Food and finance
How small-scale food enterprises raise the money to grow
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Summary

The Food & Finance report presents the findings of research into how small-scale food businesses and community food enterprises have secured funding to support their work. It also presents a summary of interviews with representatives from a range of lenders and funding organisations, and their views on challenges particular to the small-scale food sector.

Our research shows that small-scale food enterprises have so far often been partly or heavily dependent on grant funding, from a range of government and charitable sources. But a shrinking pot of grant money, and growing political antipathy to provision of money by government, means that a looming ‘funding gap’ is forcing these organisations to think more creatively about the way they fund themselves, and how they can reach a situation where they are operating on a more financially viable basis. This raises many questions for community food enterprises in terms of the future source of money for start-up finance, capital equipment, and investment to grow. This is especially challenging for social enterprises, co-operatives and small-scale food businesses seeking to address social and environmental issues through food. Due to low or slow profitability, and few assets against which to secure loans, such enterprises may be ill-suited to loans from mainstream commercial banks. Progressive lending and community finance, and continuation of grant funding, are therefore important considerations.

The key findings of our research were as follows:

- The government has had an important role in funding the small-scale and community food sector through direct grants or through policies such as the tax break for micro-brewers.
- The small-scale and community food sector has often depended on cash from owners and their family and friends, particularly to get started.
- Amongst our case studies there was little involvement of community development finance institutions in the small-scale food sector.
- Among our interviewees, very little funding had been obtained as conventional business loans from mainstream banks.
- Low margins and ‘slow return’ on many food products are likely to make the businesses that produce them unattractive as potential clients for the commercial banking sector. The same factors are also likely to make it difficult for small-scale food enterprises to meet the requirements of mainstream commercial bank loans, especially those with social aims.
- The increasingly impersonal nature of finance and lack of personal relationships between lenders and borrowers has further hampered funding from the conventional banking sector.
- Lenders and producers talk different languages and lack understanding of each other’s particular circumstances and needs, and how to present themselves to each other.
- Free business advice has played a vital role in helping businesses develop their structures and processes so they become attractive to funders and lenders. The demise of specialist business services such as Business Link, and temporary nature of charitably funded sources of community enterprise support are therefore a cause for concern.
- Over the last couple of years there has been an increase in funds being raised through community share issues and other creative means. If carefully developed, with appropriate safeguards, these may be a fruitful source of finance for community food enterprises.

This report forms part of a wider research project on Sustainable Food Finance, commissioned by Sustain in 2012, aiming to make recommendations for how small-scale food enterprises, and funders, should develop their work to support the vitality of the community food sector.
Acknowledgements

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We also acknowledge and thank our funders and supporters of the Food Supply & Distribution strand of the Making Local Food Work programme, acknowledged above.

Please note that inclusion of commercial services and organisations in this document does not constitute an endorsement or recommendation by Sustain; nor does exclusion of other similar services mean that we have taken a view on the relative merits of goods or services from different organisations. Text is based on advice from the food enterprises and the support organisations that we consulted, and on recognised good practice in the funding sector. Please let us know of other ideas or examples of good practice that we should promote. Food sustainability is always a work in progress!
Introduction

“One of the biggest barriers for businesses with an ethical base is how to access capital on reasonable terms, from people with some sympathy for what it is trying to do.”

Andrew Whitley, founder of the Village Bakery, now director of Bread Matters (www.breadmatters.com) and co-founder of the Real Bread Campaign (www.realbreadcampaign.org)

Most businesses need money when starting up, and often as they continue to trade too. The average cost of starting a business was estimated to be £7,500 by one 2008 study, with many start-ups requiring external funding to meet this need¹. Over half of businesses also need more money to fund expansion or simply to cover cash-flow fluctuations, with the average amount being £45,000².

Over the past five years, Sustain has been a national partner in the Big Lottery funded Making Local Food Work programme. We have worked with a wide range of social enterprises, co-operatives and small-scale food businesses seeking to promote local food, and to address social and environmental issues, such as the provision of fresh fruit and vegetables in deprived areas, co-operative retailers selling ethically sourced food, and businesses working to provide a more secure income for farmers growing food sustainably and often on a small scale. Over this period, Sustain has become increasingly aware of how much the sector depends on grant funding. But a shrinking pot of grant money, and growing political antipathy to provision of money by government, means that a looming ‘funding gap’ is forcing these organisations to think more creatively about the way they fund themselves, and how they can reach a situation where they are operating on a more financially viable basis. This may mean that more food businesses – including those community food enterprises that have previously been motivated more by improving health and the environment than by profit per se – will need to think about accepting investment from outside the enterprise, as many such food businesses do not have large enough profits to build a significant pot of money through their own trading.

We wanted to take stock of how small-scale food enterprises have recently raised money to invest in growth or capital items, to see what lessons might be learnt. In this report, we feature case studies tracking the different types of finance used at different stages of the business, and canvasses the views of the owners on their experiences of these funding methods. The report also highlights the perspectives of the different financiers – including specialist banks, social investment intermediaries and community finance advisors – who are likely to play an important role in the future.

As grants have arguably distorted the business models in many of these enterprises, we also looked further afield to more mainstream enterprises and financiers, whose primary goals may not necessarily be environmental protection or social justice. The report therefore includes

² The National Evaluation of Community Development Finance Institutions (CDFIs): An Action-Orientated Summary for the Sector, June 2010. Department for Business, Innovation and Skills; Cabinet Office; GHK
some businesses offering local food or services and employing local people but which are, strictly speaking, straightforward commercial businesses not social enterprises. Similarly, we have included businesses where the source of capital might be a regular high street retail bank rather than an investor with any ethical priorities.

We have taken a similarly broad approach to defining “financially sound”. Low margins associated with primary production (i.e. farming), and the fact that social and community enterprises and co-operatives, in particular, have suffered from under-investment, and may have few assets against which to take out loans, means the report also includes case studies where the definition of ‘profitable’ might be debatable if viewed from the perspective of the mainstream food industry.

In our analysis we focused particularly on how enterprises raised start-up funding, though we also noted any follow-up funding that had been raised. The types of funding that are available to enterprises will vary depending on the type of organisation they are, for example primary or secondary producer or retailer, and on the lifecycle stage that the organisation has reached. In particular, primary producers with few assets to put up as collateral and a business model which relies on small margins, find it difficult to raise money through conventional banks.

Three areas of finance seemed to feature most prominently with start-ups, namely, government grants, personal cash injections from the owners and their family and friends, and loans from commercial banks. However even bank loans were often based on the personal collateral of the owners (e.g. remortgaging a family house) rather than the business itself. This personal investment and risk-taking tallies with research into UK-based small- and medium-sized enterprises showing that over half raise funds by using credit cards. There seems to be little grounds for optimism that the process by which commercial banks assess credit worthiness will change in the foreseeable future, so it is unlikely that funds from conventional banks will make a significant contribution to financing small-scale and community-based food enterprises.

On the other hand, the success of recent community share issues by the Real Food Store in Exeter, and Loaf Social Enterprise (both featured in case studies in this report) indicates that there are local people who are willing and able to get involved in financing a local food enterprise that they believe has local economic, social or environmental benefits. Moreover, this new type of investor may have low expectations in terms of their return on investment and view the money they provide more like a no-interest loan or even donation. At the same time they may expect their capital to be secure and redeemable after an agreed period of time, so expert advice should be sought by any organisation wanting to do this.

Another recent source of money is the community development finance institutions and extra funds going through these organisations via Big Society Capital (www.bigsocietycapital.com), the present Government’s new scheme to encourage “investments made for social as well as financial return”. The degree to which the community food sector may be able to obtain these funds will partly depend on its willingness and ability to develop its organisational structures and processes sufficiently to be considered suitable for investment by community development finance institutions. These institutions still expect their funds to be repaid with interest, albeit at a lower level than that charged by the commercial banking sector. This also raises questions for community food enterprises primarily interested in tackling poverty or poor access to healthy food, whether it is advisable to get into debt and commit to repaying funds with interest – from

3 Small Firms in the Credit Crisis: Evidence from the UK Survey of SME Finances www2.warwick.ac.uk/fac/soc/wbs/research/c sme/research/latest/small_firms_in_the_credit_crisis_v3-oct09.pdf
socially motivated funds or otherwise – in a sector that generally commands low profit margins and precarious or seasonal income.

In short, there is a clear need in the sector for support and advice to help community enterprises reach the necessary degree of organisational development to make them of interest to social investors and community development finance initiatives, and to be able to explore the full potential of raising money from their local community. Further, we continue to raise questions about whether it is advisable for Government to pin its policies for tackling social and environmental problems, and stimulating innovation, on funding that requires social enterprises to go into debt. Grant funding should still remain an option, even in these straitened times.

In shining a light on a wide variety of financial approaches and the hard lessons which have already been learned, we hope to inspire a more creative approach – on the part of enterprises, finance-providers and grant funders – to helping community-run and small-scale food enterprises to find appropriate financial support.

How we undertook the research

We approached a number of financiers active in the small-scale food sector, asking them to provide examples of food business borrowers in their portfolio. In addition, following desk-based research, a list of banks, building societies and Community Development Finance Institutions (CDFIs) was drawn up and they were contacted with a request for details on any current clients coming from the local food sector. The potential case studies, divided by market sector, were approached and given a questionnaire. A number of potential case studies declined to participate due to lack of time. Of those who agreed to take part, some filled out the questionnaire and returned it, and the remainder were interviewed over the phone.

Interviews were also conducted with key figures in each financial sector, covering details of their asset portfolio, percentage of small-scale and local food borrowers, lending criteria, and their perspective on food financing, both in the past, now and in the future.
The world of finance can seem a murky one and, because many community food enterprises are aiming to do more than just create a commercial operation, finance sometimes takes a back seat in planning a project or business. But in fact, as our case studies demonstrate, the approach taken to funding can have a marked effect on the shape and long-term success of a food enterprise. This is even more fundamental to businesses for which profit is not the primary motive, because they will be less likely to have additional funds available to service any debts.

All financing can be roughly divided into three main types: debt (loans), equity (some form of share) and donations, grants or gifts (free money). A debt can be in the form of a straightforward loan, a mortgage, an overdraft or some kind of asset financing of equipment or invoices (see more details below), from a bank or a building society, Community Development Finance Institution (CDFI), or via a community loan scheme. All providers of loans differ in terms of their attitude to risk, interest rates, flexibility and requirements for lending security. The main advantage of debt is that no ownership of the business is given up in return for the finance, but the business has to pay interest on the loan and, at some point, repay the loan, often with a rigid repayment schedule.

For a small-scale food enterprise, equity is finance such as personal investment by friends and family in return for a share of ownership, and the increasingly popular community share model, where ownership is split across a group of community members. Equity does not usually involve any repayments until the business can afford them. It can also bring in external expertise from shareholders, and can make it easier to obtain loans. Obvious disadvantages include reducing the owner’s share of the business, and often control over it too. The choice between debt and equity may also depend on the legal structure of a business, as some legal structures are not able to issue shares.

Grants are usually awarded on the basis that they are used to achieve specific outcomes. Donations and gifts may or may not be given to fund a specific outcome and may take the form of cash or pro bono services. These sources of money are not the subject of this report, although of course they are likely to continue to play an important role.

More details about the merits of debt versus equity finance can be found in the chapter entitled ‘View from the finance sector’, and also in the Co-operativesUK report Simply Finance, while legal structures are examined in Simply Legal.

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4 Simply Finance - a comprehensive guide to the different options for financing a community enterprise. Co-operatives UK, 2011: [www.uk.coop/simplyfinance](http://www.uk.coop/simplyfinance)
5 Simply Legal - a comprehensive guide to the legal forms and organisational types for community enterprises. Co-operatives UK, 2011: [www.uk.coop/simplylegal](http://www.uk.coop/simplylegal)
1. **Cash from owners, their families and friends, and Business Angels**

Often the first port of call for those wanting to start a business is their own personal savings, or those of friends and family – either in the form of a loan or an equity investment. Such arrangements can be relatively simple to put in place, flexible, and cheaper than formal borrowing. Linked to this is the use of ‘Business Angel’ investors – wealthy individuals who provide funds in return for an equity share. According to Business Link, Business Angels typically invest £10,000 upwards, and many also offer business expertise.

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**Case studies for cash from owners, family, friends and Business Angels**

Our case studies include a number where the owners used their own money to start the enterprise (see Purity, Keveral Community of Growers and Loaf Social Enterprise Ltd); the Duke of Cambridge organic gastropub, was funded solely through private investors.

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2. **Asset finance**

Asset-based lending is where the loan is linked to an asset – either one being purchased (as in the case of hire purchasing and leasing equipment), or one being used to borrow against, in the case of invoice factoring. In a hire purchase the customer pays an initial deposit, and the balance and interest is paid over a period of time. The finance company which provides the finance purchases the asset on behalf of the customer and owns the asset until payment of the final installment. In leasing, the finance company buys and owns the asset needed by the business, which hires the asset and pays rental over a predetermined period. Invoice factoring – selling invoices to a third party and drawing funds on the basis of the money owed to the business – is also a form of asset finance. After signing an agreement, the factor will typically agree to advance cash of up to 85 per cent of approved invoices, and typically charges range from 1.5 to 3 per cent above the Bank of England base rate.

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**Case studies for asset finance**

Brewer Purity used asset finance to buy start-up equipment, while the brewer Titanic used a factoring service to ease cashflow.

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3. **High street banks and building societies**

High street banks (a term generally used to describe large retail banks with multiple locations) and building societies offer a range of online banking, personal loans, mortgages, credit cards, savings, overdrafts, business loans, current accounts and deposit accounts. Such banks traditionally require a substantial level of collateral to secure the loan, and transactions costs to small businesses are high. Nevertheless, according to HM Treasury the top four high street banks are currently responsible for 92 per cent of total small business lending by banks. How-

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6 For more information, see the British Business Angels Association website: [www.bbaa.org.uk](http://www.bbaa.org.uk)
ever, our research indicates very little of this goes to small-scale food enterprises, or at least it is not “official” lending to the business but rather personal loans drawn against the owner’s assets. Interest rates for personal loans of this type tend to be higher than for business loans.

Several of our case studies financed themselves through personal loans from high street banks. Unlike social lenders (see below, such as Triodos and Co-operative and Community Finance) many high street banks providing loans or mortgages for to start or expand the food businesses were unaware of the purpose of the capital, and offered no specialist advice.

On the whole, high street bank branch managers are unlikely to be familiar with the aims, or more unusual legal structures associated with the small-scale food sector, so making a case for lending can be difficult8. One exception was the HSBC bank manager who advised Providence Farm (see case study). He was particularly supportive of the farm’s aims and, as a Greenpeace adviser, conducted GM supermarket tours on his lunch break from the bank. However, his assistance was clearly more a reflection of his personal views rather than bank policy.

Surprisingly, given its ethical stance, the Co-operative Bank did not feature in any of our case studies, and when questioned was unable to provide any examples of local food businesses it had worked with. This could be partly a reflection of the fact that only those clients who are ‘relationship managed’ – those above a certain size of borrowing – can be identified on their systems.

4. Specialist social investment lenders

These specialist lenders are structured as mainstream banks, with similar products and terms, but only deal with organisations that meet their specific ethical criteria. For example, Triodos has a policy of only lending money to organisations ‘working to bring about positive and lasting change’. This includes businesses whose key objectives are to add value to society or the environment, and they tend to have lower interest rates than high street banks.

Triodos has an asset portfolio of £400 million, of which £60 million is in farming, and £5 million in other food businesses, including organic bakeries, other producers and retail. The bank has been involved in the organic sector for over 30 years, and works with around 200 organic producers and farms around the UK. It works closely with the Soil Association, providing it with banking services and funding its research. Its average interest rate is 5 per cent over the base rate but, like high street banks, its lending must be secured against assets.

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8 Simply Finance - a comprehensive guide to the different options for financing a community enterprise. Co-operatives UK, 2011: www.uk.coop/simplyfinance
5. Community Development Finance Initiatives

Like specialist banks such as Triodos, Charity Bank, and Co-operative and Community Finance (CCF), Community Development Finance Institutions (CDFI) can be classified as investors with a social purpose to their lending criteria. In fact Charity Bank and CCF, are themselves CDFIs and Charter Members of the umbrella trade association the Community Development Finance Association (CDFA). However, the term CDFI covers a wide range of different organisations, some of which take a specifically regional approach, and some focusing more on micro and personal finance. The CDFA defines CDFIs as follows: “Independent organisations which provide financial services with two aims: to generate social and financial returns. They supply capital and business support to individuals and organisations whose purpose is to create wealth in disadvantaged communities or underserved markets.”

The majority operate on the basis of public (and some philanthropic and/or private) funding of loan finance. For example, Yorkshire-based Key Fund grew from EU funding, matched by Regional Development Agency funding, and some central UK government funding like the Phoenix Fund. Others like Bridges Ventures are financed through a combination of government money matched with social investors plus funds from private ethical investors. One common thread is that, as a group, they seem more prepared to be flexible in terms of risk, price of loans or security than high street lenders, partly because they are more specialised and understand risks better and partly because they have access to subsidised funding. According to the CDFA, the value of lending capital held by the CDFI sector was £246m in 2008/9.

Case studies for Community Development Finance Initiatives

Every year the CDFA publishes a report summarising the state of the community development finance sector based on an annual member survey. The latest report indicated that £200m was invested by these organisations in the last financial year. Yet our research brought to light very few examples of investment through CDFIs in food, though not for any reason that could be pinpointed. The exceptions were Yorkshire-based Key Fund, which has lent to clients including Hudswell Community Pub and TERSA, which financed the expansion of Whole School Meals.

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9 For more information, see: Community Development Finance Association www.cdfa.org.uk
10 Yorkshire Based Key Fund (information accessed February 2012) www.thekeyfund.co.uk
12 Bridges Ventures (information accessed February 2012) www.bridgesventures.com
6. **Co-operative finance**

Co-operative and Community Finance (CCF) offers finance to ventures working on a co-operative basis. To qualify organisations must be ‘owned and democratically controlled by their members’, who are usually either employees, customers or members of a community. Unlike most banks and building societies, CCF does not require personal guarantees as security for the loan.

