Social Economy Finance in Northern Ireland

Working Paper 3: Case studies

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1. Introduction

This Working Paper summarises some of the key findings from the case studies and interviews with various sectoral representatives. It is designed to act as a resource to show experiences and practices of key agencies involved in financing the sector. It looks at:

- Key sectors of the economy that are especially relevant to the long term supply of social finance including housing associations, credit unions, cooperatives and the private banking sector;

- Case studies in organisations, projects and programmes that are designed to show the opportunities and obstacles in developing the flow of finance to growth areas of the social economy in particular;

- The experiences of a range of Local Strategy Partnerships who have collected baseline data, developed strategies and supported social enterprises under the PEACE II Programme.

2. Key sectors of the social economy

This section looks at key sectors in the social economy and maps out issues in three key areas including housing associations, the cooperative movement and in the Credit Unions. It also examines the attitudes and practices of the commercial banking sector to the supply of finance to social enterprises.

Housing Associations

In common with the rest of the United Kingdom, Housing Associations in Northern Ireland are now responsible for new-build social housing whilst the Housing Executive has moved to a more strategic facilitating role. There are 39 registered and around six unregistered Housing Associations and in 2000, the Northern Ireland Federation of Housing Associations (NIFHA) produced a global balance sheet for the registered sector. The table below shows that the sector had turnover of £71m and significant assets, especially in the form of housing properties at £795m. The balance sheet also shows that Housing Associations have a significant stock of reserve including nearly £184m of capital and reserves.

In 1988, when the mixed funding regime came into housing finance, Associations had to go to the markets for the non-grant component of development costs. Currently, scheme costings are guided by a Total Cost Indicator (TCI), which are norm costs laid down by the government (in Northern Ireland, the Department for Social Development). If a scheme exceeds the TCI, the Association can abort the scheme, reduce costs, or gather additional finance. Supported housing (such as disabled people or older people) is generally funded 100% by government and faces less pressure to borrow. Rents make up a significant component of the revenue generating capacity of Associations and defined by, the Chief Executive of NIFHA as the ‘lifeblood of the sector’.

Box 1 “Global Balance Sheet” NIFHA gave the Social Development Committee on 19 October 2000

Balance Sheet 1999/2000	**Total £**
TANGIBLE FIXED ASSETS	
Housing Properties	795,176,565
Less Housing Association Grant	(650,658,649)
Depreciation	(699,567)
	143,818,349
Investments	5,715,161
Other tangible fixed assets	17,759,274
	167,292,784
CURRENT ASSETS	
Stocks	108,304
Debtors	15,567,644
Cash	46,587,549
	62,263,497
CREDITORS: Amounts falling due within one year	(45,633,804)
NET CURRENT ASSETS	16,629,693
TOTAL ASSETS LESS CURRENT LIABILITIES	183,922,477
CREDITORS: Amounts falling due after more than one year	59,851,584
CAPITAL AND RESERVES	
Share capital	2,149
Capital reserve	216,202
Designated reserve	75,060,939
Revaluation reserve	830,364
Revenue reserve	47,961,239
	183,922,477
Turnover	70,999,877
Loans outstanding	64,283,127
Capital commitments	109,283,127

Associations have developed sophisticated systems, skills and relationships to negotiate with the banks and on a preferential basis. Most Associations can acquire 0.7% over base interest rates from the banks although, the larger organisations with the major new build development schemes can get as low as 0.5% above base. The Associations point out that they are effectively underwritten by government and because they have real and significant collateral, they provide a safe secured option for the financial institutions.

Partly because of these arrangements, there has been little progress on wholesale finance arrangements or a tradition in collaborative borrowing. It is also the case that many ‘general needs’ Associations are in a competitive environment where sites, schemes and TCI arrangements often militate against partnering on a scheme on a financial basis. Many Associations have significant reserves and maintaining the competitive edge in financial resources is important when negotiating for particular schemes and the financial packages to ensure that the development proceeds.

NIFHA has been working hard to develop the financial infrastructure for the sector and had mooted the idea of a Credit Union for Associations. The liberation of Credit Union and IPS rules in Northern Ireland could open the possibility of some wholesale or integrated financing in this area. There has been some joint procurement work, when for example, two Associations linked together on a purchase scheme for windows for a new build project but there has been little tradition of direct Association to Association lending. The Housing Executive explored the possibility of the Housing Finance Cooperation (THFC) establishing in Northern Ireland in the mid-1990s. THFC was set up by the Housing Cooperation to provide a brokerage function for Associations in England. It acted as an intermediary to borrow at cheap rates and pass on finance to individual organisations. However, the volume of business in Northern Ireland was insufficient to attract the THFC model. This was especially the case as THFC had gone through an expensive process of changing its rules to allow it to lend to Scottish Associations but only a few organisations availed of its services.

Housing Association Case Studies

- Associations in Northern Ireland have different experiences raising finance. Flax Housing Association, which operates in the Ardoyne area of North Belfast has a comparatively small development programme and a stock of 250 properties. The Association is interesting because it is located within the *Flax Trust*, which is a community and church led regeneration agency working in the area. Although the Association is legally, financially and organisationally separate it is linked into the skills base and programmes of the Flax Trust. This is especially the case in the Foyer Scheme operated by the Association using trainees from the Trust's wider training programmes.

- Fold Housing Association deal primarily with older people and have greater support from government grants to fund development schemes. The Association invested in bonds about ten years ago as a longer time and more secure investment but suffered badly because of the downturn of the stock market. The organisation was financially robust enough with sufficient reserves to withstand the problem and left the investment to lift with the recovering market.

- BIH is the largest general needs Association in Northern Ireland "in order to construct and manage a range of housing accommodation providing housing for families, single people, the elderly and various models of supported housing for people with special needs" (www.bih.org.uk). The Association has 3500 properties and builds and manages property across

Northern Ireland. In 1985 BIH set up BH Property Limited, a subsidiary company in order to attract private finance to build housing for sale and thereby raise funds to support the work of the registered Housing Association. BH Property Limited also offer consultancy services to other Associations and voluntary sector organisations including: site evaluations; project analysis; brief preparation; analysis of housing need; supported housing advice, and economic appraisal. The latest annual report makes the following point about the financial plan for 2004:

> Underpinning this strategy is the Association's increased exposure to the financial markets in selecting external private finance. With sustained growth in development at reducing grant levels in terms of overall project cost, higher gearing ratios are projected. The gearing ratio as at 31 March was 61% (2002: 57%) (BIH, Annual Report, 2002-3, p. 60).

