

**FOUNDATION EAST LIMITED**

**(Industrial and Provident Society no. 29722R)**

**REPORT AND FINANCIAL STATEMENTS**

**YEAR ENDED 31 MARCH 2014**

# **FOUNDATION EAST LIMITED**

**(Industrial and Provident Society no. 29722R)**

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## **REPORT AND FINANCIAL STATEMENTS** **For the year ended 31 March 2014**

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## **FOUNDATION EAST LIMITED**

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Directors Report  
For the year ended 31 March 2014

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### **REFERENCE AND ADMINISTRATIVE DETAILS** For the year ended 31 March 2014

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|-------------------------------|---|
| <b>Directors</b>              | Peter Jones (Chair)<br>Thomas Cook (Vice Chair)<br>Barry van Eupen (Treasurer)<br>Belinda Bell<br>David Bell<br>Mark Braithwaite (Resigned 01/06/2014)<br>Stephen Clarke<br>Stephen Cook<br>Mark Gipson<br>Lee Prentice<br>John Stenhouse<br>Christopher Storey |
| <b>Secretary</b>              | Anne Katy Ford  |
| <b>Chief Executive</b>        | Anne Katy Ford  |
| <b>I&amp;P Society number</b> | 29722R  |
| <b>Registered office</b>      | Saxon House<br>Kempson Way<br>Bury St. Edmunds IP32 7EA   |
| <b>Auditors</b>               | MHA MacIntyre Hudson<br>30 – 34 New Bridge Street<br>London<br>EC4V 6BJ   |
| <b>Bankers</b>                | The Co-operative Bank Plc<br>Balloon Street<br>Manchester<br>M60 4EP<br><br>Unity Trust Bank plc<br>Nine Brindleyplace<br>Birmingham<br>B1 2HB  |

#### **Status**

Foundation East Limited is a Community Interest Company that has exempt charitable status. The Society changed its name from Suffolk Regeneration Trust Limited on 25 January 2007.

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Directors Report  
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The Directors are pleased to present their report and the audited financial statements for the year ended 31 March 2014.

The Directors confirm that the annual report of the Society complies with current statutory requirements, the requirements of the Rules and the provisions of the Statement of Recommended Practice (SORP) 'Accounting and Reporting by Charities' issued March 2005.

### **STRUCTURE, GOVERNANCE AND MANAGEMENT**

The Society is registered under the Industrial and Provident Societies Act 1965 and is recognised by the Inland Revenue as an exempt Charity. Each individual member must hold a minimum of 150 shares of £1 each and corporate members 500 shares of £1 each.

The Society is governed by a Board of Directors who are volunteers and members of the Society. The Board of Directors comprises of not less than three and not more than twelve persons. Directors are subject to retirement by rotation and every year one third of eligible Directors must retire. Directors subject to retirement are those who have been longest in office and Directors may stand for re-election. The election of Directors takes place at the Annual General Meeting. A casual vacancy in the number of Directors may be filled from among the membership by the Directors or, if it arises at a General Meeting of the Society, by that meeting. Details of those serving on the Board during the year and those serving currently are shown on page 1. Any member of the Society is eligible to stand as a Director or to be co-opted as a Director. An induction programme is undertaken to equip Directors to fulfil their duties in accordance with best practice and statutory requirements.

The Board of Directors meets quarterly. Five sub-committees operate within terms of reference that set out the delegated responsibilities:

- The Finance Committee is responsible for overseeing the financial status of the Society and for considering issues relating to financial management and performance, fundraising, risk management, business planning, budget-setting and audit.
- The Property Committee oversees the development of the Community Land Trust advisory service and development of property projects being undertaken by the Society.
- The Marketing Committee is responsible for raising awareness and associated marketing activity of the Society for investors, stakeholders, borrowers and tenants.
- The Loan Assessment Panel has responsibility for sanctioning or declining loan applications.
- The Strategy Sub Group has responsibility for developing strategy, recommending it to the Board and overseeing its implementation.

Responsibility for operational matters outside these meetings is devolved to the Chief Executive. An appropriate system for urgent action exists where, if in the best interest of the Society, a decision needs to be taken outside the delegation framework. The staff team is accountable to the Chief Executive who is charged with the responsibility of executing day-to-day operations of the Society in accordance with the strategy, policies and budgets approved by the Board.

### **OBJECTS**

The objects of the Society shall be to carry on the business of promoting charitable purposes for the benefit of the community by the provision of financial loans and other assistance in the following ways:

- the promotion of urban and rural regeneration in areas of social and economic deprivation;
- the relief of unemployment;
- the advancement of education, training or retraining, particularly among unemployed people, and providing the unemployed with work experience;

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- the provision of financial assistance, technical assistance or business advice or consultancy in order to provide training, employment and opportunities for self-employment for unemployed people in cases of financial or other charitable need through help:
  - (i) in setting up an enterprise or
  - (ii) to existing enterprises
- the creation of training and employment opportunities by the provision of workspace, buildings and/or land for use on favourable terms
- the provision of housing for those who are in need and the improvement of housing, provided that such power shall not extend to relieving any local authorities or other bodies of a statutory duty to provide or improve housing
- the support of any charities or charitable purpose as the Directors in their absolute discretion see fit.

### **MISSION**

To champion social inclusion and community enterprise by providing accessible financial products and services; and by engaging in property and land transactions to provide assets which benefit local communities.

### **VALUES**

Foundation East's officers, members and Board of Directors all work in line with our agreed values:

- Honesty
- Service
- Respect
- Responsibility

### **ECONOMIC ENVIRONMENT, ACTIVITIES AND OPERATIONAL REVIEW**

The UK economy picked up strongly in 2013. Consumer confidence, credit conditions and the housing market have all improved however productivity and real earnings growth have remained weak. Whilst unemployment fell during 2013 workers in the 18-24 year age group continue to be the greatest casualties of the recession.

Business support and access to finance for growing businesses continues to be a problem and it is unlikely that the UK economy will be able to sustain business investment growth rates of 7%-8% unless this changes. The development of business link style Growth Hubs in our main cities is a good start albeit that this is a very new initiative and coverage is patchy across the country. Banks are being encouraged to improve transparency and build their customers trust through providing a better service including referring those customers who they cannot help to trusted alternatives including CDFI's. This is supported by government through a voluntary obligation by the major high street banks to provide data on exactly where they are lending. This will highlight those more deprived areas where larger banks are often not willing to lend. This is a major step forward in terms of transparency and should encourage competition by helping smaller lenders to identify gaps in the market and allowing businesses to hold their local bank to account where they aren't lending.

The Bank of England is being urged to keep the base rate low for as long as possible and then raise it only gradually. This will help support business investment, and ensure that the rug is not pulled out from the wider economy by an overly hasty or large rate rise when monetary policy does start to change.

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Recent changes to FCA law concerning Community Interest Companies (formerly Industrial and Provident Societies) had potential implications including an increase in the maximum investment to £100k (from £20k) and changes to the regulatory regime.

On 4 June 2014 the National CLT Network was launched as an independent charity hours after the Queen's speech set out the Government's next agenda for the housing market. Over the past 2 years, the Community Land Trusts movement in England and Wales has almost doubled in size, and there are now over 170 CLTs established and being formed. These have already delivered almost 300 permanently affordable homes and another 700 are in the pipeline expected to be delivered in the coming years.

The government's plans to allow land owned by the Homes and Communities Agency to develop land without it being affected by easements and other restrictions is a positive step in getting more construction projects underway. Given the UK's housing crisis, it is vital that viable public land in areas with a large housing need should be first offered to housing developers.

Against this backdrop of change, the Society continues to deliver its mission in two key areas - business lending, and community land trust development.

When planning our activities for the year, the Directors have considered the Charity Commission's guidance on public benefit and are satisfied that the Society's activities meet the principles laid out therein.

### **STRATEGIC REVIEW**

During the year work began on the development of a new interactive website for the lending activity. This included considering the branding of Foundation East and following consultation it was concluded that the burgundy red colour was somewhat corporate and non-appealing whereas blue was more trusted and was associated with finance organisations. The CLT website which had recently been developed using the CLT East brand is blue and therefore both brands would be more consistent. In addition and again similar in style to the CLT East brand, a cartoon style figure in a suit and tie, along with similarly styled male and female "friends" was chosen as the corporate image. This imagery was then used to brand all the social media sites and will be used for all future campaigns.

The new website was launched at the very end of March and focussed towards the borrowing customer. It enables new applicants to apply for funding on line, features a sliding rule to calculate repayments on a loan and is written in a simple yet informative way. Future developments include video blogs by customers and staff.

