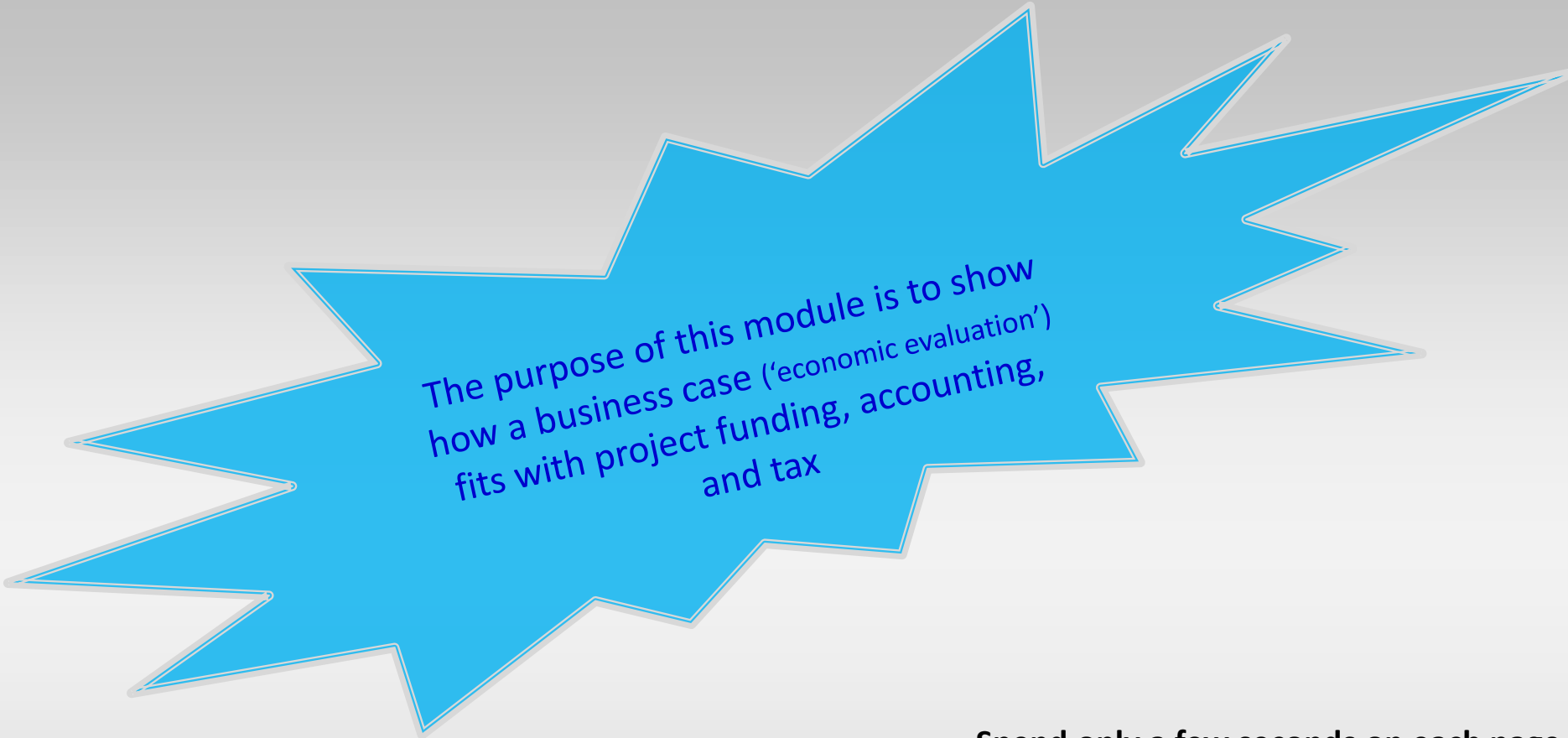


# Teach Yourself Economic Evaluation in Social Enterprise & Community Projects

1b Where does the business case fit  
with accounting, project funding and tax?