CCF provides loans from £10,000 to £75,000 from its own funds, and can also lend up to £150,000 using other funds that they manage including the Co-operative Loan Fund, funded over the years by the Co-operative Retail Societies. It currently has £3 million out on loan, of which £856,000 (28.5 per cent) relates to the food sector.

They also have a significant amount of funds tied up with the community shop movement, having provided £1.2 million finance for some 70 community-owned shops to start, expand or build new premises, as part of the Plunkett Foundation’s Village CORE programme. CCF also has close links with LOCALITY (formerly the Development Trusts Association), Co-operatives UK, and the Co-operative Enterprise Hub.

7. **Community Supported Agriculture**

In a Community Supported Agriculture (CSA) arrangement, the community shares the risks and rewards of agriculture. There are several different approaches but the common theme is that people are invited to receive a share of the produce on a regular basis in exchange for their financial investment. Often this is done with upfront payment at the start of the season. Some involve community ownership of land, and more details can be found on the Community Supported Agriculture pages of the Making Local Food Work website.

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**Case studies for co-operative finance**

CCF has a strong tradition of working with the food sector, including pioneering businesses such as Essential Trading, Suma and Unicorn Grocery, due to the historical focus on affordable food in the co-operative movement.

The Community Farm is a Community Benefit Society owned and democratically controlled by its members. The farm started trading in April 2011, having bought out an existing growing scheme, box and wholesale business from The Better Food Company by raising £126,126 through community shares. As of August 2011 the CSA has 409 founder members and 24 annual members.

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15 The Village CORE Programme is a dedicated support programme for communities looking to set up and run a community-owned rural shop, run by the Plunkett Foundation, see: [www.plunkett.co.uk/whatwedо/core/Core.cfm](http://www.plunkett.co.uk/whatwedо/core/Core.cfm)
16 The Community Supported Agriculture pages of the Big Lottery funded Making Local Food Work programme can be found at: [www.makinglocalfoodwork.co.uk/about/csa/index.cfm](http://www.makinglocalfoodwork.co.uk/about/csa/index.cfm) and on the Soil Association website at: [www.soilassociation.org/communitysupportedagriculture](http://www.soilassociation.org/communitysupportedagriculture)
8. Community finance

Community finance schemes are financed through investment from individuals in the local community. Because community shares are treated as an asset rather than a liability on the balance sheet, generating income through community shares can open doors to other funders by creating an asset on the balance sheet as well as building confidence with other potential funders as it shows clearly the local community’s tangible investment in the project.

The main organisations involved in developing these schemes have been the recently-ended Community Shares Programme, Locality and Co-operatives UK. The Community Shares Programme was a project launched in 2009 by the Development Trusts Association (now Locality) and Co-operatives UK. It was funded by the Department of Communities and Local Government and the Cabinet Office to explore the relatively new phenomenon of community share and bond issues, through promotional events and workshops, a website with open source factsheets, and an action-research programme. The aim was to recruit ten communities who were planning to raise finance using community shares or bonds, and to learn from and support their endeavours.

During the life of the programme which ran from January 2009 to the end of March 2011 the number of new societies planning a community share offer grew rapidly - more than doubling from 78 to 164\(^{17}\). According to the Practitioners Guide to Community Shares, produced by Jim Brown of Baker Brown Associates, one of the leading experts in this fledgling field, since 2009, the 32 societies that have completed their offers have raised over £5.74m from 6,164 members. The amounts raised by individual societies range from just under £8,000 to over £1m, with an average of £179,281 and a median of £85,000. The numbers of investors in each society range from under 40 to over 1,000, with an average of 192 and a median of 151.\(^{18}\)

Community finance usually involves buying shares or bonds. Bonds are loans which provide finance for a certain pre-defined period of time and pay interest either during the life of the bond or just at the end. Shares are where the investor becomes a part-owner of the venture. Community shares however, unlike the shares traded on the stock market, can only pay limited interest, though investors should be able to withdraw their capital after a pre-defined period of time. It is worth pointing out that whilst investing in a CSA is sometimes described as a community share, in practice there is often no actual share issue but instead investors receive a “share” of the produce grown on the farm and often make their investment once a year before the start of the season.

![Case studies for community finance](image)

Organisations that have taken the community shares route include the Community Farm in Bristol and grocery and café Real Food Exeter. We also had a number of examples of community loan/bond issues, where no equity is given but the investment is repaid either through cash returned with interest, as in the case of Unicorn Grocery and/or repayment with produce – such as beer or milk as in the case Loaf Social Enterprise and Maplefield Milk.


9. **Crowdfunding or crowdsourcing**

Crowdfunding or Crowdsourcing is, in effect, a branch of community finance, where new or existing businesses can solicit for contributions from a large number of stakeholders via an online marketplace. In the majority of cases the contribution is in the form of donations where there is no expected financial return but the donor receives gifts or rewards in return for their contribution. There is usually a specific time frame for funding targets to be reached.

One of the earliest examples was The Funding Network (TFN [www.thefundingnetwork.org.uk](http://www.thefundingnetwork.org.uk)) – founded in 2002 to ‘enable individuals to join together to fund social change projects’. To date it has raised over £3 million for over 440 local, national and international projects, including the surplus food distribution project FoodCycle, which ‘brings together unused kitchen space, food that would otherwise go to waste and young volunteers, to create nutritious, low cost meals for people affected by food poverty’. It raised £9,000 via The Funding Network in 2010, which helped to launch its community café in Haringey.

Funding Circle ([www.fundingcircle.com](http://www.fundingcircle.com)) is different from typical crowdsourcing platforms in that it is as an ‘online marketplace where people can lend directly to small businesses in the UK, eliminating the high cost and complexity of banks’. The idea is to give small and medium sized businesses the opportunity to follow the lead of large, listed companies that don’t have to borrow from banks and can access bond or loans markets, borrowing directly from investors.

Crowdcube ([www.crowdcube.com](http://www.crowdcube.com)) is an unusual example in that some projects on the site may offer an equity share in the business.

We have not included case studies on this sector as we did not find examples of where this type of financing had been successfully used to fund a small-scale food business. The closest example involving a similar enterprise was Funding Circle’s support for online natural food retailer Clearspring, raising £50,000 for working capital to fund imports from the Far East.

At the time of writing, Ecological Land Co-operative is raising money through Buzzbnk[^19] to research and produce a publication. This group buys land that has been, or is at risk of being, intensively managed and leases it to people that have the skills to manage it ecologically but who would not otherwise be able to afford to do so. The publication aims to establish the current state of ecological farming in the UK, providing a single point of information on who is doing what and where, what acreages, to what markets, etc. Donor levels include being a £10 ‘player’ and receiving an electronic version of the report; being a £50 ‘shaker’, invited to the launch event; up to a £450 ‘heavy hitter’, involving a weekend on ecological farms.

10. **Government-backed loan**

The Enterprise Finance Guarantee[^20] (EFG), launched in 2009 is for businesses with an annual turnover of up to £25m seeking loans of between £1,000 and £1 million, who lack the security to be able to get a normal commercial loan. The Government provides the lender with a

[^19]: Buzzbnk is a crowdfunding website which enables social entrepreneurs and social ventures to raise funds and build a crowd of supporters, see: [www.buzzbnk.org](http://www.buzzbnk.org)
[^20]: The Enterprise Finance Guarantee will continue until 2014-15, providing up to £600 million of additional lending to around 6,000 SMEs in 2011-12 and, subject to demand, over £2 billion in total over the next 4 years. See: [www.bis.gov.uk/efg](http://www.bis.gov.uk/efg)
guarantee for which the borrower pays a two percent premium. By providing lenders with a Government-backed guarantee for 75 per cent of the loan value, EFG facilitates lending that would otherwise not take place.

Case study of government-backed loans

Purity brewery received a Small Firms Loan Guarantee (the predecessor to the Enterprise Finance Guarantee) from the government of £100,000.

11. Other investment approaches

Everards, the fifth generation Leicestershire brewer, launched ‘Project William’ in 2007. The project is an investment programme to encourage small brewers to locate to empty pubs which Everards will renovate and then rent back to the small brewer. Because of a tax break introduced in 2002 (the Progressive Beer Duty), numbers of microbrewers have rapidly increased in the UK. Everards was keen to capitalise on this, and at the same time address the issue of a growing number of empty, frequently dilapidated pubs around the country, often at the centre of a local community. Everards approaches local independent brewers, a pub is jointly identified, the freehold purchased and renovated, with the independent brewer then renting the pub through a three-year tenancy, and selling their own brews. They are also tied to selling one Everards ale and its cider, lager and bottled beer, but ‘free of tie’ on all real ales, wines, spirits, and soft drinks.

The brewer is now extending the scheme beyond the brewery market, with ‘Project Artisan’, to provide investment for other small producers without access to capital. Through links with the School of Artisan food in Nottingham it has created links with around 20 bakers, chocolatiers, farm shops and delis. The scheme has three potential approaches: Everards can supply premises for artisans interested in running a local pub with a twist; artisans who don’t wish to run a pub can occupy outbuildings on a pub site; or the brewer can act as a ‘dating agency’, where artisan producers are introduced to pubs with a view to supplying the pub, or even having a counter of some kind in the pub. Everards supplies a refurbished premises in return for rent, and also provides other business support to enterprises, including on employment law, health and safety, and marketing.

Case studies of other investment approaches

Titanic Brewery currently runs three Project William pubs. Tom Baker at Loaf Social Enterprise, outside Birmingham, is about to move into a new (non pub) property, which has been fitted out to his specification by Everards. As with all Project Artisan relationships, the brewer is looking for a return on its investment of between 12-15 per cent, via a range of rental income.

21 Details of the Enterprise Finance Guarantee are at: www.bis.gov.uk/efg and the list of lenders is at: www.bis.gov.uk/policies/enterprise-and-business-support/access-to-finance/enterprise-finance-guarantee/efg-list-of-lenders
Views from the finance community

As part of our research, we asked a range of individuals involved in financing the food sector for their perspective on its future. While they all vary in approach, levels of knowledge and integration with small-scale food producers, there are several common themes. One of the most prominent is the perceived potential for community finance, which is viewed across the board as an important development for the sector; “a way for enterprises to escape the grant funding treadmill, while avoiding the high costs of debt,” says Tim Crabtree, a Director of the Community Development Finance Initiative Wessex Investment Trust.

There are several reasons why community funding has so captured the imagination. For starters, using community members to provide risk capital goes some way to remedying the historic under-capitalisation of food businesses, offering a fresh take on the debt versus equity conundrum. “Put simply, the higher levels of profitability needed to repay debt do not fit with the lower margins of social businesses”, says Jim Brown of Baker Brown Associates. “When starting out you need flexible finance for if things don’t go to plan,” agrees Hugh Rolo of Locality, “which isn’t the case with mechanised loan payments. The bigger the deposit, the more risk capital is invested, the less vulnerable the business is to the clock ticking mechanism of debt finance.”

“Community shares are treated as equity,” says Tim Crabtree, “as an asset not a liability, which is particularly important if a venture wants to secure further lending through more traditional routes.” A community share issue can enable the venture to get access to conventional finance institutions. Achieving a substantial chunk of capital is key to improving the likelihood of bank lending, says Mark Ogden, Relationship Manager, Farming Food and Trade Team at Triodos Bank, which, like most banks, will only lend if there are some secure assets.

For Triodos, a historical focus on organic farming means many of the borrowers have been able to put up collateral in the form of land or a farm building. “Finance for farming tends to mean asset-backed lending, using farmhouses and even ‘big bits of kit’ as security,” says Mark. “It’s what we class as ‘an easier lend’, and why lenders generally tend to take a long-term view on farming businesses, plus the fact that land prices have remained relatively stable.” But with the non-farming food sector – which the bank is increasingly moving towards, Mark says – one of the biggest challenges it faces in doing so is how to service smaller-scale enterprises without adequate security to offer. While several case studies hold overdraft facilities of as little as £5,000, these tend to be a legacy from the past and aren’t easy to obtain today. The minimum is
more like £25,000, with an average of £40-£50,000. “It is very difficult to justify the costs of setting up a small facility,” says Mark, “plus we don’t run a branch network, which can be important for certain businesses.”

There is a perception that while Triodos has considerable understanding of and empathy for small-scale food enterprises, its risk averse position and high transaction costs mean the ‘lending ladder doesn’t reach down far enough’. Many smaller level financiers see their role as preparing food enterprises – ‘nurturing the seedlings’ – in order to build them to the size where banks like Triodos can afford to get involved.

Co-operative & Community Finance (CCF) is able to provide lower levels of finance, though the very nature of this lender means only businesses or projects being run on a co-operative basis are eligible to borrow. “We want to see accountability, democracy in governance,” says CCF’s Alain Demontoux. “It means that when finance problems arise everyone involved in the venture takes a hit, all the members taking a pay cut for example, so there is more chance of the business surviving.”

Like other lenders, CCF is enthusiastic about the potential for community finance, having been a key partner in the Plunkett-administered Village CORE programme. CCF provided loans to supplement the grant and shares elements of the programme. Investments to date have totalled £1.2 million. It is predicted that as the grant element of the Village Shops model disappears, it will be replaced by a more substantial community share element. That Plunkett has acted as a link between CCF and the shops is seen as an important part of the packaging of the funding.

This kind of joint funding is a clear trend. “It will not be possible to find everything through a single funding source,” says Paul Sander-Jackson of CDFI Wessex Community Assets, “it will be about packages of funding, with large financiers working through intermediaries to enable them to work with larger numbers of small projects, much like Plunkett has done with CCF.”

CCF has recently launched a new community share fund – Community Shares ICOF Ltd. – to focus on underwriting community share issues Alan points to CCF’s average loss rate of less than 3% across its lending operations over the last 10 years compared to an average loss rate for CDFIs spanning 15-45 per cent, as evidence of the financial robustness of its model.

Recently a number of CDFIs have had to merge to remain viable and, as their funds are predominantly obtained from government, in an environment of spending cuts there must be some question marks over what the future holds for them. CDFIs may however be “thrown a lifeline by the Big Society Bank”, says Hugh Rolo which will be funded by banks’ dormant accounts and will channel its funds through CDFIs.

Packages of finance

One potential avenue being explored by Co-operative and Community Finance is the possibility of them brokering deals. Other community finance initiatives like Wessex Community Assets and Key Fund are already doing this. “We’re going to see an evolution, with Community Development Finance Initiatives supporting and helping people raise finance through community share issues, and that presence on the balance sheet making it easier to raise loan finance,” says Locality’s Hugh Rolo.
One of the challenges for community finance is the need to ensure poorer communities are not excluded from this method of raising money. “Many village shops have drawn on wealthy residents in rural areas, but they aren’t only suitable for the rich,” acknowledges Tim Crabtree, “and there is the possibility of linking individual shareholdings with credit union-type arrangements, where members could for example borrow £100 for a shareholding and then pay back £2 a week to a credit union. Discussions around the potential to use saving schemes – similar in idea to the traditional Christmas Club, where a small amount is deposited throughout the year – are ongoing. “After all, the original Rochdale group saved a penny a week until they built up enough for the full £1 ownership,” says Hugh Rolo, who points to the example of FC United in Manchester, which has so far raised £1.4m and not in a rich community. The possibility of using government funding to reward poor communities that raise small amounts of finance is also under discussion, he says.

Despite the enthusiasm for community finance initiatives, there are also concerns that some legal structures will allow organisations to be exempt from certain regulations around share issues. It is vital that any organisation contemplating a community share issue realises that it is very much in their own best interest to ensure that their potential investors are fully aware of the risks they are taking as well as the social benefits. Even if the law does not require it, organisations have a responsibility to adhere to voluntary good practice standards and seek expert advice before embarking on a share issue.

**Getting the finance wrong**

Our case studies highlight how many business owners only make a profit because they do not take a proper wage out of the business. While Business Link confirms that this is the norm in the early start-up phase of a business, in financial terms it is a real concern if it continues beyond that period. “It places a real question-mark over the viability if the owners of a business can’t afford to pay themselves, and also if they are reliant on outside income to support it,” says Mark Ogden from Triodos Bank. “It is far preferable in the long term that the business can service a reasonable wage.”

For Triodos, one of the reasons food businesses fail to make it a success financially is exactly that attention to commercial risk. “It’s the difference between a bigger business with its own Financial Director and formal reporting structures in place, and a one man band where the level of professionalism may not be there. Often there can be a brilliant idea but if they have no idea how the business works – cost control and planning, what the margins are – they have to question if they should be in business at all.”

Another issue is simply the need to set prices high enough. “There is always an inherent tension between keeping prices low and quality high,” says Tim Crabtree, “but if the venture can’t bear the costs, including providing sufficient working capital, it can’t keep going.”
The case studies

We contacted over 50 enterprises, some of which were social enterprises and others that were straightforward commercial businesses. Of these, 23 provided us with enough detail to feature them in this report as case studies, and we selected enterprises from these that we felt represented a good balance of perspectives and approaches. Some are wholly privately owned and run for profit; some are run on a not-for-profit basis, with profits generated being reinvested into the enterprise or local benefits; whilst others combine both sustainability and profit-making approaches. What they all share in common is a strong commitment to social, ethical and environmental benefits, achieved – in whole or in part – through trading in food and creating good jobs in food production. We are extremely grateful to all these organisations for taking the time and effort to get involved in this survey and being so open about how they were funded. The case studies track the different types of finance used at different stages of the business, and canvasses the views of the owners on their experiences of these funding methods.

As noted in the introduction, in our analysis, we focused particularly on how small-scale enterprises, particularly those motivated by social, ethical or sustainability concerns, raised start-up funding. We also noted follow-up funding as the enterprise developed. The types of funding that are available to enterprises will vary depending on the type of organisation they are, for example primary or secondary producer or retailer, and on the stage in its lifecycle that the organisation has reached. In particular, primary producers with few assets to put up as collateral (e.g. land or buildings) and a business model which relies on small margins, find it difficult to raise money through conventional banks.