The CLT East website for the property activity was updated during the year to include up to date case studies, news feeds and a CLT tool kit.

During the year the Society decided that it would offer fund management and back office services to both public and private sector organisations. A strategy including email shots with follow up calls was developed which included the need to undertake research into suitable target organisations. This was undertaken by an intern during the summer months and has resulted in a more comprehensive database of potential fund management opportunities including County and District councils, Housing Associations, Local Enterprise Partnerships and Charitable trusts.

The Society also sought ways to increase visibility and therefore take up of its IPS Investment opportunity. A strategy was developed to include an email campaign to selected corporate organisations and like the fund management strategy, required the services of an intern during the summer months. Key messages in the campaign were the CITR tax incentive, using a company's surplus funds to help small businesses and an alternative to leaving funds in the bank.

Both the above strategic objectives were launched in line with the new website.

Consideration was also given to utilising the services of Ethex, the online trading platform for ethical shares. FE has withdrawable shares (as opposed to transferrable shares) which meant that the

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opportunity for a secondary market would be limited. In addition it was likely that all investors would want to see a return on their investment and it was felt unlikely that the Society could offer this at the present time. Ethex remain keen to explore how CITR could be used to provide a return to investors using their model and the Society will continue to work with them over the coming year.

The strategy to offer complimentary products including asset finance and invoice discounting was implemented following the recruitment of an experienced asset finance specialist. Research was undertaken including visiting brokers and banks and a suitable product launched in the form of an asset finance loan using flat rate pricing as is common in the asset finance market place. A new website page was created and work began promoting the new product in June 2014.

Business planning workshops have been held at the Bury St Edmunds base for the last 18 months. The initiative was started following feedback that our forms were difficult to complete. The workshops have been developed in an attempt to demystify terminology around business planning, profit and loss and cash flow. Each workshop can take a maximum of 10 people and are well attended. The Society has seen a marked improvement in the quality of the applications it received since this initiative was started.

The Society continues to develop relationships with the 5 Local Enterprise partnerships in the region particularly New Anglia LEP, Greater Cambridgeshire & Greater Cambridgeshire LEP and Hertfordshire LEP. Growth Hubs are forming in the main cities and the Society has developed a working partnership arrangement with New Anglia. This new partnership arrangement will ensure that there is a more joined up approach for businesses based in the Norfolk and Suffolk counties. Ideally this arrangement can be replicated across all LEP areas however it should be noted that each LEP has a different strategy towards small businesses and the support they need.

### FUNDING

The main funding capital for the Society's lending activity is sourced from the Community Development Finance Association's (CDFA) Regional Growth Fund (RGF). The funding was secured through a bid to RGF Round 1, the first in the RGF programme. The Society secured £3.1m and started delivery in November 2012. The fund comprises of a 50% grant from RGF and a 50% matching loan. The grant element is agreed for 3 years but the loan match is agreed on an annual basis. The first year's allocation was matched by a loan from Unity Trust Bank and a loan from Co-Operative Bank. The second year's funds were matched entirely by Unity Trust following the Co-Operative Banks financial difficulties. We expect that the match funding for Year 3 will also come entirely from Unity Trust Bank.

Due to significant delays with the signing of the contract between the Department for Business Innovation and Skills (BiS) and the CDFA and further delays with each of the delivery partners needing to undergo due diligence with the partner banks, the programme as a whole got off to a slow start. It was originally intended that the whole programme would deliver £60m of loans to SME's in the UK by March 2015. However this deadline is likely to be extended for a further 6 to 9 months as it is recognised that delivery within such tight timescales is now unlikely. Foundation East is on target to deliver the £3.1 million within the original contract timescales.

During the year an opportunity arose for the Society to form a partnership to deliver a programme aimed at encouraging enterprises that provide a social purpose to start up and grow. The Society joined forces with Allia / Future Business, Keystone Development Trust and Cambridge Judge Business School to deliver intensive business education courses with incubator space and specialist social venture support along with finance to those start up enterprises who are successful in reaching the required standards of the programme.

The funding for this new venture is being provided through the Cabinet Social Incubator fund. The programme commenced in June 2014 and the first Social Venture Weekend was a huge success with 44 ventures attending and the first cohort of 11 ventures selected to join the full incubator programme.

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The Society continues to be a delivery partner for the Start Up Loans Company (SULC) despite significant issues with the programme including constant changes in lending policy and reporting requirements. From the beginning of 2014/15 Foundation East has joined the CDFA's consortia of delivery partners, instead of being a direct supplier of services to the SULC. Foundation East is paid per loan it disburses.

Whilst there is a small amount of revenue support linked to the RGF funding source, it cannot be realised until the fund has been lent twice. As the average life of the Society's loan book is 4 years, it will be seven to eight years before any revenue support is realised.

### Business Lending

During the year, Foundation East provided a total of £1.47 million in direct support of 149 businesses.

#### Lending values achieved

|                                     | 2013/14    | 2012/13  | 2011/12  | 2010/11  |
|-------------------------------------|------------|----------|----------|----------|
| Loans disbursed (non-SULC contract) | 77         | 36       | 44       | 46       |
| Amount disbursed                    | £1,018,096 | £525,754 | £591,425 | £768,300 |
| Loans Disbursed (SULC Contract)     | 72         | 30       | 0        | 0        |
| Amount Disbursed                    | £459,920   | £148,560 | £0       | £0       |
| Total loans disbursed               | 149        | 66       | 44       | 46       |
| Total Disbursed                     | £1,478,016 | £674,314 | £591,425 | £768,300 |

#### Lending values by type achieved

|           | Start Ups |            | Expansion |            | Recovery |          |
|-----------|-----------|------------|-----------|------------|----------|----------|
| All years | 364       | £3,291,189 | 153       | £2,586,914 | 17       | £294,232 |
| 2010/11   | 32        | £400,050   | 14        | £268,250   | 2        | £100,000 |
| 2011/12   | 19        | £199,500   | 15        | £319,115   | 4        | £97,100  |
| 2012/13   | 49        | £348,060   | 17        | £326,254   | 0        | 0        |
| 2013/14   | 108       | £805,043   | 41        | £667,550   | 0        | 0        |

The Society's innovative coaching scheme continues to expand and as many as 85% of clients now work with a coach to improve their business skills. The Society is appointing more coaches and mentors to meet demand and provide much needed support to fledgling and struggling businesses.

#### Case study – Mech –Elec Supplies

*Mech-Elec Supplies was started in 2007 as a partnership between Paul Sullivan and Nigel Holmes and grew quickly. By 2009 they had formed a limited company and moved to their current premises. They were preferred suppliers to major blue chip companies, and were described at the time by their bank manager as being "cash rich, one of his top clients and going places". Mech-Elec supply off the shelf bespoke engineering consumables ranging from lubricants, rollers, bearings and gearboxes right up to installed automated systems.*

*However, matters took a turn for the worse. They were defrauded out of £60,000 by a rogue employee who stole money destined for suppliers. On top of this Nigel had major health issues which took him out of the business. Thankfully the partners had had the fore-sight to take out critical illness insurance and Nigel injected the proceeds of this policy into the business and both partners invested further significant cash from savings. Their actions saved the business from going under.*

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*Since recovering from this potential disaster, Mech-Elec had been moving in the right direction. Their Lloyds Bank manager had faith in the business and arranged a financial support package for them but could only provide half the cash injection required to complete the recovery. He did however refer them to Foundation East to secure the other half needed to complete the funding package.*

*Mech-Elec needed to increase their stock range and quantity along with reducing creditor pressure to improve their buying power. Their competitive position would be much improved by an ability to immediately supply parts and products. Bob Shimmon, Foundation East's Business Loans Manager for Hertfordshire was impressed by the Directors tenacity and desire to keep their once successful business going during a very difficult trading period, and was pleased to be able to support their application, thus securing the 4 jobs in the company.*

*Jayne Bratton was introduced as a Business coach and both directors acknowledge her involvement has been a major factor in the improving picture. The initial 6 months coaching engagement period coming to an end, they plan to re-introduce Jayne's services later this year.*

*Foundation East working together with Lloyds and Jane Bratton collectively providing the necessary funding and support has allowed Mech-Elec to continue to improve. Turnover is increasing and profits improving, with the forecast of accelerated growth for next year. Two additional staff have been engaged and the company has plans to extend the office area to accommodate a further two members of staff on the sales team in the next 12 months.*