In 2003, the Association had a turnover of £9,183,813, which was an increase on the previous year's turnover of £8,004,067 and had an operating surplus of £2,713,513 of which 60% (£1,628,934) was from the surplus on property disposals. Fixed assets, dominated by housing, land and buildings amounted to £166,297,054 in 2003 and organisations consolidated assets show that they had £19,337,512 in reserves in the same year. BIH was initially interested in the idea of THFC offering its financial brokerage services in Northern Ireland but a Finance Officer with BIH points out that Northern Ireland Associations as a whole would generate £60m worth of investments, which is far too small to justify the extension of the scheme to the regions.

NIFHA is also interested in the extension of the iN Business for Neighbourhoods operated as a national alliance of Housing Associations working to develop wider regeneration initiatives in disadvantaged neighbourhoods. The concept is to create a 'learning bank' by drawing together examples of the contribution Housing Associations are making, help local people with learning and skills and take action to contribute to wider regeneration at neighbourhood side. The considerable asset base, resources and skills that can be mobilised via Housing Associations has particular relevance in the emerging strategy for Neighbourhood Renewal in Northern Ireland.

Cooperatives

The cooperative movement continues to be a strong feature of the social economy in Northern Ireland. The *Co-operative* based in Manchester has 50,000 members in Northern Ireland and the organisation is undergoing significant change, especially around the nature of the dividend to the members. A 'True Divident' is being established which is designed to more clearly see what rewards accrue from Cooperative membership and the organisation is actively recruiting new members across its functions including retail, travel care, insurance and the Cooperative Bank. The Coop in Northern Ireland has recently opened a Post Office in Belfast and has plans to develop their network across Northern Ireland.

The organisation feel that a key priority is to develop a greater public and cultural understanding of the value of cooperative ideas and practices and their membership drive is one illustration of their work in this area. Their representative points out that the Ulster Agricultural Organisations Society has been attempting to develop cooperatives as part of the rural diversification programme in Northern Ireland but have been critical of the lack of technical and financial supports from government. The scheme has received some finance from the LEADER Community Initiative but this has not matched the policy rhetoric of locally-led development or the role of the social economy in responding to the restructuring of agriculture in the region.

The Coop has opened one high profile retail branch in central Belfast and they plan to open more banks across Northern Ireland. The bank has an ethical investment policy and publishes social as well as financial accounts. However, it does not offer preferential terms to social enterprises or particular packages of support to organisations from the sector. The Coop has pointed out the difficult trading difficulties of mutual association as a result of strict financial regulation from the Financial Services Agency. Restrictions in their ability to raise capital has forced many to demutualise and blunt the impact of others to develop alternative forms to commercial banks. This, they point out, is making it difficult to 'develop or deepen' the culture of cooperative giving which is crucial to the growth of the social economy in general and financial instruments in particular at national, regional and local scales.

Credit Unions and policy development

Credit Unions remain one of the most important components of any attempt to develop social finance in Northern Ireland. DETI are conducting a consultation on proposals for the modernisation of Northern Ireland policy that will greatly enhance their role in this area[1]. The most recent published report of the Registrar of Credit Unions (for year ended 2001) showed that there were 185 Credit Unions in Northern Ireland of which 180 made annual returns. This showed that they had 336,816 members, £432m in share capital and an average of £1,284 on loans to each member. A total

[1] Department of Enterprise, Trade and Investment (2004) Credit Unions and Industrial and Provident Societies Review: Consultation Document, Belfast, DETI.

of 104 Unions were affiliated to the ILCU and 70 to the UFCU with the balance being independent or affiliated to the Antigonish model of Nova Scotia. The Consultation Document sets out an important agenda to liberate the finances of the Credit Unions and specifically asks whether they should develop as an alternative to mainstream banks, increasing membership, savings and lending limits and lengthening the period of loans and repayments. In particular the document suggests that Credit Unions could expand their local economic development role if the were permitted to lend to groups and corporate bodies, particularly those with a community enterprise ethos. It asks if Credit Unions should be allowed to retain 25% of their surplus for investment in social economy enterprises and invest surplus balances in other community-based assets. Clearly, the outcome of this review will have a significant impact on the role that Credit Unions play in social finance, local development and social exclusion in Northern Ireland.

Credit unions are an important but distinctive part of the Northern Ireland social economy. Indeed, the scale of development of credit unions in both parts of Ireland is remarkable at the international level.

The World Council of Credit Unions was established in 1971 and is the international trade association for credit unions worldwide. It promotes the sustainable growth of credit unions and financial co-operatives across the world and is based in Madison, Wisconsin in the USA. The worldwide credit union systems together represent over 40,000[2] credit unions serving over 118 million people with almost $590 billion in savings.

The following table, extracted from a study undertaken by PriceWaterhouseCoopers for the Department of Enterprise, Trade and Investment in 2003 compares the penetration of credit unions in a number of countries. This analysis shows that penetration levels in Ireland are amongst the highest in the world. This is surpassed only by Dominica and Montserrat with 152% and 81% respectively, both in the Caribbean which as a region enjoys a very high penetration rate of approximately 33%. The penetration level is calculated by dividing the total number of credit union members by the economically active population.

