



| Social and Commercial Enterprise Policy |                                      |             |  |
|---|--------------------------------------|-------------|--|
| Last Reviewed                           | March 2023                           | Next Review |  |
| Responsible Officer                     | Chief Finance and Technology Officer |             |  |

**Policy Statement:** Freebridge shall ensure that any social or commercial activities undertaken are properly assessed and managed. It will always ensure that such activities do not detract from, conflict or compromise its core housing management activities or assets.

#### **Policy Detail:**

##### **We shall:**

- Ensure that all new Social and Commercial enterprises are thoroughly researched and evaluated before commencement.
- Regularly review all ongoing Social and Commercial enterprises to ensure that they continue to deliver the required returns and where they do not take appropriate action.
- Ensure each Social and Commercial enterprise has an agreed exit strategy and that this is regularly reviewed and updated.
- Ensure that it has the necessary management and strategic skills and experience in place to manage any Social or Commercial enterprises that it undertakes.
- Deliver a Social or Commercial enterprise in partnership with other organisations it will ensure that a thorough due diligence exercise is carried out before entering into a clear and balanced legal agreement covering the partnership. All such partnerships will be reviewed on a regular basis to ensure that the balance of risk and reward remains appropriate.
- Ensure that for each Social and Commercial enterprise separate risk maps and financial monitoring are maintained.

##### **Research and Evaluation**

Where there it is a new service (diversification) it is expected that research and evaluation will cover at least the following issues:

- How does this align (or potentially conflict) with our current business plan, strategies and values?
- Why do we want to deliver this service?
- Exactly what is it that we want to do?
- Confirmation that the proposed activity is viable (within our allowed activities) and details of compliance with relevant legislation and regulatory requirements.

- The detailed plans for how we intend to do it?
- What is the timetable for delivering this and how sensitive is it?
- Sales and marketing analysis, including target markets and pricing.
- What additional skills and resources (financial, information, property and people) do we need to successfully deliver this?
- These should enable a robust financial plan to be presented that has been thoroughly stress-tested. It should take into account any taxation, including VAT, impact for the proposed service as well as the rest of the organisation. The extent of any necessary funding should be highlighted together with proposed sources.
- An analysis of whether we have the right people and skills, including any training or consultancy needs. Details of any staff transferring via TUPE from existing providers should also be included.
- A clear and comprehensive analysis of what could go wrong and how these will be monitored and mitigated.
- An outline of what happens if everything goes right, to include opportunities for further growth and potential sale?
- What are the initial steps and critical decision points? When do we become morally and legally committed to this?
- What are the risks to existing services and assets? How can these be minimised, monitored and mitigated?

The level of detail required will depend upon the scale and complexity of the proposal and the level of risk involved.

When we are selling existing good services then the research and evaluation will need to be just as thorough and include the following as well as those items above:

- What is the capacity of existing resources (financial, information, property and people) to deliver this increase?
- What are the costs of existing delivery (including relevant share of central overheads) and how do these compare to potential competitors rates?
- Are there any insurance (including professional indemnity or public liability) implications including additional costs?
- What are the costs and implications of any necessary professional permissions or requirements for staff involved?
- What are the opportunities for staff development?

For social enterprises it is important that the following issues are also considered:

- The extent of reliance on any volunteers and the ability to sustain the interest of volunteers over the duration of the enterprise.
- Clarity of outcomes and how they will be measured and/or valued.
- Clarity around the priority of any “double bottom line” e.g. when will social or financial outcomes take precedence.

## **Required Returns**

At the start of any enterprise a clear minimum return should be agreed. For a commercial enterprise it is essential that this exceeds the cost of any funding and recompenses Freebridge for the level of risk it is accepting. For a social enterprise an

element of any financial return can be replaced by clearly identified expected social outcomes. A social enterprise should not be precluded from making a financial return in addition to a social return. For long term social enterprises that are not forecast to break even a contribution from ongoing operating surpluses should be agreed for the necessary period to ensure the delivery over a sufficient duration.

Where a cost sharing arrangement (such as Coastshare) is being used to reduce VAT costs to the recipient it is essential that there is no profit element. It is therefore unlikely that such arrangements will be suitable for commercial enterprises. The returns of all agreed Social and Commercial enterprises shall be reviewed as part of the annual budget exercise. Any that have not delivered or are not forecast to deliver the previously agreed minimum will be highlighted to the Board for a more detailed review and options appraisal. Such a review could trigger the exit strategy or result in a reassessment of the required returns in either the short and/or long term.

### **Exit Strategies**

Before the commencement of any enterprise a clear exit strategy must be agreed by the Board to cover the success or failure of the enterprise. If an enterprise is successful consideration should be given to whether it will be grown or sold, and the triggers for such options. If an enterprise fails, then the exit plan should seek to minimise any risks and be clear on the triggers for exit. Triggers for exit should be agreed and reflected in all relevant legal agreements. Where the enterprise is dependent on fixed term funding or other contractual arrangements the exit strategy should include all potential outcomes at the end of the relevant term.

### **Skills and Experience**

Where the proposed enterprise is for a new service (diversification) it is important that a full skills assessment is carried out which identifies the relevant skills, knowledge and experience required of the Board, management and staff to review, deliver and manage the required elements. This should be compared with a realistic assessment of the current skills, knowledge and experience of these groups and any gaps identified. Plans should be put in place to address these gaps over a reasonable timeframe and until this has been achieved, there must be clearly identified means of validating plans and actions with external experts. The costs of all elements of these arrangements should be included in the initial business plan for the enterprise.

### **Partnership Arrangements (including partnering)**

Where it is beneficial for Freebridge to deliver an enterprise in partnership with another organisation then an appropriate level of due diligence will be carried out to ensure that the potential partner has a sufficient level of financial and other resources to deliver their responsibilities. This assessment should also ensure that they are a good “fit” with Freebridge and have the necessary skills, knowledge and experience to work effectively in partnership. This may need to be validated externally if Freebridge does not have these internally. References should be obtained, wherever possible, for potential partners.

All partnership arrangements should be covered by a legal agreement that is appropriate to the scale and risks of the enterprise. The legal agreements should clearly set out responsibilities and be integrated with agreed exit strategies. It is

especially important that all parties are clear about the triggers for exit as well as the terms and process. As at such times relationships can be strained, when communications and reputational risk need to be carefully managed.

For larger and riskier projects consideration should also be given to the legal structure of the partnership to ensure that it is appropriate.

### **Financial and Risk Monitoring**

Routine financial reports will include clear and separate information in respect of each enterprise. Risk reporting will integrate risks from each enterprise and report them when they reach the threshold. In the early stages of an enterprise, or if the required financial or social outcomes are not being achieved then more detailed or frequent reporting may be required.