



ELEMENT E

ELEMENT E

Developing supplementary income streams

By Kevin Robbie

Key issues in this element:

- The reasons why supplementary income may be required (the balance of aims).
- Identifying appropriate supplementary income streams for your Social Firm.
- The advantages and disadvantages of grants, service level agreements or contracts to provide employment support services.
- A good practice model of a Service Level Agreement.

The reasons why supplementary income may be required (the balance of aims)

A Social Firm aims to generate income from trading activity *and* to provide integrated, supportive employment to people with a severe disadvantage in the labour market. Running a viable Social Firm means having to balance these two aims. To achieve the second aim of integrated supportive employment there needs to be a viable business in which to create this environment. The values that underpin Social Firm development are 'Enterprise, Employment and Empowerment' - it is these values that underpin the belief that business is the best vehicle to deliver the employment opportunities.

Social Firms should aim to be profitable, ideally with sales activity accounting for 100% of their turnover. The minimum benchmark that Social Firms strive for is over 50% of their income from trading activity. Underpinning this benchmark is the understanding that a balance of income is usually required to ensure business viability. *For example if you are generating 72% of your turnover from trading activity you will require at least 28% of your income to come from other sources to be viable; if you are generating 95% of your turnover from trading activity then you will only require 5% from other sources.* If you do not have this supplementary income then your Social Firm will not be sustainable, and you jeopardising your ability to provide integrated, supportive, empowering, employment opportunities.

This supplementary (sometimes called non-commercial) income stream is required not because the business is run badly and requires subsidy. It is to fund the supportive working environment provided for the people with disadvantages employed within the business.

Your Social Firm should aim to generate as much of its income from trading activities as possible. These trading activities can be direct sales to individual customers or commercial contracts with other businesses, organisations or the public sector. Where possible you will want to be as close to 100% trading income as possible. Ideally, you might want the supplementary income stream to be a contract with a public agency for the provision of supportive employment and training places within the Social Firm, but this is not usually the case. In the UK the supplementary income stream is more often a grant (mainstream or charitable) or a Service Level Agreement (possibly these days a Third Sector Contract). Occasionally it is a combination of both.

The nature of the supplementary income stream required to make your Social Firm viable is dictated by a number of factors:

- the motivation that you have for developing the Social Firm;
- the type of approach adopted by local public agencies to the funding of Social Firm development; and
- the organisational structure you have chosen as most appropriate for developing your Social Firm.

The market you have chosen to trade in does not influence the level of supplementary income you require. If you are business planning and identify that you cannot achieve the sales levels required to make the business viable and that you require a significant subsidy to achieve sustainability, you should reshape your business idea to find a more profitable market.

Think about your plans to develop your Social Firm.

- Are you planning to have all the turnover of your business from commercial sales?
- If not, where do you intend to get the non-commercial income?
 - Why does your business need non-commercial income?
 - What costs, if any, will you incur from providing supportive working opportunities for people with a disadvantage within your business?

Do not worry if you do not know all the answers to these questions. The information in this chapter will help to clarify some of the issues.

Identifying appropriate supplementary income streams for your Social Firm

Perhaps the most significant factor influencing the level of supplementary income that you may need is the **motivation** that you and others involved have for developing your Social Firm.

We have seen how your philosophy or motivation will have influenced the choices that you make about the organisational structure of the Social Firm. We cannot stress enough the importance of being clear about your motivation: the philosophy you have and the passion and drive that you bring to Social Firm development will influence many of the decisions that you make in running the business.

In addition to the core values of enterprise, employment and empowerment – and the key benchmarks of more than 50% of income from trading and 25% or more of staff being people with a severe disadvantage - we have identified that there are broadly four types of motivation for developing Social Firms:

- an integration approach;
- an intermediary approach;
- an inclusive approach;
- an assimilated approach.

Think about your motivation for developing your Social Firm.

- Why do you want to develop a business to create supported employment opportunities for people with severe disadvantages?
- What impact do you hope to achieve?
- Write down your values. Which of these values will be fulfilled by starting and running a successful Social Firm?

1. An integration approach

The primary motivation for this approach is for the Social Firm is to act as an alternative labour market within mainstream employment for those people with disadvantage who are job ready but need higher level support within a non-discriminatory, supportive environment.