[2] World Council of Credit Unions – 2002 Statistical Report

Credit Union Membership and Penetration Levels

	Number of Credit Unions	Number of Members	Penetration Level	Savings Level (US$ million)
Europe				
Great Britain	681	425,200	1.12%	438
Ireland	534	2,600,000	70.20%	6,912
Romania	3,895	1,526,076	9.95%	165
Poland	124	701,386	2.61%	587
Total	6,039	5,621,450	2.42%	8,135
North America				
Canada	657	4,913,685	22.51%	40,138
USA	9,935	83,007,736	44.54%	498,397
South Pacific				
Australia	192	3,600,000	27.50%	13,089
New Zealand	44	169,000	6.52%	183
Africa	4,406	3,065,797	2.56%	752
Asia	16,586	10,897,528	1.71%	23,656
Caribbean	350	1,435,499	32.81%	1,424
Latin America	1,937	5,536,274	2.05%	3,228
Total WOCCU Members & Assoc	**36,582**	**115,797,659**	**8.64%**	**588,818**
Worldwide Credit Unions	**40,258**	**118,269**	**7.93%**	**589,220**

Source: World Council of Credit Unions – 2002 Statistical Report

UCIT

Ulster Community Investment Trust (UCIT) was established in January 2001 to provide loan finance and free business support to the community enterprise sector. In particular, it lends to enterprises, which:

- Are established to create jobs and wealth, but are not established for individual profit;
- Serve the needs of communities located in disadvantaged areas or communities of need or shared interest;

- Command widespread support and endorsement in the local community and/or benefit from being recognised as a community based organisation by an appropriate public body;

- Are committed to becoming self-sufficient.

Lending is flexible but ranges from approximately £25,000 to £500,000. UCIT provides both term loans and in some instances short-term bridging facilities but the overall terms of each loan are tailored to suit the needs of each applicant organisation and their repayment capacity. The maximum term is normally 15 years and interest rates are competitive but also take into account the individual circumstances of each applicant. In general UCIT aim to gain an adequate form of security with each loan provided.

The box below shows the lend profile since 2000. The organisation has spent the early years establishing systems, staffing and marketing procedures. However, since then, the number of applications has grown steadily and in 2003 reached 19 with only 1 unsuccessful application. The value of the applications approved in 2003 was nearly £3.3m of which around 42% (£1.4m) was drawn in that operating year.

Box 2 UCIT lending profile

Year	No. Of Applications Approved	Value of Applications Approved	No. Of Applications Unsuccessful	Value of Applications Unsuccessful	Offers not Accepted	Value of Offers Not Accepted	Monies Drawn Down	Monies Yet to be Drawn Down
2000	2	£795,500	0	0	0	-	£795,500	-
2001	9	£1,056,000	2	£527,000	1	£220,000	£836,000	-
2002	9	£1,642,000	2	£494,000	1	£600,000	£1,002,000	£40,000
2003	19	£3,273,740	1	£500,000	2	£400,000	£1,360,000	£1,513,740
2004	4 (so far)	£300,000	-	-	-	-	£175,000	£125,000
Total	**43**	**£7,067,240**	**5**	**£1,521,000**	**5**	**£1,220,000**	**£4,168,500**	**£1,678,740**

Source: UCIT, 2004

ASPIRE

Aspire: micro loans for business is one of the leading European micro-finance organisations. Aspire's mission is to provide access to finance for micro-entrepreneurs who are excluded from the formal financial services system. Aspire provides loans from £100 to £15,000 over loan terms from nine to eighteen months. It specialises in working with "hard-to-reach" clients by using active outreach in deprived communities and by removing literacy as a barrier to finance.

Since Aspire started lending in 2000, it has lent almost £1.3 million in small, short term loans. One-third of Aspire's clients have no active bank accounts, neither business nor personal and 75% live in new Targeting Social

Need areas. Those Aspire customers who complete a loan have seen their turnover grow by an average of 27%, employment grow by 24% and net profit rise by 71%.

By working intensively with its clients after they receive their loans, Aspire has achieved a cumulative loan loss rate over the period of 6% and a loss rate in 2003 of 1% - figures which are very much better than the industry averages.

Aspire plays an active role in developing the social economy's finance sector in Northern Ireland, the UK and Europe. Aspire's training courses have been attended by community development finance lenders from Spain, Portugal, France, Germany and Britain.

Commercial Bank Small Business Lending

The research also looked at the attitude of the banking sector to social enterprises and lending within the sector. The banks have not developed specific products or services for the social economy or the community and voluntary sector but do seem to offer preferential rates to charities and companies limited by guarantee. Typically, they can offer of lending 1% above base rate with preferential repayment terms offered where a commercial return can be made. Most banks seem to be supportive and have a good understanding of the particular problems of social enterprises especially around the evenness of cash flow (the supportive nature of the banks was also identified in the Business Support Survey conducted by the Social Economy Agency).

Some respondents felt that the financial management and organisation of some of their charitable clients needed to be strengthened and that better technical skills were required if the sector is to make best use of commercial lending. In particular, the banks highlighted the need to restructure lending away from overdraft facilities to more planned debt financing as a priority for the sector. It is also clear that banks have a weak understanding of the grant regimes upon which social enterprises and charities rely. They often fail to differentiate between grant schemes and the restrictions upon them and often see them as a guarantee of the credit worthiness of an organisation. Ultimately, collatoral and repayment capacity will dictate the level and terms of lending although those interviewed acknowledged that in a competitive banking environment more emphasis was being placed on this sector of the market.

More generally, most of those whom we interviewed were satisfied with the banking service and offering that they received and perceived themselves to have considerable opportunity for shopping around between financial offerings while maintaining a core banking relationship with a major bank. This was seen to be largely a matter of personal relationships and was seen to be facilitated by the strong personal and business networks of established social economy organisations. This is also facilitated by the relatively small size of Northern Ireland banks and the continued availability of decision-makers at local level.

The factors unique to social economy organisations, however, impinged more on smaller or more recently established social economy organisations. These organisations tended to lack a personal relationship with a decision-maker in a bank. There were more likely to state that their bank did not understand the business they were undertaking and to have had proposals for a loan turned down.

The bankers we spoke to were sympathetic to the needs of social economy organisations – which they tended to classify under the broad heading of 'charity business' – but spoke of the complexity of the markets which social economy organisations work in, the difficulty of judging the realism of projections produced by social economy organisations and the unpredictability of receipt of payments from Government bodies. However, they stressed that once a relationship had been established, lending would be on the track record of that particular organisation and that 'charity customers' received preferential business terms as a matter of course.