### **Case study – DK Virtual PA & Marketing Services**

*Operating from a room above a charity shop in Soham was a good location for DK Virtual PA and Marketing Services when they first started their business in 2011. Within 3 years they had built their business from one customer to a client base of 31, were a team of three, and were in desperate need of more suitable office accommodation and another member of staff. Knowing they would need finance to implement an office move they approached their bank, but were declined due to perceived credit issues and lack of tangible security.*

*Deborah Mulvaney & Kim Wilson, the owners of DK Virtual PA and Marketing services offer so much more than an inbound call centre, they provide call handling, administration, a PA service as well as implementing marketing campaigns for their customers.*

*Deborah & Kim found Foundation East's website via a link from a government website and applied for a loan to fund the move to new premises and to purchase some modern telephone equipment. Bob Shimmon, Foundation East's Business Loans Manager for Cambridgeshire found Deborah and Kim to be both personable and engaging. He was particularly impressed by their passion and enthusiasm for their venture. Their business plan had not been especially comprehensive but Bob was able to tease out of them the details he needed to enable him to recommend them for a small business loan.*

*The couple have benefitted from extensive mentoring by Alan Todd of Cambridge Business Advisors coupled with support from Adam Fernandes of UHY Hacker Young Accountants. Now settled in their new premises, the business has potential to expand even further.*

The Society's mission is to champion social inclusion and community enterprise, by providing accessible financial products and services. One of the main outcomes of this activity is the creation and sustaining of jobs. In the year under review, the Society continued to provide opportunities for increased economic development in the region.

|                                     | 2013/14 | 2012/13 | 2011/12 | 2010/11 |
|-------------------------------------|---------|---------|---------|---------|
| Jobs created (full time equivalent) | 202     | 74      | 66      | 74.5    |
| Jobs saved (full time equivalent)   | 74      | 39      | 42.5    | 211     |

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### Case Study- WPP Architects

*Despite having a reputation for providing an excellent architectural service WPP Architects Limited, the firm were unable to extend their overdraft and loan facilities with their bank.*

*Based in Great Blakenham near Ipswich WPP Architects Limited provided architectural services on projects across the South East region of the UK including services for new builds, remodelling and refurbishment for residential, commercial and community properties. They also undertake listed building and conservation work.*

*When Alan Wilkinson began the practice in 1991 he borrowed funds from his family and as the business grew and became more established their bank had been happy to provide overdraft and loan facilities. In 2011, despite having just had their best ever trading period, the recession bit hard and the opportunities to bid for new contracts was significantly reduced. The firm acted responsibly by undertaking a number of efficiency measures including reducing staff and relocating to less expensive premises, in order to ensure that the business remained viable and profitable. Their bank however declined to renew their facilities.*

*Alan met Valerie Jarrett, Foundation East's Business Loans Manager for Suffolk, at a networking event. He explained that his business, common across many architectural firms, was struggling with cash flow due to the lead time between pitching for a contract, incurring the costs for the work, and then eventually getting paid. Without access to an overdraft facility, these cash flow issues were in danger of strangling the firm's ability to deliver on the projects that they had successfully won. Valerie is an experienced loans manager and once she had assessed the business plan and cash flow forecasts was able to ascertain the viability WPP Architects and was confident to be able to recommend a loan facility. The funds were used to provide working capital, to purchase some updated IT software and hardware and to pay for some training to up-skill the staff team.*

*Since lending the funds a practice manager has been appointed and this along with the retention of six staff has enabled the firm to grow further, obtain yet more contracts and successfully move forward.*

### COMMUNITY LAND TRUST DEVELOPMENT

Foundation East continues to help local communities throughout the region to set up and run Community Land Trusts (CLTs), through which valuable assets – such as affordable housing, business units and space for community activities – are taken into collective ownership and developed for the benefit of local people.

During the year the CLT East advice service provided initial project scoping and feasibility support to 21 community groups who are exploring the potential for a CLT in their local area. During the year a 2 year contract with East Cambridgeshire District Council (ECDC) to provide consultancy services for the District was agreed. The work has included visiting local communities to provide 'taster' sessions, helping emerging CLTs in the application for ECDC grants and loans and promoting the ECDC model as an example of how other public sector bodies could invest in the CLT concept. A regional Conference was organised by the Foundation East team which attracted over 100 delegates from a wide range of backgrounds including 18 local authorities and 8 potential CLTs. A CLT video, website – [www.clteast.org](http://www.clteast.org), conference brochure and literature were all designed and produced during the autumn. During the year two ECDC set-up grants have been awarded and one loan has been taken up.

A funded scoping day in Lavenham resulted in that parish going through the process of setting up a CLT and Hythe Forward in Colchester also registered as an Industrial and Provident Society during the year. One of the targets the Society set itself for the year was to speed up the formation of CLTs to less than a year and it achieved a 9 month turnaround for Hythe Forward CLT and 6 months from first contact to legal incorporation for the Swaffham Prior CLT.

Briefing Local Authorities on the benefits of encouraging community-led development has led to regular meetings with their officers, presentations to Councillors and sharing of supplementary planning documents, knowledge and ideas. Working closely with planning and housing officers is an important part

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of helping emerging and developing CLTs. Facilitation and liaison work between the CLTs and other key stakeholders such as the Homes and Community Agency, potential funders such as Triodos Bank, Unity Bank, mortgage lenders and the National CLT Network has been a major part of the Society's work this year.

The latter part of the year saw the departure of Phil Rose, to pursue his career in the property development sector. Fortunately Debbie Wildridge was willing and able to take on the mantle of CLT Development Manager and whilst her background was in business development and marketing rather than specifically in property development, her excellent communication and organisational skills have resulted in the CLT East service forging ahead. To replace the property skills of the service the Society is using the professional services of Stephen Hill, an independent public interest practitioner along with Jo Lavis and John Mather from Lincolnshire CLT, another CLT Umbrella organisation.

### **SOCIAL OUTCOMES**

#### **Lending**

During the course of the year the Chief Executive has been a member of a CDFI working group set up to develop a CDFI impact tool. The working group consisted of members of CDFI's operating across the country and across all sectors of lending activity including personal lending, home improvement finance, business and social finance. Dr Nick Henry from Coventry University was commissioned by the CDFI to undertake the research and develop the tool. The purpose of the tool is to measure the economic value of the impact of community finance lending and to ensure that the valuation process can be easily adopted by CDFI's. Also to ensure regular and consistent impact data is being used to promote the work of CDFI's, ultimately to enable them to demonstrate their value to the economy.

The tool is now being tested with key stakeholders and was recently shared with a group of government departments. Once this assurance stage has been completed the Society hopes to be an early adopter and will begin using the Economic Impact Tool alongside its existing extensive use of case studies to demonstrate the value of its work to the Eastern Region economy.

#### **Community Land Trusts**

The CLT movement is believed to produce a wide range of social impact, including creating affordable housing for local residents unable to access such housing through private or social housing market, creating and supporting social cohesion, sustaining diverse communities, and stimulating local economic growth through securing land for workspace and employing local workforce. Yet to date the evidence base has been somewhat anecdotal.

A new SROI tool has been developed by Pal Vik of Salford University and during the year evidence from the Society's project at Halesworth was gathered to help build the model. The tool is intended to help set out the social impact a project will have on the local community and to make the case to the wider community, local authorities, funders and others to support the project. Funders, local authorities and lenders in particular making decisions about investing in a CLT project or when disposing of land or assets, often require evidence of the social impact that a project will bring about.

The tool will also be useful to develop the CLT sector as a whole, providing data for benchmarking and peer-learning, and identifying examples of good practice. The tool will prove useful regardless of the stage a CLT is at (e.g. construction, fundraising etc.). However as it is much easier to collect the data at the beginning of a project and on an ongoing basis rather than going back once a project is finished. The Society has commenced using the tool and will be in a position to provide some meaningful data and produce SROI results during the course of a project's development.

### PROFILE RAISING

A comprehensive marketing strategy was devised to enable the team to focus on activities which generate the best results for Foundation East. Enquiries were tracked more accurately back to the probable source event or piece of publicity. Activities implemented as part of the new strategy include:-

- Case studies, which were used in a variety of media, in print and online. These include the Guardian, The Times, The East Anglian Daily Times, the Cambridge News and Bury Free Press.
- Presentations aimed at business introducers, made at numerous events including New Anglia Growth Hub, Federation of Small Business and at the premises of all the high street banks.
- Extensive use of social media - including blogs, Broad engagement through LinkedIn, Search Engine Optimisation to improve Google rankings and videos on YouTube.