With no one best way to finance a food business, we have tried to provide a broad range of ventures, in terms of size, longevity, ambition and focus on sustainability. These have been grouped into different market sectors, so various approaches from similar ventures can be compared, but many of the approaches could in theory be applied to other sectors. With this in mind, Appendix I lists all the case studies by turnover, so businesses across different sectors of similar size can be also identified and compared.
1. Case studies – Fruit & vegetables
Fruit & vegetable case study: Northdown Orchard

“Profits have gone up in recent years because the infrastructure I need is now in place.”
Mike Fisher, owner

**Product:** Direct sale veg boxes and wholesale  
**Established:** 1991  
**Location:** South Litchfield, Basingstoke  
**Turnover:** £60,000  
**Number of staff:** 3 regular paid part-time, 2 students paid part-time, and volunteer WWOOFers (see below)  
**Method of finance:** Building society second mortgage; overdraft  
**Website:** www.northdownorchard.co.uk

Mike Fisher runs this small organic family farm of 12 acres, growing and harvesting a range of salads, herbs and vegetables all year round in fields and greenhouses. He spent £20,000 on a bare arable field in 1991 by arranging a second mortgage on his home with Cheltenham & Gloucester though, he says, they weren’t aware of what he was borrowing it for at the time. He was looking for a change of career, to be self-employed and to work outdoors. Mike was already growing organically on an allotment scale and doing some unofficial WOOFing on a nearby organic holding, along with his job managing a silk weaving mill. His training for setting up on his own doing veg boxes – which were launched in 1994 – was “lots of reading, links with local growers and plenty of farm walks”.

He continued to work full-time for three years while the veg box business was building, living in a cottage in the village with his young family. The repayments on his C&G loan and any investment into the business came out of Mike’s silk weaving mill salary, and he went part-time at the mill as the income from the farm took off. He started full-time on the farm in early 1996, sold his house in the village, and cleared both mortgages. Then he decided to live in a caravan on the farm while he built a house financed by a new mortgage from Harpenden Building Society, who were prepared to lend on a self-build timber house with an Agricultural Tie – a planning condition restricting the occupation of a house to people employed within agriculture, horticulture or forestry. Mike finished the house in 2000.

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22 World Wide Opportunities on Organic Farms [www.woof.org](http://www.woof.org)
When he needed to refinance the business, and invest in erecting polytunnels, he went to Triodos Bank to request a loan. They advised him to extend his Harpenden mortgage instead. He later starting banking with Triodos and currently has a £5,000 overdraft with them, secured against some of the farm machinery (because the house is already providing security for his mortgage). Triodos are flexible with the overdraft, he says, allowing him to extend it slightly during a period before the summer when his sales are lower.

In the last five years he has started wholesaling to Riverford\(^{23}\), having been approached by the company when they expanded and set up a regional packing house nearby. Mike says that for a small grower like him wholesaling might not normally be viable. It works with Riverford because they set the price at the start of the season and are flexible about what he supplies, which means he can ensure a market for his surplus and deal better with the ups and downs of growing. “They are growers themselves and know the score so aren’t cut-throat,” he says, though he adds that a disadvantage is that Riverford has not put up its prices to customers in the last three years. His business is now split 60 per cent on his own veg boxes and 40 per cent supplying Riverford. “The veg boxes should in theory be more profitable, but I do a wide range of crops for my own boxes and a small range of more niche crops for Riverford.”

He focuses on summer cucumbers and winter salads, both grown in polytunnels, and has supplied wet (i.e. fresh rather than dried) garlic. A lot of vegetables are not profitable to produce wholesale on the scale Mike is operating on. For instance he supplied leeks to Riverford this year, the returns on which covered his harvest and trimming costs, but had he factored in growing costs the deal would not have worked financially. “But it avoided having half a tonne of leeks left over from my own veg boxes,” he says. Similarly he recently sold Riverford an unscheduled 500 kilos of onions – an example of how the flexible arrangement is useful when he has gluts of produce.

Mike believes the key to becoming financially sustainable in a small business like his, with a low turnover, is to minimise the capital you need, particularly in terms of doing your own building and machinery maintenance and repairs. He knows several other growers farming between five and twenty-five acres using the same kit as he does, he says. He also believes his approach of buying a field and successfully applying for planning permission to build a home on the smallholding has been key to his success, and he has since helped several other would-be farmers to do the same. He has devised a business plan for pig and poultry farmers, to help others to “navigate the intricacies of planning”, by emphasising the same direct marketing approach he has used.

But while profits – which can vary yearly between five and 20 per cent – have risen in recent years because much of the infrastructure investment has now been made, Mike still questions if the business can be classed as truly ‘profitable’, given the little bit of rental he receives and a reliance on WWOOFers and his own labour.

\(^{23}\) Riverford is a company offering box deliveries to many parts of the UK of organic fruit, vegetables, meat and other organic groceries from its four farms. It currently delivers 47,000 boxes per week, see: [www.riverford.co.uk](http://www.riverford.co.uk)
Fruit & vegetable case study: Crooked End Farm Organics

“Due to government cuts in funding we have not received as much as we expected from the Rural Development Programme, so have taken a £30,000 loan from Triodos to complete the farm shop project.”

Brenda Pennell, co-owner

**Product:** Meat, fruit, vegetables, eggs, cheese  
**Established:** 2008 (present ownership)  
**Location:** Ruardean, Gloucestershire  
**Turnover:** £160,000  
**Number of staff:** 5 full-time equivalent (FTE); 4 part-time employees (3 FTE) and the partners contribute 2 FTE, plus 4 WWOOFers  
**Method of finance:** Loan from Dean Organic Trust; personal investment; grant from Skills Funding Agency; Rural Development Programme for England grant; bank loan from Triodos.  
**Website:** [www.crookedend.co.uk](http://www.crookedend.co.uk)

Brenda and Anya, and their husbands Bruce and Barrie, bought Crooked End from the elderly couple who had been running, it with a mortgage from Triodos. The farm had gained Soil Association certification in 1990 and always included a farm shop. Despite no prior farming experience, the families have increased the turnover from £30,000 when they started out to £160,000 today, expanding the farm shop, and finding alternative ways to supply produce to the market, such as through local markets and a free local delivery service.

They deliver direct to customers within 30 miles of the farm, and attend markets at Hereford, Hay-on-Wye, and Monmouth. “We’ve always been supportive of local, organic food because of its benefits for the local economy and environment, but we wanted to provide a service that makes it accessible to all people, not just the wealthy,” Brenda explains.
The owners initially received an interest free loan of £6,000 from Dean Organic Trust\textsuperscript{24} to get the business started. They have also invested around £50,000 of their own money and received a £900 grant from the leadership and management service, run by the Skills Funding Agency\textsuperscript{25}.

After a two-year application process the families received a grant from the Rural Development Programme for England to build a new farm shop. The RDPE grant covers up to 45 per cent of the initial costs of the farm shop, and contributes a maximum sum of £55,000. They also took a £30,000 loan from Triodos to complete the project.

Because all the income is being reinvested back into the business, there is currently no profit, says Brenda, and the partners take no salaries. They forecast to be breaking even in two years time – five years after starting. They also aim to apply for entry level organic farm stewardship, but have been advised to wait and apply for more funding when the shop is finished. “It is important to have support from investors such as Triodos, because they understand there is a relatively low return on organic food businesses,” says Brenda. “More investors need to understand that the target of many organic and local food businesses is not to make millions but to provide social sustainability, and therefore their return is often modest.”

\textsuperscript{24} Dean Organic Trust: deanorganictrust@hotmail.co.uk; “The Dean Organic Trust is interested in making interest free loans to organic farmers and growers who are either trying to establish a business, or expand an existing one.” Statement from the Organic Farmers & Growers organic certification body newsletter (accessed February 2012): www.organicfarmers.org.uk/downloads/publications/newsletters_2011/May%202011%20Newsletter.pdf

\textsuperscript{25} The Skills Funding Agency is a partner organisation of the Department for Business, Innovation and Skills, which funds and regulates adult, further education, and skills training in England. See: www.skillsfundingagency.bis.gov.uk
Fruit & vegetable case study: The Community Farm

Product: Organic fruit and vegetables, veg box scheme, wholesale
Legal structure: Community Benefit Society
Established: April 2011
Location: Chew Valley, near Bristol
Turnover: £741,000 (estimate as first full year not yet completed)
Number of staff: 16 paid staff on a variety of contracts. Some are permanent, some self-employed, some full-time, some part-time. There are 14 regular volunteers plus many more who come to regular Community Farmer Days throughout the year.
Method of finance: Donations; Community share issue; local council grant
Website: www.thecommunityfarm.co.uk

The Community Farm was started by Luke Hasell, Phil Haughton and Jim Twine who all live in the Chew Valley. Luke and Jim started The Story Group a few years ago supplying organic beef and lamb to the local community. Phil runs The Better Food Company, which is an organic food retail outlet in Bristol, and he has been growing vegetables locally for the last seven years. All three describe themselves as having a lifetime’s commitment to the principles behind organic farming. They have a shared vision to work with people from Bristol, Bath and the Chew Valley and hope to play a part in reconnecting the local community with agriculture.

The aim of The Community Farm is to supply organic, local, seasonal produce that has community engagement and environmental sustainability at its heart, building social capital for the future. It aims to provide a direct link between the production and consumption of food, and a mutually supportive relationship between local farmers, growers and the diverse range of local communities in the surrounding area.

The Community Farm is a Community Benefit Society owned and democratically controlled by its members. It rents and cultivates 22 acres of land from a local farmer (with the option to expand to 50 acres over the next few years). The farm started trading in April 2011, having bought out an existing growing scheme, box and wholesale business from The Better Food Company (case study below) by raising £126,126 through community shares.

Taking over an existing business meant that they bought existing customers but they have also increased customer numbers through the annual membership scheme and through word of
mouth from investors. They supply schools in Bath and are going to supply four more as part of the Food for Life Partnership programme. They have also developed a wholesale business for restaurants and shops. The Board want to keep its expansion contained to maintain reliability of supply “we’re going to grow slowly and expand with caution.”

The Farm sells approximately 350 boxes a week to the Bristol, Bath and Chew Valley market. They aim to keep within a 15 mile radius of the farm and as a result there is a geographical limit to any expansion. Bath is nearby and they work with a local organisation, DHI (Developing Health and Independence) to offer a pick up point in the city. The farm was able to draw on several local sources of advice and support which helped them decide on both the legal structure for the farm and on how to raise money from the community. The cost of registering as a Community Benefit Society was £500 plus VAT. They had three days Specialist Enterprise Support through the Plunkett Foundation and the Making Local Food Work programme, through consultant Jim Brown as well as advice from Wessex Community Assets. A donation at a critical point provided the funds that enabled Alison Belshaw to be employed on a freelance contract to produce a business plan and develop and launch the community share offer. Alison now continues as project director, and she notes “Enterprise support is incredibly valuable. Receiving one-to-one advice which is tailored directly to your business is extremely helpful.”

Just over £126,000 has now been raised through the first share offer and a further £50,000 was raised through a second share offer launched in September 2011. The farm now has over 460 investors. Just over 50% of these have invested the minimum of £50, 30% have invested £100, 8% have invested £500 and 6% have invested £1,000. Some higher levels of investment including £10,000 and more have also been forthcoming. The Farm’s Board of Directors chose to finance the project through a community share offer to involve as broad a range of people from the local community as possible. “Over 80 per cent of our investors invested at a level that has no financial return. For most of them it is not about money but about their desire to see sustainable change happen – they want to be part of the project.” All investments have to be for a minimum of three years. Those investing £500 or more may get a financial return after this time, but this depends on how well the business is performing and if it’s in the best interests of the business, so a financial return is not guaranteed. To withdraw funds after three years the investor has to give 180 days notice. The £126,000 raised enabled the group to acquire the vegetable box, wholesale and growing business from the Better Food Company (BFC). The initial aim was to raise £170,000. The additional £50,000 required was for building renovations and adaptations and these parts of the project have been postponed until additional funds can be raised through the second share offer (target £100,000). The Farm also received some grant funding, including £4,550 from Bath and North East Somerset Council for tools and to provide some workshops for fruit tree grafting and hold some events.

The Board of Directors believes firmly that the Community Farm must be commercially viable and cannot rely on fundraising to support core operations in the long term. Fundraising will therefore only take place to help cover initial start-up costs and genuine development projects that can not be funded from core income. The Community Farm hopes that many other similar businesses will be able to set up elsewhere: “We have shown that it can be done as a CSA project, buying out a previous business, and using share offers to raise funds.”

26 The Food for Life Partnership is a network of schools and communities revolutionising schools meals, reconnecting young people with farms and inspiring families and communities to cook and grow food. See: www.foodforlife.org.uk
27 The Big Lottery Making Local Food Work programme helps people to take ownership of their food and where it comes from by providing advice and support to community food enterprises across England. See: www.makinglocalfoodwork.co.uk
2. Case studies – Meat and dairy
Meat & dairy case study: Providence Farm

“There is room for small-scale poultry: people will pay if they understand the quality really is different from mass produced supermarket food, and our business works because we can charge quite a lot, but it does mean it can’t be multiplied up.”

Pammy Riggs, owner

**Product:** Poultry, plus some beef and pork  
**Established:** 1989 (land purchased)  
**Location:** Holsworthy, Devon  
**Turnover:** £60,000  
**Number of staff:** None, just the two owners  
**Method of finance:** Bank loan; small business loan from council; Triodos overdraft  
**Website:** www.providencefarm.co.uk

Pammy and Ritchie Riggs bought 7.1 hectares (around 17 acres) of bare land with no running water or electricity in 1989, by investing the proceeds of selling their house and moving to rented accommodation. As part of an NVQ3 small business diploma at a local college, Pammy developed a business plan for the farm and took it to their local HSBC. “It was serendipitous in that this was around the time GM-free campaigns were taking off, and the bank manager happened to be a Greenpeace supporter and was doing GM tours of the local supermarket on his lunch break from the bank,” Pammy explains.

The couple borrowed £10,000 on the back of the business plan, and were also awarded a loan of a similar amount from Devon County Council, channelled through the organisation, Devon Food Links. This capital enabled them to purchase the equipment to begin farming and butchering meat on site. At this time Pammy also did an advanced food hygiene certificate, paid for by the local environmental health department because of Foot and Mouth disease, which they “never would have been able to afford otherwise”.

They built their house on the land between 2002-2004, using a £50,000 mortgage from HSBC as finance for materials and some labour (though with Ritchie being a builder the labour costs...
were low). Their business loans – the initial £10,000 loan for equipment and a later loan of £6,500 for kitting out the farm shop – were also re-jigged at this time, and rolled into one £25,000 small business loan with HSBC. When their original bank manager left HSBC they switched to Triodos, which provides them with a £5,000 overdraft agreement as a safety net. Pammy explains that they usually work ‘just in the black’.

The next project for Ritchie and Pammy was developing a small poultry abattoir – financed by the VAT received for building their own house, where the home-grown birds are killed, using a process of dry plucking, hanging and cold evisceration. “It means we process 10 chickens an hour as compared to perhaps 4,000 in a large broiler operation. But it also means the birds are not slopping around in faeces-tainted water and there is far less chance for campylobacter infection.” Bigger 4-legged animals go to an ‘old fashioned, tiny abattoir’ only 15 miles away.

The farm was initially certified organic with the Soil Association, and won many organic food awards, which gave them free publicity for the produce. But Ritchie and Pammy later switched their certification to the Biodynamic Association28 (BDAA), because they “felt the Soil Association was watering down standards to increase market share and get into the supermarkets”, by allowing farmers of too-large-a-size to fit with the original animal welfare standards developed by the Association.

For the same reason the farm’s turnover, which at one stage reached £122,000, is now half that figure. Pammy explains: “We had 2.5 staff at one point, but we ourselves weren’t getting paid any wages, and it wasn’t what I’d call proper organic because there were too many animals. So on the day it officially became a recession, and people stopped buying expensive meat, we got rid of all the staff and halved the number of animals we were rearing and butchering.”

At its peak the farm was killing and processing 50 birds a week and two pigs, but today they process approximately one pig and 35 chickens a fortnight, along with 60 laying hens, some ducks, and 40 or so geese at Christmas. Pammy says the resulting turnover of £60,000 a year is a reasonable amount for the two of them to manage on, partly because outgoings are minimal. “We planted a wood back in 1991, which provides a carbon neutral fuel source used for winter warmth, hot water and cooking in the house,” she says, “and we don’t worry too much about our own wages if we are healthy, well-fed and warm. We put new ventures like our bees and the orchard through as business expenses, and have almost everything we need to live here.”

The lesson she has taken from their experiences is that it is possible for a small-scale business to be financially successful with very high quality poultry as the mainstay. “I think we are missing a real trick here with this poultry business. If you can honestly produce quality, there is a real market out there. As soon as you start multiplying up the size of the business to the point where you are taking on staff, and it’s not you actually doing the work, the quality drops. You can’t expect other people to put the same level of effort or attention to detail in as the owners. So we should be focusing far more on breaking down the size of farms and having lots of people doing it for themselves.”

But this model only works if the price is high enough, she warns. “From me a chicken can cost £15-£18. I was embarrassed about that price when we first started, but if you deal with it properly you can get a lot of meals out of that bird, and because it is dry plucked people aren’t paying for 12 per cent water.”

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28The Biodynamic Association certification scheme offers both Demeter (biodynamic) as well as organic certification, see: www.biodynamic.org.uk
Meat & dairy case study: Maplefield Milk

"Out of the £1 income on each pint we only have to spend ten pence on processing costs and eight pence for the container, leaving a nice juicy margin, so if we are milking 20 cows and there are sufficient customers, we are looking at earning £30,000 a year."

Nick Snelgar, founder (pictured right, speaking at the Oxford Farming Conference)

<table>
<thead>
<tr>
<th>Product</th>
<th>Milk and other dairy produce</th>
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<tbody>
<tr>
<td>Legal structure</td>
<td>Community Interest Company limited by shares</td>
</tr>
<tr>
<td>Established</td>
<td>2011</td>
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<tr>
<td>Location</td>
<td>Martin, Hampshire</td>
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<tr>
<td>Turnover</td>
<td>Not yet operational [R&amp;D pilot of business model]</td>
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<tr>
<td>Method of finance</td>
<td>Prince of Wales Countryside Fund grant; community bond</td>
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<td>Website</td>
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Maplefield Milk, a new community-owned micro dairy is the brainchild of Nick Snelgar of Future Farms, the grower’s co-operative based in Martin, Hampshire. A group from Martin in Hampshire formed a co-operative to try and produce as much of their daily diet as is possible from fields and barns within their parish boundary. The enterprise is based on an extensive system, and the group aims to use the minimum of chemical inputs.

