative solutions may come to the fore. And because all have contributed to the discussion and agreed, the decision is more likely to be accepted by all.

In traditional meetings where voting takes place, new ideas are often seen as a threat and the minority can be unhappy about the decision, either ignoring it, staying away or sabotaging the decision. Conflicts occur and if the majority will not give way they will fester and keep re-emerging.

Consensus cannot avoid arguments. In fact, conflict often makes people think harder and more deeply about a problem. If the group is founded on consensus they are more likely to work to overcome disagreements now for the sake of unity.

Consensus decision making must overcome years of 'education' to be competitive. You must learn new skills and attitudes and practice often.

## Different Types Of Decision

	Advantage	Disadvantage
Secret voting	Equal power Open to outside influence No debate	Sometimes we get it wrong
Public show of hands	Quick, clear, equal See who votes how	Open to pressure/passion Minority identified, isolation
Delegated voting	Mandated so accountable	Inflexible, slow, complicated
Representative voting	Flexible	Not necessarily representative
Unanimous	Satisfactory, powerful	Lowest denominator, slow, size?
Crisis management	Forces decisions	Bad for health, dangerous
Unilateral decisions	Blame clear, quick	Unfair, open to manipulation
Boss/autocracy	Quick, offers security	Creates dependency, resentment

## Consensus Decision Making : Step By Step

- 1 : **State the problem** : What are we talking about?
- 2 : **Clarify the question** : What needs to be decided?
- 3 : **Discussion** : What are all the viewpoints?
- 4 : **Make a proposal** : What action will the group take?
- 5 : **Discussion** : What are the good points, what concerns do people have?
- 6 : **Friendly amending** : What changes would make the proposal acceptable?  
If not, withdraw the proposal and go back to steps 5 and 6.

7 : **Testing for consensus** : Call for concerns. Call for objections and test if objectors:

- (a) will accept while not supporting;
- (b) will accept despite reservations;
- (c) will accept others taking action even if they can't.

Now test for blocks, where members will actively try to prevent the decision being implemented because of anxiety, principle, beliefs etc.

8 : **Getting agreement** : If the decision was blocked, go back to step 1.

If you reach step 7 without any blocks, restate the decision and record it, together with everyone's agreement.

9 : **Implementation** : Who will volunteer to do what?

## Dealing With Problems

There are a number of well-documented ways in which a group using consensus for the first time can run into problems. They (and the answers to the problems) are:

1 : One or a few individuals block decisions to further themselves.

**Solution** : Create a structure for meetings where everyone can participate.

2 : The group is dominated by outspoken or intimidating people.

**Solution** : Be clear at all stages about what is going on.

3 : A long time is taken to reach decisions and meetings wander.

**Conclusion** : Develop a systematic procedure for consensus and stick to it.

4 : People become exhausted over time due to greater involvement needed.

**Conclusion** : Agree to vote if consensus cannot be reached after a specified time.

## How Well Does The Group Work?

Use this sheet to review how well you worked as a group during training exercises or at meetings you have been involved in.

How was the discussion that has just taken place organised?

Was a certain amount of time allowed for each question or contribution?

Did everyone speak equally?

Did anyone seem more influential than others? Why was this?

Did anyone help others to speak? How did they do this?

Were there any disagreements? How were they resolved?

Who spoke most?

Did you want to say something but felt unable to?

How could the meeting be better organised?

How could you make sure everyone participates?



# CHARACTERS YOU MIGHT MEET IN GROUPS

People behave in lots of different ways in groups. They can be helpful or unhelpful or both at different times. Roles can change and may be viewed in different ways by different people within the group. When working with groups you have to be able to encourage helpful behaviour and control or redirect unhelpful behaviour.

Helpful Types	But May Become...
<b>The Organiser</b> Helps structure things, get things going	<b>The Fussbudget</b> Worries about everything  <b>The Nit-Picker</b> Obsessed by trivial details, over-thorough  <b>The Pedant</b> Stickler for procedures, inflexible
<b>The Summariser</b> Helps group take stock, expresses ideas in a concise form	<b>The Detached Observer</b> Refuses to deal with details, doesn't want to look at real life
<b>The Clarifier</b> Makes complicated items clearer	<b>The Monopoliser</b> Thinks they're the only one who knows anything; goes on and on
<b>The Initiator</b> Gets things going, takes risks	<b>Me First</b> Always has to have their ideas discussed first, keeps jumping in
<b>The Barometer</b> Checks on people's feelings	<b>The Therapist</b> Over-concerned with feelings even when they're not a problem
<b>The Volunteer</b> Takes on (any) tasks	<b>The Martyr</b> Lets everyone know how necessary they are

Helpful Types	But May Become...
<b>The Rock</b> Takes on thankless tasks and gets them done	<b>The White Knight</b> Always charges to the rescue even if the problem is being handled
<b>The Encourager</b> Gets quiet people to participate	<b>The Guilt Tripper</b> Puts people on the spot, under pressure
<b>The Conciliator</b> Helps people work through disagreements	<b>The Hot-Seater</b> Pushes other people into a problem area to avoid going themselves
<b>The Pragmatist</b> Seeks practical solutions	<b>The Damp Squib</b> Overly-practical, deflates people by undermining excitement
<b>The Fool</b> Brings light relief, re-energises	<b>The Joker</b> Always fooling around, prevents people taking things seriously
<b>The Idealist</b> Keeps the vision alive	<b>The Dreamer</b> Impractical, ideas too way-out
<b>The Historian</b> Remembers things done in the past and how they turned out	<b>The Old-Timer</b> Always goes on about the good old days, how it's been tried before
<b>The Focuser</b> Moves things from the abstract to the specifics	<b>The Personaliser</b> Turns issues into personalities and personal inadequacies
<b>The Consensus Person</b> Agrees for the sake of the group	<b>The Yes-Person</b> Goes along with whatever is being suggested even if not best for them
<b>The Objective Person</b> Provides an external perspective	<b>The Observer</b> Not participating  <b>The Lone Wolf</b> Always criticises but never commits to the group  <b>The Cynic</b> Sceptical, disillusioned, 'why bother'

Helpful Types	But May Become...
<b>The Connector</b> Points to separate but related issues	<b>The Red-Herring</b> Goes off into irrelevant areas  <b>The Drifter</b> Attention always wandering
<b>The Welcomer</b> Takes new people under their wing and helps them become part of the group	<b>The Patriarch</b> Insists on obeying the rules (their rules)

# HOW TO DESTROY A SUPPORTIVE COMMUNITY

Community organisations exist in the public arena. Conflict, arguments about directions, poor management, wasted resources, crises and problems can never be hidden for long and are all ammunition for people who may want to undermine or weaken an organisation serving the community or the community itself. How does it happen?

## Typical Destructive Strategies

- Weaken and destroy the financial and strategic infrastructure
- Destroy or weaken the groups supporting your ideas and activities
- Promote alternative provision or methods
- Let yourself be seen as part of the problem
- Provide incentives for people to use other providers
- Provide disincentives for people to use your services
- Create dependencies (on you)
- Publish/spread propaganda against the project
- Expose inadequacies/problems to users

## More Negative Strategies And Actions

Within the local environment, the way in which people try to undermine an organisation which includes for instance councillors, officers, supporters, users, user's families etc] is to:

- Question the outcomes claimed by the organisation
- Question its legitimacy with users
- Divide users from other supporting organisations e.g. Council, Charitable funders etc
- Put forward or support unrealistic ideas that are likely to fail or be difficult to achieve
- Encourage conflict, stir things up
- Take sides with factions
- Support authoritarian or exclusive management styles
- Promote conflicts or divisions between users

- Make lots of demand for time to be spent on marginal, non-core activities
- Promote lots of activities, thus dividing people into different areas of work
- Use wrong structures internally
- Use bad or complex financial accounting and reporting methods
- Increase personal costs: long, boring or angry committee meetings!

Many workers and volunteers do these things inadvertently. Community-based organisations don't involve people in decision-making, abuse the loyalty and commitment of people without meaning to, use language and terms newcomers don't understand, use complex procedures or don't explain how things are meant to work to everyone. This leads to misunderstanding, misperceptions, gossip, conflicts, people getting frustrated or alienated, and this in turn makes management difficult and provides levers for hostile groups or individuals to use against the organisation.

# DECISION MAKING BY CONSENSUS - THE DESERT SURVIVAL PROBLEM

A problem-solving activity to test the ability of a group to reach consensus.

## The Situation

It is early morning and a light plane you have been travelling in has crashed in the Sonora Desert, USA killing the pilot and co-pilot. No-one else has been injured. No SOS was sent out but you know that you are about 50 miles off your flight plan and the nearest town is 70 miles away to the north-east. The area nearby is flat but barren and it is likely the temperature will reach 110°F or even higher at ground level. You are dressed in lightweight clothing, each have a handkerchief, a total of \$43.53 in coins and notes, a pack of cigarettes and a ball-point pen.

## The Problem

One participant is to act as an observer and report on what they see/hear. The others must tackle the following problem:

You managed to salvage 15 items before the plane caught fire. Individually, rank the 15 items in order of importance for your survival with '1' most important, '15' least important. Do not discuss your ranking with other survivors yet. You have 10 minutes.

When you have assigned all fifteen items discuss your rankings as a group. You may elect a chairperson or not. Try to come up with an agreed ranking for the items. You have twenty minutes. Once you have decided, one person should report and the observer should comment (if necessary) on the group's performance.

## The Items

- A pair of sunglasses per person
- Brightly coloured parachute
- Flashlight
- 1 quart of water per person
- 1 top coat per person
- Magnetic compass
- Kit for cuts
- Air map of the area
- 2 quarts of vodka
- Cosmetic mirror
- Book : Edible Desert Animals
- Salt tablets
- Jack-knife
- 45 calibre pistol
- Plastic raincoat

## Decision Sheet

Item	Your Priority	Group Priority	Answer
A pair of sunglasses per person			
Brightly coloured parachute			
Flashlight			
1 quart of water per person			
1 top coat per person			
Magnetic compass			
Kit for cuts			
Air map of the area			
2 quarts of vodka			
Cosmetic mirror			
Book : Edible Desert Animals			
Salt tablets			
Jack-knife			
45 calibre pistol			
Plastic raincoat			

## Desert Survival : The Answer

- 1 : **Cosmetic Mirror** - Absolutely vital, the best means to communicate your position.  
This one item gives you an 80% chance of being found within 24 hours.
- 2 : **Top Coat Per Person** - Coat decreases air flow across body and hence dehydration.  
Increases survival chances by one day.
- 3 : **1 Quart Of Water Per Person** - Would not significantly lengthen survival time but would delay dehydration and let you stay clear-headed longer.
- 4 : **Flashlight** - For night signalling. During day lens could be used to start a fire and the jacket could be used to catch distilled water.
- 5 : **Brightly Coloured Parachute** - Shelter (night and day) and signalling device.
- 6 : **Jack-knife** - Useful for cutting parachute or opening up tough cacti for moisture.
- 7 : **Plastic Raincoat** - Useful for distilling small amounts of water from a solar still.
- 8 : **45 Calibre Pistol** - Again, a signalling device particularly if you can't walk anymore.
- 9 : **Pair Of Sunglasses** - Desert blindness could be a problem Day 2 onwards so sunglasses are useful, though taking cover under the parachute would help.
- 10 : **Kit For Cuts** - Dehydration thickens blood and reduces risk from cuts but materials could be used as rope or covering areas exposed to dehydration.
- 11 : **Magnetic Compass** - Not much use since no-one should be trying to walk out of the desert.
- 12 : **Air Map Of The Area** - Useful to start a fire, as toilet paper or a head covering.
- 13 : **Book : Edible Desert Animal** - Dehydration is problem not starvation.  
Hunting would use up massive amounts of water as does eating.
- 14 : **2 Quarts Of Vodka** - Lethal, alcohol increases dehydration. Could be used to start a fire.
- 15 : **Salt Tablets** - Physiology has proved salt tablets useless at best.



# 8.6

## PLANNING AND PERFORMANCE; SOCIAL ACCOUNTS

- Why People Plan
- Monitoring A Project's Performance
- Social Accounting
- Social Accounts Template
- Environmental Audit Of Your Office - REAP's Green Office Checklist

# WHY PEOPLE PLAN

## Reasons Why People And Organisations Plan

People and organisations make plans for a variety of reasons. Understanding why plans are being made is vital to assessing the viability of the plan and appraising its chances to succeed. The main reasons for making plans are:

### Routine/Habit

Planning has become part of a regular, reflex process. In such a situation the organisation is likely to be immune to new ideas or ways of working and will have limited, 'maintenance' objectives.

### Response To External Change

The organisation senses a threat to its survival or attack on its objectives, or perceives an opportunity. Planning will have a clear aim but this aim may not be universally accepted since the level of threat or extent of opportunity and the boundaries being set by planners may not be perceived in the same way.