A new website for the lending side of the organisation was launched, following 9 months of work including consultation with Board members, staff team and customers. Instead of the previous burgundy red, the new FE colour is a bright blue and feature a cartoon style but professional looking chap who the staff team have named "Louis". The new website is friendly and colourful and easy to navigable. It features a sliding rule for potential customers to quickly gauge their likely monthly repayment profiles, a milometer on the amount of money lent, number of jobs created and saved, case study extracts and social media feeds. In addition potential customers can apply for the finance they need on line through a secure customers site.

All marketing collateral has been replaced to incorporate the new branding including all social media platforms, lending brochures, membership prospectus and pop-up banners.

Whilst the CLT East and FE brands are not the same, a similar blue is used across both brands and the words "part of the FE family" feature in all CLT East publications.

The 2013/14 annual review was once again published in a calendar format featuring 12 borrowing client case studies and a feature on the CLT development at Stretham and Wilburton. As this format was a calendar, it was essential that it was sent out to as many introducers, clients and members before the beginning of the calendar year. To gauge response to this marketing strategy a telesales company was engaged to follow up on the impact of the strategy to enable the Society to understand if the publication in a calendar format produced a return on investment. In general, whilst the recipients appreciated the calendar, its design and quality it was unlikely to produce the volume of business needed to justify the cost. The format for the 2013/14 annual review is likely to be in an email format featuring case studies along with the requisite financial information.

The Society chose to register with the Royal Bank of Scotland's Social Enterprise 100 Index. The RBS SE100 tracks data from all of the top social enterprises and is the only live, open access platform for a social enterprise. The Society was ranked 40 out of 100. Affiliation with this index should increase the Society's exposure amongst its peers, investors and decision-makers, and should enable the Society to benchmark its performance against peers nationally, in the region and in the sector. In addition it will enable the Society to identify clear areas for improvement in the way it evaluates its social impact.

### MEMBERSHIP

New membership investment totalled £35,500 and included Specialist Milling and Ipswich Borough Council along with additional investment from two existing members. Ipswich Borough Council chose to invest in the Society to demonstrate their commitment to the local economy and in addition to the funds have extended marketing and profile opportunities to the Society.

A change in legislation has resulted in the membership investment limit being raised from £20k to £100k.

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### GOVERNANCE

During the year the Board members undertook both a skills audit and an appraisal. The format of the skills audit was a questionnaire seeking self-assessment. The result was an acknowledgement that there was some weaknesses in the organisation's skills set including HR, PR, Rural, Community, Public Sector and Health. The Society will bear these in mind when looking for new board members in the future.

The Board appraisal was conducted as a 2 way conversation between the Chair of the Board and the Board Member which valued their contribution to the Board, considered their views of the performance of the Board, their own performance within it and the performance of the staff team, with the aim of focusing the individual's energy and skills on the future needs of the business.

Several recommendations have come out of the process including:-

- a verbal report from the CE to form part of every agenda;
- the minutes of the individual subcommittee meetings to be circulated and for a list of the key issues from the meeting to form a front page. The chair of the respective committees will then use this summary page as a guide to the items they needed to share with the Board;
- action to improve the composition of the Board to include gender and minority representation. Ways of addressing this included limiting the term of office and allowing staff members to be on the Board. It was acknowledged that changing the composition of the Board so it was more representative may take several years to achieve;
- At least as much focus should be on the social mission of the Society as is currently given to financial considerations.

At the AGM held in October 2013, 4 of the Directors were required resign by rotation. These were David Bell, John Stenhouse, Tom Cook and Mark Gipson. All 4 Directors put themselves up for re-election and we re-elected to the Board. The Society is very grateful for the contributions made by all its Directors.

### RISK MANAGEMENT

The Society maintains a comprehensive risk register to identify and measure all risks faced by the organisation. The risk register is divided into 12 sections and covers

|   |  |
|---|--|
| <ul style="list-style-type: none"><li>• Governance</li><li>• Strategic Direction</li><li>• Legislation and Regulation</li><li>• Competition</li><li>• Capital Funding</li><li>• Revenue Funding</li></ul> | <ul style="list-style-type: none"><li>• Liquidity</li><li>• Credit Risks</li><li>• Staffing</li><li>• Operational Risks</li><li>• Reputational Risks</li><li>• Political Risks</li></ul> |
|---|--|

At least three risk factors are normally reviewed at each Finance Committee meeting and any recommended changes are subsequently approved at the quarterly Board meeting. This enables the Board to focus on the areas of the business that are most at risk. During the year, the Society experienced a liquidity and funding issue waiting for draw down of RGF funding; these risks were reviewed every quarter to keep the Board fully informed.

As part of the review process, the Directors identify where additional control measures could be implemented to mitigate some of the risks. Board members undertook a skills audit to ascertain if any gaps in their collective skills set could pose a governance risk, the results of which are detailed earlier in the report.

To reduce any potential operational risks, consideration will be given to establishing an internal audit function in the New Year.

## FOUNDATION EAST LIMITED

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Directors Report  
For the year ended 31 March 2014

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### THE FOUNDATION EAST TEAM

The Society's team has been expanded and strengthened to better deliver its mission and achieve its objectives.

Debbie Wildridge was promoted to Community Land Trust Development Manager and is joined by David Close as her assistant and administrator. David also provides administration support to the lending team, marketing support to the Marketing Manager and IT and technical support to all team members.

The team underwent a restructure during the year to ensure the customer service level was maintained and improved and clearer responsibilities for the reporting function were instigated. This was as a direct result of the reporting requirements for the new funding streams and because the Society had set itself big lending targets for the year. As a result Alastair Stewart transferred from his role as 1830 lending assistant to a more senior role as Lending Team Administrator. Alastair is proving to be an invaluable resource to Peter Davis, the Senior Business Lending Manager. Peter continues to oversee the lending function and has excelled in managing the team during this transitional and increasingly busy period. The senior management team, consisting of Peter Davis, Rebecca Allen (Finance and Administration Manager) and Peter Wood (Marketing and Memberships Manager) and Debbie Wildridge (Community Land Trust Development Manager) are to be complimented for their diligence and perseverance as the restructure was implemented.

In order to enhance its product range the Society successfully recruited Mike Dyson as Business Loans Manager for Essex along with developing and promoting the new asset finance product.

The Society is grateful to all its staff members ably led by its Chief Executive Katy Ford, for their continued hard work and commitment to the Society and its social mission.

### FINANCIAL REVIEW

For the year under review the Society's incoming resources was £750k (2012/13 – £654k). After deducting total resources expended of £778k (2012/13 – £678k), the Society incurred a net outgoing deficit of £27k (2012/13 – £24k). Whilst this result which would appear to represent a static position in the Society's fortunes the most significant factor was the funds transferred from restricted to unrestricted funds of £284k at the end of the financial year, released from the Cambridgeshire Business, Link Business Objective 2 and from Growth fund as all grant conditions had been fulfilled. £197k, was transferred to the General Reserve to comply with the Society's reserve policy. (NOTE: Information source: The Notes to the Financial Statements).

£78k (2012/13 - £154k) of prior year loans were written off during the year and an increase of £96k (2012/13 - £16k decrease) was added to the provision for bad debts. A further £54k of loans previously written off were recovered during the year (2012/13 - £27k). The bad debt experience of the Society in the last 5 years is considerably lower than 22% which is the current provisioning policy. It is likely therefore, after some analysis that this provisioning rate will be reduced in the forthcoming year.

Income of £33k (2012/13 - £46k) from the Start Up Loans Pilot and £5k from the Community Development Finance Association contributed towards the revenue costs of the organisation.

Contracts and advice for CLT's income was budgeted to achieve £72k; an ambitious target for this relatively new service and we are pleased to report that £72k (2012/13 - £37k) was achieved.

Capital expenditure of £68k for the year included an investment of £30k for the new website, £30k for new IT equipment and £39k to repay the mortgage on Miles Ward Court.

A loan of £200k from the Unity Trust Bank was repaid during the year.

## **FUTURE PLANS**

Recently the Department for Business, Innovation and Skills (BIS) have announced an opportunity to bid for funds from Regional Growth Fund 6 and the Community Development Finance Association (CDFA), the Society's trade association is likely to bid for a similar amount of funding as RGF Round 1 i.e. £60m on behalf of a consortium of SME Lenders. This fund will require the CDFI's in the consortium to start delivering to SMEs as early as April 2015 therefore the Society will need to consider to scale its operations in order to deliver under RGF 1 and RGF 6.