In discussion with Ulster Community Investment Trust, we learned that on a number of occasions UCIT had worked with a social economy organisation to prepare a business plan and a well structured loan application for consideration by UCIT's lending committee but the organisation's own bank had at the last minute made a more attractive offer (generally a lower interest rate) than UCIT could offer. This illustrates a general point of some importance. Where a business proposition is out of the ordinary run of business it is difficult for a bank to judge its realism. Assessment can much more easily be undertaken by a Community Development Finance Institution (CDFI) like UCIT which has specialist expertise in the sector and provided the CDFI has a strong reputation banks may be prepared to lend on the basis of a recommendation from the CDFI. We understand that the Royal Bank of Scotland is conducting a trial in which some viable business propositions which the Bank would not normally consider as attractive lending propositions, (for example on grounds of low return and high administration costs) are sent for assessment to a local CDFI which either provides the service of making an assessment for the Bank or may decide to lend alongside the Bank but with the CDFI carrying the responsibility and costs of assessment and monitoring of the loan in question. While this Royal Bank of Scotland approach applies to private sector clients, there would appear to be no reason why a similar approach could not apply to social economy organisations.

2. Trading in the social economy

This section looks at a series of case studies from different ends of the social economy. Again, the emphasis is placed on financing and the opportunities as well as the constraints on organisations aiming to develop or consolidate trading components of their business. The studies do not aim to represent the sector but rather to highly the practices and issues relevant o the demand side of the finance market equation.

Community Technical Aid (CTA)

This section looks at issues in trading in the social economy via a member of case studies, which are not designed to reflect the totality of the sector but rather to illustrate the problems and opportunities in financing projects, programmes and organisations.

CTA was established in 1984 to help to provide planning and architectural assistance to community groups facing housing redevelopment schemes. The organisation grew steadily throughout the 1990s and has developed a range of specialisms in consultation, design and land use planning. The case study is interesting because CTA established a separate trading arm, Community Technical Services to 'undertake fee earning work', especially on government contracts.

This trading arm is primarily seen as an instrument to route money into the organisation without compromising its charitable status. CTA has no plans to increase the proportion of income it receives from fees or develop CTS as a tradable service. In 1994 the organisation experienced serious financial problems mainly due to overtrading in vulnerable sectors, which compromised the status of the wider organisation. CTS was established in 1991 as a result of a growing interest in community led planning via programmes such as Making Belfast Work and the Springvale Project. In 1991/92 planning income reached £104,618, which matched the £100,000 annual core grant from the Department of the Environment. However, in the following financial year, income from planning fees fell by 84% to £16,383, mainly as a direct result of the ending of the large Springvale project into the reuse of a former factory complex on the interface between the Upper Falls and Shankill communities. The problem was that CTA invested heavily to meet rising demand for its tradable services. Between 1989/90 and 1990/91 salaries increased by 81% from £88,872 to £161,074 a new staff pension scheme was introduced with employer contribution of 6% and the organisation moved to new premises incurring a four-fold increase in rental charges and overheads.

A Financial Review conducted in 1994 showed that CTS was technically insolvent and that in a break up situation the creditors of CTS, the largest of which is CTA, might expect a dividend of approximately 31.1p/£ before liquidation costs. The deficits experienced by CTA resulted in its resources being diminished to the point where the book value of its liabilities is almost equal to the book value of its assets. The insolvency of both companies was exacerbated as the (Northern) Bank was putting pressure on both the organisation and the DoE for repayment and guarantees about CTAs overdraft. In the end, the organisation went through a painful restructuring involving redundancies, a new salary structure and strict cost control systems. A new Director was appointed, the organisation stabilised its financial position, stuck to its traditional areas of concern and developed excellence in a small number of key strategic areas.

Given its financial history the organisation is not surprisingly nervous about extending its trading ambitions. The table below is taken from a summary of the combined finances of CTA and CTS and it shows that financial prudency has increased the surplus brought forward from the previous financial year despite a fall in turnover, primarily from the planning side. It also shows that in 2002, CTA made a transfer of £600,000 to a Development/Building Reserve. The organisation has developed the concept of *Network Buildings* that provides a range of resources including a technical library, rental space for smaller groups, a new headquarters for CTA and a commercial retail outlet to offset costs.

As yet, CTA has not been able to secure an acceptable site and have been disappointed but the lack of support by government for what they argue is an ideal social economy venture. It should also be noted that no transfer was made in 2003 because of the downturn in income on the planning side, although total reserves remains high, compared to annual turnover.

Box 3Summary of CTA and CTS Combined Finances

Years ended 31 March	2003	2002
Turnover		
Department of the	124,000	121,000
Environment Core Grant	29,119	74,982
Architectural Income	143,272	174,325
Planning and Development	540	470
Income	8,449	8,167
Membership Subscriptions	**305,380**	**378,944**
Other Income		
Project Costs		
Architectural	6,159	28,459
Planning and Development	18,685	15,857
	24,844	**44,316**
Overheads	**276,717**	**266,283**
Retained Surplus/(Deficit) for	**3,819**	**68,345**
the year	24,576	16,231
Surplus brought forward from		(60,000)
previous year		
Transfer to		
Development/Building Reserve		
Surplus to carry forward	28,395	24,576
Development/Building Reserve	160,000	160,000
Total Reserves	**188,395**	**184,576**

Source: CTA Annual Report 2003, p. 23.

New Ideas for the Social Economy (NISE)

New Ideas for the Social Economy is a new Programme that aims to create an enabling environment through which social enterprises can develop, expand and prosper. New Ideas for the Social Economy (NISE) is led by two community organisations operating on either side of the border – Kesh Development Association based in Co. Fermanagh and the Association for the Development of Pettigo and Tullyhommon (AdoPT) based in Pettigo, Co. Donegal. Both have developed a partnership programme, which will build on existing opportunities to initiate the cross-border programme. The Programme itself is funded by Co-operation Ireland under Increasing Cross-Border Economic Development Opportunities (Measure 5.1) of the EU Programme for Peace and Reconciliation and provides the strategic framework for participants to access support in the initial conception stage of business development. The objectives are:

- To act as a focal point and co-ordinator of social enterprise for participant groups;
- To provide appropriate levels of training and support to participant groups;
- To promote and champion social enterprise on a cross-border basis;

- To identify and spread good practice on a cross-border basis.