### Something Wrong Inside

Organisations (and the people working in them) often need to feel secure in their beliefs and their relationship to the organisation. How and why they participate sometimes needs to be clarified. And the aims of the organisation must be re-stated.

## A Planning Culture

Some organisations, often new ones, plan incessantly and are driven by the need to plan or the belief that planning is useful in itself. Care is needed appraising the plans of these organisations since successful outcomes may be secondary to the planning process.

## Why Do 'Planners' Seek Approval?

Having drawn up a plan, why is it necessary to take it to some outside body for appraisal or approval?

### Seeking A Benefit Or Advantage Controlled Externally

A business plan rarely states that the aim of the Plan is to, for instance, secure funding. But if this is the case then the Plan has been drawn up with one aim in mind: to bring about a situation (for instance, a bank loan) that would not otherwise come about. It's aim is to persuade, change perceptions, bring about actions.

### Uncertainty/Insecurity

The people who have drawn up the plan or the organisation as a whole are uncertain about either its current situation, its future prospects or both. A key sign of this is gaps in the presentation or missing information. The planners want someone to 'put it right' so they will have more confidence in it.

### The Politics Of Power (External)

Often those who plan or authorise planning are in a position of power in relation to others. They use the plan and the approval of outside organisations and experts as a way of maintaining their power. A typical example is a Board of Directors presenting a bank-approved plan to shareholders.

### The Politics Of Power (Internal)

An external expert or arbitrator may be called in to settle an argument between rival groups or to enable one side to build its case vis-a-vis 'the enemy' (to consolidate its authority for instance). In such a situation the whole planning process may be viewed with suspicion by minority or powerless groups, it may simply be used to score points or plans made may be impossible to implement because of apathy or resistance.

### Getting The Balance Right

An appraisal must test the balance between social, commercial, human and organisational objectives, especially at the start of a project. If a plan is being 'driven' by only one objective, for instance profit, it may not succeed or will only succeed after a lot of trouble.

### Using Group Dynamics

Within a group, or as soon as one is formed, differences in experiences, skills, aspirations, needs, create a **dynamic process** that must be understood, related to and used to power or enable the planning process.

## Plans Made Without Hierarchies

Groups without hierarchies cannot depend on their authority or superior power-relationship with others to get a plan accepted and implemented. Also, where the Plan depends on others to make decisions or act in ways they would not normally and who cannot be compelled to change, for instance local councillors, a whole range of problems may arise.

### Clear Objectives And Aims

For plans to succeed there must be a **shared vision** and the plan must include ways to obtain or keep the imagination, energy, commitment and support of members. Any appraisal must assess the understanding and enthusiasm of the people proposing the plan and others.

# MONITORING A PROJECT'S PERFORMANCE

## Aims And Objectives

All organisations will have a set of aims and objectives set out in a business or organisational plan. Assessing the relevance of these aims to continuing activities must be periodically reviewed.

- When were the aims of the organisation last reviewed?
- Are these aims understood and accepted by members, staff, officers, supporters?
- How clear are these aims? Could a new member easily understand and identify with them?
- Do resources and methods used by the organisation match its aims?
- What arrangements ensure that new members, users or supporters understand their role and relationship with the organisation?

## Organising Work, Managing Resources

A business plan sets out how the human resources of an organisation will be used to achieve its aims and objectives. Monitoring performance will need to look at how roles and responsibilities are divided.

- Are the different roles of members, staff and officers understood?
- Do roles and responsibilities mix well? Do they conflict?
- Does the way in which resources are deployed match the short- and medium-term aims of the organisation?
- When roles or the people undertaking them change, is there a procedure for monitoring performance and correcting problems?

## Responsibility For Action

A business plan will also set out a series of actions or program by which the organisation will achieve its aims and objectives.

- Has responsibility for action and monitoring outcomes been assigned ?
- What action will be taken if the organisation fails to achieve its aims? Who will report this to who?
- When action is taken should anybody be consulted or informed? Have procedures been followed?

## Reviewing Performance

A business plan will often set out concrete measures of performance, for instance turnover or sales. These targets should be compared to actual performance; where there is major difference action may be needed.

- Have records been kept which allow analysis of performance?
- Are there up-to-date figures which customers, users, funders or supporters may find useful?
- How often does the organisation review its activities in relationship to other organisations acting in the same or related areas?

# SOCIAL ACCOUNTING

Social accounting is a process that enables an organisation to assess, report, and improve on its social, economic, community and environmental strengths and limitations rather than its financial ones. The aim being to gather each stakeholder group's views and perspectives on what they consider to be the significant indicators as to how well, or not, the organisation is achieving its aims and objectives.

## Social accounting is:

- Done from the inside, with and by the people involved, increasing a sense of ownership of the process, outcomes, and resultant targets and recommendations.
- Approached from 'the bottom up' as opposed to the usual 'top down' method.
- Part of an ongoing process rather than being done after the event.
- A positive process.

Preparing a set of social accounts is done by assessing and monitoring the views of all the organisation's stakeholders. This includes employees, clients, service users, funders, volunteers, and service deliverers. In fact any person or organisation that has an interest or investment in the organisation. Although social accounts are generated by the organisation themselves, a fully independent external facilitator or

panel is usually used to verify the accuracy and objectivity of the accounts by way of a social audit.

The audit results in a systematic, documented measurement of the social performance of the organisation, which allows targets to be set to improve this performance and ensures that progress is consistent with the expectations of the stakeholders and the aims of the organisation.

The social accounting process is usually co-ordinated by a key person within the organisation. Using the aims and objectives of the organisation as the starting point and through liaison with other stakeholders in the organisation, this co-ordinator designs, analyses and documents all the information collected during the accounting process. Allowing all stakeholders to have a say in the process ensures inclusivity, however not all organisations can or wish to include all stakeholders every time a set of social accounts is produced. If the undertaking is too large for example, it is perfectly acceptable to defer a group of stakeholders until the next time the process is carried out, as long as this is explained in the accounts and details provided of when the stakeholders will be included. Information can be collected through a variety of methods including surveys, questionnaires, workshops, focus groups, and case studies.

It is important to recognise that social accounting and audit is not a one-off process. It is often done in 12-month cycles resulting in the establishment of social book-keeping and annual social audit reports providing valid information on the organisation's performance against its social objectives.

These reports can then be used in the organisation's strategic planning process to enhance performance and improve social impact. In addition, making the results of the accounting and audit publicly available, including both successes and limitations, requires a commitment to openness and accountability, thereby increasing the accountability of the organisation to all its stakeholders. Social accounts are also a valuable starting point when applying for quality marks and an effective tool for marketing and promotion.

Each organisation can tailor the social accounts to fit their own needs. This ensures that baseline information and eventual results are specific and relevant.

Other benefits of social accounting include:

- Providing a powerful argument for the inclusion and involvement of an organisation in the formulation and delivery of regeneration policies. This is especially valid in the case of the voluntary and service delivery sectors.
- Direct stakeholder participation allowing for policies, which are representative and effectively reflect the aims and values of the organisation.
- Enhancing the democratic process by
  - a) allowing all stakeholders to have their views heard and taken into account.

- b) Allowing greater involvement of all stakeholders who are affected by the activities of the organisation.
- c) Embracing openness and accountability.

- Provides a means of identifying and addressing issues that are often regarded as 'unmeasurable', or as 'soft outcomes'.
- Provides a way of measuring value for money, additionality, cost effectiveness, social impact, and social benefit of projects and activities. All of these are becoming of increasing importance to potential funders.
- The Department of Environment Sustainability Indicator uses the phrase 'empowerment and participation'. This is almost impossible to measure as it can mean many different things to many different people. A social audit provides a way of reporting on these outcomes.
- Allows feedback to link in with what is currently happening within the organisation, thereby not focusing on past events.
- Aids identification of target themes and priorities.
- Helps to identify social objectives.
- Aids short, medium, and long term planning.
- Increases staff motivation by encouraging involvement in the development of company policy and target setting.
- By ensuring confidentiality is maintained, creates a culture that encourages honest feedback.
- Generates new ideas and methods.
- Ensures the organisation is kept in touch with needs and expectations of stakeholders.

- Helps to identify and co-ordinate roles within the organisation.
- Identifying capacity building needs.  
There are three stages of learning:  
Unconsciously incompetent - merrily working away, being totally wrong and being totally unaware you are wrong.  
Consciously incompetent - knowing that what you are doing is not quite right and recognising that you need to do something to rectify the situation.  
Consciously competent - knowing that what you are doing is the right way.  
Or, having recognised that you are consciously incompetent, you have undertaken training.
- Increases external awareness of the social and community aims and achievements of the organisation.

To summarise; social accounting and audit is a framework to help clarify an organisation's values and objectives, report on performance against their objectives, and demonstrate social, environmental and economic outcomes/impacts, emphasising stakeholder engagement. More information about how to prepare a set of social accounts and conduct a social audit can be obtained from the Social Audit Network [www.san.org](http://www.san.org)

As well as social accounting and audit there are other methods and tools available that allow organisations to measure their impact and prove value, some of these are listed below:

**AA1000 Assurance Standard** - A standard for assessing an organisation's social, environmental and economic reporting process, that aims to facilitate accountability processes and overall organisational performance via effective stakeholder engagement.

**Co-operatives UK Key Social And Co-operative Performance Indicators** - Ten indicators that capture social and environmental performance to help co-operatives and other organisations determine how they measure up to co-operative values.

**Development Trusts Association Healthcheck** - A guide to good practice for development trusts and other community and social enterprises allowing them to assess their progress against development trusts' values.

**Investors in People Standard** - A business improvement tool designed to advance an organisation's performance through improving the management and development of its employees.

**LM3** - A DIY method for showing the effect of an organisation's spending on its local economy, highlighting where it can improve its local economic impact.



**PQASSO** - A holistic quality management system designed specifically for small voluntary organisations, helping organisations to take a systematic overview of their activities and decide where improvements are needed.

**Prove It!** - A participative method for measuring the effect of community projects (or other projects) on local people, on the relationships between them and on their quality of life.

**Social Firm Performance Dashboard** - An internal management tool for business improvement geared towards social firms.

**Social Return on Investment (SROI)** - A method for comparing the monetised value of social benefit created by an organisation or initiative with the investment needed to create that value.

Details of these and other tools can be found on the new economics foundation prove and improve website [www.proveandimprove.org](http://www.proveandimprove.org)

# SOCIAL ACCOUNTS TEMPLATE

## Sample Cover

<p><b>Social Accounts</b></p> <p>Name Of Organisation</p> <p>Draft Social Accounts</p> <p>1st April 200? - 31st March 200?</p> <p>Organisation Address/Contact Details</p>
<b>Acknowledgements</b>
<p><b>Contents</b></p> <p><b>1 : Introduction</b></p> <p><b>2 : History And Background</b></p> <p>2.1 History Of The Organisation</p> <p>2.2 Background To The Social Audit</p> <p><b>3 : Mission, Values, Objectives And Activities</b></p> <p><b>4 : Stakeholders</b></p> <p>4.1 The Stakeholder Map</p> <p>4.2 Key Stakeholders</p> <p><b>5 : Scope Of The Social Audit</b></p> <p>5.1 Methodology And Social Book Keeping</p> <p>5.2 Stakeholder Consultations</p> <p>5.3 Omissions</p> <p><b>6 : Analysis Of The Social Accounts</b></p> <p>6.1 Values</p> <p>6.2 Objectives and Activities</p>

7 : Other Views Of Stakeholders

8 : Environmental Impact

9 : Compliance

10 : Financial Information

11 : Main Issues, Conclusions And Recommendations

12 : Problems And Weaknesses With The Social Audit Process

13 : Future Plans

13.1 Dissemination And Dialogue

13.2 Follow-up Action

13.3 The Next Social Audit Cycle

#### **Appendices (For Example)**

The Social Accounting Plan

Examples Of Social Book Keeping Systems

Copies Of Questionnaires Used

Copies Of Interview Structures/Focus Groups Used

Summary Reports Of Surveys, Focus Groups etc.

Copy Of Previous Year's Social Audit Panel Notes

## 1 : Introduction

Explain briefly how, when and why your organisation became involved in social accounting and audit.

## 2 : History and Background

### 2.1 History of the Organisation

Briefly describe your organisation and the area in which it works. Explain when it was set up and its legal structure, the management structure, how it is funded, how many people work for it. Include a brief summary of the current work and its scale (e.g. numbers of clients) and any other any useful background information which you feel will help readers understand the background to the social accounts.

### 2.2 Background To The Social Audit

Explain the period of the social audit year, who did the work and how the social accounting process was managed within the organisation.

## 3 : Mission, Values, Aims And Objectives

Explain when, how and by whom these were agreed and include them in their entirety.

## 4 : Stakeholders

### 4.1 The Stakeholder Map

Give the full list of stakeholders identified for the project and then the list of those who were considered to be the key stakeholders and to be consulted as part of the social audit.

