Social Economy Finance in Northern Ireland

Working Paper 2: Report of the survey

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[1] We are very grateful to the Social Economy Agency for preparing and supplying the sample frame on which the research is based.

List of figures and tables

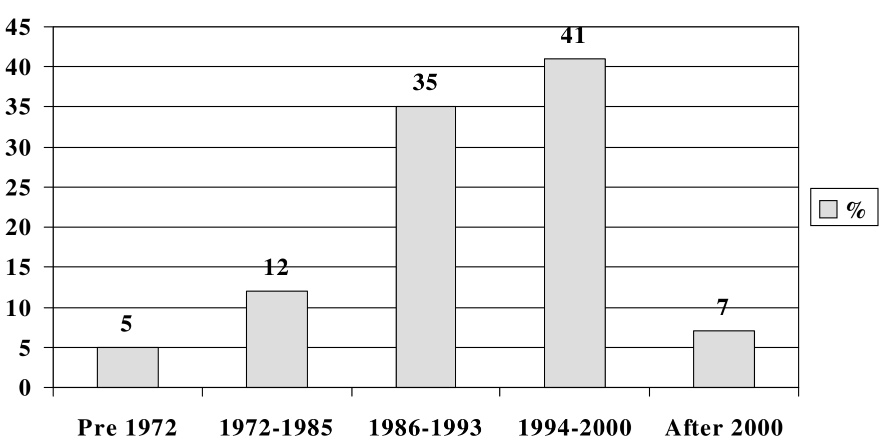
Introduction

This paper summarises the main results of the survey of social enterprises in Northern Ireland. The Social Economy Agency complied a sample frame from a range of sources including their own database, NICVA and Rural Community Network. The database has a population of 1144 organisation and our survey was based on a systematic sample of 176 (1:7), conducted by telephone interview. An indication of the sample size can be given by the error rate attached to estimates from the survey. For example, a 20% estimate used in the report would be subject to an error rate of + or – 5.44% which is helped by the fact that the sample size is large compared to the population. We also wished to compare some information with the survey carried out on social enterprises by the Bank of England in 2003[2]. Their approach followed a similar format to that adopted here including the establishment of a sample frame from a range of sources and an achieved sample of 200 social enterprises.

Profile of the sector

The diagram below shows the age of social economy organisations in Northern Ireland. Whilst it shows that there were a significant proportion of new groups established after the first Peace and Reconciliation Programme since 1994 (48%), a significant percentage was in existence before that date (52%).

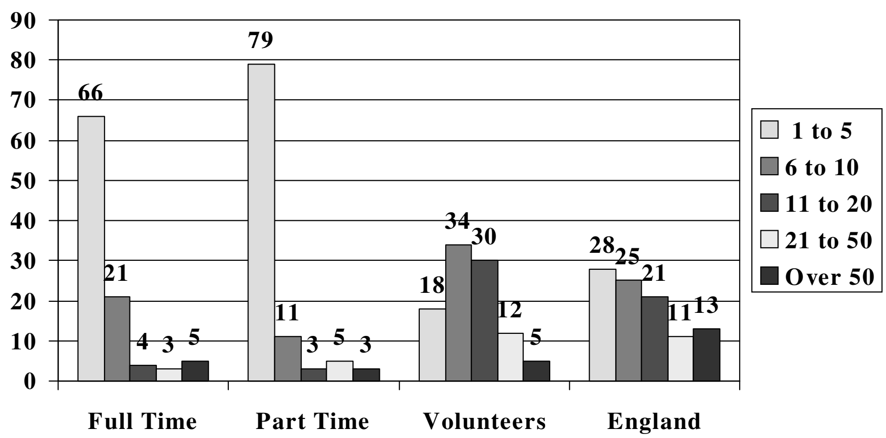
Figure 1 Year organisation was established



[2] Bank of England (2003) *The Financing of Social Enterprises: A Special Report by the Bank of England*. London, Bank of England.