In the fulfilment of the above the programme will:

- Provide role models of successful social economy activity;
- Improve business survival of business start-ups;
- Improve the quality of management of business.

The programme provides three main types of support:

1. Mentoring support
2. Facilitated workshops
3. Networking

1. Mentoring Support

The Programme will arrange 25 hours mentoring support for each participant group. This support can be spread over a 120 to 18 month period. Mentors drawn from all sections of the business community will provide business support aimed at the pre-start-up business phase. The mentoring support is specifically designed to facilitate the production of a Business Plan, which can be used to advance the proposed business further and will be individually tailored to meet the needs of the group.

2. Facilitate Workshops

A total of six two-day residentials will provide opportunities for groups to network and participate in workshops, the exact nature of which is to be determined by majority consensus by participants. Examples of such workshops include marketing, managing staff, financial procedures, community relations, etc.

3. Networking

On acceptance to the Programme groups have the opportunity to avail of numerous networking opportunities and to form social enterprise clusters that will enable them to participate in a network of similar business/enterprises. Such clusters will enable groups to:

- Inform other organisations and potential clients about their products or services;
- Exchange ideas through discussion forums;
- Access the latest news and information about the social economy sector;
- Shape and influence the social economy sector.

Workspace Draperstown

Workspace Draperstown began in 1985 in response to the area's wider economic decline. Peripherality, rural depopulation, agricultural restructuring and factory closures emphasised the need for indigenous economic development rather than relying upon inward investment or external grants. A 'community loan' raised £60,000 in which people lent around £150 to Workspace with no guarantees or commercial rate of return. This was vital in securing a bank loan of £44,000 to purchase a redundant factory for 'workspace' to provide local employment and business development opportunities. The organisation is now a Local Enterprise Agency with the following profile:

- Employees 45 FTE people;
- Has turnover of £2m;
- Generates a profit of 5%;
- Has 100,000 sq. ft of property;
- Has units in Magherafelt and Castledawson in addition to Draperstown;
- Receives around 7% of income from renting workspace.

The business structure of Workspace is interesting in that 'cash cow' enterprises are used to support or underwrite developmental or socially orientated projects. The primary 'cash cow' was the Job Training Programme of the Training and Employment Agency, which concentrated on job skills but with the run out of the Programme Workspace relies on two other income generators.

- *Homeseal* provides cavity insulation on a commercial basis; and
- *Business results* is a consultancy providing a wide range of services to business, local authorities and government departments.

However, Workspace also point out that they have also developed initiatives that have or continue to experience trading difficulties. For example, the Plantation of Ulster Centre in Draperstown has experienced operating losses and Workspace acknowledge that this is a situation that they cannot support over the medium term. The Rural College, was established as a residential training centre in rural development but, despite high rates of income, over-extended its expenditure and failed to attain optimistic targets set out in their initial business plan. Considerable restructuring was required to get the College back on to a commercial footing but the skills, organisational support and financial robustness of Workspace needed to secure its transition. The Centre still needs definite funding and the organisation is working with DARD to secure a grant to cover the short to medium term.

One of the important development aspects of the organisation is in the area of venture financing. Here, Workspace has identified high growth businesses in their units and matched them with business angels who take a stake in the company to promote its short term development.

Workspace has also developed joint ventures to develop its own site. Rather than selling property to the private sector, they have entered into joint agreements with the developers and reinvested profit back into the organisation. Here, they have acknowledged the need to develop complimentary skills and resources to develop business opportunities and the financial soundness of the operation.

Workspace has also identified a local priority in the number of community-led projects funded via a range of grant schemes. It was noted that there were around four community halls or other facilities that are not operating on a financial basis in the wider Magherafelt area. It was suggested that Workspace could undertake the management of these facilities to put them on a sound operating basis.

Creggan Enterprises Limited (CEL)

CEL emerged in the 1980s as a community-led response to the areas economic problems, which included unemployment, lack of skills and poor business star-up opportunities. There was under-investment in the area, especially in services and facilities such as retailing. The project started initially by developing a medium sized shopping centre based on a large multiple retailer but rapidly expanded into work space and business support especially when a factory came on to the market adjacent to the existing complex. The old UTA car components plant covered a large site in a pivotal position in the Creggan area. The private sector purchased part of the factory and CEL negotiated a sizeable proportion of the site including £170,000 from their own resources, £217,0000 from DETI and PEACEII and £60,000 from the International Fund for Ireland. CEL also invested £6,000 of their own resources to match a grant of £146,000 from the Derry Local Strategy Partnership in an Intermediary Labour Market Initiative (ICM). The project is matching 20 people with job opportunities in enterprises in the CEL facilities. CEL estimate that they will have achieved a 60% success rate in placing people in permanent employment. The initiative demonstrates the economies of scale generated by large integrated social enterprises and the advantages of building economies on a locality basis.

CEL argued strongly that there should be Social Economy Enterprise Zones, based on the American model of Empowerment zones linked to Enterprise Community Tax initiatives (HUD, not dated)[3]. Enterprise Zones/Enterprise Community Initiative use grant and tax incentives to stimulate economic activity with employment expansion business growth, the promotion of education and housing development. The use of combined fiscal and grant instruments to

[3] HUD, not dated, Enterprise Zone and Enterprise Community Tax Incentives: A Guide for Business, Washington, HUD).

stimulate development has particular appeal for CEL. They have argued that a spatial approach is essential in the context of both urban and rural regeneration policy and the need to capitalise in successful projects in areas of high disadvantage. Neighbourhood Renewal and Community Investment Tax Relief are already in place to help effect such an approach.