An *integration approach* will lead to a Social Firm with the following characteristics:

- all 'disadvantaged' staff are paid wages at market rate;
- 'disadvantaged' and 'non-disadvantaged' staff work alongside each other in an integrated environment, enjoying the same terms, conditions, rights and responsibilities;
- positions within the business will be seen as permanent, subject to market fluctuations;

- 'disadvantaged' staff probably make up 25%-50% of the staffing of the business;
- 'disadvantaged' staff will usually work on a full-time basis (*the Department of Work and Pensions class this as over 16 hours per week*);
- there will be an emphasis on developing a realistic working environment and providing real work;
- a supportive working environment will be developed based on the concept of reasonable adjustments.

Social Firm 'co-operatives' could be seen as the purest form of integrated approach where, aside from all of the above, the 'disadvantaged' staff are members of the co-operative with the same rights as 'non-disadvantaged' staff.

2. An intermediary approach

The primary motivation for this approach is for the Social Firm to act as an intermediate labour market for people with a severe disadvantage. The Social Firm will act as a stepping stone for people to move back into open employment or supported employment. The focus of activity in the Social Firm will be to assist people to improve their job readiness.

An *intermediary approach* will lead to a Social Firm with the following characteristics:

- 'disadvantaged' staff may be paid market rate wages or may be trainees within the business;
- positions within the business will be temporary and time-limited (often one to two year contracts). There will be an emphasis on supporting 'disadvantaged' staff to move into open employment;
- 'disadvantaged' and 'non-disadvantaged' staff will work alongside each other in an integrated environment but may not enjoy the same terms, conditions, rights and responsibilities given the time-limited nature of some positions;
- 'disadvantaged' staff will usually be working on a full-time basis (*over 16 hours per week*) to prepare them for open employment;
- up to 50% of the staffing may be 'disadvantaged'. Payment of the supplementary income might only be secured when the 'disadvantaged' staff member moves into other employment;
- there will be an emphasis on developing skills through real work;
- a supportive working environment will focus on job coaching, skills development and personal development planning;
- a learning environment will be developed to enable 'disadvantaged' staff to become job ready and able to move on.

3. An inclusive approach

The primary motivation in this approach to Social Firm development is to offer people supported employment as an alternative to day care or sheltered workshops. The Social Firm has a focus on providing a therapeutic and participative working environment for participants.

An *inclusive approach* will lead to a Social Firm with the following characteristics:

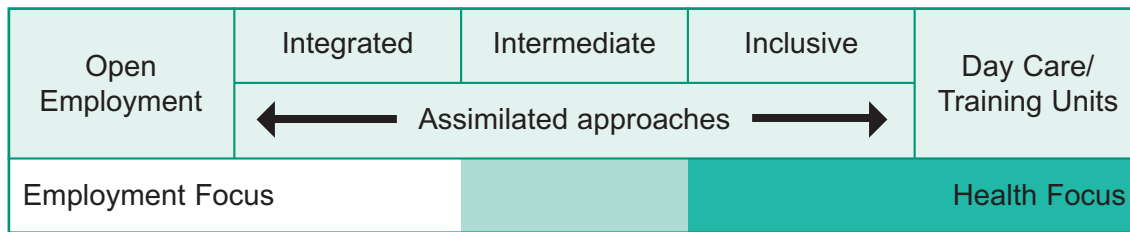
- 'disadvantaged' staff may be paid market rate wages or may be trainees or volunteers within the business;
- the Social Firm will aim to create a large number of jobs for people with a disability or severe disadvantage and will often have around 50-75% of the employees being people with a disadvantage;
- the employees will usually work on a part-time basis, often less than 16 hours per week and although receiving wages through schemes such as 'permitted supported work' (*at or above Minimum Wage level*) may still have a high reliance on welfare benefits. Because of the restrictions of the welfare benefits system, some of the people with disadvantages may only be able to be regarded as trainees;
- a participative working environment will be developed that values the contribution of each employee regardless of the nature and effect of their disadvantage;
- a therapeutic working environment will be developed to help support recovery and rehabilitation;
- there will be a high focus on fostering inclusion, teamwork, developing job skills and providing real work experience;
- the Social Firm might also provide more counselling support and crisis intervention than would be normal in a mainstream business.

Usually inclusive approaches to Social Firm development are adopted where the people have a more severe disability or disadvantage in the labour market. The result of this can be that inclusive approaches to Social Firm development often struggle to achieve more than 50% of income from sales.

4. An assimilated approach

This is where the Social Firm is developed with a blend of some or all of the above approaches, the primary motivation being to offer a wide range of supportive employment opportunities for people with a disadvantage.