This will present the Society with a significant challenge as revenue support is not readily available to support this growth. This will include continuing to seek opportunities to generate additional revenue including obtaining it from grant giving bodies such as Local Enterprise Partnerships, County and District Councils.

As the Society's current business plan only extends to March 2015 it will be necessary to update it. Therefore the Board and staff met and agreed on the objectives for the organisation for the next 5 years to cover the key areas of IPS investment raising, business lending, CLT advice service provision and fund management. The Strategy committee will continue to work on the business plan during the course of the year.

The FCA took over the regulation of consumer credit from the Office of Fair Trading in April 2014 which brought some 50,000 consumer credit firms into its regime. The Society holds a Consumer Credit License and therefore needed to apply for interim permission to keep trading under this license. The Society will need to apply for full permission next year, in which it will have a 3 month window to comply with new regulation. It is expected that this process will be more difficult that it has been in the past.

## **RESPONSIBILITIES OF DIRECTORS**

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

The Industrial and Provident Society Act 1965 requires the Directors to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the Society and of the surplus or deficit of the Society for the period. In preparing those Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements and
- prepare the Financial Statements on a going concern basis (unless it is inappropriate to presume that the Society will continue in operation).

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Society and enable them to ensure that the Financial Statements comply with the Industrial and Provident Societies Acts 1965 to 2002. They have general responsibility for taking reasonable steps to safeguard the assets of the Society and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Society's website. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

## **FOUNDATION EAST LIMITED**

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Directors Report  
For the year ended 31 March 2014

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### **Auditors**

The Society's auditors, MHA MacIntyre Hudson, have indicated their willingness to continue in office and offer themselves for re-appointment.

This report was approved and authorised for issue by the Directors on 29th July 2014 and signed on its behalf by:

Peter Jones

Chair

## **INDEPENDENT AUDITORS' REPORT TO FOUNDATION EAST LIMITED**

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We have audited the financial statements of Foundation East Limited for the year ended 31 March 2014 which comprise the Statement of Financial Activities, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the requirements of the Financial Reporting Standard for Smaller Entities (effective April 2008) (United Kingdom Generally Accepted Accounting Practice applicable to Smaller Entities).

This report is made solely to the Society's members, as a body, in accordance with Section 9 of the Friendly and Industrial and Provident Societies Act 1968. Our audit work has been undertaken so that we might state to the Society's members those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Society and the Society's members, for our audit work, for this report, or for the opinions we have formed.

### **Responsibilities of Auditors**

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Society's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Director's Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Society's affairs as at 31 March 2014 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice [applicable to Smaller Entities] and the Industrial and Provident Societies Acts 1965 to 2002.

/Continued ...

**INDEPENDENT AUDITORS' REPORT TO  
FOUNDATION EAST LIMITED  
(Continued)**

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**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Industrial and Provident Societies Acts 1965 to 2002 requires us to report to you if, in our opinion:

- a satisfactory system of control over transactions has not been maintained; or
- the Society has not kept proper accounting records; or
- the financial statements are not in agreement with the books of account; or
- we have not received all of the information and explanations we require for our audit.

**MHA MacIntyre Hudson**

Chartered Accountants and Statutory Auditor

New Bridge Street House

30-34 New Bridge Street

London, EC4V 6BJ

Date:

FOUNDATION EAST LIMITED

STATEMENT OF FINANCIAL ACTIVITIES

For the year ended 31 March 2014

|   | Note | Restricted<br>Funds<br>2014<br>£ | Unrestricted Funds           |                                  |                                 | Total<br>Funds<br>2014<br>£ | Total<br>Funds<br>2013<br>£ |
|---|------|----------------------------------|------------------------------|----------------------------------|---------------------------------|-----------------------------|-----------------------------|
|   |      |                                  | Loan<br>Capital<br>2014<br>£ | Fixed Asset<br>Fund<br>2014<br>£ | General<br>Reserve<br>2014<br>£ |                             |                             |
| <b>INCOME</b>   |      |                                  |                              |                                  |                                 |                             |                             |
| Incoming resources from charitable activities:            |      |                                  |                              |                                  |                                 |                             |                             |
| Grant income:   |      |                                  |                              |                                  |                                 |                             |                             |
| Revenue grants for lending activities                     | 2    | 5,000                            | -                            | -                                | -                               | 5,000                       | 103,333                     |
| Capital grants for lending activities                     | 3    | 347,463                          | -                            | -                                | -                               | 347,463                     | 250,000                     |
| Interest from loans                                       |      | -                                | -                            | -                                | 209,634                         | 209,634                     | 170,954                     |
| Loan arrangement fees                                     |      | -                                | -                            | -                                | 52,718                          | 52,718                      | 19,444                      |
| Activities for generating funds:                          |      |                                  |                              |                                  |                                 |                             |                             |
| Loan book management fees                                 |      | -                                | -                            | -                                | 33,520                          | 33,520                      | 45,975                      |
| Rental income   |      | -                                | -                            | -                                | 28,534                          | 28,534                      | 25,726                      |
| Community Land Trust advice                               |      | -                                | -                            | -                                | 71,862                          | 71,862                      | 36,938                      |
| Investment income   |      | -                                | -                            | -                                | 1,514                           | 1,514                       | 1,775                       |
| <b>TOTAL INCOMING RESOURCES</b>                           |      | <b>352,463</b>                   | <b>-</b>                     | <b>-</b>                         | <b>397,782</b>                  | <b>750,245</b>              | <b>654,145</b>              |
| <b>RESOURCES EXPENDED</b>                                 |      |                                  |                              |                                  |                                 |                             |                             |
| Charitable activities (lending and property development): |      |                                  |                              |                                  |                                 |                             |                             |
| Operational costs   | 4    | 5,000                            | -                            | 26,234                           | 588,293                         | 619,527                     | 535,062                     |
| Bad and doubtful debts                                    |      |                                  |                              |                                  |                                 |                             |                             |
| Loans written off in the year                             | 10   | 50,909                           | 7,366                        | -                                | 19,576                          | 77,851                      | 154,108                     |
| Loans previously written off and subsequently recovered   |      | (2,345)                          | (41,306)                     | -                                | (9,945)                         | (53,596)                    | (27,346)                    |
| Movement in bad debt provision during the financial year  |      | 112,012                          | (5,078)                      | -                                | (10,436)                        | 96,498                      | (16,474)                    |
| Governance costs  | 5    | -                                | -                            | -                                | 37,267                          | 37,267                      | 32,922                      |
| <b>TOTAL RESOURCES EXPENDED</b>                           |      | <b>165,576</b>                   | <b>(39,018)</b>              | <b>26,234</b>                    | <b>624,755</b>                  | <b>777,547</b>              | <b>678,272</b>              |
| Net income/(expenditure) before transfers                 |      | 186,887                          | 39,018                       | (26,234)                         | (226,973)                       | (27,302)                    | (24,127)                    |
| Transfers between funds                                   | 16   | (284,495)                        | (12,968)                     | 100,167                          | 197,296                         | -                           | -                           |
| Net incoming/(outgoing) resources after transfers         |      | (97,608)                         | 26,050                       | 73,933                           | (29,677)                        | (27,302)                    | (24,127)                    |
| <b>TOTAL FUNDS BROUGHT FORWARD</b>                        |      | <b>517,368</b>                   | <b>540,476</b>               | <b>371,863</b>                   | <b>145,236</b>                  | <b>1,574,943</b>            | <b>1,599,070</b>            |
| <b>TOTAL FUNDS CARRIED FORWARD</b>                        |      | <b>£ 419,760</b>                 | <b>£ 566,526</b>             | <b>£ 445,796</b>                 | <b>£ 115,559</b>                | <b>£ 1,547,641</b>          | <b>£ 1,574,943</b>          |