Interestingly, CEL emphasise the need to develop the full potential of instruments such as CITR. Here, they suggest that organisations such as the Social Economy Agency might take the lead in developing such an agenda. The whole area of strategic development for the sector was identified by CEL as a priority for applied research, market intelligence and business guidance on investment and finance. When the anchor retail tenant moved out of the complex due to changes in franchising arrangements the organisation was able to make a rapid transition to a new retailer within 8 weeks of the closure of the original store. CEL point out that the main reason for this was that they invested in research and intelligence in the retail trade including the latest developments in the US. This enabled the organisation to anticipate the rationalisation and reorganisation of multiple retailers and in particular the way they organised their supply chains. *Supervalu* for instance, centralised distribution instead of holding stock in-store and were offloading stores to local franchise operators. Because CEL had anticipated these trends they were able to move quickly in seeking out potential alternatives and were able to negotiate with *Costcutter* to take a smaller square footage store as the anchor tenant. CEL point out that the social economy sector needs this type of strategic intelligence if it is to grow and develop, especially for larger organisations with high growth potential.

As with Workspace, CEL point out that there is potential for larger social enterprises to take over management of struggling projects, those who want to surrender day to day operational responsibility or those who want to grow but need stronger management and skills support. However, they point out that clawback clauses in government grants have meant that it has not, so far, been possible to do this.

Derry Northside Development Trust

Derry Northside Development Trust (Northside) has been in existence since 1987 working on the regeneration of the greater Shantallow area in Derry/Londonderry. Like CEL, the first priority was to develop a shopping centre which acted as an anchor for the development of a range of services and facilities including health and social services and education. The Northside Village Centre has created over 150 jobs and includes:

- 30,000 sq. ft of retail shopping provision;
- 15,000 sq. ft of adult education; and
- 6000 sq. ft of office accommodation.

The Northside Centre has just over 15,000 sq. ft of vacant space in the basement of the shopping complex after Wellworths was acquired by Supervalu which does not require the same amount of onsite storage. The aim of the project is to provide 10 affordable business spaces for start-up for emphasis on unemployed, young people and women to work.

The project is to go on site this year but in this study we are particularly interested in the cost management of the investment. The financial profile of the project is shown below:

International Fund for Ireland	£558,000
Invest Northern Ireland	£100,000
North West Development Office (DSD)	£100,000
Derry Local Strategy Partnership	£134,500
Land (owned by Northside)	£410,000
UCIT loan	£50,000
	£1,352,500

Northside point out that they have kept the loan component of the package as low as possible although, at 2% over ½ base interest rates feel that they have attained a good deal on the land. They also felt that UCIT were supportive and that they understood the particular circumstances of the business challenges of social enterprises. Northside offer competitive rents at £5 per sq. ft for an initial 2 year incubation period. Businesses are supported via a mentoring programme supported by North West Marketing. After 2 years an assessment will be made about the development of the company and Northside is actively looking at the potential to develop larger industrial units to support growing enterprises.

Age Concern Northern Ireland

Age Concern Northern Ireland (ACNI) is part of a regional network of the national age organisation although it has its own independent Board and publishes annual accounts and plans. However, the organisation repatriates some revenues from its trading activities to the national organisation set out in the table below as *share of joint ventures turnover* and in return, receives transfer funds from Age Concern UK.

Box 4 Age Concern (NI) income (only) for the year end 31st March 2003

Income resources	Total Funds £
Donations and legacies	263,305
DHSSPS	169,729
Charitable Trusts	34,320
Activities in furtherance of the charity's objectives	
Contract income	1,224,465
Community Fund UK	60,355
Community Fund NI	98,170
NIVT/Community Foundation NI	18,637
New Opportunities Fund	-
Activities for generating funds	
Investment income	10,758
Shops	192,346
Share of joint ventures turnover	268,898
Less: share of joint ventures turnover	(268,898)
Other income	29,318
Capital income	36,000
Net gain on disposal of assets	5,400
TOTAL INCOME	**2,142,803**

Age Concern (NI) has developed tradable services in retailing, insurance and has sophisticated day care contracts including intensive domiciliary care programmes and residential facilities. The table above shows that the 22% of income comes from activities for generating income and 57% of income from contract income. The organisation points out that the older peoples sector has not benefited in the same way that other, more high profile sectors such as gender, disability and ex-prisoners. This, they suggest, should provide them with some measure of resilience when the structural funds retract after 2006. Again, this case study illustrates the benefits on regional and national infrastructure, skills and people and systems in developing sophisticated social economy products and services.

Irvinestown Trustee Enterprise Company (ITEC)

Irvinestown has a population of 2,500 and Sallyswood is a small housing estate of 100 properties and 260 people to the south of the town. Sallyswood had an unemployment rate of 57% compared to the regional average of 6% and it is the 5th most disadvantaged Enumeration District in Northern Ireland. Irvinestown benefited from the CRISP programme, operated in a co-financing arrangement between the Department of the Environment (NI) and the International Fund for Ireland, to regenerate towns with a population of less than 10,000. The CRISP initiative was able to build upon a strong tradition of community-led development dating back to the establishment of the Irvinestown Fairs and Markets Trustees in 1908. The Trustees were selected on the basis of equal religious composition and in 1992 they reformed the body as the *Irvinestown Trustee Enterprise Company (ITEC)* to manage the development of an enterprise park with an initial CRISP investment of £800,000. The centre opened in 1995 and quickly reached a position where sufficient revenue was created to repay loan capital and generate funds to reinvest in the community. What is of particular interest here is the way in which the surpluses, management competencies and networks developed by ITEC were transferred to the development of a more explicit social programme addressing spatial disadvantage in the town through the establishment of a Health Living Centre in the Sallyswood estate. The *ARC* Healthy Living Centre was opened in October 2001 and it involved an imaginative and extensive rehabilitation of a small terrace of 4 derelict and burnt out houses in the heart of the estate. The building incorporates a main concourse where community art is displayed, a large multi-purpose room, a counselling suite, meeting rooms and administration space. The project has been funded through a £315,000 grant from the UK Lottery based New Opportunities Fund and the Millennium Halls programme operated by Rural Community Network. Irvinestown's main employer was a textile factory, which closed in 2001 with the loss of 120 jobs and the Desmonds clothing factory closed in 2003 with the loss of 200 jobs. ITEC has made specific efforts to develop textile and fabric businesses to capitalise on the skills lost in this traditional sector. Because the town is located in an isolated area, close to the border, with poor road connections, distant from ports and airports (the local St. Angelos air field was mothballed in 2001) it cannot rely on inward investment in its development planning. Indigenous development that tackles local problems and targets local skills forms a pragmatic response to the region's poor economic performance by ITEC in its training, workspace planning and training initiatives.