The idea of Maplefield Milk is to revive small-scale dairy farming, encouraging new farmers without capital into dairying, by using low-cost shared processing facilities to sell milk direct from farms. The dairy is a new avenue for community-owned businesses.

Nick has modelled the micro dairy on the approach of North Aston Dairy, near Bicester, a milk CSA which runs a ‘cow bond’ scheme where twenty investors put in between £500 and £2,000 to buy part shares in a cow for a five year fixed period. A cow might cost around £1,200 to buy

29 Details of the Future Farms co-operative in Hampshire can be found at: www.futurefarms.co.uk
outright. The majority of investors accept three per cent interest payments, because most don’t want to take payment in the large quantities of milk which would result!

Following advice from Making Local Food Work’s Enterprise Support strand,30 Maplefield was founded as a Community Interest Company limited by shares (CIC), as it was seeking an ‘asset lock’ – but also wants to offer dividends to investor members in the form of milk and other products. The initial plan was for the dairy to be financed through investments from ‘green capitalists’, says Nick. However, with investors buying shares in cows – not unlike is common with racehorses – discussions with the Prince of Wales Countryside Fund led to an award of £45,000. This means all new equipment can be purchased straight away, and a prototype milking bail can be designed, he explains. “We were fully set to finance this by our own means, but are now looking at it as a prototype project: we hope the benefit will be analysing the costs and then for the model to be developed elsewhere using community investment.”

While margins in the dairy sector generally are notoriously low, Nick explains that because Maplefield will be pasteurising itself and selling direct, “avoiding the margins taken by the middlemen”, the finances add up more favourably. With an income on each pint of £1, ten pence on processing costs and eight pence for the container, the dairy will provide a “nice juicy margin”, says Nick. Milking 20 cows with sufficient customers will mean earnings of £30,000 a year, and still offer the opportunity to do other part-time projects or work alongside.

On top of this will be funds from selling calves and other activities such as inviting visitors, demonstrations and training. On this basis, any loan repayments, while not necessary in this case because of the Prince’s Fund award, would be affordable.

Because the pasteurising plant has the capacity to be used not only by Nick but three additional herdsmen, the processing costs can be potentially lower still.

While Nick admits that Future Farms provides an obvious route to market not all herdsmen see the potential for marketing the local and traceable milk as strong enough in its own right to appeal to consumers.

“Dairy is seen as a terrifying sector, but there is a huge amount of potential. It was always the principal form of finance for farmers, because the produce is immediately turned into cash. It’s actually a cash rich business,” says Nick.

30 The Big Lottery Making Local Food Work programme helps people to take ownership of their food and where it comes from by providing advice and support to community food enterprises across England. See: www.makinglocalfoodwork.co.uk. It runs an enterprise support strand, see: www.makinglocalfoodwork.co.uk/about/Enterprise_Support.cfm
3. Case studies – Cheese
Cheese case study: Lyburn Farmouse Cheese

**Product:** Cheese  
**Established:** 1999 (12 years cheese-making), dairy farm established 1952  
**Location:** Hampshire  
**Turnover:** £350,000 cheese-making, total £1 million farm business  
**Number of staff:** 3 full-time, 1 part-time (cheese business only)  
**Method of finance:** personal investment; Rural Enterprise Scheme grant; bank overdraft.  
**Website:** www.lyburnfarm.co.uk/cheese2/

Like many dairy producers, Mike Smales’ farm wasn’t generating enough income from sales of milk to sustain the business, so 12 year’s ago Mike decided to add value by making artisan cheese rather than diversifying away from dairy. Mike took a three-day basic cheese-making course in Reaseheath, Cheshire, and since then it’s been a case of reading up on the business, making mistakes, and learning on the job.

Initial capital finance of £6,000 was invested from the farm business’ own money on a second-hand portacabin in which to make the cheese. A later Rural Enterprise Scheme grant of £40,000 from the South East England Development Agency enabled the business to buy equipment and build a dairy. However these grants have recently been disbanded. Fortunately, the cheese business is now generally in a position to finance itself. However, the farm business does have access to bank overdraft facilities with HSBC who have always been helpful.

“Our route to the market was bloody hard,” Mike says “It was initially the (Hampshire) farmers’ markets that got the business going – without the farmers’ markets we wouldn’t have survived the early days.” Lyburn Cheese had to do everything themselves to establish the brand. They established names and labels, did a bit of advertising, went to agricultural and food shows, held open evenings at the farm, and did talks at local Women’s Institute meetings.

It took approximately eight years to get the cheese business established. “Those first eight years were the hardest part of the business”, says Mike. The hard work they have put into building up and marketing their cheeses has been key to the business’ success, “So if other food businesses can brand a product and drive that brand, then they could be successful.”

The initial decision to invest in artisan cheese-making has now reaped rewards. Cheese accounts for double of the turnover of the milk. “We are defiantly generating a healthy profit.” However, Mike cautions that it took approximately three-to-four years to become economically viable and eight years for the brand to become established. “It’s a tough old business and I
know of many local cheese businesses that have failed. You have to rule out 80% of the market due to supermarket domination, so right away you’re entering a mellow market.”

There is still some capacity to expand, as they are currently processing 400,000 litres of milk into cheese, which could double to 800,000 litres. However, the business is committed to staying ‘local’ so they do not want to buy milk in from other producers.

Lyburn Cheese sells both directly and indirectly to customers – with currently 550 account holders, serving approximately 350 outlets a year on a regular basis. These include their farm shop, local shops, farmers’ markets, cheese shops, delicatessens and wholesalers. Having now built a successful brand, the cheese business also supplies the very best restaurants such as the Fat Duck, companies like P&O and Waitrose, and their most successful cheeses, such as Old Winchester, are often exported and sold on the international market.

Mike says, “If local hotels, shops, delicatessens and restaurants stocked local produce then the local sector would grow much more quickly. There needs to be a culture change.”
Cheese case study: Cornish Yarg

Product: Cheese  
Established: 1984  
Location: Cornwall  
Turnover: £1.7 million  
Number of staff: 29  
Method of finance: loan from Council for Small Industries in Rural Areas; EU Development Fund and EU Agricultural Guidance & Guarantee Fund; private loan  
Website: www.lynerdairies.co.uk/yarg-cornish-cheese.html

Yarg Cornish Cheese was first made by Alan and Jenny Gray in Withiel, near Bodmin, on the edge of Bodmin Moor. In 1984 they sold the recipe to Michael and Margaret Horrell who farmed at Netherton Farm, Upton Cross, Liskeard also near Bodmin moor.

Netherton Farm started processing liquid milk from its own herds in 1982 until around 1987. As Michael explains, they started cheese production in 1984 with “some trepidation”, partly as a way of smoothing milk flow. Fresh milk was bought up at the beginning of week and they foresaw a future need to find something to level out the flow of liquid sales as the enterprise grew, taking up daily, weekly and seasonal variations in both production and sales. Cheese-making filled the gaps, as the stock in the maturing rooms acted as a buffer. As wholesale producers, they were also able to balance their needs by both buying and selling balancing quantities through the Milk Marketing Board and its successor co-operative.

A rural quango at the time, the Council for Small Industries in Rural Areas (“CoSIRA), helped the Horrells to buy the cheese business and equipment from the Grays (with a loan of roughly £8,000). Their landlords, the Duchy of Cornwall, provided timber from their own sawmill to build a 600 square foot cheese room. Michael Horrell explains that very little investment was required at the beginning because the cheese part of the business was able to grow out of its own profits. Taking on an existing product and brand which was hand-made on the farm from their own milk, meant that the cheese-making venture did not ever really run at a loss. The
Horrells did not need to spend much money on machinery at the start – their highest overhead was labour.

To succeed and grow, the business needed people with production, technical and marketing skills. This was a challenge for a small food business in Cornwall, as people with these skills were not readily available. As a result, the Horrells mostly had to just work it out for themselves. Michael says that they had a number of offers from semi-retired business managers to help run and manage the business, but working together in this way meant combining different cultures and skills which was not easy to do in practice.

There was also very little advisory and technical infrastructure available in the South West in the 1980s. A local college in Newton Abbot (now closed) had a food technology department that helped with some aspects of the cheese-making, and initially they also got advice from the few remaining dairy advisers in government.

Getting the cheese to market was also very difficult, with a lack of local advice on how to do this. The Horrells had to find their own wholesalers building on the single one that came with the business. Contacts were made at national food exhibitions and specialist cheese shows and competitions. Seeing a need for marketing services for other small food producers as well as themselves, they took the initiative in forming a Cornish food marketing co-operative (“UNICORN” – United Cornish Producers). This was grant aided, but was too small to be viable, and ended up joining the regional body ‘Taste of the West’, largely funded by Food from Britain.

The business steadily grew and in 1995 the Horrell family met with the Mead family, who farmed Pengreep Farm in West Cornwall and were interested in farm diversification. Around 1997 when the Horrells needed to move from purely hand-made production to a more labour efficient, semi-mechanised method of production, the business secured money from a European Development Fund under the “Objective 5b” programme. Catherine Mead from Pengreep Farm worked with the Horrells to develop the business at Netherton Farm and by 1999 it was clear that the demand was greater than the production capacity at Netherton.

In 2000 Pengreep Farm secured grant funding from the European Agricultural Guidance and Guarantee Fund - EAGGF (amounting to £900,000) to build a new 8000 square foot production unit on the edge of the farm. At this point approximately 90 tonnes of cheese was produced at Netherton and so the new unit needed the capacity to accommodate additional volume and have the capacity for future expansion, so a modular design was chosen. A joint venture company was formed, Lynher Dairies Cheese Company Ltd, which enabled both Pengreep and Netherton to produce the cheese which was sold to and marketed by Lynher Dairies Cheese Company.

The building needed to meet the highest standards of environmental efficiency and importantly to support the business as specialist, farm produced and handmade. Hence a shed on an industrial estate would have been an inappropriate solution. The farm sits on the edge of Stithians village which has seen much change over the past 30 years. At the time that the dairy was being built there were 15 dairy farmers in the parish. Currently there are two. Building the dairy has ensured sustained employment for the area (over half the staff live in the parish of Stithians). There were concerns about building a relatively large facility in a rural area but it has since been recognised that not only is the dairy an important employer it also uses local services, particularly those of the 10 or so rural workshops next door.
As tenant farmers, the Horrells found it difficult to borrow money from banks as they had no collateral. Over time, more buildings and fixed equipment were needed for both the cows and the cheese and when it became clear that there would be no family successors to the business, they realised that they needed to buy the freehold of the farm so that they could recover those investments by selling on the open market. Michael says, “Banks would not lend capital to buy the farm against the intellectual collateral of the cheese business. They wanted tangible assets, which as tenant farmers we did not possess.” The problem was solved with the help of a private loan.

In 2006 the Horrells decided that it was time to retire and sell the farm so in September 2006 all the production was moved from Netherton Farm to Pengreep Farm. Pengreep Farm is now processing 2,000,000 litres of milk a year and making just over 200 tonnes of cheese. The cheese is now distributed nationally, through specialist shops, food service outlets and national retailers and to the US market on a weekly basis. Cornish Yarg has grown to be one of the most widely distributed speciality cheeses in the UK. Brand management and brand protection are an essential part of keeping this position in the market.

According to Michael Horrell and Catherine Mead the key problems now facing small producers at set up stage are quality of product (consistency as well as product differentiation) and economy of scale. The market is always on the lookout for and very receptive to new products but needs products that can provide the same quality every week and at a price that enables sales to grow. This price point is harder to achieve when very small amounts are produced. Co-operative marketing and distribution channels have been much improved to help small producers although there is still scope for more efficient distribution chains by using larger producers, back haul and regional hubs. For Yarg finding and supplying outlets was difficult and costly when they started. However since that time the local food market has developed, particularly for farm gate and local markets. There is also a vastly increased network of small local wholesalers and local suppliers to food service as well as farmers markets and on-line opportunities.

They believe that technical and business support is of paramount importance and training courses from the Duchy College at Callington, Reese Heath and Harper Adams have been vital; as has providing a career structure in the business that enables members of staff to develop. By the same token continuous manufacturing improvement (LEAN manufacturing), reducing environmental impact and working with the community have been significant.

Pengreep Farm is a sponsor of the Cornwall Community Foundation and there is increasing employee and customer expectation that even the smallest of businesses will consider all these things in their business.
4. Case studies – Bread
Bread case study: LOAF – Loaf Social Enterprise Ltd

LOAF aims ‘to promote real food and healthy living in Birmingham’. Tom Baker, who was working as an NHS nutritionist, says he had “lots of ideas about food and health but struggled to get them off the ground”. Then a friend talked him through the idea of social enterprise, he decided to set up a social business – a cookery school and bakery – and the rest is history.

“The only way to make it work was at our house”, so LOAF started out making artisan bread and offering cookery courses in Tom’s home. The cookery school started in November 2009, and the bakery in January 2010. Class sizes are small (maximum of six), and as courses take place in a domestic setting, “everything you learn is easy to replicate when you get back home to your kitchen”. Marketing for the cookery courses is largely through twitter and facebook so targets younger people. In reality, clientele are a mix of young professionals and retirees with spare cash. So far, around 80% of turnover has been from the cookery school.

The bakery runs one day a week. At 10-15% of turnover it is not a major contributor in money terms, but is very important for the objectives of the social enterprise. Baked in Tom’s kitchen and back garden, capacity is limited to 50-60 loaves a day. Tom’s oven can’t take many loaves at once whereas a commercial oven could make upwards of 250 loaves a day. The hand-made, artisan bakery has been good for marketing and for the reputation of the business. And the bakery will soon have the capacity to make a profit once current expansion plans are realised.

After considering a range of different business models – Community Interest Company, co-operative and limited company – Tom decided to set up as a company limited by guarantee. Tom is the ‘active director’ of four directors. It was important that the directors could decide on ‘what the social aim would be – free from shareholders’ and that the enterprise was financially sustainable from the start so that it could achieve its social objectives. Tom says, “A company limited by guarantee can’t pay dividends, can’t pay shareholders, we can’t give ourselves a bonus and if it goes bust the directors have very limited liabilities”.

Product: Bread – and cookery courses  
Established: August 2009  
Location: Birmingham  
Turnover: £27,000  
Number of staff: 2 – Tom Baker (manager, baker and cookery school teacher) and an administrator 1 day a week  
Method of finance: Owner cash investment; Community bond issue; Everards Brewery ‘Project Artisan’ scheme.  
Website: www.loafonline.co.uk
Tom explains that LOAF had a slow start in the first year, and he was still working for the NHS at the beginning. Jane (Tom’s wife) and Tom invested £750 initially to cover solicitor’s fees, insurance, changes to the kitchen, environmental health requirements like a hand-washing basin, and a few pieces of equipment. Tom’s aim at the beginning was to run a pilot enterprise but ‘it really took off – took all of us by surprise’, so he left the NHS a year earlier than forecast. Tom has been paying himself £16,000 a year before tax since the enterprise became profitable. This is just over half what Tom was on before, “But if I paid myself (my old salary of) £28,000 it wouldn’t make any money.”

LOAF is now planning to expand and move their social enterprise from Tom and Jane’s house. This will be funded from £6,000 that has been built up in profits, a community bond issue, and a deal with local brewer Everards as part of the latter’s Project William. Under this scheme Everards has been approaching micro-breweries, identifying freehold vacant pubs for them and then renting them back to the independent brewers. To date, they have completed around thirteen such rent-back schemes, investing around £2 million.

Everards is now extending the scheme beyond breweries, under the name ‘Project Artisan’, and LOAF is the first food business that they have extended the project to. One aim of the project is to encourage food producers to take up unused outbuildings on pub premises, or actually take on a pub themselves and run their food business from it. Everards are buying premises for Tom in his local area, taking on the refurbishment costs, and then renting the premises back to him. The deal saves LOAF the upfront costs of securing premises for the business (in the region of £50-60,000). However, Tom will still have to raise £20,000 for fixtures and fittings.

Tom and his directors have decided that as they can’t issue shares, a community bond issue is the best form of finance for their expansion. Their community bond issue is a loan to LOAF, which is paid back to bond holders after three years. In the meantime the bond holders get paid an attractive interest rate, paid in an interesting way, as Tom explains: “Instead of paying interest in cash we pay in bread. This works out as one large loaf of sourdough bread a fortnight on a loan of £1,000 over three years”. Tom is confident that they can raise the finance this way because they have a ‘good following locally and lots of committed customers’. He’s been able to learn from a similar experience at Handmade Bakery (see case study) who raised £35,000 through two types of bond – a bread bond (a loaf a fortnight) and a course bond (one course in three years). Jade Bashford at the Soil Association, initially gave him the idea. As the bond is for under €40,000, it doesn’t have to go through the Financial Services Authority, which would have required LOAF to issue a prospectus, possibly costing thousands of pounds.

LOAF already has a bread club. People pay upfront into the club and this encourages commitment and engagement. At present there are 20 members of the club who pay £30 for 12 weeks of bread. Any profit made by the club or cookery school activities goes to fund promoting good food in the community through free workshops for schools and social food projects. This work is one of the reasons why LOAF needs new premises – to develop a training room for these events. Tom is also hoping that the expanded premises can include a project similar to Jamie Oliver’s Fifteen, teaching young people the skills to set up a food business.

Tom says that “just food production is difficult to make (financially) sustainable – it needs other strands to prop it up”. He adds, “The key was to develop at home to keep costs low – it wouldn’t have been possible if we’d had to rent premises from the start. Running the courses makes it financially sustainable”.