The annexed notes form part of these financial statements

**FOUNDATION EAST LIMITED**

**BALANCE SHEET**  
As at 31 March 2014

|   | Notes | £                | 2014<br>£          | £         | 2013<br>£          |
|---|-------|------------------|--------------------|-----------|--------------------|
| <b>FIXED ASSETS</b>                                   |       |                  |                    |           |                    |
| Freehold Properties                                   | 8     |                  | <b>388,355</b>     |           | 395,103            |
| Other tangible assets                                 | 9     |                  | <b>57,441</b>      |           | 15,870             |
|   |       |                  | <b>445,796</b>     |           | 410,973            |
| <b>CURRENT ASSETS</b>                                 |       |                  |                    |           |                    |
| Loans   | 10    | <b>1,380,479</b> |                    | 1,038,363 |                    |
| Debtors   | 11    | <b>73,552</b>    |                    | 69,677    |                    |
| Cash at bank and in hand                              | 12    | <b>488,505</b>   |                    | 741,027   |                    |
|   |       |                  | <b>1,942,536</b>   | 1,849,067 |                    |
| <b>CREDITORS: amounts falling due within one year</b> | 13    | <b>(123,041)</b> |                    | (321,798) |                    |
| <b>NET CURRENT ASSETS</b>                             |       |                  | <b>1,819,495</b>   |           | 1,527,269          |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>          |       |                  | <b>2,265,291</b>   |           | 1,938,242          |
| <b>CREDITORS: amounts falling due after one year</b>  | 14    |                  | <b>(600,000)</b>   |           | (281,049)          |
| <b>NET ASSETS</b>                                     |       |                  | <b>£ 1,665,291</b> |           | <b>£ 1,657,193</b> |
| <b>CAPITAL AND RESERVES</b>                           |       |                  |                    |           |                    |
| Share capital   | 15    |                  | <b>117,650</b>     |           | 82,250             |
| Restricted funds                                      | 16    | <b>419,760</b>   |                    | 517,368   |                    |
| Unrestricted funds:                                   | 16    |                  |                    |           |                    |
| Loan capital  |       | <b>566,526</b>   |                    | 540,476   |                    |
| Fixed asset fund                                      |       | <b>445,796</b>   |                    | 371,863   |                    |
| General reserve                                       |       | <b>115,559</b>   |                    | 145,236   |                    |
| Total funds   |       |                  | <b>1,547,641</b>   |           | 1,574,943          |
|   |       |                  | <b>£ 1,665,291</b> |           | <b>£ 1,657,193</b> |

The financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective April 2008). They were approved, and authorised for issue, by the Directors on 29 July 2014 and signed on their behalf by:-

PETER JONES, Chair

BARRY VAN EUPEN, Treasurer

ANNE KATY FORD, Secretary

The annexed notes form part of these financial statements

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2014

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**1. ACCOUNTING POLICIES**

***Basis of preparation of financial statements***

The financial statements have been prepared under the historical cost convention, applicable accounting standards and the Financial Reporting Standard for Smaller Entities (effective April 2008). Since the Society has exempt charitable status, the accounts have also been prepared in accordance with the Statement of Recommended Practice (SORP), "Accounting and Reporting by Charities" published in 2005.

The effects of events relating to the year ended 31 March 2014 which occurred before the date of approval of the financial statements by the Board of Directors has been included in the financial statements to the extent required to show a true and fair view of the state of affairs at 31 March 2014 and the results for the year ended on that date.

***Status***

Foundation East Limited is an industrial and provident society with exempt charitable status.

***Fund accounting***

Restricted funds are funds which are to be used in accordance with specific restrictions imposed by funders which have been raised by the Society for particular purposes. The cost of administering such funds are charged against the specific fund. The aim and use of each restricted fund is set out in the notes to the financial statements. Statutory grants which are given as contributions towards the Society's core services are treated as unrestricted.

Designated funds comprise unrestricted funds that have been set aside by the Board of Directors for particular purposes. The aim and use of each designated fund is set out in the notes to the financial statements.

The General fund is the balance of unrestricted funds which are available for use at the discretion of the Board of Directors in furtherance of the general objects of the Society and which have not been designated for other purposes.

***Incoming resources***

All incoming resources are included in the Statement of Financial Activities when the Society is legally entitled to the income and the amount can be quantified with reasonable accuracy.

***Resources expended***

All expenditure is accounted for on an accruals basis and has been included under expense categories that aggregate all costs for allocation to activities. Governance costs include the costs of servicing Directors' meetings, audit and strategic planning. Irrecoverable VAT is charged against the category of resources expended for which it was incurred.

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2014

***Tangible fixed assets and depreciation***

All assets costing more than £500 are capitalised.

Properties under construction are shown at cost. Once completed the properties then undergo an impairment review to ensure that they are shown at no more than recoverable value. Completed properties are reviewed for impairment on an annual basis, by comparing their carrying value with their recoverable amount.

|                    |   |                              |
|--------------------|---|------------------------------|
| Freehold land      | - | indefinite (not depreciated) |
| Buildings          | - | 50 years                     |
| Furniture/fittings | - | 10 years                     |
| Office equipment   | - | 5 years                      |
| Computer equipment | - | 4 years                      |

***Loans and provisions***

Loan balances are reviewed regularly and those that are no longer considered to be recoverable are written off. Where there is any doubt about the recoverability of a loan, an assessment is made of the amount that is considered at risk, and the probability of default, in order to arrive at a provision for doubtful debts.

***Operating leases***

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the Statement of Financial Activities as incurred.

***Pensions***

The Society operates a defined contribution pension scheme. Contributions are charged to the Statement of Financial Activities as they become payable in accordance with the rules of the scheme.

**2. REVENUE GRANTS FOR LENDING ACTIVITIES**

|   | 2014           | 2013             |
|---|----------------|------------------|
|   | £              | £                |
| Community Development Finance Association       | 5,000          | -                |
| Capital for Enterprise Ltd (formerly from EEDA) | -              | 103,333          |
|   | <u>£ 5,000</u> | <u>£ 103,333</u> |

**3. CAPITAL GRANTS FOR LENDING ACTIVITIES**

|                                       | 2014             | 2013             |
|---------------------------------------|------------------|------------------|
|                                       | £                | £                |
| RGF Project Vehicle C.I.C grant funds | 350,000          | 250,000          |
| Havebury Housing                      | (1,095)          | -                |
| Colne Housing Society                 | (616)            | -                |
| Colchester Borough Homes              | (826)            | -                |
|                                       | <u>£ 347,463</u> | <u>£ 250,000</u> |

There are a number of small negative balances included in the above which represent recycled capital paid back to the funder.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

| 4. OPERATIONAL AND SUPPORT COSTS                         | 2014<br>£        | 2013<br>£        |
|--|------------------|------------------|
| Staff costs (see Note 6)                                 | 393,106          | 351,287          |
| Staff training and welfare                               | 6,443            | 3,935            |
| Rent   | 23,207           | 16,562           |
| Hospitality and refreshment                              | 5,639            | 3,055            |
| Telephone and postage                                    | 11,748           | 6,799            |
| Insurance  | 4,343            | 3,614            |
| Property depreciation                                    | 6,748            | 6,748            |
| Depreciation of other tangible fixed assets (see Note 9) | 19,486           | 6,496            |
| Mileage allowance and other travel and subsistence costs | 31,273           | 25,980           |
| Consumables  | 6,504            | 6,393            |
| Equipment and IT   | 20,597           | 16,023           |
| Advertising and marketing                                | 14,081           | 20,176           |
| Loan arrangement fees and bank charges                   | 14,261           | 9,684            |
| Conference and seminar fees                              | 678              | 293              |
| Loss on disposal of fixed assets                         | 6,593            | -                |
| Subscriptions and memberships                            | 7,018            | 7,852            |
| Website  | 8,247            | 3,229            |
| Legal fees   | 4,483            | 4,460            |
| Professional and consultancy fees                        | 16,251           | 19,057           |
| Fees payable to auditors (for grant audits and advice)   | -                | 1,320            |
| Property servicing costs                                 | 22,103           | 23,339           |
| Interest payable on RGF Capital Fund loan                | 15,730           | 10,279           |
| Interest payable on Adventure Capital Fund loan          | 381              | 2,555            |
| Interest payable on Unity Trust Revenue loan             | 3,466            | 3,816            |
| Charitable donations                                     | -                | 4,000            |
| Other expenses   | 4,604            | 1,516            |
|  | <b>646,990</b>   | <b>558,468</b>   |
| Allocated to governance costs                            | <b>(27,463)</b>  | <b>(23,406)</b>  |
|  | <b>£ 619,527</b> | <b>£ 535,062</b> |

Operational costs consist of the day to day running costs of the Society. Operational costs have been allocated to governance costs according to Management's best estimates of how staff time has been spent on these activities (see Note 5).

| 5. GOVERNANCE COSTS                           | 2014<br>£       | 2013<br>£       |
|---|-----------------|-----------------|
| Auditor remuneration:                         |                 |                 |
| Audit fees                                    | 8,508           | 8,220           |
| Advice and assistance                         | 1,296           | 1,296           |
| Allocated from operational costs (see Note 4) | 27,463          | 23,406          |
|   | <b>£ 37,267</b> | <b>£ 32,922</b> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

| 6. STAFF NUMBERS AND COSTS         | 2014             | 2013             |
|------------------------------------|------------------|------------------|
|                                    | £                | £                |
| Salaries                           | 336,689          | 300,789          |
| Social security costs              | 32,909           | 30,446           |
| Defined contribution pension costs | 23,508           | 20,052           |
|                                    | <u>£ 393,106</u> | <u>£ 351,287</u> |

The average weekly number of employees, calculated as full time equivalents, during the period was: 11.8 (2013 - 10).