Below is a brief outline of the four approaches in relation to what is classed as 'open employment' at one end of the spectrum or day care at the other end. Motivation is often related to whether you have a health focus or an employment focus to what you are trying to achieve.



Each approach has pros and cons. There is no right answer as to which approach is better.

As has been said, your approach will depend on the motivation that you have towards providing employment for people with a disadvantage in the labour market. Also, your approach need not be set in stone - it is quite possible to start out in one direction and change later. *For example, you may have started with the idea of an inclusive approach to the Social Firm, but as you develop you realise that the group of people with disadvantages you are working with are more job ready than you recognised. You might then opt for a more integrated approach and work with the group to develop a Social Firm Co-operative.*

Also, Social Firm development is *not* a rigid, definitive process. It is recognised that as the impetus towards providing employment support for people with disabilities or disadvantage grows there may be hybrids of the above approaches developed.

What is crucial is to remember to continue to review your motivation and check that the decisions that you are making are in line with what you originally hoped to achieve.

Review your motivation for developing a Social Firm.

Think about **what you have learned so far**.

- How has your learning influenced the decisions that you have made?
- Do you know which approach – integrated, intermediate, inclusive, or assimilated - is the most appropriate for you in terms of developing your Social Firm?
- What factors are influencing your decision?

Do not worry if you are generating more questions than answers at this stage. This process of review will help you to be clearer about the planning for your business as you move through this Trainer.

Sources of Supplementary Income

While there is no right answer in terms of which approach is best, the decision that you make will significantly impact on the level and sources of supplementary income that your Social Firm may need:

Integrated approaches usually require little or no supplementary income. The focus is on employing people who are job ready but who require a supportive working environment. People may require 'reasonable adjustments' related to the nature of their disadvantage. Some of these might require funding but others can easily be incorporated within the working environment without the need for supplementary income.

The potential sources of supplementary income/support are:

- Supported Employment Programme (currently called Workstep);
- Access to Work;
- Work Preparation.

Intermediate approaches usually require a higher level of supplementary income and this can often be up to 50% of the total turnover of the Social Firm. As indicated, payment of the supplementary income is often results based in terms of moving the 'disadvantaged' employees into other employment. Also, there are additional supervisory costs that need to be covered in terms of skills development, job coaching and personal development planning in preparing employees for work.

The potential sources of supplementary income/support are:

- New Deal;
- Access to Work;
- Work Preparation;

Inclusive approaches also usually require a higher level of supplementary income, frequently up to 50% of turnover. As discussed this is related to the health or 'recovery' focus of the Social Firm which means that employees might be more severely ill, work part-time whilst remaining on benefits, require counselling support, have large fluctuations in terms of ability to engage in work and require higher supervisory costs.

The potential sources of supplementary income/support are:

The potential sources of supplementary income/support are:

- Social Services Departments;
- Health Services;
- New funding initiatives focused on 'innovation'.

It is worth noting that Health Services and Social Services Departments have widely differing approaches to the funding of placements within a Social Firm. It is impossible to be prescriptive about how these places could be funded but there follows a discussion of good practice in terms of service level agreements for this type of funding support.

Assimilated approaches usually involve a complicated funding composition blending a variety of supplementary income streams. This increases the administration costs for the Social Firm, but this disadvantage needs to be weighed up against the motivation of creating a wide range of job opportunities and potentially having a wider range of stakeholders willing to fund the supplementary income. As indicated above, if the focus is on blending intermediary and inclusive approaches then this is likely to require higher levels of supplementary income. The potential sources of supplementary income include all of those mentioned above.

Think about whether you need supplementary income.

Remember that ideally you would want to be generating as much of your turnover as possible from sales.

- What is the most appropriate type of supplementary income for your purposes?
- Does the supplementary income that you are aiming for fit with your motivation for developing a Social Firm? If not, what are the implications of this?

The advantages and disadvantages of grants, service level agreements or contracts to provide employment support services

Grants, Service Level Agreements and Commercial Contracts in relation to providing a supportive working environment for people with a disadvantage is not a straightforward area. When negotiating grants, service level agreements or contracts you may be dealing with different public bodies with different policies and practices. There is a wide variation in practice throughout the UK. At this point it is impossible to be prescriptive about what is the best approach. This Section will provide you with indicators of the potential areas to consider. The chart on the next page broadly details the different approaches.