It should be emphasised here that not all this growth could be attributed to the Peace Programme in Northern Ireland. The diagram below also shows that most social economy organisations are still quite small although there are 5% who employ more than 50 people. The sector is clearly differentiated between larger, older groups that also have higher turn over and newer smaller organisations with a lower annual turnover. Medium sized enterprises are less evident with 4% employing 11-20 full time workers and only 3% employing between 21-50 people. The diagram also shows that nearly 4 out of every 5 agencies employ between 1 and 5 part time workers emphasising the concentration of small enterprises relying on part time workers. However, it should also be noted that volunteers are more evenly distributed across the size bands of organisations in Northern Ireland.

Figure 2 Employees and volunteers in social enterprises

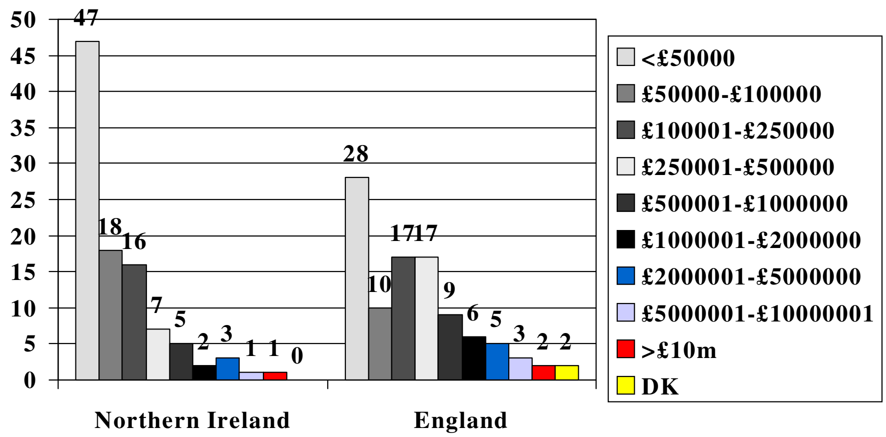


This profile contrasts with that established in England by the Bank of England Review. For example, 28% of social enterprises in England employed between 1-5 people and 13%, twice as many as in Northern Ireland, employ more than 50 employees. Moreover, there seems to be a more even distribution across the size spectrum of English social enterprises compared with the Northern Ireland profile.

Turnover and trade

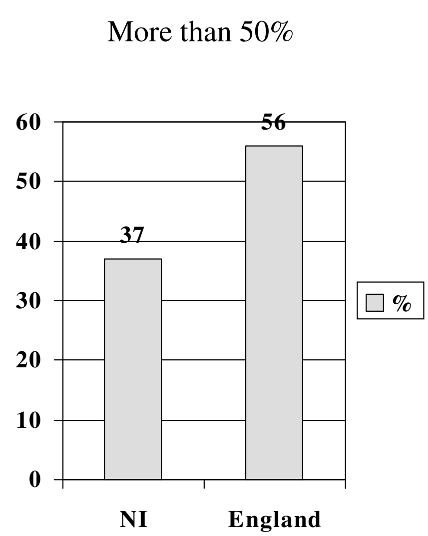
The distribution of turnover emphasises this spread and the contrast with England. For example, 47% of enterprises have a turnover of under £50,000 and only 1% of over £10m whilst the comparative figures for England were 28% and 2% respectively. A total of 81% of Northern Ireland enterprises have a cumulative turnover of less than £250,000 compared with 55% in the same category in England.

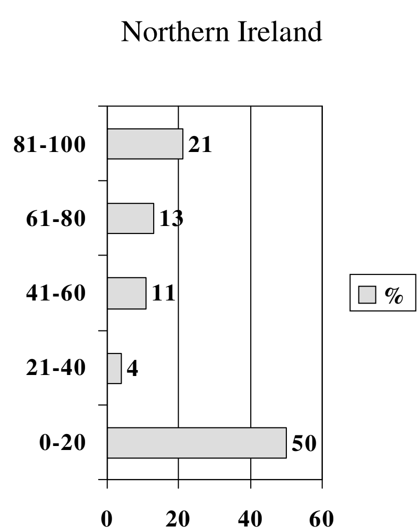
Figure 3 Turnover of social enterprises in Northern Ireland and England



The diagram below shows that this profile is reflected on the proportion of tradable income as a percentage of total turnover. In Northern Ireland, tradable income makes up more than half of all income in 37% of social enterprises compared with 56% in England. Half (50%) of Northern Ireland organisations receive less than 20% of their income from tradable activities but more than one-fifth (21%) also generate more than 80% of their income from these sources.