No employee received remuneration greater than £60,000 in the year or the previous financial year.

7. DIRECTORS

During the year, no Director received any remuneration (2013 - £NIL). However as described in Note 19, one Director provided services to the Society in a professional, arms length capacity. One member of the Board received reimbursement of expenses for travel amounting to £85 (2013 - two members of the board: £238). There were no amounts outstanding at the balance sheet date.

8. FREEHOLD PROPERTIES

|                                      | Miles Ward<br>Court<br>£ | 154<br>Chediston<br>Street<br>£ | Total<br>£       |
|--------------------------------------|--------------------------|---------------------------------|------------------|
| <b>Cost net of impairment losses</b> |                          |                                 |                  |
| At 1 April 2013 and 31 March 2014    | <u>222,301</u>           | <u>199,454</u>                  | <u>421,755</u>   |
| <b>Depreciation</b>                  |                          |                                 |                  |
| At 1 April 2013                      | 13,994                   | 12,658                          | 26,652           |
| Charge for the year                  | 3,557                    | 3,191                           | 6,748            |
| At 31 March 2014                     | <u>£ 17,551</u>          | <u>£ 15,849</u>                 | <u>£ 33,400</u>  |
| <b>Net book value</b>                |                          |                                 |                  |
| At 1 April 2013                      | <u>£ 208,307</u>         | <u>£ 186,796</u>                | <u>£ 395,103</u> |
| At 31 March 2014                     | <u>£ 204,750</u>         | <u>£ 183,605</u>                | <u>£ 388,355</u> |

The Society received a capital grant of £400,000 from the East of England Development Agency for 154 Chediston Street which stipulates that the funder will have a legal charge over the property until 2015.

The funding agreement with Go East for Miles Ward Court stipulated that the grant can be clawed back if it is sold or its use changes before 2028.

It is not practicable to quantify the difference between the carrying value and market value of interest in land and buildings.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

9. OTHER TANGIBLE FIXED ASSETS

|                       | Computer<br>equipment<br>£ | Fixtures &<br>Fittings<br>£ | Office<br>equipment<br>£ | Total<br>£      |
|-----------------------|----------------------------|-----------------------------|--------------------------|-----------------|
| <b>Cost</b>           |                            |                             |                          |                 |
| At 1 April 2013       | 53,129                     | 18,393                      | 4,322                    | 75,844          |
| Additions             | 65,685                     | -                           | 1,965                    | 67,650          |
| Disposals             | (49,470)                   | -                           | (109)                    | (49,579)        |
| At 31 March 2014      | <u>69,344</u>              | <u>18,393</u>               | <u>6,178</u>             | <u>93,915</u>   |
| <b>Depreciation</b>   |                            |                             |                          |                 |
| At 1 April 2013       | 43,934                     | 11,718                      | 4,322                    | 59,974          |
| Charge for the year   | 17,289                     | 1,805                       | 392                      | 19,486          |
| On disposals          | (42,877)                   | -                           | (109)                    | (42,986)        |
| At 31 March 2014      | <u>18,346</u>              | <u>13,523</u>               | <u>4,605</u>             | <u>36,474</u>   |
| <b>Net book value</b> |                            |                             |                          |                 |
| At 31 March 2013      | £ 9,195                    | £ 6,675                     | £ Nil                    | £ 15,870        |
| At 31 March 2014      | <u>£ 50,998</u>            | <u>£ 4,870</u>              | <u>£ 1,573</u>           | <u>£ 57,441</u> |

Computer equipment additions in the year comprised website development costs and other IT costs.

During the year a detailed review of the fixed asset register was performed this has resulted in a number of disposals of assets which were, in large, fully written down and no longer existed or were replaced during the year.

10. LOANS

|   | 2014<br>£          | 2013<br>£          |
|---|--------------------|--------------------|
| <b>Capital Loan balance</b>                       |                    |                    |
| At 1 April 2013                                   | 1,335,042          | 1,423,419          |
| Loans disbursed in the year                       | 1,018,096          | 525,754            |
| Loans repaid in the year                          | (501,631)          | (460,023)          |
| Loans written off in the year                     | (77,851)           | (154,108)          |
| Capital Loan Balance as at 31 March 2014          | <u>1,773,656</u>   | <u>1,335,042</u>   |
| <b>Less: Provision for doubtful debts</b>         |                    |                    |
| At 1 April 2013                                   | (296,679)          | (313,153)          |
| Decrease/(increase) in provisions during the year | (96,498)           | 16,474             |
| Provision for doubtful debts as at 31 March 2014  | <u>(393,177)</u>   | <u>(296,679)</u>   |
|   | <u>£ 1,380,479</u> | <u>£ 1,038,363</u> |

At the year end £682,085 of the loan balance was receivable in one year (2013: £592,310).

|   | 2014<br>£        | 2013<br>£        |
|---|------------------|------------------|
| <b>Bad debt expenditure</b>   |                  |                  |
| Loans written off in the year                                       | 77,851           | 154,108          |
| Loans previously written off and subsequently recovered (see below) | (53,596)         | (27,346)         |
| (Decrease) / increase in provision during the financial year        | 96,498           | (16,474)         |
|   | <u>£ 120,753</u> | <u>£ 110,288</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

Loans previously written off and subsequently recovered includes amounts received from third party guarantors, which are not included as part of "loans repaid in the year".

| <b>11. DEBTORS</b>                           | <b>2014</b>     | <b>2013</b>     |
|--|-----------------|-----------------|
| <b>Due within one year</b>                   | <b>£</b>        | <b>£</b>        |
| Grant and rent debtors                       | 57,005          | 33,054          |
| Receivable from Enterprise Finance Guarantee | -               | 21,746          |
| Prepayments and accrued income               | 16,547          | 14,877          |
|  | <b>£ 73,552</b> | <b>£ 69,677</b> |

**12. CASH AT BANK AND IN HAND**

In previous years (2013: £100,285) funds were held on deposit by Unity Trust bank as loan security. There were no such funds held at the end of this year. See Note 20 for details of intermediary funds netted off the cash at bank and in hand balance on the Balance Sheet.

| <b>13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b> | <b>2014</b>      | <b>2013</b>      |
|---|------------------|------------------|
|   | <b>£</b>         | <b>£</b>         |
| Trade creditors   | 4,048            | 1,983            |
| Salary costs owed to third party agents                   | 96,648           | 85,401           |
| Accruals  | 16,897           | 22,299           |
| Deferred income (see below)                               | 3,180            | 1,880            |
| Rent deposits   | 2,268            | 2,174            |
| Loan from the Adventure Capital Fund (see Note 14)        | -                | 8,061            |
| Loan from Unity Trust Bank (see Note 14)                  | -                | 200,000          |
|   | <b>£ 123,041</b> | <b>£ 321,798</b> |

|   | <b>2014</b>    | <b>2013</b>    |
|---|----------------|----------------|
|   | <b>£</b>       | <b>£</b>       |
| <u>Deferred income</u>                      |                |                |
| Balance at 1 April 2013                     | 1,880          | 33,333         |
| Grants released to incoming resources       | (1,880)        | (33,333)       |
| Property security fees deferred in the year | 3,180          | 1,880          |
| Balance at 31 March 2014                    | <b>£ 3,180</b> | <b>£ 1,880</b> |

| <b>14. CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR</b> | <b>2014</b>      | <b>2013</b>      |
|--|------------------|------------------|
|  | <b>£</b>         | <b>£</b>         |
| Loan from Unity Trust Bank                               | 425,000          | 125,000          |
| Loan from the Adventure Capital Fund                     | -                | 31,049           |
| Loan from The Co-operative Bank                          | 175,000          | 125,000          |
|  | <b>£ 600,000</b> | <b>£ 281,049</b> |

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 March 2014

The Adventure Capital Fund awarded the Society £99,000 towards the cost of developing Miles Ward Court (see Notes 8 and 16). £66,000 of this award was in the form of a long-term loan which was fully repaid during the year. £33,000 was provided as a grant.