Note: when negotiating a Service Level Agreement or contract it is advisable to seek legal advice.

Within the public sector there is a shift away from providing 'grant aid' to organisations and towards commercial contracts. However, this is a long-term process and has evolved further in some public agencies or areas than in others. One of the complications in this area is the introduction of a staging post between 'grant' and 'contract' – the 'Service Level Agreement' (SLA).

	PROCUREMENT CONTRACTS	SERVICE LEVEL AGREEMENTS	GRANT FUNDING
Intention	Contract	Quasi-Grant	Grant Aid
Opportunity	Purchase of Service	Service Delivery	Grant Funding of Service
Method	Tender	Negotiation	Application
Relationship	Contractual	Service Level Agreement	Monitoring

The use of SLAs has grown where public agencies are looking for specific outputs or outcomes related to payment. SLAs can be confusing because the language of contract is used when the intention is still to grant fund. Within the social economy/public sector relationship it is *common currency* to use the term SLA to describe an outcome-related grant, but confusion can arise because some highly specified SLAs are very close to commercial contracts or in some cases the public sector agency actually intends to introduce a contractual relationship.

When starting to negotiate a contract or SLA you should clarify if it is a contractual relationship that the public sector agency is aiming to develop. As indicated above, legal advice may be necessary but the following chart provides a quick guide to the main differences between commercial contracts and grant-related SLAs.

Commercial Contract	Grant-related SLA
Suppliers have liabilities (above non-payment) for failure to deliver: <ul style="list-style-type: none"> - Bring in alternative provider at cost to the original contractor. - Sort out the problem and/or pay to fix any problems. 	- Payment related to outputs/outcomes: non-payment if targets not reached.
Service provider has a 'duty of care' to the public agency. Clear obligations within the contract and liability for damages if failure to provide in accordance with the service specifications.	No legal 'duty of care' but may there may be an obligation in the grant award/ specification to follow good practice. There is usually monitoring of appropriate policies and processes.
Can make a profit on the contract.	Grant funding is restricted income. There is a legal obligation to spend it for the purposes it was awarded and there is no possibility of generating a surplus. There is the possibility of ' clawback ' if funding is not fully spent.
Agencies have meaningful legal obligations in relation to prompt payment of invoices.	No legal obligation in terms of prompt payment of grants.
Payment is made for the supply of goods/services and as this is a purchase, Value Added Tax should normally be charged.	No Value Added Tax as the public sector's intention is to grant fund.
Public agency will have to follow EU procurement requirements and adhere to its own procurement processes.	Application process rather than tender process. (<i>Applications do not have to be competitive processes.</i>)

There are advantages and disadvantages to each approach. We have linked grants and SLAs together for this element.

Procurement Contract	
Advantages	Disadvantages
<ul style="list-style-type: none"> You can generate a profit. 	<ul style="list-style-type: none"> You will be operating in a competitive market place and the service has to be put out to tender.
<ul style="list-style-type: none"> You are working to a clear service specification with a clear payment structure for delivery. 	<ul style="list-style-type: none"> You may have to prove the impact that you are claiming to make in terms of employment support to gain the contract.
<ul style="list-style-type: none"> Relationship with the public body is one of contractor/customer. 	<ul style="list-style-type: none"> Tender process is bureaucratic.
<ul style="list-style-type: none"> Service provision is a set rate per place. 	<ul style="list-style-type: none"> You need to consider the cashflow implications of public procurement contracts.
<p>For further information on the public procurement market see the Department of Trade and Industry publication Public Procurement: A Toolkit For Social Enterprises.</p>	

Grant or (Grant-related) Service Level Agreement	
Advantages	Disadvantages
<ul style="list-style-type: none"> Does not need to be a competitive process. You can negotiate with the funder. 	<ul style="list-style-type: none"> You cannot generate a surplus and potential 'clawback' if funding is not spent.
<ul style="list-style-type: none"> The introduction of 'Full Cost Recovery' means that you will not make a loss on providing the service. 	<ul style="list-style-type: none"> You may be perpetuating a 'grant aid' relationship with the public sector.
<ul style="list-style-type: none"> SLA will mean that you have a focus on the outputs/outcomes.. 	<ul style="list-style-type: none"> You will usually have to provide a budget breakdown for the service.
	<ul style="list-style-type: none"> Funder may be looking for additional leverage through identification of additional match funders.
	<ul style="list-style-type: none"> You need to consider the potential 'State Aid' implications if the funding is seen to distort competition.