In Irvinestown ITEC operated 32,000 sq ft of fully occupied industrial space that provides 92 jobs in 8 enterprises. More recently it has purchased and developed a redundant and derelict factory that created an eyesore on the outskirts of the town, in order to build 6 units and create an additional 30 jobs. In this latter development, ITEC received grants from RDC, INI and the International Fund for Ireland but it also used £60,000 of its own resources and £25,000 in the value of the factory, which it owns, to invest in the project. The organisation has a current loan with UCIT, which was transferred from the CRISP Loan Book. They point out that they have always complied with loan repayments, which they noted, many other borrowers have not, without any sanction. This they feel has set out the wrong messages about the nature of lending over grant and fails to incentivise borrowers from this type of apparently *softer* loan. ITEC argue that there should be more emphasis on rewarding organisations with the financial discipline to make repayments on the terms under which the loan was made. They also point out that the Government grant regime needs to be much more responsive to the needs of social enterprises. In particular, they were critical of excessive audit procedures, given that ITEC had a strong track record of financial efficiency and cost management. They also felt that the repayment of earned income against grant was not in the spirit of the *Social Investment* model set out by DSD for the long term funding of the community and voluntary sector. Cash flow problems and the need for quick decisions were issues particular to the social economy in the timing of Government grants, especially where the organisation is investing its own capital.

ITEC uses its resources to develop a strong social component to its work including the ARC Healthy Living Centre, local health programmes, a rural transport initiative and more formal and business development initiatives. More than 100 activities are timetabled in the centre weekly under the headings of Enterprise, Health, Social Development, Education, Arts and the Environment and these programme themes are briefly described below. The Enterprise programme involves managing the Business Park estate, promoting business start up, job creation and economic regeneration. ITEC is still owned and managed by the community and is the fifth largest business park in County Fermanagh. The Centre runs a programme *Active 8,*which has trained 150 people in areas where skills shortages have been defined by local employers.

Although ARC received the grant from the New Opportunities Fund it had, by year 2, achieved an operating balance between their income and expenditure. The local community contributed £30,000 to the project underpinning the local commitment to and ownership of the initiative across the town. The project has also been successful at promoting volunteering in the management and maintenance of the centre as well as in the delivery of the programmes themselves. Currently, there are 10 volunteers from the area attached to the Centre. ARC also insists that all users pay a rent for use of the Centre, no matter how nominal, to instil a sense of fiscal responsibility in the way in which the centre is managed locally. But it is the resource support from ITEC activities, generated through business development that provides the long-term financial sustainability for the programme.

Within the Health Programme there are two specific projects dealing with the needs of young mothers (CHERISH) and substance misuse (IDARE). CHERISH incorporates childcare facilities including breastfeeding support, child protection and a toy library for local children. The Sure Start programme, which provides support for young families and children, also operates from the Centre and employs 4 full-time staff. IDARE concentrates on drug awareness, counselling for heavy drinkers and support to local schools on solvent misuse. ARC is in the process of taking over a derelict house for a focused heavy drinkers programme which is designed to provide a non-judgemental, accepting, responsive and flexible approach to the needs of heavy drinkers on the estate. FAST is a rural transport initiative that provides two buses, which are fully adapted with wheelchair access. The buses concentrate on providing services for women with dependents, elderly people and disabled people in order to provide more flexible links between the town and its rural hinterland. The project has received a number of regional and national awards including the highly prestigious *Pioneers of the Nation* awarded annually at Buckingham Palace.

3. Local Strategy Partnerships

Local Strategy Partnerships have emerged as an important delivery mechanism for EU Structural Funds support to the social economy at a local scale, principally through the PEACEII Programme. They provide a useful source of data on the issues at a local level and development priorities, especially in the field of finance.

LSPs across Northern Ireland have been carrying out important research, feasibility and strategy work in the social economy in their area. This part of the report highlights the implications of the work for financial management of the social economy at a local scale.

South Tyrone Area Partnership (STAP) identified 146 social economy organisations in the Dungannon area and surveyed 38 by postal questionnaire, which showed that they were involved in multiple services and geographical areas. The key services included:

- Providing training and education;
- Child care;
- Local economic development;
- Community transport;
- Provision of workspace; and
- Financial and administrative services

The research found that the most disadvantaged wards had no coverage of area-specific social economy projects. Nearly one third (32%) of organisations were more than 20 years old compared with 19% for the population as a whole and 46% (13) were less than 10 years old. The largest organisations were also the oldest and the nine organisations that were more than 20 years old had a turnover of £100,000 plus. These included:

- Dungannon Development Association;
- STEP;
- Torrent Credit Union;
- Moygashel Community Development Associations;
- Speedwell Trust;
- Northland Early Years Centre;
- Coalisland Credit Union;
- Dungannon and District Housing Association;
- Dungannon Enterprise Centre.

On average, 10% of the income all the groups surveyed comes from grants and 60% comes from the sale of goods and services. The STAP methodology also involved qualitative research, which identified the barriers to growth for social enterprises in the area. These included the lack of core staff, especially to market services and grow the business in a conventional sense. Particular skills in financial management and planning were required as mainstream part of the organisations staff, Boards and management structures. There was also some evidence of a lack of appropriately sized and available finance for growth that would include investment in buildings, plant and core staff as identified above. Finally, many organisations suggested that they had relied on a small number of key people for many years and that fatigue and apathy was putting stress on this resource. New blood is required to assist groups and people with the skills in financial management to avoid burnout among volunteers.