Figure 4 Tradable income as a proportion of income

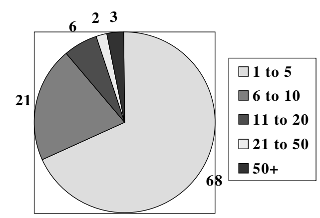




The profile of organisations that receive *less than 50% of their income from tradable services* is highlighted in the diagram below. It shows that 68% of respondents in this category employ between 1 and 5 people, 60% have an annual turnover less than £100,000 and 53% were established after 1994. It tends to be the larger, older organisations with larger turnover levels that are most likely to borrow from the markets to deliver services or provide facilities.

Figure 5 Organisations earning less than 50% of their income from trade

Age by tradable income <50% of total



Turnover by tradable income <50% of total

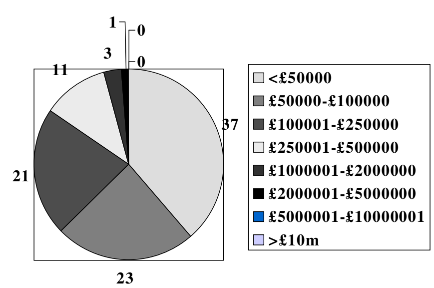
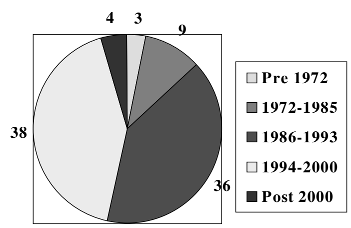


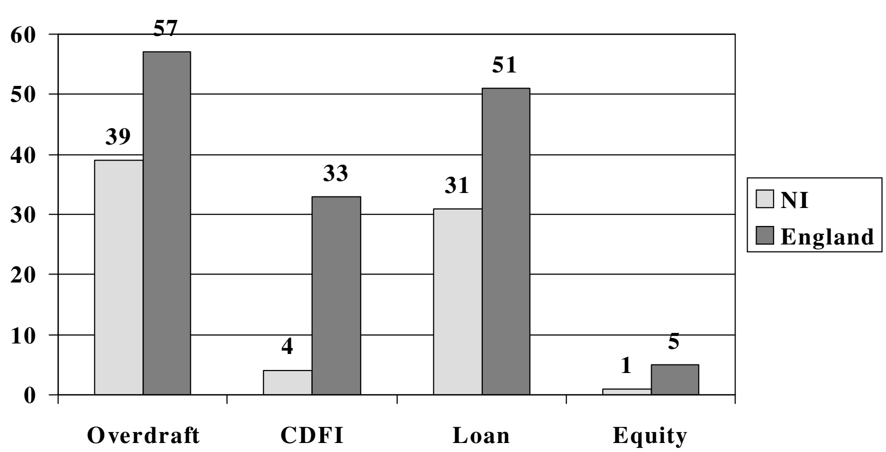
Fig 5 (cont) Date by tradable income <50% of total



Use of lending

This type of lending is shown in the diagram below and important contrasts are drawn with data from the Bank of England Review. Organisations in Northern Ireland are most likely to access an overdraft (39%) although this is considerably lower than English based social enterprises (57%). The penetration of CDFIs is considerably lower in Northern Ireland (4%) compared with England (33%). Loans from banks are used by nearly one-third of Northern Ireland based organisations (31%) compared with about one-half of English social enterprises (51%).