As outlined above, there is no right answer as to whether you obtain supplementary income via a grant, a Service Level Agreement or a contract. This will depend on the motivation that you have for developing the Social Firm and the type of funding opportunity offered by the public sector agency. Part of the business development process as you move towards starting your Social Firm, will be to identify how much supplementary income you require, why you think you require it and then to find the right source of funding.

Think about the supplementary income that you require for your Social Firm.

Review the learning and consider whether you are better to try to have a grant, a Service Level Agreement or a contract for the employment support that you are providing.

A good practice model of a service level agreement

As indicated, practice varies across the UK in terms of Service Level Agreements for supportive working environments within Social Firms. It is impossible to be prescriptive about what constitutes an *ideal* 'Service Level Agreement'. Also, as discussed, the nature and content of an SLA will usually depend on the public sector agency that you are dealing with. Differing approaches to this are adopted by different health services or social services departments.

This element will seek to identify the key elements of good practice in terms of an SLA.

When negotiating an SLA you should be aiming to:

- get the essential elements right;
- get clarity over the 'service provision';
- make sure that the 'standard clauses' do not disadvantage you in terms of service delivery.

Many of the principles of good practice for an SLA are equally applicable for commercial contracts with the public sector.

Essential Elements

It is essential that any Service Level Agreement be based on the following principles:

- *Full Cost Recovery* means that your organisation recovers the full costs associated with providing a service or other output. The principle of Full Cost Recovery is a widely accepted accountancy principle. Full costs are broadly defined as 'the total cost of all the resources used in supplying a service, including the direct costs of producing the output, a full proportional share of overhead costs and any selling and distribution expenses. Both cash costs and notional (non-cash) costs should be included, including depreciation, inflation and finance charges.'¹

¹ HM Treasury - The Fees and Charges Guide

- *Service Delivery for Outcomes* means that your organisation will be paid for meeting an agreed, specified set of outputs, outcomes or impacts. This will allow your organisation to plan the workload required to meet those outcomes. It will mean that the public sector agency will need to be clear about the outcomes or impacts that it wants to achieve through the funding.

Think about the employment support that you will provide for people with disadvantages within your Social Firm.

- Do you know the full costs of providing that support?
- If not, what steps do you have to take to ensure that you know the full costs before starting to negotiate a Service Level Agreement?
- What outcomes or impacts will you achieve through providing employment support?

Remember that if you are not clear about the outcomes or impacts that you can achieve then you will be in a poor position to negotiate a Service Level Agreement.

Service Provision

A Service Level Agreement should detail the following in terms of service provision:

- who is funding the SLA – name, address and contact details of the public agency;
- the amount of funding – and whether on a 'block' or 'spot' purchase basis;
- who is receiving the funding – name, address and contact details of the organisation and any 'parent' body associated with the service delivery;
- the client group that the funding is for (where appropriate);
- description of the type of service being funded;
- what outputs are specified for the funding;
- the timescale for service delivery and funding arrangement – good practice is for a minimum of in principle three-year funding by public agencies, unless the project is a pilot initiative;
- how and when funding will be paid – for cashflow purposes it is possible to negotiate 'in advance of need' funding arrangements;
- details of the liaison officer for the public agency, including name, job title and department;
- bank and financial details of the organisation being funded, including details of key staff involved;
- signatures by the funders and the organisation receiving funding.

As an SLA is a grant funding arrangement, there will usually be a statement contained within the service specification stating that the SLA is not a binding contract but that the agreement forms part of an 'operational agreement'.

Standard Clauses

A SLA might also include a series of definitions to clarify meaning. The following areas are standard clauses or conditions that you should expect within an SLA:

- amendments to funding or service provision arrangements, including details of when this might occur and how these will be dealt with;
- assignation of the SLA conditions, including details of the process for this and any prohibitions on this occurring;
- charity compliance requirements, where appropriate and possibly including details on trustees, frequency of meetings, structure, etc;
- complaints procedure within the organisation;
- confidentiality requirements for clients;
- Data Protection Act requirements;
- employment conditions, usually detailing the legal responsibilities expected of the organisation as an employer, the expected employment practices and procedures to comply with employment law around areas such as Race Relations Act, Sex Discrimination Act, Equal Pay, Disability Discrimination Act, Human Rights Act, etc;
- Equal Opportunities requirements;
- Health and Safety requirements, including details on compliance;
- indemnity requirements for the public agency;
- information requirements, including details on providing annual reports, audited accounts, invites to AGM, etc;
- inspection requirements and quality audits, including periods of notice of any inspection and appeals process;
- insurance requirements, including details of the level of public liability insurance expected to be held by the organisation providing services to the public agency;
- intellectual property rights, including details of who retains this;
- key well-being policies that the public agency may have such as 'Smoking Policy', 'Green Transport Policy', 'Environmental Policy', 'Occupational Health Policy', etc;
- marketing, promotion, advertising and acknowledgement requirements;
- monitoring and evaluation requirements and reporting procedures;