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Food & Finance: How small-scale ethical food enterprises raise the money to grow, and what can be learned for the future
In 1976 Andrew Whitley was looking to change his way of life having sold his London home and moved to Cumbria. He had already started baking at home and growing wheat on his allotment whilst still in London. What started out as “an activity to pay the bills for a rural existence” became the pioneering organic business, The Village Bakery.

In Cumbria he met Ana and Nick Jones who were restoring a mill, “They said why don’t you start a bakery and use our flour. They needed someone to bake for their tea room which was opening up the next year”. So Andrew set up at The Watermill, in as he puts it “an 8 foot square hothouse with room for just a small gas oven, a mixer, a table, and a cupboard for tins. I had to invent it all from reading books and first principles. All I did was read, practice and go to see people working.” This DIY approach enabled him to “avoid some of the pitfalls of professional training – if I’d had time to go off to bakery college I would have been schooled in all the bad ways of the industry”. The tea room was a great success and a year later he was able to leave the mill and start The Village Bakery.

With just a small mortgage on his London home, Andrew was able to use the profit from the sale of this home to buy a house with a barn and land, but he had no development capital. A loan and grant from the Cumbria Tourist Board filled this gap enabling Andrew to do up the barn and buy cheap second-hand equipment. The Tourist Board wanted to draw some tourists and trade away from the Lake District to less heavily visited areas in the region. The business also got some initial support, and good advice, from the Council for Small Industries in Rural Areas (CoSIRA) – which later morphed into the Rural Development Commission (now disbanded). Further expansion was later financed by a ‘soft loan’ at a discounted interest rate from the Rural Development Commission in the 1990s to build a new bakery.
Finding staff for an expanding rural organic bakery enterprise proved a challenge: “When I got busy enough to take on staff I attracted people similar to me – rootless intellectuals, wanting a taste of the rural life. But what with the getting up early, most didn’t last beyond a few months.” So he had to employ people with bakery experience, but without any knowledge of organic production.

Despite the success of the bakery, EF Schumacher’s\textsuperscript{31} mantra of ‘small is beautiful’ was very important to Andrew, and he was not interested in the business growing too big: “There was a size beyond which we would risk being sucked into greater automation, and have to take on a more industrial approach.” Andrew drew on the experience of a French bakery, Poilane, which expanded to around 20 wood-fired ovens by multiplying the number of bakers rather than automating the process.

By the mid 1990s the business employed 70 people “quite a lot part-time, quite a lot of local people doing packing and serving in the restaurant which grew out of the tea room”. The initial expansion was to meet a contract with Waitrose for 100 loaves a week. As it continued to grow the business was constantly under cashflow pressure. Most of the profits were going into servicing bank borrowings and leases on machinery and vans, a mortgage from Barclays and the Rural Development Commission. Interestingly, Barclays was prepared to lend on the back of the Waitrose contract – considered a blue chip customer.

By the mid-90s the Bakery was supplying over 10,000 loaves a week to Waitrose and at this stage Sainsbury’s were also keen to take supplies. To meet demand Andrew devolved some production to a licensee in the south of England. The net profit was below 5 per cent in a good year and the bakery trade generally hovers around that. Trays, cake tins, and moulds need to be bought in large quantities and they wear out so there is a constant requirement for capital investment. Another constant problem was the slow payment of invoices. Waitrose paid quickly but Sainsbury’s and some customers in the independent sector were slow payers causing cashflow problems.

For Andrew, one of the barriers for ‘ethical’ businesses is how to obtain capital on reasonable terms, from people with some sympathy for what it is trying to do. He says that some business ‘angels’ he spoke to identified ‘weak points’ in the business – the costs of organic, using a wood-fired oven, the location. They would have made the business unrecognisable, asking questions like ‘does it all have to be organic’?

Despite all the success, he says, “Mine was a lesson in how not to run a business. Ultimately, I lost control when we produced too much and we couldn’t afford to open an extra bakery, so ran out of money. I looked at options for refinancing, and although I didn’t want to sell equity, in the end there was an equity purchase of the majority of shares by outside investors who were later replaced by a local conventional bakery, Bells of Lazonby. Finally, I was bought out completely.”

However, Andrew’s original vision of a sustainable organic bakery business, producing breads and cakes using artisan methods, continues to survive and indeed thrive 30 years on. The Village Bakery is still successfully producing “[organic breads] made using leavens and sourdoughs without the aid of product improvers and with the shortest ingredient listings you will find.”

\textsuperscript{31} ‘Small is Beautiful: Economics as if People Mattered’ by E. F. Schumacher, Harper Perenniel, 1989
Bread case study: Handmade Bakery

“Don’t underestimate the willingness and ability of your community as a source of finance. People want to invest in something they can see and believe in.”
Dan McTiernan, The Handmade Bakery

Product: Artisan bakery, cafe and education project
Established: February 2009
Location: Slaithwaite, West Yorkshire
Turnover: £130,000
Number of staff: 17
Method of finance: grant from UnLtd; Community bond scheme; sponsorship scheme
Website: www.thehandmadebakery.coop

After having a child and meeting other new families, Dan and Joanna McTiernan realised that Real Bread was both lacking and desired in their area. The appalling state of factory loaves was often discussed and as a result, an unofficial bread club began amongst friends. It was met with such positivity that the McTiernans decided to find a way of making Real Bread available to the whole community.

Despite baking bread at home, neither Dan nor Joanna had any professional baking experience but this did not deter them. A local Italian restaurant had a stone-bottomed pizza oven which was only used at dinner times, so the McTiernans came to an arrangement with the owners whereby they could use it to bake bread during the day.

At this early stage, Dan and Joanna secured advice from Business Link, a grant of around £4,500 from UnLtd, a charity which supports social entrepreneurs, and valuable mentoring through the Big Lottery’s Making Local Food Work programme,\(^3\) including correspondence with Andrew Whitley (see The Village Bakery, above). They also encountered some frustrating

\(^3\) The Big Lottery Making Local Food Work programme helps people to take ownership of their food and where it comes from by providing advice and support to community food enterprises across England. See: [www.makinglocalfoodwork.co.uk](http://www.makinglocalfoodwork.co.uk)
failed bids to the National Lottery and The Rural Business Support Programme. Despite this, the McTiernans have never gone to a bank for a loan and have prided themselves on avoiding traditional sources of funding.

To develop the Handmade Bakery Dan and Joanna created a business plan based on a Community Supported Agriculture model. They set up a subscription system for people to commit to buying bread for one, three, six or twelve months at a time. In return, subscribers received a discount which increased according to the length of their commitment, as well as a convenient supply of fresh, real bread. From the start, The Handmade Bakery has forged strong links with its community, ensuring benefits for its volunteers and local businesses. For example, subscribers collected their loaves twice a week from the local pub, which benefited from new customers, and volunteers at the bakery received training in return for their time. Soon, The Handmade Bakery started opening as a retail outlet in the Italian restaurant in which they were based. They also started supplying seven shops, three mini-markets run by local cooperatives and a few cafés and restaurants.

The Handmade Bakery also devised an innovative Bread and Course Bond scheme, with a choice of three different options for people to invest in the Bakery:

❖ **The Bread Bond**
Local residents could invest £2,000. This was £2,000 of loan stock taken out over three, four or five years. The Bakery paid 6.25% interest (£125 per year), paid as a loaf of bread per week (48 weeks per year). This investment could be extended if agreed by both parties.

❖ **The Course Bond**
People who did not live locally but could manage at least one visit per year to the Bakery, could opt for the Course Bond and invest £1,000. This was £1,000 of loan stock taken out over a three-year fixed term. The Bakery paid 4% interest (£120 over three years), in the form of a one-day artisan baking course. Investors could choose to attend the course at any stage during the three years.

❖ **Bread Revolution Sponsorship**
The Bakery had a lot of positive feedback from people from around the world and in response, encouraged support through the Bread Revolution Sponsorship. For a minimum donation of £50, supporter’s names were added to the Bakery’s website and they received a Handmade Bakery ‘slow revolution’ tea towel as a thank you for supporting the aims of the business to supply Real Bread to the community.

Through all these different schemes The Handmade Bakery raised the £40,000 necessary to move to their own premises. Their attractive website extols their supporters and gives hope to similar independent businesses: “We're so proud of the community that has developed around the bakery and the fact that we have been able to completely circumvent the traditional routes to finance that are so often so damaging to young businesses.” The bond schemes have now ended, as the Bakery has new premises and is flourishing as a business. It produces 1,400 loaves a week and 200 pastries. The new café has proven to be more popular than at first expected and is currently serving £2,000 worth of meals each week to around 400 customers.

33 Grants for rural development are coordinated by the Department for the Environment, Food and Rural Affairs (Defra), with programmes often funded by the European Union. See: [www.defra.gov.uk/rural/rdpe/](http://www.defra.gov.uk/rural/rdpe/)
Dan explains that, other than underestimating the popularity of the new café, their financial forecasts were surprisingly accurate. The business officially broke even in the first year of trading, but this incorporated a lot of volunteer time and the McTiernans did not draw a wage for the first six months. Since then, finances have been stable and everyone is paid. The business also benefits from bartering arrangements with local craftspeople. For example, builders, carpenters, gardeners and even a barrister have exchanged their skills and labour for bread or bread-making classes.

The success of The Handmade Bakery has attracted interest from wholesale businesses that are keen to purchase the bread and pastries, but the co-operative remains committed to their original vision to provide Real Bread for their immediate community and surrounding areas. To retain the quality of their bread, they recognise that their business has a finite growth plan, with a production limit of roughly 2,000 loaves per week and a maximum turnover of around £250,000. Dan insists this is an important lesson for all new food businesses. Do not overstretch yourself. Starting with too grand a vision may result in disappointment, not to mention investment in something which, after a honeymoon period, you may discover you do not want to pursue. He advocates starting with a small, low-risk and easy-to-manage plan which will give you the chance to decide whether growth is viable. The key, says Dan, is to be happy with a small, manageable business: “Don’t even play the same game as the supermarkets! Our market share is minute, but it’s enough to make our business work and operate very happily.”

Dan suggests that the small-scale food sector would benefit from more training in forgotten crafts like baking so The Handmade Bakery offers a three-month voluntary baking “apprenticeship”. He also stresses the importance of the free mentoring which the bakery got through the Making Local Food Work programme, putting them in touch with similar businesses and sharing experience and skills. However, the main phase of Making Local Food Work ended in 2012 and coupled with the demise of Business Link there is a looming hole in the support available for start-up businesses unable to pay for expensive consultants.
5. Case studies – Beer
Beer case study: Purity Brewing Company

“Our background working with major brewers helped us with tied pubs – we had a clear understanding of how the big players work and how to trade with them.”
Paul Halsey, co-founder, Purity Brewing Company, Warwickshire

Product: Beer
Established: 2005
Location: Great Alne, Warwickshire
Turnover: £2.6 m
Number of staff: 18
Method of finance: Personal equity; Small Firms Loan Guarantee; Defra grant; asset finance
Website: www.puritybrewing.com

Paul Halsey and Jim Minkin left their jobs in marketing and accountancy for Bass the brewery in 2005 to set up on their own. “We saw the opportunity to go to market with something different in cask ale,” says Paul, “using branding to appeal to young males and women while not alienating the traditionalists.” The brewery is split 90 per cent cask ales and the remainder bottled, and sells 2.6 million pints and 260,000 bottles a year to both retail and wholesale.

Links with the major brewers helped Purity to sell into tied pubs, with 40 per cent of the business done with the three big players, Mitchells & Butlers, Punch Taverns and Enterprise Inns, and 50 per cent with independents.

Paul had already run several restaurant pub businesses of his own, focused on quality local food, and wanted to apply this approach to the new brewery. So all hops come from Worcester or Herefordshire, except for the ‘aroma hops’ that have to be bought from North America or Slovenia because of the climate needed to provide the particular variety of hop, explains Paul.
With four to five pints of water required to make one pint of beer, which creates two and a half to three pints of effluent, Purity has introduced an eco-friendly pond and wetland system for treating waste water (see below). All spent grain, hops, and yeast are recycled into animal feed in local farms, and all bottles, plastic, and paper are recycled.

The pair invested some of their own money and brought on board three other minority shareholders. The brewery initially received a Small Firms Loan Guarantee\(^{34}\) from the government of £100,000, and a grant from Defra through the Rural Enterprise Scheme. Purity made a joint application for £200,000 with the farmer who owned the farm and buildings they were using. Paul says because Purity was one of the first brewers in the scheme and ticked several boxes in terms of diversification, regeneration, rural employment and ecology, they were used as a case study. “If we hadn’t got the grant we could still have operated on a smaller level, with three or four people, but wouldn’t have been able to scale up like we have,” Paul says. The farmer also now has a more viable business, having moved from livestock to arable to grow the hops.

The initial capital was needed for equipment and Purity subsequently used asset finance to fund new capacity and casks. Lombard\(^{35}\) has been a source of great support for the business, Paul explains, “Some asset finance companies won’t lend for cask brewers because as a capital item the casks depreciate in value and some are not returned, but Purity has a strong system for getting the casks back in”.

The company has just had planning granted for a new brewery with triple the capacity, which was due to be completed by the end of 2012. The new brew house will be located on the existing farm site and will regenerate disused barns.

\(^{34}\) Information about loan funds and guarantee programmes is now available via the government website Capital for Enterprise, see: [www.capitalforenterprise.gov.uk](http://www.capitalforenterprise.gov.uk) (accessed February, 2012)

\(^{35}\) Lombard ([www.lombard.co.uk](http://www.lombard.co.uk)) is a company specialising in asset finance, helping businesses obtain the vehicles, vessels, machinery or technology they need, with a specialism in agricultural machinery ([www.lombard.co.uk/assets/agriculture.aspx](http://www.lombard.co.uk/assets/agriculture.aspx)).
Beer case study: Titanic Brewery

I was going to be out of a job if Dave and I didn’t buy the business up. We saw there was potential for independently brewed beers even though the market was exceptionally small.”
Keith Bott, co-owner

Product: Beer
Established: 1985
Location: Stoke on Trent/Staffordshire
Turnover: £4.5m, net profit £250,000-300,000
Number of staff: Over 100
Method of finance: Bank loan; overdraft; Everards Project William; UK government grants; regeneration grant through Tata Steel Group.
Website: www.titanicbrewery.co.uk

Faced with losing his job when the previously-owned Titanic Brewery Company went bust, Keith Bott bought the business out of liquidation jointly with his brother Dave. Risking everything they started out with very little – the brewery equipment and the Titanic brand name – very much a small cottage business serving ‘local beer to local people’.

The business was started with just £24,000, split equally between a bank loan, an overdraft and capital from the brothers’ father. Keith’s house was the security for the loan and it has been on the line ever since they started the business. The brothers initially struggled to get the business off the ground and it took 10 years before they started making ‘reasonable money’.

Expanding the business steadily over several decades has been achieved through a pattern of borrowing money from the bank, paying it off, and then borrowing again. They currently owe the bank approximately £850,000 the majority of which is on fixed term loans with a small overdraft. Two lots of grant funding from the old Department of Trade and Industry (DTI), which raised 15 per cent of the total cost of the project, enabled them to increase the size of the brewery plant in 1994 and 2004. An additional source of finance was provided by a £100,000 loan at a cheap rate from UK Steel enterprise (a wholly owned subsidiary of Tata Steel given
the responsibility of helping the economic regeneration of communities affected by changes in the steel industry). The brothers say they always have more expansion ideas than available funds!

The brothers have combined their respective talents and experience, in brewing and business, to steadily grow the brewery over the past 25 years. Titanic beers are now sold through six ‘house’ pubs, about 50-60 pubs that stock their beer on a permanent basis, and a further group of pubs that take Titanic beer as guest beers several times per year. The business is currently split into supplying their house pubs, selling direct to customers, and selling other people’s beer and bottles. Securing new routes to market has helped secure the business.

Three pubs that the business operates are leased from Everards Brewery as part of the Project William Scheme. This works as a type of partnership: the pubs are run as a Titanic pub from which they take profit and pay rent with Everards taking a 15 per cent return.

Keith says that 25 years ago their financial forecasts were dreadful, but now they are pretty accurate, and profitability is on target. Appointing a full time accountant recently has helped to improve the financial control. One of Keith’s key tips for success is that it is very important to have the right skills in place and to hire people to fill any gaps.
6. Case studies – Food distribution
Food distribution case study: Keveral Growers

“Although the box scheme has never received any direct investment or funding it often indirectly benefits from funding that the housing co-op receives, such as loans from Rootstock.”

Bill Knight, member

Product: Fruit and Vegetable Box Scheme
Legal structure: an informal partnership of local farms and self employed growers
Established: 1997 (re-launched 2008)
Location: Looe, Cornwall
Turnover: £40,000
Number of staff: 13 self-employed producers
Method of finance: Personal investment from funds of the co-operative; indirect loans from Rootstock (social investment society)
Website: www.keveral.co.uk

The box scheme was launched using funds from the Keveral Farm housing co-operative and is franchised to Keveral Community of Growers, an informal partnership of four local farms: Keveral; Skygrove; Trereive and Buttervilla and several other small self employed growers including members of the Keveral Farm housing co-operative. “The project started as a viable way of providing returns to local people growing food and generating income to pay back rental for the land we were growing on,” explains member Bill Knight. “We simply planted lots of crops and established a leafleting system in the hope of finding customers.”

 Funds from the farm were used to buy the boxes and leaflets, but since then the business has been self-financing. However, although the box scheme has never received any direct investment or funding, it often indirectly benefits from funding that Keveral Farm gets by virtue of also being a housing co-op. such as loans from Rootstock36, he adds. The scheme also

36 Rootstock is a social investment society set up as an initiative of the Radical Routes network of co-operatives. Radical Routes is a growing network of housing co-ops, co-operatively run social centres and workers’ co-operatives working for social change. www.rootstock.org.uk
received informal and valuable support and advice from Mike Fischer of Northdown Orchard (see fruit and vegetable case studies).

The box scheme now serves around 90 families (55 to 70 on a weekly basis) and turns over sales of £40,000. The members share all the roles necessary for running the scheme, including customer records, packing lists and ordering. Everyone brings their produce to Keveral on a Wednesday and packs boxes together before they are delivered. No-one gets paid for doing these jobs, but the time each person puts in is recorded and at the end of the year any surplus is divided up according to hours worked.