### 4.2 Key Stakeholders

Explain who decided the key stakeholders and when and how that was done. Explain if any key stakeholders have been omitted and why.

## 5 : Scope Of The Social Audit

### 5.1 Methodology And Social Book Keeping

Describe the social book-keeping methods you have used and identify any new systems of record-keeping forms you developed for the social accounts > put copies in the appendices.

### 5.2 Stakeholder Consultations

Describe how you decided to consult stakeholders; explain the response rates to the various questionnaires, explain how the surveys were analysed and by whom. If focus groups or other forms of consultation have been used explain how they were carried out and by whom. Also explain any of the 'glitches' which occurred and if there were any parts of your social accounting plan which were never completed.

### 5.3 Omissions

Identify which key stakeholders were not consulted and explain why not or if it is intended to consult them in a future social audit cycle.

## 6 : Analysis Of The Social Accounts

### 6.1 Values

Report the results of consulting stakeholders about how far your organisation lives up to its values. If possible, show comparisons between the views of different stakeholder groups.

### 6.2 Objectives And Activities

In this section you will report on all of the activities of each of the stated objectives. Start first with some descriptive sentences which explain what is done and gives the relevant facts and figures about the scale of the activity. (Descriptive and quantitative).

Sometimes you may have to simply state that a particular activity has not been done, or that you have no facts and figures to back up the description. Then report what the different stakeholders thought about the work done (qualitative > what the stakeholders think). Finally, add any comments of your own, highlighting the important points and/or interpreting /explaining the findings (commentary). Remember that you should write something for each activity of each objective.

### 7 : Other Views Of Stakeholders

In this section you will report any views of stakeholders which have not found their way into the previous section. This is likely to cover: their views on the priority and relevance of the objectives and suggestions for new objectives or activities; the responses from different stakeholder groups on questions put specifically to them (for example to partners about what it is like working in partnership with your organisation; or to funders about value for money etc); any other suggestions or overall comments from stakeholders.

### 8 : Environmental Impact

In this section you will report on any environmental policies and practices which your organisation has adopted and your impact on the environment. It may be that these matters have already been covered in your detailed report on objectives and activities. (See the REAP Green Office Checklist at the end of this section)

### 9 : Compliance

Here you should explain which statutory standards you keep to (for example: explaining that you have and implement an equal opportunities policy, health and safety requirements etc.) and if you also meet any additional voluntary standards (for example: Investors in People).

### 10 : Financial Information

This section should include the financial information about your organisation. Try to use the most up-to-date and might just be the abbreviated finance information you include in you Annual Report. It should include where you get your income and how much it is; and how the money has been spent. Ideally it should be the financial information on the period of the social audit.

### 11 : Main Issues, Conclusions And Recommendations

These are your summary of the main issues which arise from the social accounts. If you have identified them in the commentary sections of the analysis of the social accounts then you can simply repeat them here and draw the conclusions and recommendations you think appropriate. There may be conflicting views from different stakeholder groups which can be highlighted here.

### 12 : Problems And Weaknesses Of The Social Audit Process

In this section you reflect on the experience of preparing the social accounts and note the problems > and also the good bits!

## 13 : Future Plans

### 13.1 Dissemination And Dialogue

Explain how you intend to report back the findings to the various stakeholders and how you intend to enter into discussion with them about any important issues which have arisen.

### 13.2 Follow-up Action

Explain how the organisation intends to follow-up the issues and recommendations raised by the social accounts.

### 13.3 The Next Social Audit Cycle

Include your proposals for continuing with social accounting and audit or, if you have decided not to continue, explain why this is.

## Appendices (For Example)

The Social Accounting Plan And Book Keeping System

Record Keeping Forms Which Have Been Devised For The Social Audit

Copies Of Any Questionnaires Used

Copies Of Interview Structures/Focus Groups Used

Summary Reports Of Surveys, Focus Groups etc.

Copy Of Previous Year's Social Audit Panel Notes

# ENVIRONMENTAL AUDIT OF YOUR OFFICE - REAP'S GREEN OFFICE CHECKLIST

## Introduction

This green office checklist was compiled by REAP based in Morayshire, Scotland. Organisations that are mainly office based can use this checklist to report on their environmental impact. This is included in the Social Enterprise Business Plan and used as a baseline for future improvements on the environmental front.

## Green Office Checklist

### 1 : Paper

	Yes/No	N/A
<p>Are photocopies double sided?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Are envelopes opened carefully and stored for re-use?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Are non-essential copies photocopied on re-used paper?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Is scrap paper turned into useful notepads?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		

	Yes/No	N/A
<p>Is email used whenever possible?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Are copy documents kept on disk rather than paper?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Does the office use recycled paper?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Does the office refuse or return junk mail?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		

## 2 : Energy

	Yes/No	N/A
<p>Does your office source any energy from renewable sources?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Are hot water pipes and tanks properly insulated?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		



	Yes/No	N/A
<p>Is the water temperature comfortably hot?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Are lights always turned off in empty rooms?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Are lights turned off as soon as there is enough daylight?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Are windows kept clean, free from obstructions etc?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Are all lights energy efficient?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Are electrical equipment, PC monitors, photocopiers etc switched off when not in use?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		

	Yes/No	N/A
Are boilers regularly serviced?  Action Notes :   Time Scale : Cost :		
Are heating thermostats used?  Action Notes :   Time Scale : Cost :		

### 3 : Office Supplies

	Yes/No	N/A
Are long life products chosen over short life ones? Action Notes :  Time Scale : Cost :		
Are materials bought in large packs to avoid excessive packaging? Action Notes :  Time Scale : Cost :		
Do you purchase eco-efficient or 'green' products? - recycled, refillable, water based ink etc. Action Notes :  Time Scale : Cost :		
Do you use paperclips rather than staples? Action Notes :  Time Scale : Cost :		

#### 4 : General Office

	Yes/No	N/A
<p><b>Is the toilet paper / hand towels made from recycled fibre?</b></p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p><b>Are aerosol products with CFC propellant avoided?</b></p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p><b>Are products made from tropical hardwoods avoided?</b></p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p><b>Are long life products chosen over short life ones?</b></p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p><b>Are dripping taps repaired quickly?</b></p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p><b>Have low flush volume WCs been installed?</b></p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		

	Yes/No	N/A
<p>Do you use environmentally friendly cleaning materials?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Do you use washable cups rather than disposable ones?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Do you purchase fairtrade or organic tea and coffee?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Do you purchase supplies from local shops?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Is your fridge door seals clean and seal shut?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Are any outside areas around the office managed for the benefit of wildlife?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		

## 5 : Recycling

	Yes/No	N/A
<p><b>Is all used paper saved for recycling?</b></p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p><b>Does the office store then recycle glass, cans etc?</b></p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p><b>Does the office separate and compost materials?</b></p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p><b>Is there a paper recycling bin next to the photocopier?</b></p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p><b>Does the office recycle its electronic equipment, toner cartridges etc?</b></p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p><b>If plastic cups are used are they recycled?</b></p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		

	Yes/No	N/A
<p>Are you utilising recycling opportunities by co-operating with nearby businesses?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		

## 6 : Transport

	Yes/No	N/A
<p>Do employees have access to dry, secure cycle storage?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>If you have pool or company cars do they run on unleaded petrol or diesel?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Do you have information available on prices and timetables of public transport?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Are meeting times organised around public transport timetables?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		

	Yes/No	N/A
<p>Are office working hours flexible enough to allow people to use public transport?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Do cyclists receive preferential mileage allowance?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Are employees taught and encouraged to drive in an environmentally friendly manner?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Is it policy to use buses for business purposes whenever possible?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		

## 7 : Health And Safety

	Yes/No	N/A
<p>Is fresh fruit available alongside biscuits at break time or for visitors?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Is clean drinking water available?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Are house plants grown in the office to lower stress and absorb chemicals?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Are sick building syndrome problems identified and corrected?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Is sitting at the computer for long hours discouraged?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Are policies on lone working, safe use of equipment etc enacted?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		



## 8 : Implementation

	Yes/No	N/A
<p>Is there a green office noticeboard in a prominent position?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Does the office have a suggestion box for environmental ideas?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Does the office hold events with a green theme? e.g. a stationery amnesty</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Does the office have an environmental policy?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Is there an opportunity to raise environmental issues at staff meetings?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		
<p>Is resource use monitored and are environmental effects audited?</p> <p>Action Notes :</p> <p>Time Scale : Cost :</p>		

# 8.7

## ACCOUNTS AND FINANCE

- Keeping Account
- The 'Books'
- Keeping Books
- Tax And National Insurance For Employees
- Sources Of Information And Help
- Corporation Tax
- VAT And The Social Enterprise
- Entering Ledger Details Exercise

# KEEPING ACCOUNT

## 1 : Don't Get Personal!

- Open at least one bank account for the business only. Don't mix personal money and 'business' money. Don't 'borrow' from the business.
- Make sure two people sign each cheque, so there's a check on the cheques! (Fill in the stub with details of date, amount and person paid: it's easier than trying to remember later.)

## 2 : Use The Bank

- Any cash you get, pay it into the bank. Make sure all money goes through the bank account - in and out, (then you've got a record).
- Safety - don't keep cash in your pocket or in a drawer, pay it in.
- Then, check the bank! Go through the bank statements and make sure you agree with every entry, in and out.

## 3 : Don't Throw Anything Away

- Keep all cheque books and paying-in books, even when used up. Keep all invoices, receipts and statements. If you have to send an invoice back with a payment, keep a copy.

## 4 : Keep Up To Date

- 'Doing the books' always seems harder the **more** there is to do. If you can spend ten minutes a day, it's easier than an hour at the end of the week. But an hour at a weekend is easier than a day at the end of the month.

- If bored, share the work - it's more fun with two! And there's someone there to check your sums at the end, so that you don't carry mistakes forward.

## 5 : The VAT Man Cometh

- Don't forget the VAT man. Ask for a VAT receipt if the things you buy have VAT on them. Get training to fill in VAT separately in your cash book. Check turnover regularly, and register for VAT if you exceed the current limit. If you don't, there may be a problem later. The VAT man never forgets!

## 6 : Don't Get Complicated

- Only use the minimum books that you need. Don't buy a complicated system 'off the shelf' if it's too much for you.

## 7 : Computerised Accounts

- If you do intend to use a computerised accounts system then do some research and find the system that is best for your organisation. Make sure that you get full training on how to operate the system. Some systems will come with training included in the purchase price and you should ask at the time of purchase.

# THE 'BOOKS'

## What You Will Need (Probably)

A cash book (or day book) (or bank account book) to record:

- Cash receipts and payments into the bank
- Cheque payments (and cash withdrawals by cheque)
- Standing orders and direct debits

A petty cash book to record:

- Cash withdrawals by cheque
- The 'float' of cash kept in the office
- Small day-to-day cash payments, e.g. stamps, milk, window cleaner

A wages book to record (for each staff member):

- Gross earnings
- Tax paid, National Insurance contributions, pension contributions
- Net pay
- Employer's National Insurance contributions (keep up to date, requirements are laid down by the DSS and Inland Revenue and may change from time to time, e.g. in the Budget)

## Books To Use To Record When You Make Payments

If you buy something today (and pay for it) make sure it is recorded in the cash book **and** if you bought something last week (and got an invoice), then pay for it today, the payment is recorded in the cash book too.

## Books To Use To Record Sales And Purchases

You may wish to note all sales as they are made, each day, (and send out invoices later) and record all purchases made each day, (that you will be paying for later). In that case, use:

- A sales day book, to record all sales as they happen
- A purchases day book, to record all purchases as they happen

This will give you a picture of what happens in the business each day, as it happens, rather than when you or your customers pay for goods and services.

## Books To Use When Sales And Purchases Take Place Regularly

You will probably want to record sales to regular customers and purchases from regular suppliers, as it will help you keep track of who owes whom at any time. You will need:

- A sales ledger to record a personal account for each of your regular customers
- A purchases ledger to record a personal account for each of your regular suppliers. ('Impersonal accounts', e.g. totals of income and expenditure, equipment purchase and disposal, can go in a general ledger.)

Finally your book keeping system should suit your accountant!

If you know you're going to have your accounts drawn up and/or audited every year, it will be helpful to have a system that your accountant will understand at a glance. Take their advice: choose an accountant at the start of your financial year and check that the accountant approves of your system, or can advise something better that suits them.

It will save you money when you come to pay your accountancy and/or audit fees!

# KEEPING BOOKS

## Why Keep Books?

### 1 : Legal Requirement

If you are a Company Limited by Guarantee (or a Registered Charity) you must keep accounts and have an annual audit.

### 2 : Reporting

You may be asked to explain what happened to grants and loans to funding and sponsoring bodies. You will have to report back to your members, and may have to report to the community if you're a community enterprise.

### 3 : Information For You

It helps you keep track of bills you owe; who owes money to you; and how much you have to play with.