The purpose of this module is to show how a business case ('economic evaluation') fits with project funding, accounting, and tax

**Spend only a few seconds on each page**

**This website may contain errors so always check your own work and have it audited by a competent person**

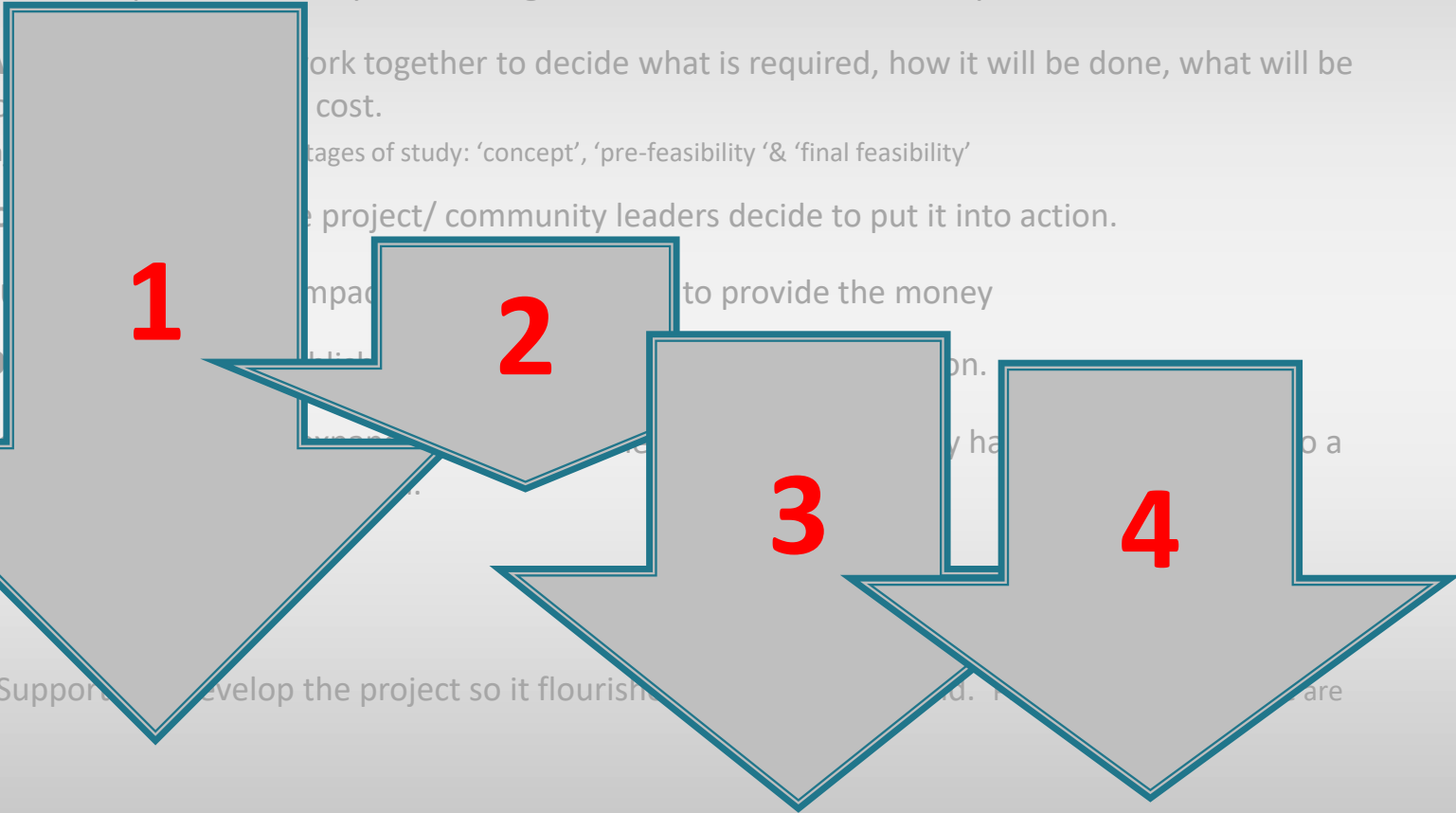
*Let's assume there are seven stages  
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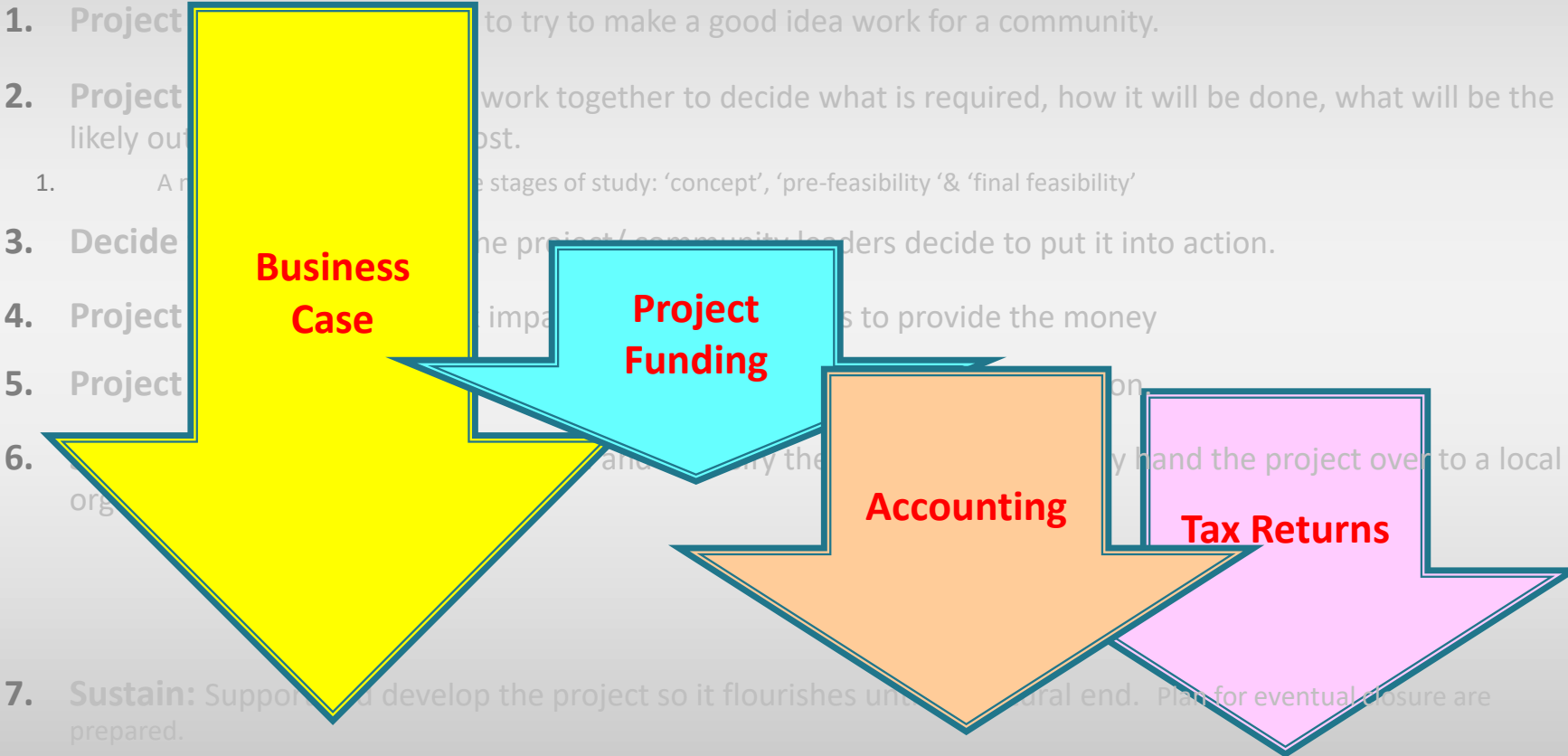
- 1. Project Idea:** People decide to try to make a good idea work for a community.
- 2. Project Assessment:** They work together to decide what is required, how it will be done, what will be the likely outcomes, what it will cost.  
A major project may use three stages of study: 'concept', 'pre-feasibility' & 'final feasibility'
- 3. Decide to do/ Approvals:** The project/ community leaders decide to put it into action.
- 4. Project Funding:** They seek impact investors, donors and lenders to provide the money
- 5. Project Delivery:** People establish the project and steer it into full operation.
- 6. Scale:** These people may run, expand and diversify the project. Or they may hand the project over to a local organisation once it is established.
- 7. Sustain:** The operators support and develop the project so it flourishes until its natural end.