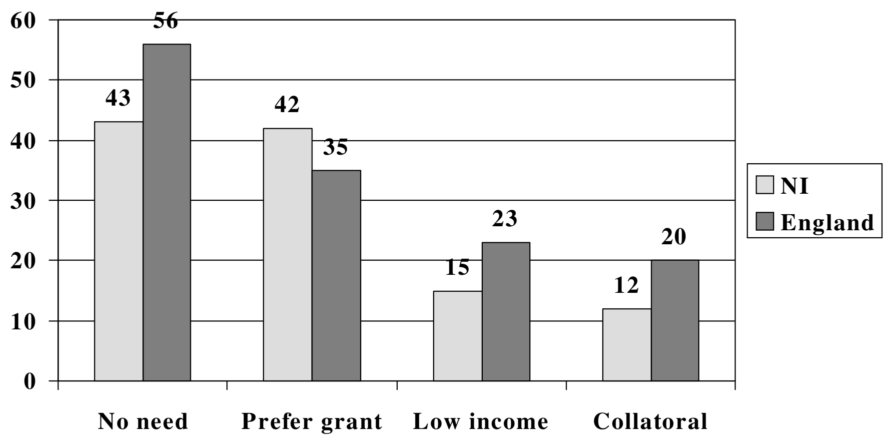
Figure 6 Type of lending of social economy organisations



The attitude of *non-borrowers* is demonstrated below and compared with profile of England. The preference for grant is clear in both Northern

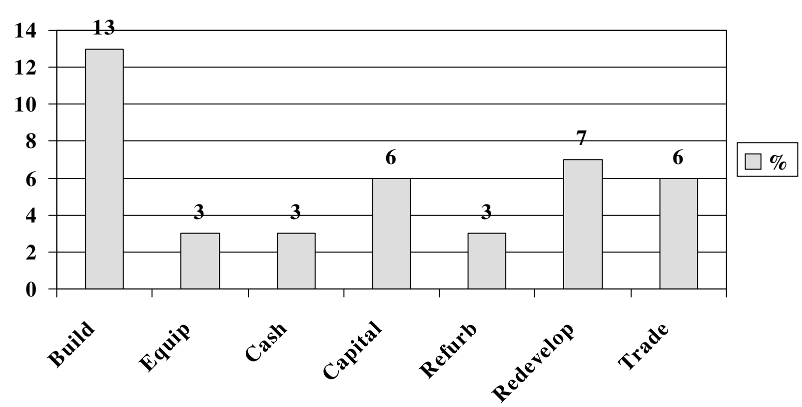
Ireland (42%) and England (35%). The higher dependence on grants in Northern Ireland explains, in part, this variation and its interesting that organisations in Northern Ireland are less likely to cite low income or collateral as explanations for their reluctance to lend.

Figure 7 Reasons for not borrowing in Northern Ireland and England



Lending has been used primarily for capital projects including buildings (13%), redevelopment (7%) or refurbishment projects (3%). However, others have used additional resources for cash flow (3%), as working capital (6%) and for the development of tradable services (6%).

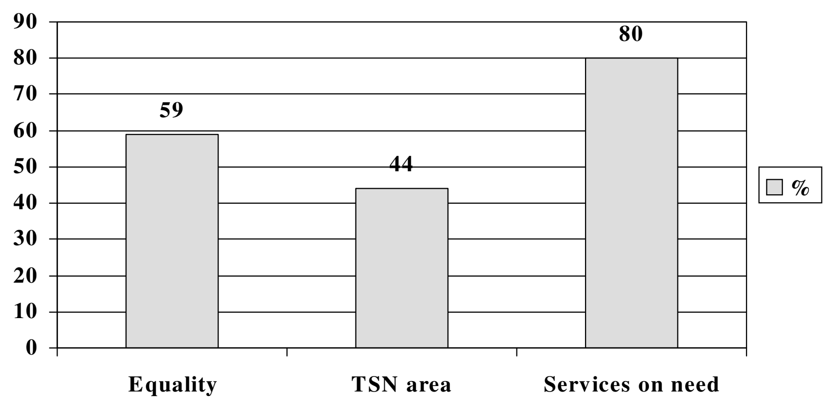
Figure 8 Use of lending by social economy organisations



It should also be noted that Northern Ireland social enterprises have a strong commitment to social outcomes in what the literature refers to as the *double bottom line*. This means that social economy organisations must work to achieve financial objectives, in terms of profitability, at the same time as they must attain social objectives, in terms of vulnerable groups and that there is a tension in these activities.