### 4 : Financial Control

If you've got good records, then you know how much you've got. If you are in control of cash going in and out, you are more in control of your business. It helps you make decisions and plan the future: you will know how much you've earned so far, and that will give a good idea of how much you can expect to earn. Also, right here and now, you will know how much you have to spend.

### 5 : Facing 'Experts'

If you understand your books, you can meet bank managers and accountants with confidence. They won't be able to 'baffle you with science'.

## Why Do Some Businesses Fail?

Surveys show that a major reason is lack of good financial control!

### 'But book-keeping isn't fun!'

It has to be done. It's a matter of life and death to your business!

We need to answer these questions:

- Has our business made a profit? (Are sales greater than costs?)
- How much money do we have to use, now? (Excluding money we owe)
- Who owes our business money? How much? (Allowing for some not paying!)
- Who do we owe money to? How much? (And when? Can we delay payments to some?)

# TAX AND NATIONAL INSURANCE FOR EMPLOYEES

If the social enterprise has employees, you'll need to set up payroll arrangements. You have to work out and deduct your employees' Income Tax and National Insurance contributions from their wages and pay them to the Inland Revenue. You must also pay Employer's National Insurance contributions on staff wages and benefits.

## The PAYE System

Income tax is deducted from an employee's pay through the Pay As You Earn system, PAYE. You have to register as an employer with the Inland Revenue. You will be sent a PAYE reference number and a New Employer's Starter Pack. The pack comprises booklets and a CD-ROM that contain all the forms, tables and information you need to operate your payroll system and take you through everything step by step.

In the starter pack you'll find a form P11. You use this each payday to record the income tax and National Insurance due from each employee and the employer's National Insurance contributions you must pay, whether weekly or monthly.

The pack also contains a booklet - Paying Someone for the First Time - which explains in simple terms how to fill in a P11 and how to use the tables to work out how much tax and National Insurance is due. The CD-ROM contains an interactive learning package to help newcomers to running a payroll.

You'll need to find out the employee's National Insurance number and their tax code before you can fill in the form.

If they have worked before, ask the employee for parts 2 and 3 of the P45 form provided by their previous employer. This gives their National Insurance number and tax code, as well as details of their tax and pay to date in the current tax year.

If the employee doesn't have a P45, ask for their National Insurance number and get them to fill in the top part of the P46 form from your New Employer's Starter Pack. Use the table in the Paying Someone for the First Time booklet to work out the tax code to use from the information they've provided.

Then call the Inland Revenue New Employer's Helpline, who will tell you whether you need to send the P46 to the tax office.

Once you've filled in the P11, you know how much net pay goes to the employee and how much is due to the Inland Revenue. Other deductions such as pensions can also affect the size of the pay packet.

If you're asked, you may have to subtract student loan deductions from an employee's pay packet and pay them to the Inland Revenue. Record the student loan payments deducted in the relevant column of form P11 and add the deductions to the Income Tax and National Insurance that you are due to pay to the Inland Revenue.

You may also need to pay working tax credits to particular employees. Tax credits are funded by the Government and designed to top up low earnings. They are administered by the Inland Revenue, which will notify you if you have to pay tax credits to any of your staff and how much to pay. You record the tax credits paid to the employee in the appropriate column on the form P11 from the New Employer's Starter Pack.

You deduct the money you pay in tax credits from what you pay over each month or quarter to the Inland Revenue in income tax, National Insurance and, where applicable, student loan deductions.

If these payments are less than the tax credits you have been told to pay, you can apply to the Inland Revenue in advance for funding, using form TC711.

One-to-one advice on payroll matters is available from the Inland Revenue's New Employer's Helpline Business Support advisers, who offer consultations at a location convenient to you as well as running workshops. Call the Helpline for more details - its in the phone book.

## Paying The Employees' Tax And National Insurance And Employer's National Insurance

Tax and National Insurance contributions are paid to the Inland Revenue every month unless your business collects less than £1,500 a month, when it can be done quarterly.

Keep records of your total monthly or quarterly payments to the Inland Revenue on form P32 available in the New Employer's Starter Pack.

Tax and National Insurance contributions must be paid to the Inland Revenue by the 19th of each month. But if you collect less than £1,500 a month in income tax, National Insurance and student loan repayments, you can pay quarterly by January 19th, April 19th, July 19th and October 19th.

You will automatically receive a payment booklet from your Inland Revenue Accounts Office to send with your payments if you pay by post. You can also pay by BACS direct credit, your bank's telephone or Internet banking, Girobank Billpay or CHAPS.

## The Payslip

Employees have to be given a payslip or statement when they are paid. This sets out their gross and net pay and the amounts of tax, National Insurance and other deductions.



The itemised payslip or statement must show:

- Their gross wages or salary before you make any deductions
- Details of deductions from their pay which vary from one period to the next (income tax and National Insurance contributions, for example)
- Details of any fixed deductions which stay the same every pay period (such as trade union subscriptions)
- Their net wages or salary after tax
- A breakdown of payments if parts of the salary are paid in different ways
- The amount of Working Tax Credit paid, if applicable

Instead of itemising every fixed deduction in each pay statement, you can include them all on an annually updated standing statement. If there are any changes which affect the fixed deductions, you must inform the employee in writing or give them a new standing statement.

## Employees' Pay Records At End Of Tax Year

There are other forms that have to be sent to the Inland Revenue - and given out to your staff - at the end of every tax year.

The tax year runs from April 6th to April 5th and you can get all the necessary forms from the Inland Revenue Employer's Orderline. You send them to your tax office or file online at [www.inlandrevenue.gov.uk](http://www.inlandrevenue.gov.uk)

Don't forget to keep a copy for your own records.

For each employee for whom you have prepared a form P11 (see Working Out Tax And NI For Employees) you will need to fill in form P14. This is a three-part form; the top two copies must reach the Inland Revenue by May 19th each year. The bottom copy is a P60, which details the employee's total pay and tax and National Insurance contributions. You must give this bottom copy to the employee by May 31st each year.

Along with the P14 form, you have to complete a P35, which summarises all the P14s you have prepared. You will be sent a P35 automatically towards the end of the tax year and you must complete and return the P35 with your P14s.

Forms P11D and P11D(b) need to be filled in for all directors, and every employee who earns £8,500 or more a year and has been paid expenses or benefits that are taxable. It lists the taxable expenses and benefits provided to the employee during the tax year. You must send in the form to the Inland Revenue and give a copy to the employee by July 6th each year.

A P9D form must be sent to the Inland Revenue for each employee earning less than £8,500 a year who has been paid taxable expenses or benefits. You must submit the form and give a copy to the employee by July 6th each year.

## Tax Forms When An Employee Leaves Or Dies

In both cases, you complete a P45 form.

When an employee leaves, fill in a P45 with details of their gross pay, tax code and tax deducted in the year to the date of leaving. You then send one part of the form to the Inland Revenue and give the other three parts to the employee.

If an employee dies, complete a P45 and send all four parts of it to your Inland Revenue office.

## Business Vehicles And Tax

The tax you pay related to vehicles used by the business depends on a variety of elements, including the legal form the business takes and the employment status of the people using them.

Every vehicle is subject to a payment of vehicle excise duty unless it was manufactured more than 30 years ago. The rates vary, depending on the type of vehicle (for example, cars, vans or heavy-goods vehicles). Check with the Driver and Vehicle Licensing Agency.

Personal taxation on use of cars for business works in different ways depending on whether a person is self-employed or they are an employee, including directors of limited companies.

If you are self-employed, you've got two choices. You can claim the actual expenses of using a vehicle for business when you're working out your profits. If you take this option, you can also claim capital allowances if you own the vehicle. Alternatively, you can

use the rates from the Approved Mileage Allowance Payments (AMAP) scheme to calculate your vehicle expenses using a fixed rate for each business mile. Rates depend on the level of mileage - full details are on the Inland Revenue website. Under this system, you can't claim for any interest you pay on a loan to buy the vehicle or capital allowances.

If you are employed, the rules are different. If the business makes a car available to an employee for their private as well as business use (a 'company car'), the employee will normally be taxed on it as a benefit. Remember: you'll be treated as an employee for tax purposes if your business is a limited company.

Employees aren't taxed on the use of the vehicle if they earn less than £8,500 in a tax year. Qualifying earnings include wages or salary, payments for business expenses and the value of benefits received such as the company car. No tax is due if the car is a pool car of the business. This is a vehicle routinely used by more than one employee and not kept at an employee's home when not being used for business nor used privately in any other way.

Otherwise, employees are taxed on the benefit, the charge being a percentage of the vehicle's list price. For almost all cars, the tax depends on the level of carbon dioxide emissions and the fuel it uses. There is generally a lower tax charge on more energy-efficient cars. If employees receive any fuel for private use which they don't pay for themselves, they will also be taxed on this benefit.

If employees use their own cars for business purposes, they can be reimbursed under the Approved Mileage Allowance Payments (AMAP) scheme at up to set

rates per business mile. The rates depend on the number of business miles they travel. If you pay the employee no more than the maximum calculated using these rates, you can make the payment free of tax and National Insurance.

Businesses that make vehicles available to employees for their private use must report the taxable value of the benefit to the Inland Revenue on form P11D annually. Employers must also pay Class 1A National Insurance on the taxable value of cars and fuel made available to employees for their private use. There are also VAT rules on business vehicles.

If the business buys a car, it can claim a capital allowance. If the business leases vehicles, the cost can be deducted from taxable profits.

The rules are complex. You should check the position with the Inland Revenue or consult your accountant. In both cases, you must keep adequate records to back up the figures on your tax return.

## Special Tax Rules For The Construction Industry

There are different rules for the payment of income tax and National Insurance if you are in the construction industry. These rules are called the Construction Industry Scheme.

In the construction industry, businesses fall into two main categories: contractors and subcontractors (though it is possible for a business to be both a contractor and a subcontractor).

Broadly, a contractor is any person, business or public body who pays others for work carried out within the Construction Industry Scheme.

A subcontractor is any person or business which has agreed to carry out construction operations for another person, business or public body which is a contractor.

Subcontractors must hold either a registration card (CIS4) or a Subcontractor's Tax Certificate (CIS5 or CIS6), all of which must be obtained from the Inland Revenue.

Contractors must make a deduction of 18% from the pay of subcontractors with a registration card and forward the deductions to the Inland Revenue. The deductions are then held against account of the final amount of tax and National Insurance owed by the subcontractor.

Subcontractors with a Subcontractor's Tax Certificate should be paid gross, which means no deductions are made.

# SOURCES OF INFORMATION AND HELP

Sources of information and help about tax, National Insurance, work-related benefits and business rates.

## Tax And National Insurance (The PAYE System)

For more information read the Inland Revenue publications: Employed Or Self-employed? (IR56); Are Your Workers Employed Or Self-employed? (IR148)

Contact Inland Revenue Employer's Orderline 08457 646 646

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

For further advice on IR35

Contact the Inland Revenue

IR35 Helpline 0845 303 3535

The Inland Revenue offers a guide for people starting up: Starting Up In Business (P/SE/1)

Contact Inland Revenue Helpline for the Newly Self-Employed 08459 15 45 15

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

You must register as an employer with the Inland Revenue New Employer's Helpline, they will also send you the New Employer's Starter Pack

Contact 0845 60 70 143

For information on Tax Credits read Employer's Guide To Tax Credits (E6)

Contact 08457 646 646

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

The Inland Revenue can provide detailed information on how to pay tax and National Insurance

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

The New Employer's Starter Pack offers more guidance on the procedures

Contact the Inland Revenue New

Employers' Helpline 0845 60 70 143

Read: Employer's Payment Record (form P32)

Contact 08457 646 646

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

For more information read: Pay Statements: What They Must Itemise (PL704)

Contact 0870 150 2500

[www.dti.gov.uk/er](http://www.dti.gov.uk/er)

The Inland Revenue Employer's Orderline provides all relevant forms and guides

Contact 08457 646 646

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

For more guidance on completing the forms, check the booklets and CD-ROM contained in the New Employer's Starter Pack

Contact 0845 60 70 143

For more information read: Details Of Employee Leaving Work (form P45)  
Contact 08457 646 646  
[www.inlandrevenue.gov.uk/employers](http://www.inlandrevenue.gov.uk/employers)

## Corporation Tax

The Inland Revenue Publications How To Calculate Your Taxable Profits (IR222) and Capital Allowances (IR206) provide more information  
Contact Inland Revenue 0845 60 70 143  
[www.inlandrevenue.gov.uk/leaflets](http://www.inlandrevenue.gov.uk/leaflets)

Visit [www.ir-portal.gov.uk/calculators/mrr](http://www.ir-portal.gov.uk/calculators/mrr) for a calculator you can use to work out how much corporation tax is payable.