Bill says the co-operative model of working keeps costs low. It saves the individual growers costs in leasing packing space, the delivery vehicles were already owned by the farm and the growers often share insurance. The box scheme would not be economically viable as a standalone business. Bill says, “Unless you are a very big company, box schemes are only sustainable financially if you are selling your own produce. Ours works because each person involved contributes approximately five hours a week to the actual box scheme. Each producer is then left with 35 hours a week to grow their vegetables and run their own business.”

The aim of the group is to reach 200 families a week, which is likely to be the limit given the size of the production areas they currently have, he says. “This would be more financially viable and we could cope on the same sort of scale. Any bigger and we would have to completely rethink the business: we don’t want to deliver any further than 30 miles away and/or start buying in produce.”
Essential Trading Co-op Ltd was formed in 1991 by merging two existing worker co-operatives, Nova Wholefoods (Bristol, incorporated in 1981) and Harvest Natural Foods (Bath, trading since 1971). Both co-ops were IPS (Industrial & Provident Societies) common-ownership worker co-ops. In the early days, the independent wholefood sector was the only way for people to buy the sorts of products sold there. The supermarkets only made a serious venture into this marketplace in the late 1990s.

Essential Trading currently trades with shops, market traders, bakers, cafés, food co-ops, institutions (eg schools, hospitals), other wholesalers, and private individuals. It does not trade with supermarkets. It has a huge home market in Bristol, but also has significant customer delivery routes in South and West Wales, Somerset, Wiltshire, Gloucestershire, the south coast, London and Home Counties, Oxford, and Sheffield (via a sub-wholesaler).

“Nova Wholefoods was a key trailblazer in the UK wholefood and organic sectors,” says one of the founders Tim Blanc. “It began trading as a private business in the late 1970s, initially from the front room of the owner’s house”. By 1981, the owner needed to take on a 10-year lease for a 6,000 square foot warehouse in central Bristol to accommodate a rapidly growing business. He was reluctant to take on this risk alone, so the then team of workers formed an Industrial and Provident Society workers’ co-op and bought the good will from him. The
owner and some of the other workers had had experience of workers’ co-ops having worked for other co-operatives such as Green City\(^{37}\) and Suma\(^{38}\).

In the early days, the co-op members worked 50-60 hour weeks for little wages, because they were all committed to promoting good quality and affordable wholefoods, organic produce and eco-friendly household products, explains Tim. “This was when such ideas about food (such as organic, vegetarian and vegan) were not mainstream or widely accepted. The market around us developed, firstly with the Daily Mail publishing the F-Plan diet (the importance of fibre from whole grains) and then thanks to significant food scares in the industrial agriculture world (salmonella, BSE, pesticides, GM). In the early Thatcher years we also saw our worker co-op model as being a radical new way to be employed and run a business.”

Most of the workers did all the different jobs, as needed on a day-to-day basis, learning on the job – order picking, food packing/mixing, driving, buying and selling, book-keeping etc. and many of the initial co-op members either had good entrepreneurial skills and/or food knowledge.

The initial transfer of the business from private ownership to the new co-op was done via a co-op members’ loan from the ex-owner. This was repaid when he left the co-op. At that time there was little support available, so the initial cashflow was managed without a bank overdraft, because Tim says, “the Co-op Bank did not believe that anyone would buy our food and, if they did, that this would be a short-lived fad”.

The business, therefore, had to be financially viable from day one. This was achieved through careful management of costs, stock management and comprehensive use of live business information. It traded by using credit from its suppliers – in some cases, seven day post-dated cheques – and selling goods on strictly cash-on-delivery terms. In the early days, everything was bought to order: customers ordered on Wednesdays/Thursdays, the co-op bought everything on the Friday, then delivered on Saturday, Monday and Tuesday, so that the sales were banked by the time its own post-dated cheques were presented. All the profits were invested in building up stocks, to ensure good supply for the central Bristol cash and carry operation and to achieve better margins through increased purchasing volumes. Vehicles, plant and machinery were bought using hire purchase or leases.

Members’ loans to the co-op were made mandatory within a couple of years of incorporation. It was felt that a £500 (minimum) loan investment would show commitment to the co-op. These members’ loans are only redeemable two years after resigning as a member. The co-op currently has £93,500 of members’ loans, showing as long term liabilities on the balance sheet.

The business’ first bank overdraft was secured in 1985. Its first loans, financing the development of a manufacturing facility and the Bath shop (loans of £25,000 to £50,000), were secured in 1992 from a locally based co-op loan fund called ABCF (Avon & Bristol Co-operative Finance Ltd now owned and managed by Co-operative and Community Finance). The Bristol warehouse (two 27,000 square foot units) was bought from the landlords in two phases, initially with a mortgage from UBS and a vendor short-term loan (needed as the co-op could not raise the deposit). Essential Trading now has a mortgage from Triodos Bank, and has also received loans from Co-operative & Community Finance, which financed the deposit to

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\(^{37}\) GreenCity is an ethical food wholesaler, mainly for the trade market, which also supplies some individual food groups where there are no GreenCity retailers within a reasonable travelling distance. See: [www.greencity.co.uk](http://www.greencity.co.uk)

\(^{38}\) Suma is a specialist co-operative wholesaler that sells vegetarian, organic and fair trade food. See: [www.suma.coop](http://www.suma.coop)
buy the second warehouse unit and refurbish the Bath shop. The business borrows money only for large projects, says Tim. It has a large bank overdraft and invoice financing facility with its bank, Lloyds.

As managing rapid growth is very challenging, Tim believes that several key elements have contributed to Essential’s successful long-term development:

- First, ensuring the business had a good and timely accounting system, a minimum requirement being quarterly management accounts, within six weeks of the quarter end. “It is no good waiting until the year-end to discover that the business is performing badly,” he says.
- Second, realistic business planning when applying for loan finance. Any such plans must be tested against good and bad scenarios, and the business must have the flexibility to adapt to changing circumstances.
- Third, Essential has been successful in obtaining loan finance, partly because member investment in the co-op, via member loans, has always impressed loan providers.
- Finally, being wary of rapid growth, and avoiding the temptation to simply throw labour at a growing workload. It is easy to lose quality thresholds when taking on new staff or managing the quality and efficiency of the work. When the rapid growth ends, such loss of control of the quality and efficiency of the work force will come back to haunt the business.
“Two possible food futures are vying for hearts, minds and for money. Community food enterprises can feed people, train people, change their eating habits for the better, make community connections, create employment and support sustainable farming that minimises harm to the planet on which we all depend. And do all this in an enjoyable and inspiring way that will attract more and more people to join in. We are not just a niche market – we are serious and the issues we work on are serious.”

Julie Brown, director, Growing Communities

Product: Organic fruit and veg box scheme, farmers’ market, urban growing spaces (Patchwork Farm), Starter Farm, and urban growers’ apprentice scheme

Established: 1997

Location: Hackney, London

Turnover: £447,000

Number of staff: 20 part-time, over 100 volunteers

Method of finance: Hackney Councils’ Innovations Fund; the Big Lottery’s Community Fund, Local Food Fund, Making Local Food Work programme and SEED fund; a range of trusts and foundations (Bridgehouse Estates Trust, Esmée Fairbairn Foundation, Network for Social Change, Tudor Trust); UnLtd.

Website: www.growingcommunities.org; www.growingcommunities.org/start-ups/

Growing Communities is a Hackney-based social enterprise that runs a community-led box scheme and the UK’s only fully organic weekly farmers’ market. The box scheme now supplies fruit and vegetables to about 700 households in Hackney. Growing Communities estimates that the box scheme and farmers’ market combined provide sustainably produced food to around 3,500 people in the community every week. More than 1,200 bags of fruit and vegetables are packed each week – over 100 tonnes annually. This provides a reliable outlet for 33 small-scale local organic farmers and producers.

“Put simply, we find farmers and growers (or they find us), we create an outlet to sell their produce, we pay them what they need to produce and raise sustainable food, we put a mark-up
on the produce or charge a stall fee so that we can generate income to pay ourselves too, then we work very hard to make sure our community buys that produce.” Over the past year, 58% of the veg and 24% of the fruit in Growing Communities bags came directly from local farms.

Growing Communities also grows some of its own produce (mainly salad leaves) on three small Soil Association-certified urban market gardens, and supports a network of urban micro-sites in a Patchwork Farm. This network of back gardens, church land and housing estates, is where urban food growing apprentices are trained by the enterprise and offered the opportunity to grow produce sold through the box scheme. Together, these have produced over a tonne of Hackney-grown salad since October 2010, to supply the box scheme, with a surplus of 250kg of salad sold to local restaurants. Despite this high yield and hard work, the urban growing still doesn’t cover its costs. As Growing Communities says, “We choose to subsidise it because of the additional benefits urban growing brings, but it reminds us just how hard it is for small farmers to make a decent living and fuels our commitment to them.”

Growing Communities was set up in 1997 as a not-for-profit company limited by guarantee and is run as a social enterprise by a voluntary management committee. It aims to be part of a wider movement to change the dominant food and farming culture by creating ‘an alternative food system that could feed us all’. The organisation started without external funding – costs were very low and individual members paid up front for fruit and vegetables in a crop-share arrangement – and the box scheme was self sustaining from the start. As the organisation grew it began to apply for a range of development grants, mostly from charitable trusts and foundations, to develop urban growing sites, an outreach programme, and the farmers’ market. Between 1997 and 2006 a total of over £450,000 was raised in this way.

The enterprise became fully financially self sufficient in 2006 and since that time has made profits each year and continued to built up reserves. In the most recent financial year (2010/11) Growing Communities turnover was £448,000 (up from £395,000 in 2009/10). Box scheme sales have continued to increase, by 9% in 2010/11, and the organisation had a gross profit of £45,523. The organisation showed an overall operating loss in this financial year, but this was planned to enable investment of reserves in the Growing Communities Start-up Programme and other aspects of organisational development.

Growing Communities do not deliver and customers either pick up from their offices or from 11 drop-off points in their local area. Payment is made up-front, with customers joining the scheme on a monthly basis with an option of a one-month trial, after which they pay in advance by standing order, cheque or bank transfer.

When Growing Communities analysed their trading model in preparation for offering start-up support to other communities seeking to do something similar, it became clear that the box scheme was the driver of what they do. This was both in terms of its income-generating potential and the retail outlet it provides. The success of the box scheme enables the urban food growing to be subsidised. The farmers’ market makes a significant but smaller contribution to overall income but brings “great benefits in terms of our public profile” and the opportunity for farmers to make personal connections and trade directly with the local community. The farmers’ market has also enabled them to build relationships with farmers who have subsequently gone on to supply the box scheme too, as well as helping several Hackney based food businesses to start and sell at the market and beyond.

While other organic businesses have suffered during the recession and given adverse media coverage about organic produce, Growing Communities has healthy reserves and its box
scheme continues to grow. “We put this down to being embedded in the community, the
loyalty we cultivate with box scheme members, producers and farmers’ market customers, and
the values and passion that we share and communicate through everything that we do. We are
currently considering how best to invest our surplus to make our business even stronger and to
pursue our principles with even greater vigour.”

They believe that their model can be widely adopted and adapted: “We think it could play a
part in building a movement to transform food and farming through community-led trade.” In
fact, the organisation has now run the first full year of its new replication programme. This has
been funded through £100,000 from the Big Lottery Making Local Food Work programme, the
Tudor Trust and UnLtd. This work is a critical part of Growing Communities ambition to help
other communities take control of their food.

In 2010 in the initial stages of the start-up programme, Growing Communities secured a pot of
money from the Tudor Trust of up to £50,000. This enables them to offer small no-interest
loans (of a few thousand pounds, for essential start-up capital expenditure) to help groups work
swiftly towards becoming self-reliant through trading. It is hoped that a similar arrangement
will be available in the future to help more start-up groups launch successful trading schemes.
Groups are also encouraged to look at raising small-scale finance for essential start-up costs via
other means such as a small grant, donations or a community share offer. Re-payment of the
no-interest loans from the Tudor Trust pot is built into the financial planning of the start-up
groups as an essential aspect of them planning their finances and expenditure prudently.

In the first full year of the Growing Communities start-up programme, the organisation has
provided mentoring and an online toolkit for five groups. These five community groups
launched their new box schemes in Summer 2011 and by November 2011 had already packed
more than 4,000 bags of veg and traded with eight organic farmers and at least two regional
wholesalers. These new box schemes are signed up to following Growing Communities’ key
principles, which include buying direct from local, small-scale growers using sustainable
production methods (certified Organic and Climate-Friendly Food). Overall, some 86% of the
produce bought across the five schemes came from the UK with 64% direct from local farmers.

In the long term, Growing Communities hopes that this replication programme will become
self-financing through a combination of participation fees, a small percentage levy on trading,
and a network fee for continuing support and contributing to the growing movement of
community-led food trading enterprises. Growing Communities is also exploring running a
“Trading with Principles” accreditation scheme, promoting the verifiable commitments made
by the start-up groups to include a range of fair trade and sustainability criteria.

Growing Communities also continues to develop its Patchwork Farms by identifying possible
pieces of land and negotiating with the landlords. They then match the land with growers who
have completed the Growing Communities apprenticeship scheme and provides equipment and help
with planting plans. The growers produce salad leaves that go into the box scheme and sell any surplus
they have to local outlets such as restaurants and cafés. In 2011 Growing Communities used the funds
from their own reserves plus grant funding of £32,700 secured from the Local Food Fund over three
years to support the development of 12 more Patchwork Farm sites. Growing Communities’ Starter
Farm project which launched in April 2012, received Local Food Fund grant to start a four-acre
Starter Farm in Dagenham to produce food for sale to the box scheme, the Stoke Newington Farmers’
Market and local outlets in Hackney and Dagenham. The aim is for the farm to generate enough
income to pay a grower and 2 part-time apprentices and cover running costs by March 2014.
7. Case studies – Shops
Shops case study: The Better Food Company

“We need people to change their lifestyles more radically than just buying organic, so much of which is over-processed, over-packaged, over-travelled and has lost 90 per cent of its soul on the way. The new food is surely soul food and you get that from close to home.”

Phil Haughton, Managing Director

**Product:** Organic supermarket, two stores  
**Established:** 1984, first supermarket opened 2002  
**Location:** St Werburghs and Clifton, Bristol  
**Turnover:** £2.4 m  
**Number of staff:** 50  
**Method of finance:** Triodos bank loans and overdraft  
**Website:** www.betterfood.co.uk

The Better Food Company is the brain-child of Managing Director Phil Haughton, who started selling organic food in the late 1980s from his kitchen table to meet a local demand and to provide a market for small organic producers in the area.

Having learned about organic farming as a young adult in Scotland, he moved to Bristol and became involved with Windmill Hill City Farm, a community farm based in the city. The farm ran a small farm shop selling only its own produce. Phil then moved on to start a home delivery service and this developed into a box scheme. This was closely followed by his first organic shop, Real Food Supplies on Bristol’s Gloucester Road, which was expanded to include an organic butcher's shop. In 1992, after a gap in trading, Phil started home delivery once again as The Better Food Company and after several years of growth the company changed tack in 2002 and opened as “the large retail outfit we know today”.

The Better Food Company is an organic ‘micro chain’, comprising two large shops, both with delis. The original shop in St Werburghs also has a café. The business works closely with The Community Farm in Chew Magna (see Community Farm case study), an organic growing operation, wholesale and box scheme that used to be part of the company before becoming a community owned and run enterprise in April 2011. Phil is still very involved in the farm.
“Sixty five per cent of our Bristol customers are within walking or cycling distance of our shops in St Werburghs and Clifton Village.” Phil says, “We have an average of 4,500 customers a week across both stores.” The rest travel from all over Bristol and much further afield because the stores have the biggest range of organic foods in the South West. Phil says he specifically took on the St Werburghs site “so we could offer less affluent folk good access to organic food, but we also depend on bigger spenders from other areas”.

Getting started was not easy. As Phil explains, “There wasn’t a lot of support around for this type of business. We started from next to nothing”. With little grant funding available they had to put together a good business plan to get a £5,000 overdraft facility with the Triodos Bank, followed by two more loans from Triodos – one of £10,000 and then another totalling £45,000 to develop the business. This last loan was taken out four to five years after starting and it took seven years for the company to become economically viable.

Phil’s advice is to always be a little pessimistic on sales and on costs and get advice from people who are running similar businesses to yours: “Their advice will be worth its weight in gold and will save you time and money.”

Phil is a passionate advocate for local food businesses, delivering locally-produced organic food to their own communities: “There needs to be more action to save the independent high street sector to enable sustainable food retail businesses to survive. It needs support with training, grants, subsidies and a cap on high street rent to ensure that businesses are affordable to the independent sector.”
Shops case study: The Real Food Store, Exeter

“The Real Food Store is part of an exciting bigger picture as thousands of people in communities throughout the UK are investing in their communities, in order to create—or not lose—a valued asset (be it a shop, post office, football club or renewable energy project).”

The Real Food Store website

Established: Store opened March 2011
Legal structure: Industrial and Provident Society
Location: Exeter city centre
Turnover: Projected first year turnover of £500,000
Number of staff: 8.5 (full time equivalent)
Method of finance: community shares
Website: www.realfoodexeter.co.uk

In March 2009, Transition Exeter organised a meeting ‘The future for local food’ which galvanised a committed group of seven local people to create an alternative retail food hub in the town centre. “A local food store is what many local residents said they wanted and exactly what many of its locally based suppliers needed”, says co-founder Sarah Collier, because although Exeter is surrounded by beautiful and productive countryside, there was no single outlet where people could find local, quality produce, with the exception of the excellent but only once-weekly farmers’ market.

The first major decision of the original steering group was what kind of business model to use. Here, Sarah Collier says, the advice of Wessex Community Assets (WCA) was very important. WCA helped the group identify the right legal structure for the store - an Industrial Provident Society for community benefit. The Steering Group drafted the Share Offer Document with help from WCA who also assisted with the community share offer launch event in June 2010. This kick-started the investment phase, which in the end provided the capital to launch the business.