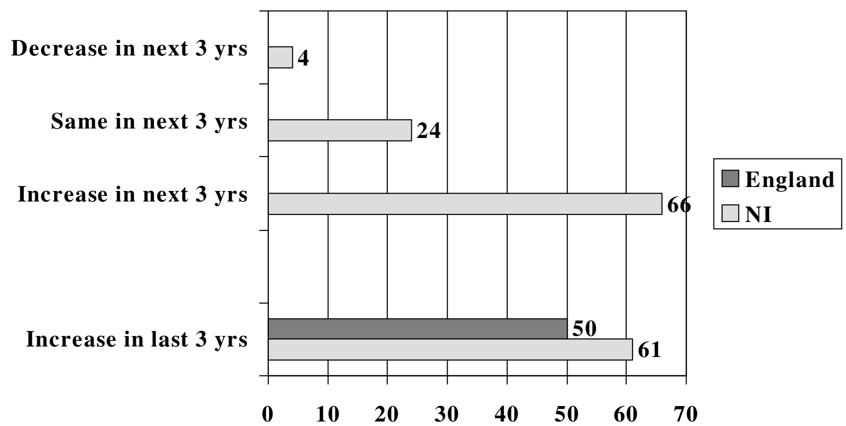
The figure below shows that 59% make specific attempts to recruit people from the equality groups such as disabled people, racial minorities, young people or women. Moreover, 44% employ more than 10% of employees from disadvantaged areas and 80% target services or facilities to people in social need.

Figure 9 The *Double* Bottom line



The diagram below shows that 61% of social economy organisations in Northern Ireland feel that trading from income has increased over the last three years compared with 50% for enterprises in England. The evidence from the case studies suggest that this may be because of the traditional reliance on Northern Ireland agencies on high rates of grant intervention in the past. It is also interesting to note, especially in the context of the *Social Investment* approach developed by DSD, that two-thirds (66%) of organisations in the region think that income from trading will increase in the next three years.

Figure 10 Trends in lending



Conclusions

This research provides a snapshot of the financial issues confronting social economy organisations in Northern Ireland:

- It is clear that there are a large number of small, new start enterprises that require various forms of financial and technical support. This is especially the case as the Structural Funds seems to have stimulated activity, which will be developed until 2006 as PEACE II has a particular emphasis on growing the social economy.
- Whilst this development is encouraging it requires management in the context of the run-out of the structural Funds, the implications of social investment and the need to progress organisations toward more mature and self sustaining business forms.
- At the other end of the scale, there seems to be a small number of well developed, larger and financially sophisticated enterprises. This profile is validated by the case studies, which shows that larger organisations have been borrowing on the markets for some time, have experience putting together multi-sourced funding packages and rely selectively on grant aid for pump priming or as a ‘soft’ guarantee of trust when looking for private finance.
- In between these extremes, there does not seem to be a well-developed sector characterised by the dynamic transition that would be a feature of SME incubation, start-up, development and maturation. It is this phase of development that requires close attention in terms of technical support and the type of financial products that may stimulate and maintain development.

- This is where the sector may face some obstacles linked to the culture of the community and voluntary sector, the fear of mission drift and the risk adverse stance of many Boards and managers. This survey and the case studies suggest that many organisations are prepared to trade and engage private finance for a specific task (e.g. a building) but are less prepared to think of it as a mainstream way of working in its own right.
- Yet, the data also shows that most organisations recognise that traded income will become more important over the next three years and there is an awareness that the sustainability of services and programmes will be more narrowly related to economic sustainability.

Annex I Tables from the survey

Table 1 When was your organisation established?