For more information read:  
A General Guide To Corporation Tax Self-Assessment (CTSA/BK4)  
Contact 0845 300 6555  
[www.inlandrevenue.gov.uk/leaflets](http://www.inlandrevenue.gov.uk/leaflets)

Capital Gains Tax - An Introduction (CGT1)  
Contact 0845 60 70 143  
[www.inlandrevenue.gov.uk/leaflets](http://www.inlandrevenue.gov.uk/leaflets)

## Tax On The Use of Vehicles By Employees

You must arrange your vehicle excise duty on any business vehicles  
Contact the Driving and Vehicle Licensing Agency 0870 240 0010  
[www.dvla.gov.uk](http://www.dvla.gov.uk)

The Inland Revenue can give you further information on business vehicles and tax  
Contact the New Employer's Helpline 0845 60 70 143

If you're self-employed, call the Self Assessment Helpline  
Contact 0845 9000 404  
[www.inlandrevenue.gov.uk/cars](http://www.inlandrevenue.gov.uk/cars)

Inland Revenue leaflet IR124 provides more information on the Approved Mileage Allowance Payments (AMAP) scheme  
Contact Inland Revenue Employer's Orderline 08457 646 646  
[www.inlandrevenue.gov.uk/cars](http://www.inlandrevenue.gov.uk/cars)

## Tax In The Construction Industry

You can get further details on the Construction Industry Scheme from the Inland Revenue  
Contact 0845 733 5588 for contractors  
0845 300 0581 for subcontractors  
[www.inlandrevenue.gov.uk/cis](http://www.inlandrevenue.gov.uk/cis)

For more information read:  
Construction Industry Scheme (IR14/15)  
[www.inlandrevenue.gov.uk/leaflets](http://www.inlandrevenue.gov.uk/leaflets)

## Business Rates

For details of your local branch of the Valuation Office Agency  
contact 0207 506 1700  
[www.voa.gov.uk](http://www.voa.gov.uk)

For more information read:  
Business Rates - A Guide  
Contact Office of the Deputy Prime Minister 0870 122 6236  
[www.local.odpm.gov.uk](http://www.local.odpm.gov.uk)

# CORPORATION TAX

**Your company is responsible for calculating and paying tax on its profits.**

If the social enterprise is a limited company or a limited liability partnership registered with Companies House, you must, within 12 months of the end of your first accounting period, let the Inland Revenue know that it is operating - unless the Inland Revenue has already been in touch with you!

'Accounting Periods' are the basic periods for corporation tax. Your first accounting period begins when your company or limited liability partnership starts operating. You can change the date your accounting period starts at a later date. Accounting periods don't have to mirror the tax year, but they must not be longer than 12 months.

You must keep detailed records relating to all income and expenses. As a limited company, you must ensure that you run the correct Pay As You Earn (PAYE) procedures for all employees. You may also have to certify to the Inland Revenue that the directors of the company are not employed by it and receive no income from it.

Once the company is registered, it will be responsible for working out and paying any corporation tax due within nine calendar months and one day after the end of its accounting period. Fines can be charged for keeping inadequate records or paying late. The company must keep records for at least six years.

Shortly after the end of the company's accounting period, you should receive a CT600 form, which is the corporation tax return, along with a Notice to Pay from the Inland Revenue. However, if you do not receive them for any reason, it is still the company's responsibility to pay the tax and complete and send a corporation tax return. You can request a form CT600 from the Corporation Tax Self-Assessment Orderline.

Corporation tax bands are set out in the table below. The levels may be reduced for certain companies, especially if there are other companies under the same control. For example, if you own and run two companies, the thresholds will be halved for each company.

## Corporation Tax (2003/04 Financial Year)

Taxable Profits	Tax Rate
£0 - £10,000	0%
£10,000 - £50,000	Rate rises gradually from 0% - 19% (marginal relief)
£50,001 - £300,00	19%
£300,001 - £1.5m	Rate rises gradually from 19% - 30% (marginal relief)
More than £1.5m	30%

# VAT AND THE SOCIAL ENTERPRISE

## What is VAT?

Value Added Tax (VAT) is a tax on sales of goods and services, not profits. Businesses must register for VAT if their turnover exceeds a registration threshold. Registration for VAT is compulsory for most businesses that supply goods and services amounting to more than £58,000 a year in any 12-month period (this threshold was valid for the 2005/06 tax year).

Businesses with a turnover below the £58,000 threshold can register voluntarily. Sometimes there can be a business advantage in doing this. For example, if your business pays a higher-than-average amount of input tax and charges a lower-than-average amount of output tax, it could be worth registering to reclaim the input tax you have paid.

Businesses collect VAT on the Government's behalf. All businesses pay VAT on most purchases. This is called the 'input tax'. Registered businesses charge VAT on the goods and services they sell. This is called the 'output tax'.

If a VAT-registered business receives more output tax from sales than it pays in input tax on purchases, it must pay the difference to Customs and Excise at fixed intervals. If more input tax has been paid than output tax charged, Customs and Excise will refund the difference to your business.

## What VAT Rate Will I Have To Charge?

All goods and services that are not exempt are called 'Taxable Supplies'. The rate of VAT varies according to the type of product or service you offer. Goods and services (supplies) are divided into four categories for VAT purposes. They can be:

- Taxed at a standard rate (currently 17.5%)
- Taxed at a reduced rate (currently 5%)
- Taxed at a zero rate
- Exempt from VAT

Most VAT-registered businesses must add the standard rate of VAT to the value of their products and services when they are sold.

The reduced rate must be charged on: domestic fuel or power; installation of energy-saving materials; grant-funded installation of heating equipment; security goods or connection of gas supply; renovation and alteration of dwellings; residential conversions; women's sanitary products; children's car seats.

There are also specific rules on products and services that are zero-rated. In these areas, VAT is applied at 0%. Businesses that offer zero-rated products or services can still reclaim input tax they have paid on purchases. Zero-rated products include: most food (but not meals in restaurants or cafes and hot takeaway food and drink);



books; newspapers; young children's clothing and shoes; exported goods; most public transport services.

Exempt products and services include: insurance; providing credit; certain types of education and training; certain services from doctors and dentists; selling, leasing or letting land and buildings (but not garages, parking spaces or hotel and holiday accommodation).

Any business which offers some goods or services that are subject to VAT and some that aren't has 'partial exemption'. This means it can only reclaim input tax as a proportion of output tax charged. If your business will be dealing exclusively with exempt products or services, it is unlikely you will be able to claim back all your input tax.

## Keeping VAT Records

Being registered for VAT means that you must keep full and accurate records.

You must start keeping records and charging VAT to your customers from the date you know that you have to be VAT registered. Each invoice or receipt must show clearly the rate and amount of VAT charged and the VAT number given to your business by Customs & Excise when it was registered. You must also make sure your VAT-registered suppliers do the same so you have evidence that you are entitled to reclaim the input tax you've paid.

You have to fill in a VAT Return showing how much VAT you have received and paid and forward payment of the balance to Customs and Excise. You must complete a VAT return for each accounting period.

This is normally every three months, but if you expect the input tax you pay to be greater than the output tax you charge, you can make monthly returns. You will automatically be sent a VAT return form to fill in before each payment is due. You must send it back to Customs and Excise no later than one month after the accounting period.

You must keep copies of all invoices or receipts and a note of VAT you have charged and paid. There is no set way to keep records, but they must be easy for Customs and Excise to inspect whenever it requests. Full records must also be kept for a minimum of six years.

## Accounting Methods For VAT

Unless you arrange otherwise with Customs and Excise, your output tax must be entered on the next VAT return after you charge your customer - regardless of whether they have paid you or not. Similarly your input tax must be entered on the next VAT return after you are charged by your supplier, whether you have paid them or not.

However, there are a number of other accounting schemes that you may be able to switch to if they suit your business:

- Cash accounting
- The flat-rate scheme for small businesses
- Specific retail schemes
- Annual accounting

### Cash-Accounting Scheme

If the proportion of your turnover subject to VAT does not exceed £600,000 a year, your business can use the cash accounting



scheme. This may be useful if your customers are slow-payers. You only have to record your output tax on your VAT return after your customer has paid you and your input tax is only entered on your return when you have paid your supplier. You can change to this system at the beginning of any tax period. However, you must be careful to separate any output tax or input tax dealt with under your previous system. You don't need permission from Customs and Excise to use this scheme but there are certain conditions you must meet, set out in Notice 731.

### The Flat-Rate Scheme

The flat-rate scheme for small businesses is designed to reduce the time you spend accounting for VAT. It allows you to calculate your VAT payment as a fixed percentage of turnover. The percentage depends on the type of business you are in. To be eligible, the proportion of your annual turnover subject to VAT must not exceed £150,000 and total turnover must not exceed £187,500. You must apply by filling in Form VAT 600 (FRS). If you use this scheme, you will not be repaid any input tax as it is already allowed for as part of the percentage calculation.

### Specialist Retail Schemes

A selection of specialist schemes are available to retailers who would otherwise find it impossible or costly to comply with standard VAT accounting rules. Specialist advice is available from Customs and Excise or your accountant.

### Annual Accounting Scheme

The annual accounting system requires one VAT return to be filed each year. You can register for this scheme if:

- You have been trading for less than 12 months and the proportion of your annual turnover subject to VAT is not expected to exceed £150,000
- You have been registered for more than 12 months and the proportion of your annual turnover subject to VAT is not more than £600,000

Under the annual accounting system, VAT payments based on an estimate are usually made nine times each year, with a balancing payment due when you submit your return. By allowing you to pay a set amount each month, the scheme can help you manage your cash flow with more certainty - and you have two months to submit your return rather than one. Annual accounting can be used at the same time as the flat-rate scheme for small businesses.

### VAT On Business Vehicles

There are special rules for VAT on business vehicles - and the fuel used in them. You can't normally reclaim the input tax you have to pay on a new motor car. However, VAT-registered businesses can claim it back if they can show the car is used 100% for business purposes (a pool car kept on site, for instance). You must then charge output tax if the car is sold later.

VAT incurred on the purchase of a commercial vehicle (a van, lorry or tractor, for example) can be reclaimed in full subject to the normal rules.

If the business pays for both private and business fuel, a fixed VAT charge is applicable based on the size of the vehicle (this is called the fuel scale charge). This allows the business to reclaim VAT on both the business and private elements of the fuel.

If the business does not pay for private mileage, a scale charge does not apply and VAT may be reclaimed on fuel bought for business provided you keep a detailed record of business mileage.

If you lease a car for business purposes, VAT may be reclaimed on 50% of the lease charge.

## References

You must register with Customs and Excise if the value of your goods and services exceeds £58,000 in any 12-month period. You must do this within 30 days of reaching the threshold or you risk a fine. You must also register if you expect to exceed the VAT registration threshold in the next 30 days alone so you can immediately charge VAT on your invoices

Get Form VAT 1 from  
Customs and Excise 0845 010 9000  
[www.hmce.gov.uk/forms](http://www.hmce.gov.uk/forms)

If you expect to charge less than £58,000 each year for your products or services but are considering voluntary registration, get further information from Customs and Excise on 0845 010 9000 - or seek advice from your accountant. For more information read: **Should I Be Registered For VAT? (Notice 700/1)**

Contact Customs and Excise National Advice Service 0845 010 9000  
[www.hmce.gov.uk/forms](http://www.hmce.gov.uk/forms)

**Check if your products or services are standard-rated, reduced-rated, zero-rated or exempt**

Contact Customs and Excise National Advice Service 0845 010 9000

For more information read: **The VAT Guide (Notice 700); Partial Exemption (Notice 706)**

Contact Customs and Excise National Advice Service 0845 010 9000  
[www.hmce.gov.uk/forms](http://www.hmce.gov.uk/forms)

**The Customs and Excise Tariff Classification Service can tell you the rate of duty that applies to particular goods**

Contact 01702 366077

For more information read: **A Brief Guide To Import Procedures (Notice 501); Deferring Duty, VAT And Other Charges (Notice 101)**

Contact Customs and Excise National Advice Service 0845 010 9000  
[www.hmce.gov.uk/forms](http://www.hmce.gov.uk/forms)

**For more information read: Keeping Records  
And Accounts (Notice 700/21)**

Contact Customs and Excise National  
Advice Service 0845 010 9000  
[www.hmce.gov.uk/forms](http://www.hmce.gov.uk/forms)

**For more information read: Cash  
Accounting (Notice 731); Flat Rate Scheme  
For Small Businesses (Notice 733); Retail  
Schemes (Notice 727); Annual Accounting  
(Notice 732)**

Contact Customs and Excise National  
Advice Service 0845 010 9000  
[www.hmce.gov.uk/forms](http://www.hmce.gov.uk/forms)

Seek advice from your accountant or  
financial adviser if you are considering  
changing the VAT accounting scheme  
you use.

**For more information read: Motoring  
Expenses (Notice 700/64)**

Contact Customs and Excise National  
Advice Service 0845 010 9000  
[www.hmce.gov.uk/forms](http://www.hmce.gov.uk/forms)

# ENTERING LEDGER DETAILS EXERCISE

ABC Motorplan sells motor spares to the trade, other motor factors, garages, dealers and general public. Your job is to enter the details of income and expenditure into the ledger using the figures previously entered in the Sales And Purchase Day Books and the other transactions listed below.