Prior to launching, the new enterprise also benefited from the “unbelievable amount of people hours” and expertise contributed by the founding directors, says Sarah, such as significant ‘pro bono’ hours from local Exeter solicitors, Cartridges and freely given input from others such as...
crucial graphic design from Krage Design (logo, branding, website, printed material). There was no involvement from the local council as such despite Exeter City Council officially supporting social enterprises during the same period. The City Centre Manager - employed partly by the city council and partly by the new Princesshay shopping centre owners - has supported this new independent retail outlet and has used the café space as a venue for business meetings.

In early June 2010 a first share offer was launched to a packed St Stephens Church hall in Exeter city centre and over 100 people came to hear about ‘Real Food’. The community share offer was opened in two phases between June and the end of September 2010. It was a great success and exceeded the target amount of £135,000, raising just over £152,776 from 287 shareholding members. Some 55% of the members invested the minimum shareholding of £100, a few put in substantial amounts and there were two ‘whopping ones’ (£20,000 each).

The share offer made it very clear that shareholders return on investment was social rather financial. However, once the business becomes profitable - which they aim to be within three or four years, as projected in the business plan – paying interest to all shareholders may be a possibility, although this remains entirely at the discretion of the Board. Many of the members had never invested in anything before and as a result were much more prepared to accept the lack of a financial dividend. Investors used to more conventional investing (in the stock market) did find it hard to get their head around this idea with some saying “It feels like a donation”.

The board negotiated a lease for the site with the landlord (Land Securities) which consists of a standard five-year commercial lease with a break clause at three years. The board had asked the council to consider giving them discretionary relief on their business rate given that they were a social enterprise, even though in theory only charitable organisations qualify for relief. The council rejected this application, but the board are planning to re-apply for the next financial year.

Members helped to get the shop ready and it opened its doors in March 2011. It received a lot of attention from the local press which helped to keep promotional costs to a minimum. The directors also carried out a few easy and cheap stunts to keep Real Food in the public eye - including the life size pink sequined cow in the window of the store during the building works (see picture).39

The Real Food store consists of four interlinked spaces - a food store specialising in local, organic and fair-trade food; a café using the same range of ingredients that also hosts events and exhibitions, and a take-away area. The Real Food Store is also the home of Emma’s Bread - an award winning artisan bakery that supplies the store and café and is proving to be a real draw. The store gives pride of place to staple foods of high quality that are competitively priced and offer good value. Fresh

39 All of the original documentation including share offer and business plan August 2010 can be downloaded from: www.realfoodexeter.co.uk/real-food-backstory
local vegetables, milk, eggs and bread (from the in-store bakery) are key products. The store aims to be a one-stop shop alternative to the supermarket for food and drink. A key message and integral part of the marketing is ‘Real Food, Real Value’ as the store is committed to building its customer numbers by providing high quality and affordable local food.

The Real Food Store employs a team equivalent to 8.5 full time posts. The staff team are currently working to develop the capacity of the four interlinked elements of the enterprise which complement one another well. The store supplies the café where “the brilliant cook puts together great daily specials that make the most judicious use of ingredients and our food waste is absolutely minimal”. In addition the baker, Emma Parkin, owner of Emma’s Bread and one of the founding directors, pays rent for her on-site artisan bakery and employs her own staff - currently a team of 2.5 people.

Now in the last quarter of its first year of trading, the Real Food Store is projecting a turnover of £500,000 by the end of the financial year. Christmas 2011 trading was buoyant and saw a significant rise in daily takings. The board and the staff are working together towards ambitious but do-able targets to increase sales. Whilst the Real Food Store is proving a popular and a vibrant feature of the Exeter shopping scene, these are challenging times and the team are working hard to ensure business sustainability. The first priority is to improve cashflow - often the bane of new businesses. First year challenges have included tightening control of wage costs, always ensuring suppliers are paid on time and dealing with a large VAT bill.

The long term future of the business premises is to some extent uncertain as the entire site might be part of major city centre redevelopments. However, it was felt that the visibility and convenience of this city centre location were vital for business success and it was the only suitable location identified. If necessary, however, much of the equipment, fixtures and fittings could be relocated. The business is committed to having as low a carbon footprint as possible and the store’s electricity supplier is Good Energy.

It is likely that, subject to members’ approval, another share offer will be launched in the near future. This would help to capitalise the business as well as invest in some infrastructure (for example, a awning or a new till).
Shops case study: Unicorn Grocery

“There is room for a Unicorn-type store in every city in the UK, at least. It is up to us to grab hold of food supply as nineteenth century co-operators did – both out of a need for food security and a belief in social justice and stable, sustainable economies.”

Grow a Grocery Guide, Unicorn

**Product:** Co-operative grocery shop

**Legal structure:** workers’ co-operative in an Industrial & Provident Society structure

**Established:** 1996

**Location:** Chorlton, Manchester

**Turnover:** Just under £4m

**Number of staff:** 45 co-op members plus up to 10 casual workers

**Method of finance:** loans from Industrial Common Ownership Finance Ltd (now CCF); community loanstock; mortgage from Triodos; grant from the Co-operative Action Fund

**Website:** www.unicorn-grocery.co.uk

The grocery was founded in 1996 by original members Adam York and Griff Dines, joined nearer to opening by four other members. Adam had effectively done an informal apprenticeship over four years in a small wholefood store in Wellingborough, and Griff had strong organisational, IT and financial skills. Adam had also done a year’s student placement at the Daily Bread, on whose model the Unicorn co-operative grocery is based.

The Daily Bread Co-op was established by Roger Sawtell in the 1980s in Northampton. Essentially the model revolves around direct, often bulk purchasing, on site processing, and competitive margins and pricing. This is all run by motivated owner/co-operative members

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40 The ‘Grow a Grocery’ guide walks potential grocers through all areas of the business, in the hope that it will make starting a new shop an easier process and help existing shops improve and/or expand. Those using it may choose to follow the model wholesale or just to utilise elements of it, and to improve it. The Unicorn model can be utilised, built upon, and of course improved by others. The guide is free, and available to download as a pdf on the Unicorn website: www.unicorn-grocery.co.uk/grow-a-grocery.php
following a clear social agenda: “We have created a place where we would like to shop and we are proud to work.”

Unicorn grocery is based in Chorlton in South Manchester. The grocery is a workers’ co-operative so it is owned and run by its members. The grocery’s remit is to sell affordable, wholesome food with a focus on organic, Fairtrade, local and ethical production.

Most of Unicorn’s customers are people who cook from scratch, families with young children, and the ‘green middle class’. Unicorn works to appeal to a cross section of the public and market research suggests that five to ten per cent of consumers qualify as ‘green’ (regularly seeking out sustainable products), and another 60 per cent or more may qualify as ‘light green’ (occasionally seeking out these products).

An important figure in securing start-up funding was Ian Taylor, at Industrial Common Ownership Finance Ltd (ICOF), who was instrumental in helping raise capital, and a total of £17,500 was raised through a loan from ICOF. Further funds of around £30,000 were secured through loanstock in the form of a fixed-term bond raised from supporters, members and potential customers. Together, these furnished Unicorn with start-up capital of around £47,500.

Turnover began at £4,000 per year and the business broke even within 18 months, earlier than cautious forecasts had predicted. By the time it celebrated its 10th anniversary in 2007, the grocery was turning over almost £4 million. With some fluctuations from year to year, turnover has remained fairly steady since then.

Along the way however, the business had faced possible closure in 2003 when the site that it had been renting was put up for sale. Using £350,000 of loanstock bonds raised from its customers and supporters, a £506,000 mortgage from Triodos bank, a £100,000 loan from ICOF and £50,000 from the Co-operative Action Fund Unicorn raised the £1 million needed and bought the building. The loanstock was crucial in providing security for other lenders, and helped to make the scheme viable.

At the time that Unicorn purchased the site they had already expanded, or had plans to fill most of the available space on the site. They were fortunate that the site was large enough to allow significant expansion and there is also the potential of building more floors onto the existing building.

Decisions are made collectively by the worker members although growth in their numbers has required the creation of a ‘representative structure’. Members are divided into teams, and individual co-op members are represented by ‘team overviews’ at fortnightly ‘forum' meetings. This makes it slightly harder to keep all co-op members completely ‘in the loop’ about what is going on and feeling the same levels of ownership of the business that was possible when all the members could meet in one room. The co-op’s structure is reviewed regularly by all its members to make sure it is still the best fit for their purpose.

The key to challenging the major multiples in the grocery sector is a good offer and, despite the multiples’ unrivalled buying power, Unicorn has shown there is still a gap in the market for a business based on strong ethics, direct buying, minimal handling, on-site packing and all-round honest trading.
Shops case study: Hindon Village Stores

“Residents of a Wiltshire village have taken over the running of their local shop after it was threatened with closure after being inspired by a plot from the Archers.”

Daily Telegraph^41

Product: General Store
Legal structure: Industrial and Provident Society
Established: September 2009
Location: Hindon, Wiltshire
Turnover: £200,000
Number of staff: Manager and Postmaster plus volunteers
Method of finance: Co-op member shares; donations; grants from the Plunkett Foundation and Sowing Seeds; loan from Co-operative and Community Finance
Website: www.hindonvillagestores.co.uk

The small community of Hindon came together to save their local village shop after the owners retired. Hindon Village Stores opened its doors on 7 September 2009, only one year from the launch of a ‘Save our Shop’ campaign. The residents of Hindon bought the premises collectively, and refurbished and fitted out the new shop with the help of local contractors and volunteers.

The villagers formed an Industrial & Provident Society Co-op (IPS), which is overseen by a Board of volunteers. They raised the money they needed to buy, refurbish, restock, and finally re-open the shop with £38,000 in donations, plus funding and loans through the Plunkett-run

Village CORE Programme\textsuperscript{42}, providing dedicated support for communities looking to set up and run a community-owned rural shop. Along with advice there is a funding package of up to £40,000 comprising a £20,000 grant (funded by the Esmee Fairbairn foundation) matched with a £20,000 loan (through Co-operative and Community Finance) which has to be matched by equivalent community contributions. In the case of Hindon, they received grants from the Plunkett Foundation (£20,000) and Sowing Seeds\textsuperscript{43} (£17,000), a loan from Co-operative and Community Finance (£20,000), and raised over £80,000 through the sale of shares to residents in the village.

The shop is managed by Mandy Warren, with the assistance of Kelvin Watts, who has worked in the shop for many years and has been appointed the Postmaster. Residents volunteer time to help run the shop, which sells local produce including fresh fruit and vegetables, meat and bread, plus newspapers and ‘most things you would find in the supermarkets’. It also bakes its own croissants and baguettes daily.

Mandy, who lives in the village, says both parts of the business (Shop and Post Office) are doing really well. “The villagers are very supportive and we are also getting a lot of passing trade. It shows what can be done when everybody pulls together. We agreed that it had to be a traditional village shop, rather than a deli selling fancy things, and we are proud to sell fresh local products that bring in the customers!”

The Plunkett Foundation is a national organisation supporting community-owned village shops across the UK. There are now over 260 community owned shops trading in England, Scotland and Wales. Most of these have been established through support from the Plunkett Foundation, including Hindon Village Stores featured in this case study.

The Plunkett Foundation, as part of its CORE programme, has a dedicated Community Retail Team and service to support rural communities wanting to set up and run a community-owned shop, and to also support and advise existing community owned village shops. This provides a range of advisory support, access to funding, information and resources, and advice on legal structures.

\textbf{The dedicated website for community shops is at:} [www.communityshops.coop](http://www.communityshops.coop)

\textsuperscript{42} The Village CORE Programme provides dedicated support for communities looking to set up and run a community-owned rural shop, see: [www.plunkett.co.uk/whatwedo/core/Core.cfm](http://www.plunkett.co.uk/whatwedo/core/Core.cfm)

\textsuperscript{43} Sowing seeds is a Defra supported programme which funds community-led projects which enhance the natural and built environment or promote local culture and heritage [www.sowing-seeds.org.uk/funding1.html](http://www.sowing-seeds.org.uk/funding1.html)
8. Case studies – Foodservice
Whole School Meals was created because local children were not receiving nutritious, healthy school meals, says Stephanie Hayman, the parent governor who initiated the idea. She asked people in the local community for help, bringing together parents, school governors and local businesses. As a result, a new limited company, constituted as a School Company, was created by a group of local people keen to create a service to provide local and healthy rather than ‘industrial’ school meals. Now, 24 schools are served by the business, serving approximately 2,500 students daily, though numbers vary seasonally as more children have school dinners in the winter. The business uses local, Kent produce supplied by independent, local enterprises.

“We had a vision of a school community-based social enterprise, highly professional in its management, commercially viable, and fully accountable to the schools, parents and children,” explains Stephanie. Seven volunteer directors initially set about forming the company – and in 2006 they won the contract to provide the service by competitive tender. “When the tender was successful, we had three months in which to secure finance, create menus, and employ our management team. We then took on 60 catering staff under the TUPE regulations,\(^{44}\) and the

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\(^{44}\) The Transfer of Undertakings Regulations (TUPE) protects employees’ terms and conditions of employment when a business is transferred between owners. Employees of the previous owner when the business changes hands automatically become employees of the new employer on the same terms and conditions. See: [www.acas.org.uk/index.aspx?articleid=1655](http://www.acas.org.uk/index.aspx?articleid=1655)
business went from there,” she says. The company trained staff with the help of the local college, which ran a series of training days over the summer, preparing the cooks to create the new menus. Some of the staff had already been cooks for many years, but others only had experience of preparing highly pre-processed meals. The company’s directors keep careful track of the business through monitoring local food use, sales, and quality against key performance indicators – and receive feedback using questionnaires.

Whole School Meals did not have an easy ride when entering the market. “When we first started up the number of children having school dinners was very low due to the recent airing of the television programme ‘Jamie’s School Dinners’, which exposed the unhealthy junk food being served in schools,” says Stephanie. This meant Whole School Meals had to promote the uptake of school meals through plenty of advertising and contact with parents. For example, it arranged taster events for children and parents, asking children for feedback on what they liked and didn’t like in order to create nutritious and child-friendly menus.

Before it won the tender contract, the business received two small grants totalling £5,000 from Kent County Council Healthy Schools and Government for the South East. Once the contract was won, each participating school bought shares, investing approximately £1,000 each and are therefore the majority shareholders.

The business took a £90,000 loan from the CDFI TSELF (The Social Enterprise Loan Fund) because, unlike a bank, TSELF enabled the founding directors to take a loan without using their houses and possessions as security, Stephanie explains. This enabled them to employ an operations manager and a finance manager and to pay staff holiday pay (the contract system means that when a contract changes hands, accrued holiday pay is paid by the new contractor, during the summer, prior to the start of the service in September). She says TSELF were very supportive and long-sighted about the business. They saw that the business plan was viable, seeing past the initial cash flow difficulties. Without the loan from TSELF the business would not have been viable.

The loan has been paid back in full and the company is now in profit. It broke even after three years, despite being ‘over optimistic in terms of sales’ in the early days. Stephanie says they have a very strong business plan: “We have a very small, yet highly competent and experienced management team so we are very efficient and cost effective. This has enabled us to get through the lean times when money was very tight.”

They would like to continue to grow, though they are limited by the number of schools they can serve before they lose touch with parents, children, headteachers and staff. “We believe our optimum size would be around 60 to 70 schools,” says Stephanie, “because within that we could still deliver a local service and we would maximise our management capacity. Our school clients value our local and personal service and we are rooted in our community. It’s a fundamental value of the company and a great strength.”

Whole School Meals has also received grant funding from the Primary Care Trust and the Big Lottery for outreach projects outside the core school meal business. These include after school cookery clubs for children and families and other community-based healthy eating initiatives. The company has also used some of its own profits to get underway a community café serving members of the wider community with nutritious, local food.
“I thought raising the money was going to be the hardest part. It turned out the really hard part was finding a site...landlords weren’t really keen to lend to a couple of women with a risky idea.”

Geetie Singh, owner

**Foodservice case study: Duke of Cambridge**

<table>
<thead>
<tr>
<th>Product:</th>
<th>Organic gastro pub</th>
</tr>
</thead>
<tbody>
<tr>
<td>Established:</td>
<td>August 1998</td>
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<tr>
<td>Location:</td>
<td>Islington, London</td>
</tr>
<tr>
<td>Turnover:</td>
<td>£1.5 m</td>
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<tr>
<td>Number of staff:</td>
<td>42, 22 full-time, also use one volunteer a year in the kitchen</td>
</tr>
<tr>
<td>Method of finance:</td>
<td>Personal investment from owners and their friends and family</td>
</tr>
<tr>
<td>Website:</td>
<td><a href="http://www.dukeorganic.co.uk">www.dukeorganic.co.uk</a></td>
</tr>
</tbody>
</table>

Back in 1990, and with no previous business experience, Geetie Singh and her original business partner Esther Boulton worked five jobs – in a wholefood shop, restaurants and pubs – between them, learning as much as they could about buying sustainable organic ingredients, to prepare for launching their business. Saving every penny, they used their own cash to pay for expenses in the planning stage – investors to be dined, architects to be paid for, books, business plans, accountants and lawyers. Then, with a good business plan in place, they raised £150,000 from private investors – mainly friends and family – made up of loans of between £10,000 and £60,000, and an offer of £100,000 from NatWest bank.

They searched high and low for a pub. Most were tied to breweries, which meant they would not be able to serve their own beers and wines, or free houses which were snapped up by more ‘stable propositions’ than an organic gastro pub run by two women. Then they spotted the Duke of Cambridge up for auction. With no buyer in place, they worked through a weekend to tailor the business plan to fit the location and the site and went to the auction the following week. Only one person bid, they followed him out of the door, gave him a copy of the business plan and asked him to lease them the pub. A few weeks later, he called and agreed – and their plans began to turn into reality.

A month into the three month building project, they hit a major problem when the manager at NatWest called to say the loan that they had applied for had been turned down, and the deal was off. Geetie cites this as a big first learning point – don’t plan on the basis of verbal
commitments, always make sure that you get things in writing. They were advised to come clean and tell their landlord what had happened, particularly as he was doing all the building works. As it turned out, he was understanding and said he would continue for one more week to allow them some time to find the money elsewhere.