**During the project's life, there will be four key activities dealing with money.**

1. **Project Idea:** People decide to try to make a good idea work for a community.
2. **Project Assessment:** People work together to decide what is required, how it will be done, what will be the likely costs and benefits.
  1. A major project will go through three stages of study: 'concept', 'pre-feasibility' & 'final feasibility'
3. **Decide to Proceed:** The project/ community leaders decide to put it into action.
4. **Project Funding:** People decide how to provide the money.
5. **Project Delivery:** The project is implemented.
6. **Scale Up:** The project is expanded to a larger area.
  1. The project may have a local impact.
7. **Sustain:** Support is provided to develop the project so it flourishes.
  1. The project should be prepared.



**They are ....**



## First, is the business case

It gives an easy-to-understand 'helicopter' view of the project

It is under the control of the leaders of the social enterprise and becomes the 'steering wheel'

It uses everyday language, practical concepts and is by far the easiest of the four to understand

The main working tool is a business model ('economic model') of the project in Excel

It shows how the project is shaping up and what needs to be done to succeed.

It recognises money only as it is spent and any surplus cash only as it is generated – unlike accounting.

It should be commenced as soon as the project is conceived.

At first, does not worry about how to raise the funds to develop the project

It will give direction, speed and substance to the hard work ahead

1. **Project Idea:** People decide to try to make a good idea work for a community.

2. **Project Approval:** People work together to decide what is required, how it will be done, what will be the likely costs.

3. **Project Feasibility:** A major project is approved after a series of stages of feasibility studies, including 'pre-feasibility' & 'final feasibility'

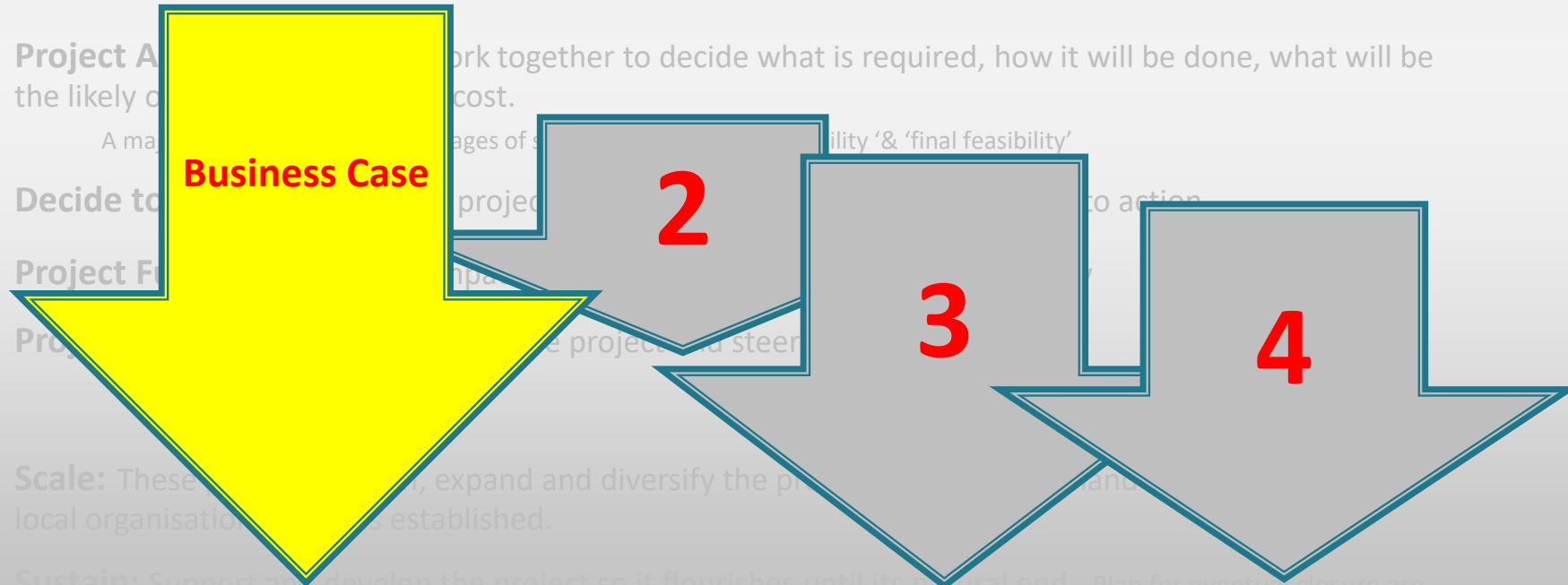
4. **Decide to Proceed:** A decision is made to proceed with the project and to action the project plan.

5. **Project Funding:** Project funding is approved and the project is funded.

6. **Project Implementation:** The project is implemented and the steering committee is established.