Your first job is to look at all the transactions and decide what column headings you need in **both** the 'Sales' part of the ledger and the 'Expenditure' part.

Once you have done this, begin to enter the details but don't add anything up (yet).

## Transaction Details

### May 10

Customer buys a spare part for £69.15, paying cash.

Joe's Garage buys a part for £30.00. They have an account.

Friendly Cars buys a part for £25.00.

### May 11

Monthly Rates Demand arrives for £90.

Customer buys a spare part for £4.40, paying by cheque 999008.

Joe's Garage buys a part and pays cash, £35.

### May 12

You pay supplier invoice, issuing cheque 1234501 worth £385.00.

You order parts worth £205 from supplier.

Customer buys a part for £26.25, paying cash.

Friendly Cars buys a spare part for £23.10, paying by cheque 999009.

### May 13

Joe's Garage takes parts worth £89.45. They have an account.

Customer buys a spare part for £20.25, paying by cheque 999010.

Customer buys a spare part for £15.75, paying cash.

Telephone Bill arrives for £205.69.

### May 14

You pay wages of £195.00 net to yourself, £195 to Ted, and £140 to Billy using cheques 1234502, 1234503 and 1234504.

Customer buys part for £26.55, paying by cheque 999011.

Joe's Garage takes a part worth £30.15 on account.

**May 15**

Customer buys a part for £48.95,  
paying cash.

Friendly Cars buys two parts, one worth  
£20.45, the other £24.50.

You invoice Joe's Garage for £149.60.

Customer buys a part for £36.20,  
paying cash.

**May 16**

Customer buys a part for £24.75, paying  
by cheque 999012.

Friendly Cars buys one part for £26.26  
paying with a cheque 999013 and asks you  
to invoice for another costing £75.00.

**May 17**

Invoice from supplier for £205 arrives,  
paid with cheque 1234505.

Joe's Cars take two parts worth £12.60  
and £18.30 on account.

You issue invoice to Friendly Cars  
for £69.95.

**Answers can be found in the appendix  
on pages 429 and 430**

# 8.8

## PROCUREMENT

- Procurement

# PROCUREMENT

## What Is Procurement?

In simple terms procurement means the purchase of goods or services. As social enterprises, organisations should not be strangers to the concept of trading in goods and services. Procurement in this sense actually goes further in that the organisation seeks to obtain contracts to deliver public services to their local community and to the wide range of public sector customers and users.

It is important to stress that Social Enterprises tend not to be set up specifically to bid for and win contracts to deliver public services. Although it is true to say that for many, the public sector contract route holds much potential for business growth and development.

There are many types of public sector contract that social enterprises can tender for including:

- Small scale daily supplies of goods and services such as cleaning and catering, care services and grounds maintenance etc.
- New Services that may be the subject of a contract following negotiations with local authorities or other statutory bodies to define or create new activities. A good example of this is the many recycling social enterprises that set up over the last 10 years. Everything from furniture recycling to scrap stores that collect clean industrial waste and offer it as art and craft materials to playgroups and schools etc.
- Procurement of building works and projects such as new community facilities and refurbishment of existing buildings.
- Specialist work such as regeneration initiatives and consultancy.

## Is Procurement Right For Your Organisation?

There are a number of issues for the governing body of your organisation to consider when deciding whether the route to business growth and development is through public service contract:

- The most important issue is to ensure that it fits the organisations social objectives
- Does the organisation have the capacity to carry out the tendering process and then deliver on the contract?
- To avoid becoming dependent on one contract, can the organisation cope with other business and possible contracts?
- Will there be an organisational culture change as a result of public service contract?

These and other challenging issues will need to be fully explored prior to making the decision.

It is always beneficial to talk to others who have taken the procurement route to hear how their organisations have delivered on quality public service contracts, allowing for social objectives to be met. Also useful is to look at organisations experience of losing contracts. Too often the focus is on 'success ' and 'what works' and 'best practise' when equal focus should look at things that are not as successful and at what happens when things go wrong. If an organisation has considered the pitfalls as well as the benefits then a balanced decision can and should be reached.



## Procurement Process

Understanding the procurement process is of course a key to success in winning business. It is quite logical and there are several specific pointers that you can use to research and prepare for contracts.

There are several steps in commissioning a service or procuring supplies or works. Here is a summary of what they typically are and how they could affect you:

Action By Commissioning Body	Action By Social Enterprise
Review undertaken to establish the Need for a service or to consult on the case for a service	This is the process that leads to a decision - you might have input into this as a stakeholder and prospective supplier. You could even suggest an innovative new service be delivered and make the case for a trial or pilot contract
Decision made to agree the business case for goods, works or service	The commitment is made to spend public money so a contract may emerge to deliver the outcome - be prepared!
Development of a specification is undertaken; how will the commissioning body meet user requirements within budget?	You may be one of the organisations technically able to supply
Initiation of basis for contractor selection; a process begins to set criteria for judgement to be made - at the same time expressions of interest are invited from those suitable to bid	This can be your first step to becoming a contractor - have you become known as a possible contractor to get on the list for a 'call'?
Officers set the award criteria; a judgement between quality and price, which is affected by budget issues, customer expectations and the need to deliver value for money	The detail of this should be confidential, but if you judge it right you will make an appropriate bid - you can ask for a guide to the proportional split between quality and price and undertake research which gives a fair idea of what is wanted; for instance, are you aware of impending budget cuts in this service?

Action By Commissioning Body	Action By Social Enterprise
Contract conditions are set - a combination of the organisation's requirements and written legal basis on which the offer is made	Terms must be agreed on which basis there will be an appointment. If you have offered a method of delivery then this would become a binding part of the contract
The contractor is appointed - Success!	You may be asked to enter into possible voluntary agreements, for instance concerning local labour and training initiatives. Sometimes two or more companies are asked to combine forces to deliver the whole contract - did you explore this possibility in discussions with the organisation?
Debriefing is available to those not appointed and even those who are	Always take up the opportunity for a debriefing to see what you can learn from this, regardless of whether or not you win the contract
The contract management process begins - this is the start of the delivery of the contract	Your relationship begins with a client monitoring officer when you start work. Remember that for some contracts this must be a seamless continuation from the previous arrangements for the service users
Customer service is monitored	Are you prepared for a full inspection of your delivery to ensure complete compliance with the terms of the contract? Will there be complaints if something is missed?
Regular meetings with the client	This relationship is critical as it is the interface with the public body that your staff on the ground and your service manager will have

Action By Commissioning Body	Action By Social Enterprise
The planned improvements included in many contracts are monitored and reported	The commitments to continuous improvements that may have been agreed will be subject to dialogue and if missing, perhaps public debate. How is the investment and service development built into your business plan?
At some point, the service is reviewed for future re-tendering or revision	Will your performance and suitability ensure a place on the shortlist again?

This information was taken from 'Public Procurement: A Toolkit For Social Enterprises' published by the DTI October 2003.

## Public Procurement: A Toolkit for Social Enterprises

This toolkit explains the public sector procurement rules, describes the way procurement by local authorities and others is typically carried out and gives real examples from social enterprises of their experiences of winning and losing contracts as part of their business strategy.

The toolkit aims to demystify and describe the procurement process and provide insight into the steps needed to prepare bids and win contracts. It sets out to ensure that those bidding for business, have the best information available to choose if and how to embark on the public sector contract delivery route.

Included in the toolkit are top tips and case studies from those who have faced the process. There are also a series of useful checklists for action, with all the key points to consider, as well as sign posting to other sources of help and advice.

The toolkit can be ordered online at [www.dti.gov.uk/publications](http://www.dti.gov.uk/publications)

Copies can also be ordered via the DTI's Publications Orderline on 0870 150 2500 quoting URN 03/1362.

## APPENDIX AND RESOURCES

# PROJECT LED VERSUS MARKET LED STRATEGIES; THE ANSWERS

## Exercise 1 : Marketing Strategy

**What are the typical strengths and weaknesses of the service Wood 'N' Tops provides?**

The organisations main strengths are its 'community base', its mix of funding, and the ability to call on a major stakeholder (the church) for support. Its main weaknesses are its culture ('work opportunities'), its dependence on two funders and its narrow client base.

**What are the opportunities and dangers of a product led approach for an organisation like Wood 'N' Tops?**

The main opportunities are the ability to diversify into new client groups and sticking to what you know best. The main dangers are that the standard approach can't be applied elsewhere and that the service might appear stale or non-innovating.

**What resources might Wood 'N' Tops want to call on?**

The support of women's groups, business women or female councillors; public bodies and departments working with the disabled; disabled groups and charities.

**What would be the attractions of such a service to its target group?**

Social Inclusion, overcoming isolation, employment or pathways to employment, training, creating more equalities, making useful products.

**What would be the likely disincentives to its target group?**

Male-dominated environment, traditional or patriarchal ('church-based') environment, lack of permanent employment opportunities, lack of childcare provision (loss of benefits?).

**In what way could the target group be persuaded to use the service?**

Inclusion through service-planning or a trainee advisory group, childcare provision or allowances, flexible working arrangements.

## Exercise 2 : Marketing Strategy

**How can Wood 'N' Tops find out just what people want?**

House-to-house surveys, drop-in questionnaires, radio phone-ins, adverts in community newsletters asking for views, using (e.g.) church or social centre meetings as focus groups.

**What resources would be most useful to Wood 'N' Tops in carrying out research?**

Local knowledge, willing volunteers, access to local media.

**What sort of changes might Wood 'N' Tops have to make?**

More inclusive management group, working arrangements, facilities, product range, access to training and career advice, childcare.

**How could Wood 'N' Tops persuade the target group it has changed?**

See above.

**What are the potential dangers (internally and externally) of a market led approach?**

Mission drift and arising conflicts, muddled image, strain on organisation culture, failure to meet market expectations leads to crisis, threats to grant-based funding.

# MARKETING MIX EXERCISES; THE ANSWERS

## Marketing Mix Exercise 1 - Community CCTV

Customer Buying Decision	Yes /No?	Advertising Method				
		Yellow Pages	Radio Advertising	Send A Brochure	Unsolicited Phone Call	Fax Campaign
Customer makes impulse buy when hit by advertising						
Customer makes decision and looks for supplier	X	X		X		
Customer buys product regularly						
Customer only buys at certain times						
Customer ask colleagues for recommendations	X		X			X
Customer takes note of supplier and buys later	X	X		X		
Customer only buys when absolutely necessary	X	X				
Customer checks several suppliers before buying	X	X		X		
Customer is at work when decision is made	X	X		X		X
Customer buys from first supplier they find						



Marketing Mix Exercise 2 - Childcare

	Advertising Method					
Customer Buying Decision	Yes /No?	Yellow Pages	Radio Advertising	Send A Brochure	Unsolicited Phone Call	Fax Campaign
Customer makes impulse buy when hit by advertising						
Customer makes decision and looks for supplier	X	X				
Customer buys product regularly						
Customer only buys at certain times	X	X		X		
Customer ask colleagues for recommendations	X		X			
Customer takes note of supplier and buys later	X	X	X			
Customer only buys when absolutely necessary						
Customer checks several suppliers before buying	X	X		X		
Customer is at work when decision is made						
Customer buys from first supplier they find						

Did the group realise that not all possible customers for the proposed services are the same? For instance, the owner of a single shop is likely to buy a CCTV service in a totally different way to a council officer wanting to protect a housing office or an entire industrial estate.

And that the 'buying decision' is highly influenced by outside events? For instance, a landlord who has just been burgled is more likely to want to buy a CCTV service than one who has not? And someone on low-income is unlikely to think about buying childcare until a low-cost service is offered?

# SALES PLAN EXERCISE; THE ANSWERS

There is no one, right answer to this exercise but the following information should have been generated by the participants.

## The Carefree Cot

The maximum annual sales are 210. The contribution to profit is either £9,450 or £13,860 depending on the market chosen. The person-hours required to meet maximum sales targets are 2,100.

## The Sleepze Bed

Maximum sales are 128. The contribution is either £8,960 or £12,032. The person-hours required are 1,920.

## Noahs Ark

The maximum sales are 225 or 670. The contribution is £3,712 or £7,035. The hours required are 675 or 2,010.

## Park Bench

Maximum sales are 108 or 216. The contribution is either £8,640 (LA), £7,560 (retail) or £10,584 (wholesale). The hours required are 3,240 or 6,480.

## Picnic Table

Maximum sales are 101 or 241. The contribution is £2,410 (wholesale), £4,040 (local) or £6,060 (retail). Hours required are 2,020 or 4,820.

Maximum sales and production across all products would require 17,330 person-hours annually, less than what is available.

Meeting low-level sales targets would only require 9,955 hours; the company could reduce costs by laying off workers, introduce new products or use spare capacity to increase production in high value or seasonal products. Maximising sales and therefore production would stretch the workshop but is still feasible.