First, they tried the banks: the Co-op had no business banker they could talk to, Triodos wouldn’t finance a venture that dealt with alcohol (as is the case for other ethical investors), and so they ended up at Barclays. The manager there went through their accounts thoroughly and advised that they only needed half what they were asking for (ie £50,000). However, he couldn’t lend without collateral which they were unable to provide. So two days before their deadline, they signed up two new private investors who they had found through networking.

On 14 December 1998, the world’s first organic pub opened its doors. For the first five days the pub served all food half price, allowing them to make their mistakes with customers who would be hopefully more forgiving. The first lunch was a success, serving 20 people and the pub broke even after just four months. An ‘avalanche of press’ started the day before the pub opened, a full page in the *Evening Standard* talking about this ‘ground-breaking organic pub’.

Several other organic restaurants opened and closed around this time. Many stated that the reason for their demise was the lack of supply of organic produce at an affordable price. But, Geetie says, most of them were simply badly run restaurants pinning the blame on organic. “I had learnt, mostly from other bad managers, how not to do it, and now was my chance to try it all out my own way,” she says. She installed a solid weekly accounting system of stock taking, gross profit margin targets, record keeping of all wastage etc, and held weekly meetings with teams at all levels where things were discussed in a ‘non-critical, forward looking manner’.

From the start the business model was driven by ‘values rather than profit’. This meant green policies on energy, cleaning products, office equipment and recycling, as well as only using organic ingredients.

In the early days supply was very limited. Fish was a particular challenge, recalls Geetie, but working with the Marine Conservation Society (MCS) they put together the first restaurant fish policy to be MCS-approved. This meant searching out new suppliers who were able to monitor where and how the fish was being caught. The pub subsequently achieved Marine Stewardship Council Certification in summer 2008.

And back then, although they strived to buy only British vegetables, they had to extend their supplies to Europe. Things have changed vastly, however, she says, over the last 10 years, and now the pub gets almost everything from the Home Counties: “By 2005 it was possible to buy only UK produce other than lemons and sometimes garlic.” With the odd exception the pub’s meat suppliers are also Home Counties-based.

Sales have risen every year, but Geetie acknowledges mistakes along the way. For example, despite good advice that expansion was not necessarily the way forward, Geetie decided to follow the trend and scale up and open two more pubs in three years. The second, The Crown, was successful (though it was sold when the two business partners, Geetie and Esther, went their separate ways). The third, the Pelican, was not – mainly due to the lack of interest in non-traditional beers, and competition from other gastropubs in the area, she explains. The board of directors saved the company from bankruptcy by encouraging them not to hang on to something that wasn’t going to work – and they sold the Pelican eighteen months after opening.
“We managed to complete the purchase only seven weeks after issuing the prospectus. We reached our target when Key Fund Yorkshire decided to buy £20,000 of shares and rushed the money to us by handing over a cheque at a motorway service station.”

Martin Booth, member and director of the co-op

**Product:** Community pub  
**Legal structure:** Industrial and Provident Society  
**Established:** February 2010  
**Location:** Hudswell, near Richmond, Yorkshire  
**Turnover:** Over £150,000 in the first year – managed by the tenant  
**Number of staff:** Tenant, 3-4 local staff  
**Method of finance:** Member shares  
**Website:** www.georgeanddragonhudswell.com

In February 2010 a co-operative formed by the people of Hudswell in North Yorkshire bought the local pub which had been closed for 18 months. In so doing they became part of a new trend in co-operative ownership of local assets, like the Hindon Village Store (see case study above). The Hudswell Community Pub is an example of how a similar approach could be used to save and re-open the thousands of pubs across the country that have closed in recent years.

About 250 people live in the village, which is near the market town of Richmond in Yorkshire. The village – which had a hall but no shop or post office – has four farms, a riding stables and a holiday chalet business, but most people work outside the village or are retired. The closure of the George and Dragon in August 2008 was described as ‘a blow to the social fabric of the village’, as well as the loss of a local business. “The pub was a casualty of the credit crunch,” says Martin Booth, one of the directors of the new co-operative. “The last landlord bought it when property prices were at their highest.”

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45 See further details of the Hudswell community pub co-operative as a case study on the CooperativesUK website at: [www.co-operative.coop/enterprisehub/case-studies/Hudswell-Community-Pub/](http://www.co-operative.coop/enterprisehub/case-studies/Hudswell-Community-Pub/)

46 For information on recent trends, see the Campaign for Real Ale (CAMRA) website: [www.camra.org.uk](http://www.camra.org.uk)
When business declined as a result of the recession they couldn’t make the mortgage repayments. The co-op won’t have that problem because we haven’t borrowed any money.” When the empty pub remained unsold, the villagers formed the Hudswell Community Pub Initiative and made an offer to buy it. “At first the bank that owned the property didn’t take our offer seriously,” said Martin. “Then in October they accepted it and wanted to complete the sale within a ridiculously short time-scale. We had to explain that democratic community ownership doesn’t work like that.”

The group registered as an industrial and provident society (IPS), prepared a business plan, issued a prospectus and raised £224,000 in share capital. They received advice from a number of different sources, including Co-operative and Mutual Solutions (CMS) appointed by The Co-operative Enterprise Hub. “The very flexible nature of the support provided by the Hub allowed us to bring it all together and fill in any gaps,” says Dave Hollings of CMS. “We advised on the business plan, the share prospectus and on the negotiations with the vendor. We will also be providing training to the board of directors.”

The George and Dragon is now owned by Hudswell Community Pub Ltd (HCP), which is democratically owned and controlled by its members. Any person or organisation can become a member by purchasing shares; the minimum investment is £500 and the maximum is £20,000. Each member has one vote regardless of their number of shares. The co-operative’s rules state that at least 40 per cent of the shareholders must live in the parish of Hudswell.

At first it was a challenge to get enough people prepared to invest, Martin says, but after a couple of meetings in the village hall “it started to snowball”, with some good media coverage and the website attracting investors from far and wide, including eight from overseas. On 18 February 2010, when the sale was completed, there were 152 members including 77 from Hudswell. The co-operative has appointed a tenant to run the business. The tenant is free to make all key business decisions but there are various conditions. The co-operative wants to ensure that the pub is used for community events, celebrations, and cultural and social activities. This business model has been so successful in its first year that early plans to run a small shop from the pub, and develop part of the land as community allotments are already well underway.

With the help of grant aid from the York and North Yorkshire Community Foundation and the Big Lottery Awards for All, HCP opened ‘The Little Shop’ in December 2010 and Hudswell residents have a village shop for the first time in more than 30 years.

The co-operative also conducted a feasibility study into the viability of bed and breakfast accommodation and concluded that it was not a good business for them. However, they are considering applying for planning permission for an extension to the dining room on completion of the second full year’s trading by the tenants.

“We decided that having a tenant was the best option for running the pub,” says Martin. “It wouldn’t work having members arguing about the price of beer. The tenant takes the risk, and the co-op gets the rent. We don’t have any loans to repay and the property is worth more than we paid for it. We’ve also got our pub back and it’s providing employment for local people.”

47 For further details of support available, see: www.cms.coop and www.co-operative.coop/enterprisehub
### Appendix 1: Table of case studies by turnover and method of finance

<table>
<thead>
<tr>
<th>Name</th>
<th>Turnover (latest reported figures)</th>
<th>Govt/local council grant</th>
<th>Statutory and other social loans</th>
<th>Non-statutory grant funding</th>
<th>Personal funds/Family and Friends/Donation</th>
<th>High St Banks loans/overdrafts/mortgage</th>
<th>Asset finance</th>
<th>Specialist social investors - Triodos loans/overdraft</th>
<th>Community devpt finance initiatives</th>
<th>Co-op and community finance</th>
<th>Community shares/loan/bond/CSA</th>
<th>Crowd sourcing</th>
<th>Business initiatives (Everards)</th>
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<td>Titanic</td>
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<td>Maplefield Milk</td>
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<td>Lyburn Cheese</td>
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<td>Loaf Social Enterprise</td>
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<tr>
<td>Village Bakery</td>
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<tr>
<td>Handmade Bakery</td>
<td>£0.13m</td>
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<tr>
<td>Keveral Community of Growers</td>
<td>£0.04m</td>
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<tr>
<td>Essential Trading</td>
<td>£11.4m</td>
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</table>
Food & Finance: How small-scale ethical food enterprises raise the money to grow, and what can be learned for the future

<table>
<thead>
<tr>
<th>Name</th>
<th>Turnover (latest reported figures)</th>
<th>Govt/local council grant</th>
<th>Statutory and other social loans</th>
<th>Non-statutory grant funding</th>
<th>Personal funds/Family and Friends/Donation</th>
<th>High St Banks loans/overdrafts/mortgage</th>
<th>Asset finance</th>
<th>Specialist social investors - Triodos loans/overdraft</th>
<th>Community devpt finance initiatives</th>
<th>Co-op and community finance</th>
<th>Community shares/loan/bond/CSA</th>
<th>Crowd sourcing</th>
<th>Business initiatives (Everards)</th>
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<tbody>
<tr>
<td>Growing Communities</td>
<td>£0.45m</td>
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<tr>
<td>Better Food Company</td>
<td>£2.4m</td>
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<tr>
<td>The Real Food Store</td>
<td>£0.5m</td>
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<tr>
<td>Unicorn Grocery</td>
<td>£4m</td>
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<td>Hindon Village Stores</td>
<td>£0.2m</td>
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<td>Whole School Meals</td>
<td>£0.8m</td>
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<tr>
<td>Duke of Cambridge pub</td>
<td>£1.5m</td>
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<tr>
<td>The George and Dragon community pub</td>
<td>£0.15m</td>
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<tr>
<td><strong>TOTALS</strong></td>
<td><strong>8</strong></td>
<td><strong>3</strong></td>
<td><strong>6</strong></td>
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<td><strong>3</strong></td>
<td><strong>10</strong></td>
<td><strong>0</strong></td>
<td><strong>2</strong></td>
<td>77</td>
</tr>
</tbody>
</table>

Food & Finance: How small-scale ethical food enterprises raise the money to grow, and what can be learned for the future | 77 |
## Appendix 2: Useful sources of information

<p>| <strong>Baker Brown Associates</strong>&lt;br&gt;www.bakerbrown.co.uk | A training, research and development practice. Their main areas of interest are social enterprise, equity investment, community engagement, innovation, and business strategy. |
| <strong>Big Society Capital</strong>&lt;br&gt;www.bigsocietycapital.com | The present Government’s new scheme to encourage “investments made for social as well as financial return”. |
| <strong>Bridges Ventures</strong>&lt;br&gt;www.bridgesventures.com | A private investment firm majority-owned and managed by its Executive Directors and Bridges Charitable Trust. It provides funds and expertise to deliver both financial returns and environmental and social benefits. |
| <strong>British Business Angels Association</strong>&lt;br&gt;www.bbaa.org.uk | The national trade association dedicated to promoting angel investing and supporting early stage investment in the UK. BBAA works to bring together angel networks, private investors, early stage funds and professional advisors. |
| <strong>Business Link</strong>&lt;br&gt;www.businesslink.gov.uk/bdotg/action/home | The government’s online resource for businesses. It includes tools to help you start up, improve and grow your business. |
| <strong>BuzzBnk</strong>&lt;br&gt;www.buzzbnk.org | A crowdfunding website which enables social entrepreneurs and social ventures to raise funds and build a crowd of supporters. |
| <strong>Capital for Enterprise</strong>&lt;br&gt;www.capitalforenterprise.gov.uk | Web-based information about loan funds and guarantee programmes. |
| <strong>Charity Bank</strong>&lt;br&gt;www.charitybank.org | Finances social enterprises, charities and community organisations that aim to facilitate real social change. |
| <strong>Community Development Finance Initiatives:</strong>&lt;br&gt;www.cdfa.org.uk | CDFIs lend money to businesses, social enterprises and individuals who struggle to get finance from high street banks and loan companies. |
| <strong>Co-operative and Community Finance</strong>&lt;br&gt;www.coopfinance.coop | Provides advice and lends to organisations that are owned and democratically controlled by their members who are usually either employees, customers or members of a community. |
| <strong>Co-operative Enterprise Hub</strong>&lt;br&gt;www.co-operative.coop/enterprisehub/ | The Hub is a one-stop shop for free advice, training and access to finance for new and existing co-operatives. Services are delivered, free of charge, throughout the UK by experienced co-operative development advisers. |
| <strong>Enterprise Finance Guarantee Scheme</strong>&lt;br&gt;www.bis.gov.uk/policies/enterprise-and-business-support/access-to-finance/enterprise-finance-guarantee | A government scheme which provides banks with a partial guarantee against their lending to small and medium scale enterprise who lack adequate security for a normal loan. |
| <strong>Food Co-ops website and newsletter</strong>&lt;br&gt;www.foodcoops.org | Provides information about food co-ops and sources of support. |
| <strong>Key Fund</strong>&lt;br&gt;www.thekyfund.co.uk | A CDFI that provides investments from £2,500 to £150,000 to social enterprises based or working in the North and North Midlands. |
| <strong>Locality (formerly Development Trusts Association)</strong>&lt;br&gt;www.locality.org.uk | The leading nationwide network of settlements, development trusts, social action centres and community enterprises. It works to help and support people to set up locally owned and led organisations. |</p>
<table>
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<tr>
<th><strong>Making Local Food Work</strong>&lt;br&gt;www.makinglocalfoodwork.co.uk</th>
<th>The Big Lottery Making Local Food Work programme helps people to take ownership of their food and where it comes from by providing advice and support to community food enterprises across England. Although the programme finished in June 2012, the Enterprise Support and Governance strands will continue to be able to offer support to community food enterprises into 2013, and guidance documents are freely available on the website.</th>
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<tr>
<td><strong>Plunkett Village CORE programme</strong>&lt;br&gt;www.plunkett.co.uk/whatwedocore/Core.cfm</td>
<td>A pilot project offering dedicated support for communities looking to set up and run a community-owned rural shop. It provided advisory support along with a £40,000 funding package comprised of a £20,000 grant matched with a £20,000 loan which was also matched by the equivalent community contributions.</td>
</tr>
<tr>
<td><strong>Simply Finance</strong>&lt;br&gt;www.uk.coop/simplyfinance</td>
<td>Comprehensive guide to the different options for financing a community enterprise.</td>
</tr>
<tr>
<td><strong>Simply Legal</strong>&lt;br&gt;www.uk.coop/simplylegal</td>
<td>Comprehensive guide to the legal forms and organisational types for community enterprises.</td>
</tr>
<tr>
<td><strong>Soil Association Community Supported Agriculture (CSA)</strong>&lt;br&gt;www.soilassociation.org/communitysupportedagriculture</td>
<td>A partnership between farmers and the local community, providing mutual benefits and reconnecting people to the land where their food is grown.</td>
</tr>
<tr>
<td><strong>Sustain: The alliance for better food and farming</strong>&lt;br&gt;www.sustainweb.org</td>
<td>Provides links to a range of support organisations and runs the Real Bread Campaign, Food Co-ops website (<a href="http://www.foodcoops.org">www.foodcoops.org</a>) and Local Action on Food Network, plus publications useful to food enterprises (see next page).</td>
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<tr>
<td><strong>Triodos Bank</strong>&lt;br&gt;www.triodos.co.uk/en/about-triodos/</td>
<td>A bank that only lends money to and invest in organisations that benefit people and the environment</td>
</tr>
<tr>
<td><strong>Wessex Reinvestment Trust</strong>&lt;br&gt;www.wessexrt.co.uk</td>
<td>Provides finance and support for small businesses, home improvement loans and advice to organisations looking to raise finance through community investment.</td>
</tr>
</tbody>
</table>
## Other Sustain publications for local food enterprises

All of these publications have been published by Sustain, in partnership with the participating food enterprises, supported by the Making Local Food Work programme. They can be downloaded at: [www.sustainweb.org/publications/](http://www.sustainweb.org/publications/)

<table>
<thead>
<tr>
<th>Title</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Healthy Profit</strong>: A simple guide to pricing the food you make or grow (2011)**</td>
<td>The aim of the report is to give community food groups and enterprises the confidence and knowledge to construct and use their own pricing model for food they sell.</td>
</tr>
<tr>
<td><strong>Food Co-ops Toolkit (2010)</strong></td>
<td>This 250-page, comprehensive toolkit provides a simple guide to setting up food co-ops, aiming to help more communities set up their own food co-ops and buying groups. Also find your nearest food co-op at: <a href="http://www.foodcoops.org">www.foodcoops.org</a>.</td>
</tr>
<tr>
<td><strong>Growing Manchester’s Veg People (2012)</strong></td>
<td>A practical guide to how a group of growers and buyers created an innovative co-operative of food growers and buyers, to help build a fairer and more sustainable food and farming system.</td>
</tr>
<tr>
<td><strong>The Story of Moss Brook Growers</strong></td>
<td>This manual gives a step by step guide to how Moss Brook Growers set up a mixed horticultural social enterprise from scratch. It will be invaluable reading to anyone looking to grow and sell vegetables.</td>
</tr>
<tr>
<td><strong>Growing Communities manual of monitoring and evaluation (2012)</strong></td>
<td>Guidance on how to monitor and evaluate a food social enterprise to prove the social, environmental and economic benefits.</td>
</tr>
<tr>
<td><strong>Local Food Links: The first 10 years (2010)</strong></td>
<td>Written by the former director of the pioneering Local Food Links (in Dorset), Tim Crabtree, this report details what the enterprise has done and what has been learned about adding value to local produce in catering.</td>
</tr>
<tr>
<td><strong>Grow a Grocery</strong>: A guide to starting and growing a wholefood co-operative (2010)**</td>
<td>This guide shares the details of the co-operative business model tried and tested by Unicorn Grocery Worker Co-op.</td>
</tr>
<tr>
<td><strong>A Growing Trade (2011)</strong></td>
<td>A guide for community groups that want to grow and sell food in urban areas, with inspirational case studies of groups earning money from their food growing, lifting the ambitions of those involved.</td>
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