Date	Percentage
Pre 1972	5
1972-1985	12
1986—1993	35
1994-2000	41
2001 >	7
Total	100

Table 2 How many employees does your organisation employ a. full time, b. part time or c. as volunteers?

Size	a. Full time	b. Part time	c. As volunteers
1 – 5	66	79	18
6 – 10	21	11	34
11 – 20	4	3	30
21 – 50	3	5	12
More than 50	5	3	5
Total	100	100	100

Table 3 Can you describe what type of organisation you operate from the following list?

Type	%
Community business	11
Cooperative	1
Employee owned business	0
Development Trust	2
Regeneration Partnership	2
Social firm	0
Credit Union	3
Local Exchange Trading Scheme	0
Trade Union	0
Local Enterprise Agency	7
Housing Association	7
Community Development Finance Initiative	1
Social Entrepreneur	2
Other	66

Table 4 What is the formal status of your organisation?

Status	%
Company limited by guarantee	61
Company limited by share	0
Industrial Provident Society (Cooperative)	5
Unincorporated Association	19
Other	13
Don't Know	2
Total	100

Table 5 Do you make any provision to recruit people who are disabled, Long Term Unemployment, young people, racial minorities, women or of different sexual orientations?

Yes	No	D/K
59	35	7

Table 6 Do you employ more than 10% of your employees from an area of high social deprivation?

Yes	No	D/K
44	41	15

Table 7 Does your organisation specifically target people in social need with its services?

Yes	No	D/K
80	21	0

Table 8 What was the annual turnover of your organisation for the last year?

Turnover	%
Under £50000	47
£50000 - £100000	18
£100001 - £250000	16
£250001 - £500000	7
£500001 - £1000000	5
£1000001 - £2000000	2
£2000001 - £5000000	3
£5000001 - £10000000	1
Over £10 million	1
Total	100

Table 9 Which of the following *assets* does your organisation currently own?

Asset	%
Property	48
Land	20
Machinery	12
Equipment	89
Vehicles	15
Other fixed assets	1

Table 10 a. Have you ever *sought* any sources of finance from the following list, b. Have you ever *used* any sources of finance from the following list?

Source	Sought	Used
Grant income from Invest Northern Ireland	21	18
Government Department	94	93
Intermediary Funding Body	79	78
Local Enterprise Agency	13	13
Local Strategy Partnership	63	58
Own resources	84	84
From family or friends	32	32
Local Guarantee Scheme	1	1
Endowment Trusts	1	1
Project funding from a public agency	48	47
Service Level Agreement with public sector agency	8	7
Overdraft from a bank	40	40
Loan from a Community Development Finance Institution	4	4
Loan from a bank or commercial lender	31	31
Leasing	23	23
Hire purchase	11	11
Equity finance from community finance lenders	1	1
Equity finance from business angels	0	0
Equity finance from venture capitalists	0	0
Equity finance from other types of investors	0	0
Other	7	7

Table 11 Why have you not *sought* external finance?

Reason	%
No need	43
Prefer grant finance	42
Board members/Trustees wont take risk	5
Not enough income	15
Executive management wont take risks	2
Banks and other lenders don't understand us	1
Legal restrictions prevent borrowing	1
Insufficient collateral	12
Lack of technical knowledge	7
Cash flow problems	2
Cultural aversion to borrowing	16
Mission drift	5

Table 12 What was the reason for borrowing in the last three years?

Reason	%
To buy a building	14
To buy equipment	3
To cover cash flow difficulties	3
To expand trading activity	6
For working capital	5
Refurbishment	3
Redevelopment	7
New staff	0
Other	2

Table 13 Thinking of the last year, approximately what percentage of your income comes from tradable activities (i.e. not in the form of grant income)?

Range	Percentage
0-20	50
21-40	4
41-60	11
61-80	13
81-100	21
Total	100

Table 14 a. Has income from trading increased, decreased or stayed the same over the last three years? b. Do you expect income from trading to increase, decrease or stay the same over the next three years?

Period	Increase	Same	Decrease	D/K
a. Last three years	61	28	8	3
b. Next three years	66	24	4	6