Maximum contributions to overheads (after materials and other direct costs) varies between £32,092 and £49,571, still less than what is required to break-even but a satisfactory first year.

Did the group spot that local sales are not always best or that sometimes wholesale can make the largest contribution because of the larger volumes bought? Selling the Carefree Cot, Sleepze Bed and Noah's Ark made varying contributions according to sales strategy. The exception is the picnic table which, despite selling twice as many wholesale, made only a very small contribution (£2,410).

Measuring the products by 'contribution per hour', the most profitable products are the carefree cot to outside retailers (£6.60 per hour), the Sleepze Bed to outside customers (£5.99ph) and the Noah's Ark by retail (£5.50ph).

The worst performers, those making the least profit per hour worked are the Picnic Table to local customers (£2 per hour), the Park Bench to the local authority (£1.33 per hour) and the Picnic Table to wholesale (£0.50! per hour).

# CONSTRUCTING A BUSINESS PLAN EXERCISE; THE ANSWERS

## Exercise 1

### 1 : Basic Information

Not more than 300 words

### 2 : The People Involved

More than 300 words, less than 1,000 words

### 3 : The Product or Service

More than 800 words, less than 1,500 words

### 4 : Marketing Information

More than 1,000 words, less than 2,000 words

### 5 : Operational Information

More than 800 words, less than 1,500 words

### 6 : Legal, Governance And Management

More than 300 words, less than 1,000 words

### 7 : Financial Information

More than 800 words, less than 1,500 words

### 8 : Other Information

Not more than 500 words

## Exercise 2 And 3

### 1 : Basic Information

Not more than two person days

The presentation should describe the business and its propose range of products and customers; the aims of the business; what is still needed for the business to begin operating.

### 2 : The People Involved

At least five person days

The project has only a little information about the skills and experiences of the group and has made no decisions about employment, roles, management and governance. This will need research, discussion and agreement. The presentation should allocate tasks and state how strategic decision-making, day-to-day management and internal management (like HR or reporting to the committee) will take place.

### 3 : The Product or Service

At least ten person days

Although the group knows what it can produce, it doesn't know what it should produce and what will sell best. It hasn't done any market research and therefore doesn't know which products fit the market best or how they should be marketed. There would need to be a phase of product (re-) design and market-testing, then a sales strategy would need to be drawn up. The presentation should cover products, why these products, how many, resources needed (if any).

**4 : Marketing Information****At least ten person days**

The group has very little information about the various markets it could target (local people, passing trade) or about potential competitors (in Shiverston, for instance). It doesn't know what the size of the market is, what the spending power of customers, how they like to buy goods (cash, hire purchase, over the internet etc) or how often they buy particular products, or when. The group will need to conduct market research and draw up a sales and marketing strategy. The presentation should cover particular markets, market features, competitors, and ideas about advertising and marketing.

**5 : Operational Information****At least five person days**

The group probably has enough information about operations but not about suppliers, their terms of business, how work will be managed and likely volumes of sales /production. The presentation should cover issues such as premises, equipment, the manufacturing process, storage, delivery, suppliers, stock and quality control, allocation of work and health and safety.

**6 : Legal, Governance And Management****Not more than five person days**

The legal status of the business has not been decided, nor who will own and control it, the roles involved and who will take them, legal permissions, insurance and regulations affecting the business. The presentation should cover issues of legal status, governance, day-to-day management, roles and responsibilities, legal issues, other operating issues.

**7 : Financial Information****At least ten person days**

The group doesn't know how many items of each type it will sell or when. It doesn't know what its fixed or indirect costs (its overheads) are. It doesn't know if any costs (such as insurance) will vary as a result of change taking place. The presentation should cover issues such the costs of products being made, likely cash requirement to fund production, estimated sales income, need for an annual financial budget or projection, mark-ups on products, annual profit.

**8 : Other Information****Not more than two person days**

The main need is for information about the management group or committee, to generate publicity and marketing materials and provide information about the premises which demonstrate their suitability for operations.

# CALCULATING COST-VALUES AND NEGOTIATING TO WIN EXERCISE; THE ANSWERS

There is no set answer since each team or player will have personal objectives and will negotiate optimum, satisfactory or less-than-satisfactory outcomes according to their ability to spot winning combinations of outcomes and to barter with rivals.

The various concessions make the following profits:

## **Secretarial**

Profit : £6,000

Margin Vs Price : £2,000

## **Counselling**

Profit : £4,000

Margin Vs Price : £1,600

## **Cleaning**

Profit : £3,200

Margin Vs Price : £1,200

## **Creche**

Profit : £4,000

Margin Vs Price : £1,000

## **Training**

Profit : £3,000

Margin Vs Price : £1,000

## **Canteen**

Profit : £2,500

Margin Vs Price : £700

**Team 1** was seeking to make £13,000 profit from the concessions.

[How well did they do?](#)

**Team 2** was seeking to make £11,700 profit from the concessions.

[How well did they do?](#)

**Team 3** was seeking to make £10,200 profit from the concessions.

[How well did they do?](#)

**Team 4** was seeking to make £9,500 profit from the concessions.

[How well did they do?](#)

Which team or player got the best return on their £7,000 investment or total spending on the concessions?

# BUDGET AND CASH FLOW EXERCISES; THE ANSWERS

## Exercise 1 - Income And Expenditure Budget

Income	Year 1	Year 2
Furniture sales	£3000	£3000
Grant	£11,000	£12,830
Donations	£200	£200
Removals	£800	£800
<b>Total</b>	<b>£15,000</b>	<b>£16,830</b>
<b>Expenditure</b>		
Wages and national insurance	£6000	£6600
Volunteer payments	£3600	£3960
Trainer	£360	£396
Stationery and printing	£320	£352
Postage and telephone	£500	£550
Heat and light	£460	£506
Rent and rates	£1280	£1408
Repairs and painting	£300	£330
Insurance	£250	£275
Operating van	£1000	£1100
New equipment and repairs	£350	£385
Advertising and promotion	£440	£484
Accountant	£200	£220
Miscellaneous	£240	£264
<b>Total</b>	<b>£15,300</b>	<b>£16,830</b>
Income/Expenditure	- £300	£0
Surplus/Deficit	- £300	- £300

The grant must be increased to £12,830 in Year 2 to balance income and expenditure or to £13,130 to balance income and expenditure and deal with the Year 1 deficit.

## Exercise 2 - Cash Flow Forecast (Year 1)

	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Total
Income													
Furniture sales	300	300	100	100	100	300	300	300	300	300	300	300	3000
Grant				2750			2750			2750			8250
Donations							200						200
Removals	?												0
<b>Total</b>	<b>300</b>	<b>300</b>	<b>100</b>	<b>2850</b>	<b>100</b>	<b>300</b>	<b>3250</b>	<b>300</b>	<b>300</b>	<b>3050</b>	<b>300</b>	<b>300</b>	<b>11450</b>
Expenditure													
Wages & national insurance	500	500	500	500	500	500	500	500	500	500	500	500	6000
Volunteer payments	450					450	450	450	450	450	450	450	3600
Trainer						60	60	60	60	60	60	60	360
Stationery and printing				100				120		100			320
Postage and telephone	35	15	15	95	15	15	95	15	15	95	15	15	440
Heat and light				115			115			115			345
Rent and rates	100	100	110	110	110	110	110	110	110	110	100	100	1280
Repairs and painting					200					100			300
Insurance		250											250
Operating van				125			125			125			875
New equipment and repairs					300				75				375
Advertising and promotion	20	20	20	220	20	20	20	20	20	20	20	20	440
Accountant												200	200
Miscellaneous	20	20	20	20	20	20	20	20	20	20	20	20	240
<b>Total</b>	<b>1125</b>	<b>905</b>	<b>665</b>	<b>1285</b>	<b>1165</b>	<b>1175</b>	<b>1495</b>	<b>1295</b>	<b>1250</b>	<b>1695</b>	<b>1365</b>	<b>1605</b>	<b>15025</b>
Net cash flow	-825	-605	-565	1565	-1065	-875	1755	-995	-950	1355	-1065	-1305	
Opening balance	0	-825	-1430	-1995	-430	-1495	-2370	-615	-1610	-2560	-1205	-2270	
Closing balance	-825	-1430	-1995	-430	-1495	-2370	-615	-1610	-2560	-1205	-2270	-3575	

The organisation has a chronic cash flow problem because its grant is paid in arrears. The information provided does not allow us to enter the income from Removals. Expenditure is lower than budgeted because some bills are not paid in this financial year (paid in arrears the month following)



# COSTING AND BREAK EVEN EXERCISE; THE ANSWERS

1 : The **cost price** is £22.24 (£20.74 excluding indirect costs)

Materials : £11.00

Labour : £9.00

Power : £0.50

Transport : £0.24

Indirect costs : £1.50

**Total : £22.24**

2a : The **break-even selling price** is £22.47 (2,970 paid for, covering costs of £66,720)

**Total Costs are:**

Materials :  $3,000 \times £11.00 = £33,000$

Labour @ £4.00 :  $3,000 \times £4.00 = £12,000$

Labour @ £2.50 :  $6,000 \times £2.50 = £15,000$

Power :  $3,000 / 100 \times £50 = £1,500$

Transport :  $3,000 / 50 \times £12 = £720$

Indirect costs :  $3,000 / 1,000 \times £1,500 = £4,500$

**Total : £66,720**

2b : The **selling price with 10% net profit** is £24.72 ( $£22.47 \times 110\%$ )

# COSTING THE JOB EXERCISES; THE ANSWERS

## Exercise 1 : Costing The Job

1 : Total amount of materials (paint) required = £32.00  
(4 tins x £8.00)

2 : Time taken in terms of labour costs = £54.00  
(240 metres (2 coats) take 12 hours at £4.50 per hour)

So the total cost will be £86.00

## Exercise 2 : Costing The Job

1 : Cost of materials  
Paint ( $500 / 60 = 8.33 = 9 \text{ tins} \times £8.00$ ) = £72.00  
Wallpaper ( $15 \times £2.75$ ) = £41.25

2 : Labour costs  
Painting ( $500 / 20 = 25 \times £4.50 \text{ per hour}$ ) = £112.50  
Wallpaper (4 hours at £4.50 per hour) = £18.00  
Travel (1 hour x 2 x £4.50 per hour) = £9.00

3 : Travel costs  
Expenses ( $11 \times 2 \times 2 \times £0.25$ ) = £11.00

So the total cost will be £263.75

## Working Out The Unit Cost Exercise

1 : Unit cost = £0.46 per unit/per ballbearing  
(£46,000 / 100,000)

2a : The ark's unit cost is £9.95

2b : The horse's unit cost is £51.15

### Exercise 1 : Working Out The Selling Price

1 : Selling Price for 100,000 ball-bearings = £0.61

2 : Selling Price for 50,000 ball-bearings = £0.76  
(£23,000 + £10,000 + £5,000 / 50,000)

### Exercise 2 : Working Out The Selling Price

$$\text{Hourly rate} = \frac{\pounds 14,600}{7 \times 6 \times 52} = \pounds 6.69 \text{ per hour}$$

$$\text{Hourly rate} = \frac{\pounds 14,600}{6 \times 250} = \pounds 9.74 \text{ per hour}$$

### Exercise 3 : Working Out The Selling Price

1 : Your time = 12 hours @ £6.96 per hour = £83.52  
(£14,600 / 2,100)

2 : Materials (paint) required = £32.00  
(4 tins x £8)

3 : 12 hours labour at £4.57 per hour = £54.84

The price to the customer will now be £170.36

# COST CENTRE ANALYSIS EXERCISES; THE ANSWERS

## Exercise 1 : Manufacturing Sector

1 : What is the **total cost** of producing toys?

Materials : £2,000

Direct labour (5 x £500) : £2,500

Supervision (£8,000 x 40%) : £3,200

Electricity (£600 x 20%) : £120

Depreciation (£1,000 x 20%) : £200

Rent and rates (£2,000 x 50%) : £1,000

Administration (£8,000 x 30%) : £2,400

**Total cost : £11,420**

2 : What are the costs of producing toys as a % of total costs?

$\text{£11,420} / \text{£28,500} \times 100 = 40.1\%$

3 : What is the total income from producing toys?

£8,000

4 : Suppose the project produces and sells 2,000 toys a year for £4 each and the joiner calculates a customer saves £1 per purchase over normal shop prices. Does toy making have a positive social benefit (in financial terms)?

Yes. Local people save a minimum of £2,000 on the price of buying toys.

If all the staff are local people, their wages associated with toy-making are worth £8,100 (before tax) to the local community.

If the landlord of the workshop is local, the rent paid means £1,000 to the local economy.

Local people also save an unquantified amount on trips to other places to buy toys.

## Exercise 2 : Service Sector

1 : What is the **total cost** of delivering training?