Derry City Council LSP surveyed 115 community and voluntary sectors organisations of which 24 (21%) were identified as social economy organisations. The research echoed the findings of other projects which showed that social enterprises tended to be concentrated in areas where community infrastructure is high, a large proportion have been established for some time and the total annual income for all 24 organisations was £2 million. Half of the 24 organisations sampled reported an increase in income, especially from trading but that smaller, new organisations on the Waterside or in rural areas experienced most problems raising private finance. Nineteen per cent (17) of community and voluntary sector organisations, not operating in the social economy had an interest in becoming a social enterprise. Of these, 13 (77%) had encountered obstacles which ranged from lack of funding (21%), lack of time (21%), lack of competence (15%) and lack of physical capital (9%). The study concluded that capital and technical support were required to grow the social economy in the City and District.

Lisburn LSP followed a similar methodology by issuing questionnaires to 218 community agencies which yielded a response of 47 (21.5%) and of these, 12 (28%) operated in the social economy. Shortage of funding, lack of understanding of the social economy and grant dependence were the main reasons why community and voluntary sector organisations felt it difficult to move into the formal social economy. Dedicated staff, appropriate training and developing interest among communities were seen as important in growing in the sector in the City and District.

The Lisburn approach involves investment in awareness raising and capacity building. A communications strategy is being developed to stimulate awareness of the sector coupled with 20 brainstorming sessions among groups to identify possible social economy projects. Easy access to qualified mentors and technical assistance is also being planned but ultimately the idea is that five new social enterprises will be developed from ten target groups. The ten groups receive support with the preparation of a business plan for the development of a particular project idea. The Lisburn Strategy divides the social economy into three, each one with a different set of support needs. The idea of the strategy is to move the groups along this continuum of support:

Sector 1 Capacity building and group development;
Sector 2 Business planning, ideas and generation; and
Sector 3 Established and flagship social enterprises.

The Bridge Partnership covering the Banbridge District Council Area also conducted baseline and strategy development work. Their research showed that there are 45 organisations in the area of which 30% provide childcare and 25% are either involved with regeneration or are the trading arms of established charities. The strategy is based on targeting geographic gaps (eg. rural areas), sectoral gaps (eg. tourism) and benefiting groups (eg. ex-prisoners). The strategy also highlighted the need to support organisations at different stages of development but suggested that there are a number of consistent training needs which include:

- creativity and innovation in starting up enterprises;
- capacity building;
- management development;
- market development;
- fundraising and sustainability;
- business strategy.

The Partnership will also support the development of a local network and a one-stop shop for mentoring and to promote partnership working in the sector.

Belfast LSP has adopted a particularly innovative approach by developing a proposal for a regeneration loan fund for the city region. The fund would be comprised of the following elements:

- BLSP grant of £3m from ERDF resources;
- Belfast City Council grant (non-ERDF) of £1m;
- £3m private investment raised through Community Investment Tax Relief;
- Belfast City Council investment of £3m to 2.5% per annum interest rate.

This would generate a total fund of £10m, which would be managed and distributed by the Ulster Community Investment Trust. The Fund would advance funds to regeneration projects which:

- Generate a revenue;
- Are undertaken by social economy organisations and other organisations that conform to the EU definition of SMEs;
- Are compatible with the regeneration strategy for Belfast;
- Advances the aims of the PEACEII Programme; and

- Meet EU State Aid rules.

North Down LSP developed a strategy for the social economy based on a preliminary audit of the sector in the District. The research showed that there was a lack of awareness, skills and support to grow the economy locally. The key elements of the strategy included:

- Building local community capacity and enterprise skills;
- The development of a database of skilled retired and public sector managers who would assist enterprises via shadowing or job-sharing;
- Establishing a graduate placement programme for social enterprises to help resource growth and staff development.

However, the research also showed that one of the major barriers in relation to the development and stimulating the social economy is the apathy in local communities. Here, there was a need to develop basic understanding of the social economy and work with the community and voluntary sector to develop a more commercial stance on the services it offers and the way in which it thinks about organisational viability.

4. Implications for social finance in Northern Ireland

This section has highlighted some of the operational issues in the development and application of finance for the social economy in Northern Ireland. A number of issues are relevant to the strategy debate:

- There are a number of potential suppliers of social finance in the ‘third’ sector whose resources could be employed more effectively to support the development of enterprises and social economy projects. There are institutional, legislative and policy restrictions on the way in which the reserves of sectors such as the credit unions or housing associations are used. The DETI consultation document on the future regulation of credit unions, however, shows the potential to liberate considerable resources for regeneration, business support and training.

- The research also highlighted the importance of leadership in the development of social enterprises in Northern Ireland. This raises important issues about the skills, support systems and people involved in growing the social economy, particularly in the whole are of finance where experience, managing uncertainty and taking risk seem to be key qualities in the growth and development of large scale social enterprises in the region.

- Linked to this, some of the main obstacles to the development of social enterprises, especially from within the mainstream community and voluntary sectors, was the lack of skilled people, knowledge and technical competency in the areas of financial management and fund raising. This emphasises the point that the supply side of the market would work more effectively if the demand side was skilled and animated to build tradable enterprises and projects.

- The case studies also revealed the sophistication of part of the social economy. Major lending with commercial banks, the use of business angels and community share offers were all used, especially by larger enterprises planning to grow or develop specific projects.

- Borrowing was however, kept to a minimum but many of the case studies highlighted the need for greater understanding among Government Departments providing grant support to the business pressures that social enterprises face. This related to the bureaucracy around grant awards, the timing of payments and the way in which earned income is treated in recovering grants from Government.

- There was strong evidence of trading within social enterprises from business elements to unprofitable social programmes. However, with the medium sized charities there was evince of uncertainty about how far to develop tradable services and in particular, there was a concern that over-trading could lead to mission drift and compromise the social value added of organisations or programmes.

- Networking and support, with links created between organisations in close physical proximity, helped to provide a supportive environment for business growth. This sort of *capital* has tended to develop organically rather that via any planned intervention, but the suggestion from one case study, for social economy zones could provide the context to build large scale clusters, particularly in areas of multiple disadvantage.