The £425,000 long-term loan from Unity Trust bank is used to fund the Society's loan making activities. The capital component is not repayable until November 2016 and 2017. Interest is payable on £175,000 at 3.5% over the Bank of England's Base Rate and 4% over the Bank's Base Rate on the remaining £250,000. The long term loan security held by the Bank is not limited to, but includes, an assignment over the debtor book relating to the entire client loans portfolio. During the year a loan previously made of £200,000 from Unity Trust bank was fully repaid.

The £175,000 long-term loan from the Co-operative bank is used to fund the Society's loan making activities. Interest is payable at 3.5% over the Bank's base rate. The capital component is not repayable until November 2016. The long term loan security held by the Bank is not limited to, but includes, an assignment over the debtor book relating to the entire client loans portfolio.

**15. SHARE CAPITAL**

|                                 | <b>2014</b>      | <i>2013</i>     |
|---------------------------------|------------------|-----------------|
|                                 | £                | £               |
| Ordinary shares of £1 each      | <b>46,500</b>    | <i>31,600</i>   |
| CITR ordinary shares of £1 each | <b>71,150</b>    | <i>50,650</i>   |
|                                 | <u>£ 117,650</u> | <u>£ 82,250</u> |

**Movement in share capital**

|                  | <b>2014</b>      | <i>2013</i>     |
|------------------|------------------|-----------------|
|                  | £                | £               |
| At 1 April 2013  | <b>82,250</b>    | <i>64,800</i>   |
| Shares issued    | <b>35,500</b>    | <i>17,450</i>   |
| Shares redeemed  | <b>(100)</b>     | <i>-</i>        |
| At 31 March 2014 | <u>£ 117,650</u> | <u>£ 82,250</u> |

None of these shares are entitled to dividends.

The Ordinary shares are redeemable at par subject to a 3 month notice period. The shareholders are members of the Society and have voting rights at general meetings. CITR ordinary shares are issued to the public and attract Community Investment Tax Relief.

The Ordinary shares and CITR shares rank equally, other than the right to withdraw. CITR ordinary shares can generally only be withdrawn after a period of 5 years from the date of issue.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

16. SUMMARY OF FUNDS

|                          | Brought Forward<br>£ | Incoming Resources<br>£ | Resources Expended<br>£ | Transfers<br>£ | Carried Forward<br>£ |
|--------------------------|----------------------|-------------------------|-------------------------|----------------|----------------------|
| <b>SUMMARY OF FUNDS</b>  |                      |                         |                         |                |                      |
| Restricted funds         | 517,368              | 352,463                 | (165,576)               | (284,495)      | 419,760              |
| Unrestricted funds:      |                      |                         |                         |                |                      |
| Loan capital             | 540,476              | -                       | 39,018                  | (12,968)       | 566,526              |
| Other unrestricted funds |                      |                         |                         |                |                      |
| Fixed asset fund         | 371,863              | -                       | (26,234)                | 100,167        | 445,796              |
| General fund             | 145,236              | 397,782                 | (624,755)               | 197,296        | 115,559              |
|                          | <u>£ 1,574,943</u>   | <u>£ 750,245</u>        | <u>£ (777,547)</u>      | <u>£ Nil</u>   | <u>£ 1,547,641</u>   |

Restricted funds (see below) are funds which are to be used in accordance with specific restrictions imposed by funders and which have been raised by the Society for particular purposes. The restricted funds balance predominantly consists of the Regional Growth Fund which will become available on the earlier of loan capital being recycled twice or the Society receives a letter from the Regional Growth Fund.

The Loan capital fund is a designated fund. Where funding agreements do not place an ongoing restriction on the use of loan capital fund once the Society has made an initial loan to an individual or business, the loan capital is transferred from restricted funds to the Society's own reserves at the point a loan has been distributed. The Society has ring fenced this recycled loan capital into a designated fund, which will be used to make further loans to businesses and individuals, as the original loans are repaid. The Society may change the use of these funds at its discretion.

The Fixed asset fund represents the net book value of the Society's equipment and properties (see Note 8 and 9).

| <b>RESTRICTED FUNDS</b>    | Brought Forward<br>£ | Incoming Resources<br>£ | Resources Expended<br>£ | Transfers<br>£     | Carried Forward<br>£ |
|----------------------------|----------------------|-------------------------|-------------------------|--------------------|----------------------|
| <b>Lending activities:</b> |                      |                         |                         |                    |                      |
| Capital grants             | 517,368              | 347,463                 | (160,696)               | (284,375)          | 419,760              |
| Revenue grants             | -                    | 5,000                   | (4,880)                 | (120)              | -                    |
|                            | <u>£ 517,368</u>     | <u>£ 352,463</u>        | <u>£ (165,576)</u>      | <u>£ (284,495)</u> | <u>£ 419,760</u>     |

Often contracts do not place an ongoing restriction on the use of the loan capital once the Society has made an initial loan. If this is the case the loan capital is transferred to the Society's own fund at the point an individual or business is granted a loan. The Society has ringfenced this recycled loan capital in to a separate unrestricted fund, and uses this reserve to make further loans to businesses and individuals. Resources expended represents loans written off and the provision for doubtful debts.

During the year £284,375 was transferred from restricted to unrestricted funds, representing funds released on Business Link Objective 2, Cambridgeshire Business, Growth Fund and Colchester Borough Homes funding, as all grant conditions had been fulfilled.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2014

| LOAN CAPITAL FUND                        | Brought Forward<br>£ | Incoming Resources<br>£ | Resources Expended<br>£ | Transfers<br>£    | Carried Forward<br>£ |
|--|----------------------|-------------------------|-------------------------|-------------------|----------------------|
| Undistributed recycled loan capital      | 505,139              | -                       | -                       | (97,824)          | 407,315              |
| Loans made to businesses and individuals | 35,337               | -                       | 39,018                  | 84,856            | 159,211              |
|  | <u>£ 540,476</u>     | <u>£ Nil</u>            | <u>£ 39,018</u>         | <u>£ (12,968)</u> | <u>£ 566,526</u>     |

17. ANALYSIS OF NET ASSETS BETWEEN FUNDS

|                   | Fixed assets<br>£ | Loans<br>£         | Other net current assets<br>£ | Creditors due after one year<br>£ | Total<br>£         |
|-------------------|-------------------|--------------------|-------------------------------|-----------------------------------|--------------------|
| Share capital     | -                 | -                  | 117,650                       | -                                 | 117,650            |
| Restricted funds  | -                 | 1,186,010          | (766,250)                     | -                                 | 419,760            |
| Loan capital      | -                 | 159,211            | 407,315                       | -                                 | 566,526            |
| Fixed assets fund | 445,796           | -                  | -                             | -                                 | 445,796            |
| General fund      | -                 | 35,258             | 680,301                       | (600,000)                         | 115,559            |
|                   | <u>£ 445,796</u>  | <u>£ 1,380,479</u> | <u>£ 439,016</u>              | <u>£ (600,000)</u>                | <u>£ 1,665,291</u> |

18. FINANCIAL COMMITMENTS

|   | 2014<br>£      | 2013<br>£       |
|---|----------------|-----------------|
| At 31 March 2014 the Society had annual commitments under non-cancellable operating leases (property rent) expiring as below: |                |                 |
| within one year   | 3,813          | 17,610          |
| within two to five years  | 2,360          | 2,360           |
|   | <u>£ 6,173</u> | <u>£ 19,970</u> |

19. RELATED PARTIES

Mark Gipson is a Director of the Society and a Partner with Birketts Solicitors LLP. During the year Birketts provided legal advice to the sum of £480 (2013: £2,400). John Stenhouse is a Director of the Society, and is also a Director of Young Enterprise Scheme Ltd, which managed the 18-24 pilot loan scheme for Foundation East during 2012-13. Young Enterprise Scheme Ltd received no remuneration and reimbursement of expenses this year (2013 - £13,833).

**NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 March 2014**

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**20. FUNDS HELD AS INTERMEDIARY AGENT**

During the year £429,730 was received by the Society from The Start Up Loans Company (2013: £200,000) for the distribution of loans on their behalf. These monies are not the legal property of the Society, and are only held by the Society for the distribution of loans on behalf of The Start Up Loans Company. Loans were disbursed from this fund to the value of £459,920 (2013: 148,560), the remaining funds of £21,420 (2013: £51,440) plus loan repayments received of £50,443 (2013: £668) do not appear on the balance sheet. The funds were disbursed as loans or refunded to The Start Up Loans Company after the year end.

**21. CAPITAL COMMITMENTS**

Before the year end the Society had no capital commitments. (2012/13 £55k for IT equipment and website development works).