Training officer ( $\text{£}10,000 \times 50\%$ ) :  $\text{£}5,000$

Admin support :  $\text{£}1,200$

Advertising :  $\text{£}200$

Training materials :  $\text{£}600$

Overheads :  $\text{£}500$

**Total cost :  $\text{£}7,500$**

2 : How much extra time would the training officer have to spend training to cover the full costs of what she does?

The training officer generates ( $50\% \times \text{£}140$ ) =  $\text{£}7,000$  so she almost meets the costs of  $\text{£}7,500$  associated with training, falling short by  $\text{£}500$ . Calculated simply, she would only need to spend an additional 4% of her time ( $4\% \times \text{£}140 = \text{£}560$ ) to meet her costs.

But, of course, the direct cost attributable to training (her salary) has now increased from  $\text{£}5,000$  (50% of  $\text{£}10,000$ ) to  $\text{£}5,400$  ( $54\% \times \text{£}10,000$ ) and training costs are therefore now  $\text{£}7,900$ ! **Can she ever catch up?**

The trainer costs  $\text{£}100$  ( $\text{£}10,000 / 100\%$ ) for every 1% of her time committed to training.

The income available as a contribution to fixed costs is therefore  $\text{£}40$  out of every  $\text{£}140$ .

The fixed costs are  $\text{£}2,500$  ( $\text{£}2,500 / \text{£}40 = 62.5$ ).

The trainer must spend at least 62.5% of her time training to cover costs.

Income =  $\text{£}140 \times 62.5\% = \text{£}8,750$

Costs =  $\text{£}6,250$  ( $62.5\% \times \text{£}100$ ) +  $\text{£}2,500 = \text{£}8,750$

3 : Is there any way she can find the extra time?

She needs to find an extra 12.5% of her time for training from an available 50% spent on administration and attending meetings. Feasible?

# ANALYSING PERFORMANCE - THE BALANCE SHEET EXERCISE; THE ANSWERS

## 1 : How much profit did the company make this year?

A balance sheet will not show whether a business makes a profit. It displays changes in value and movements of value (whether cash or the value of assets) between different part of the business.

In this case, we can see that the value of fixed assets has gone down as has the level of liabilities. Did this come from a profitable trading year? Or did we sell a piece of equipment to pay off our creditors? The balance sheet does not tell us which is why it is usually always accompanied by notes explaining changes in the value of assets or liabilities.

## 2 : What are the main positive things that have changed about the business?

a) The current liabilities of the business decreased during the year from £26,000 to £8,000. It has collected payments from debtors, reduced its overdraft and paid off more of its business loan.

b) The value of stock has increased slightly (from £6,000 to £8,000) although this could be both a good and a bad thing. It's good if having a large inventory or a greater supply of goods helps you sell more. It's bad if this stock is perishable or bulky, increasing the costs of either wastage or storage.

c) The amount of cash available increased slightly (from £800 to £1,000).

d) The value of the fixed and current assets has increased from £23,800 to £33,500. The business is stronger/more valuable.

## 3 : What are the main negative things that have changed about the business?

The value of the fixed assets in the business has decreased (from £39,000 to £31,000). This could be a bad thing (it has been forced to sell assets to meet costs) or a good thing (it has sold or disposed of unwanted assets); but generally, a decline in the value of the fixed assets without it being replaced by an increase in current assets, especially if this was a long-term trend, would be a bad thing.

Generally, the balance sheet reflects a reasonable year of trading. Although the value of the fixed assets has declined (through disposals or depreciation), the level of current liabilities has been reduced and the overall value of the business has increased. It is a more valuable business in a stronger trading position.

# PROFIT AND LOSS CALCULATIONS; THE ANSWERS

## Exercise 1 : Debtor And Creditors

1 : What was the actual value of ABC Engineering's sales?

$$\text{Value of sales} = £25,000 + £6,400 - £5,900 = £25,500$$

2 : Suppose it owed an additional £1,200 rates and £900 to a packaging company and that an outstanding invoice from the previous quarter of £5,000 had finally been paid in this quarter.

What is the new value of ABC Engineering's sales?

$$\text{Value of Sales} = (£25,000 - £5,000) + £6,400 - £5,900 - £2,100 = £18,400$$

## Exercise 2 : Sales And The Cost Of Sales

1 : What was ABC Engineering's gross profit?

$$\text{Cost of sales} = (£10,000 + £5,500 - £3,000) + (£8,000 + £1,000) = £21,500$$

$$\text{Gross profit} = £35,000 - £21,500 = £13,500$$

2 : Suppose ABC Engineering had bought and used additional stock worth £12,000 in the period.

What would it's gross profit have been?

$$\text{Cost of sales} = (£10,000 + £17,500 - £3,000) + (£8,000 + £1,000) = £33,500$$

$$\text{Gross profit} = £35,000 - £33,500 = £1,500$$

### Exercise 3 : Loans And Depreciation

Depreciation over 10 years.

1 : How much depreciation was there and how does this affect the gross profit?

$$\text{Depreciation per machine} = \frac{\pounds 5,000}{40 \text{ quarters}} = \pounds 125 \times 4 \text{ machines} = \pounds 500$$

$$2 : \text{Therefore gross profit} = \pounds 3,000 - \pounds 500 = \pounds 2,500$$

Depreciation over 15 years.

3 : Suppose ABC Engineering's equipment was calculated to have 15 years of life.

What would be the new figure for depreciation and gross profit?

$$\text{Depreciation per machine} = \frac{\pounds 5,000}{60 \text{ quarters}} = \pounds 83 \times 4 \text{ machines} = \pounds 332$$

$$\text{Therefore gross profit} = \pounds 3,000 - \pounds 332 = \pounds 2,668$$

4 : Suppose it was proposed that an increase in production would mean extra gross profits of £3,000. But the oldest machine would have to be scrapped and a machine costing £15,000 with a life expectancy of 15 years would have to be bought.

Would ABC Engineering make a profit this quarter?

$$\begin{aligned} & \pounds 6,000 - (\pounds 5,000 \times 3 \text{ machines} / 60 \text{ quarters}) + (\pounds 15,000 \times 1 \text{ machine} / 60 \text{ quarters}) \\ & = \pounds 6,000 - (\pounds 250 + \pounds 250) = \pounds 5,500 \end{aligned}$$

### Exercise 4 : Dealing With Loans In A Profit And Loss Account

1 : What would ABC Engineering's net profit be after deducting these costs?

$$\pounds 3,000 - (\pounds 175 \times 3) = \pounds 3,000 - \pounds 525 = \pounds 2,475$$

2 : What would ABC Engineering's net profit be after deducting these costs?

$$\pounds 3,000 - (\pounds 183 \times 3) = \pounds 3,000 - \pounds 549 = \pounds 2,451$$

3 : What would ABC Engineering's net profit be after deducting these costs?

$$\pounds 6,000 - (\pounds 175 \times 3) - (\pounds 183 \times 3) = \pounds 6,000 - (\pounds 525 + \pounds 549) = \pounds 6,000 - \pounds 1,074 = \pounds 4,926$$



# THE BALANCE SHEET EXERCISE; THE ANSWERS

Balance Sheet Of Wood 'N' Tops	For The Period Up To 31/03/2005
	£
<b>Fixed Assets</b>	
Capital equipment	£19,960
Depreciation	-£3,992
<b>Total fixed assets</b>	<b>£15,968</b>
<b>Current Assets</b>	
Stock	£500
Debtors/work in progress	£2,300
Cash	£4,917
<b>Total current assets</b>	<b>£7,717</b>
<b>Total assets (fixed + current assets)</b>	<b>£23,685</b>
<b>Current Liabilities</b>	
Creditors	£1,688
Accruals	£205
Loans outstanding	£2,055
<b>Total liabilities</b>	<b>£3,948</b>
<b>Net assets</b> (total assets - total liabilities)	<b>£20,187</b>
<b>Represented By</b>	
Members loans	£0
Reserves brought forward	£13,812
Profit/loss	£7,005
<b>Total</b>	<b>£20,187</b>

# VALUE ADDED EXERCISE; THE ANSWERS

Statement Of Value Added	£	Traditional Profit Account	£
+ Sales income	+ £16,000	+ Sales	+ £16,000
+ Other revenue	+ £0	- Direct costs	- £15,000
- Cost of materials	- £3,000		
- Overheads	- £4,000		
- Grants/donations	- £3,500		
<b>Value added</b>	<b>£5,500</b>	<b>Gross profit</b>	<b>£1,000</b>
<b>Distribution</b>		<b>Other costs</b>	
+ Net wages	+ £10,000	- Overheads	- £4,000
+ Volunteer/ trainee payments	+ £2,000	- Donations	- £300
+ Social benefit	+ £300		
+ Reserves	+ £200		
<b>Total Value Added</b>	<b>£18,000</b>	<b>Profit/(Loss)</b>	<b>(£3,300)</b>

1 : What do you think a 'traditional' business would do when presented with these figures?

It would need to invest to increase sales, or cut costs, or both.

2 : Does a 'value added' statement make it easier to justify the grant to Wood 'N' Tops?

The organisation generates £18,000 of social benefit, of which £12,300 goes directly into the local economy and to its beneficiaries while another £7,000 is spent with suppliers (note: not all of these could be local, but still worth making the point).

# MEASURES OF ADDED VALUE EXERCISE; THE ANSWERS

## Exercise 1a : The Return To Labour

How much is being used to benefit labour (employees and trainees) in Years 1 and 2?

Year 1 : £500

Year 2 : £9,200

## Exercise 1b : Value Added And Turnover

What is the ratio of Value Added : Turnover in Years 1 and 2?

Year 1 = £500 : £7,500 = 1 : 15

Year 2 = £10,000 : £20,000 = 1 : 2

## Exercise 1c : Value Added And Net Assets

What is the ratio of Value Added : Assets Held By The Project in Years 1 and 2?

Year 1 = £500 : £3,000 = 1 : 6

Year 2 = £10,000 : £8,000 = 1.2 : 1

## Exercise 1d : Net Assets Per Head

What is the value of assets held per trainee (the members or beneficiaries) in Years 1 and 2?

Year 1 = £3,000 / 50 = £60

Year 2 = £8,000 / 50 = £160

# ENTERING LEDGER DETAILS EXERCISE; THE ANSWERS

Sales				Outgoings					
Date	Customer	Item	Amount	Date Paid	Supplier /Payment To	Item	Amount	Date Paid	Cheque Number
10th May		Spare Part	69.15	10/05					
	Joes Garage	Part	30.00						
	Friendly Cars	Part	35.00	10/05					
11th May		Part	4.40	11/05	Local Council	Rates	90.00		
	Joes Garage	Part	35.00	11/05					
12th May					Supplier Invoice	Parts	385.00	12/05	1234501
		Part	20.25	12/05					
	Friendly Cars	Part	23.10	12/05					
13th May	Joes Garage	Part	89.45		Phone Company	Telephone	205.69		
		Part	20.25	13/05					
		Part	15.75	13/05					
14th May		Part	26.55	14/05	You	Wages	195.00	14/05	1234502
	Joes Garage	Part	30.15		Ted	Wages	140.00		1234503
					Billy		140.00		1234504
15th May		Part	48.95	15/05					
	Friendly Cars	Parts	44.95	15/05					
		Part	36.20	15/05					
16th May		Part	24.75	16/05					
	Friendly Cars	Part	26.26	16/05					
	Friendly Cars	Part	75.00						
17th May	Joes Cars	Part	30.90		Supplier Invoice	Parts	205.00	17/05	1234505
Total			686.06				1360.69		

### Did the Ledger have enough rows and columns?

A sales and expenses ledger should not only record expenditure but should also have individual columns for each kind of expenditure - Wages, Office Costs, Parts etc - so that expenditure on each kind of outgoing in a sales or accounting period (usually a month or a quarter) can be analysed individually. Clearly this ledger did not have enough columns to do this.

The same can be said for the 'Sales' part of the ledger. By having individual columns for 'Garages', 'Retail Sales' and 'Cash/Account', levels of sales to each kind of customer and how they purchase items could be analysed.

Organising the ledger in this way would enable you easily to calculate that £475.00 was paid in wages, £590.00 on car parts. £295.69 (Rates and Telephone Bill) is still owed.

Note: that although the exercise does not involve VAT, VAT is paid and collected on so many items that you would need to have individual columns in the 'Sales' and 'Outgoings' part of the ledger to separate out the VAT so you can calculate what is owed/owing to Customs & Excise.

### Points To Bear In Mind

It's not always necessary to record the cheque numbers of payments made to you, although recording if payment is made by 'cash', 'cheque' or 'other' might be.

You shouldn't enter 'orders' (such as was made on May 12th) in the ledger. This should record only transactions, either a) the sale of goods by you and b) the supply of goods to you, as evidenced by an invoice being received.

You should regularly review the ledger to check for money that is owing to you (for instance for goods taken 'on account') and for money that you owe. When payment is made or received you should go back and update the ledger.