- mutual responsibilities such as payments, public agency staff training, provision of information, transparency of processes, etc;
- notifications of significant changes procedures;
- performance level requirements to meet service specification;
- police checks and child protection, where appropriate;
- pre-conditions, usually indicating that your organisation is properly constituted and has the power to enter into agreements;
- prohibitions on use of funding for furtherance of political parties or engaging in activities that affect public support for a political party;
- record keeping requirements, including details of how long records should be retained and process for inspection of these records during that period;
- referral procedures, particularly from public agencies;
- regulatory costs, including details on audit requirements, etc;
- re-negotiation of agreement conditions;
- resolution of disputes procedure;
- risk assessment requirements;
- staffing structure and requirements;
- termination of agreement conditions for both parties, use of grant for non-approved purposes, financial irregularities, insolvency of organisation, material breach of the agreement, failure to comply with conditions, failure to meet performance level requirements, etc;
- Value Added Tax, usually detailing that VAT is not applicable as this is a grant-funding arrangement;
- volunteer policy, where appropriate.

When negotiating Service Level Agreements you should consider seeking legal advice. This legal advice should then form part of your Full Cost Recovery arrangement. In addition, you should also include the administration requirements placed on your organisation in relation to the above standard clauses as part of the Full Cost Recovery process.

Key Points for Negotiation

When negotiating a Service Level Agreement you should bear in mind the tips outlined below:

- Be clear on your motivation for seeking a particular type of supplementary income. Does this fit with your motivation for developing a Social Firm? If not, why are you seeking this funding?

The *extra* Elements

- Do not under-price the service that you are providing. If you do this you will run the risk that you have to invest the profits from the business activities into sustaining the supportive working environment service provision rather than into business development. This may make your Social Firm unsustainable in the longer term.
- Seek legal advice if you are unclear about any of the conditions or clauses in the SLA. This is particularly required if State Aid implications arise in terms of the SLA.
- You should invest in 'proving your impact'. This will enhance your argument for improved funding. There are a range of 'quality and impact' tools being developed to help Social Firms measure the impact that they have in terms of health benefit, cost savings in welfare benefits, social inclusion and employment integration.² Although introducing quality and impact measurement can be costly, this can be offset by negotiating on a full cost recovery basis with the public agency.
- When negotiating an SLA you will usually be negotiating over the fees to be paid for the supportive working environment that you will be providing within the Social Firm.

If you have an existing Service Level Agreement then it may be worth **reviewing** it to see whether it meets the good practice outlined above.

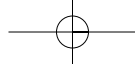
² See for example Proving and improving: a quality and impact toolkit for social enterprise by the New Economics Foundation, available in the form of free downloads from www.proveandimprove.org

ELEMENT E

Suggested Planning Tasks

The tasks here are a selection some of the key questions from the 'think boxes' in this element.

1. **Think about** your plans to develop your Social Firm. Are you planning to have all the turnover of your business from commercial sales? If not, where do you intend to get the non-commercial income?
2. **Think about** your motivation for developing your Social Firm.
 - Why do you want to develop a business to create employment opportunities for people with a severe disadvantage?
 - Do you know which approach (integrated, intermediate, inclusive, or assimilated) is the most appropriate for you in terms of developing your Social Firm?
 - Does the supplementary income that you are aiming for fit with your motivation for developing a Social Firm? If not, what are the implications of this?
3. **Think about** the supplementary income that you require for your Social Firm. Are you better to try to have a grant, a Service Level Agreement or a contract for the employment support that you are providing?
4. **Think about** the employment support that you will provide for people with disadvantages within your Social Firm.
 - Do you know the full costs of providing that support?
 - If not, what steps do you have to take to ensure that you know the full costs before starting to negotiate a Service Level Agreement?
 - What outcomes or impacts will you achieve through providing employment support?



The *extra* Elements