7. **Scale:** These projects are often small, expand and diversify the project and the project is established as a local organisation or enterprise.

8. **Sustain:** Support and develop the project so it flourishes until its natural end. Plan for eventual closure are prepared.



## Second, comes the project funding

Most social enterprises need money from outside sources to pay for studies and start up costs.

So a key activity for project leaders is to secure funding to put the idea into practice in the community

- Generally, there are three broad groups willing to contribute: 'donors', 'investors' and 'lenders'.
  - Each has its own reasons for contributing.
- Most will be far more eager to contribute if the business case shows that the project will become viable and can achieve its targets for the community.





## Third is the accounting

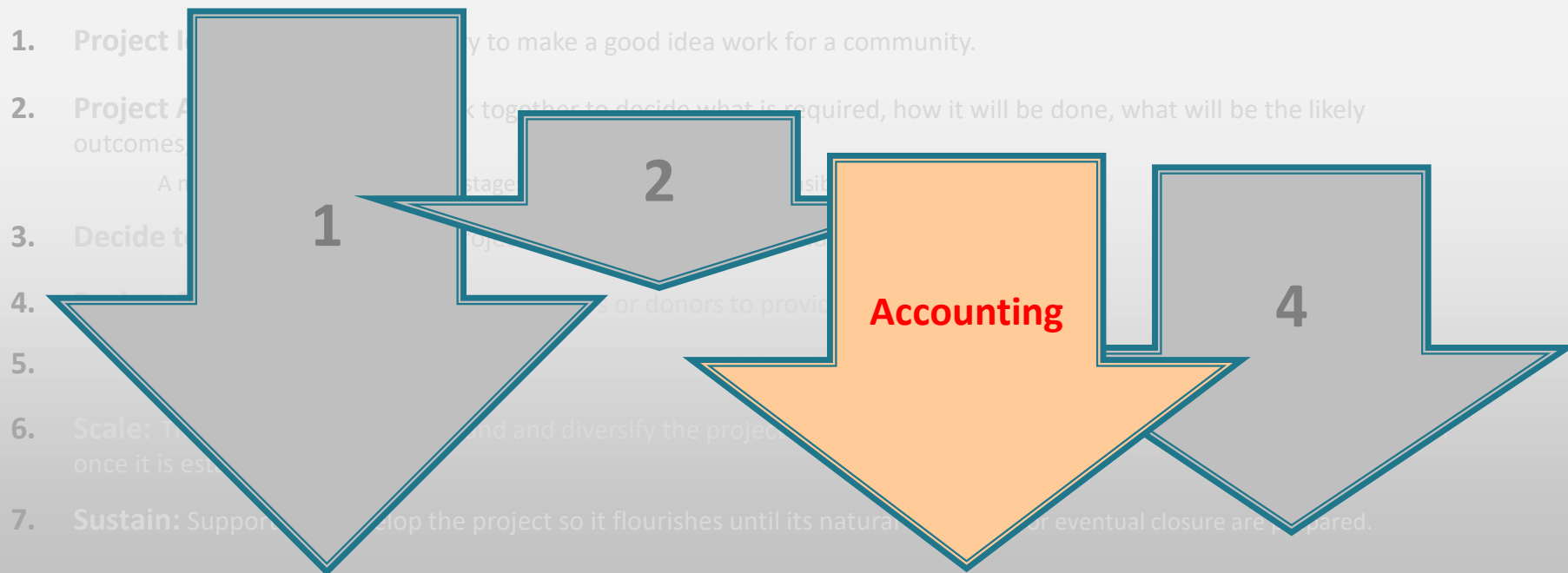
which measures the financial performance of the project over a designated period.

It can be of past performance or it can be a forecast of the next months/year in a 'budget'

It is a key tool for managers, donors, investors, lenders, communities and others to monitor the project

Most importantly: Accounting measures financial performance over a set period taking into account a portion of the money spent in the past and a portion of any liabilities in the future.

- Thus, it 'matches' output of goods and community benefits with the resources needed to produce them.
- Accounting is very detailed and precise (whereas a business case may use approximations for unimportant parameters)
- Unlike a business case, accounting does not necessarily recognise money as it is spent and generated, but uses accounting concepts; which can be puzzling for non-accountants.
- These 'non-cash' concepts are entirely valid and sensible when understood.



## Lastly comes the tax return

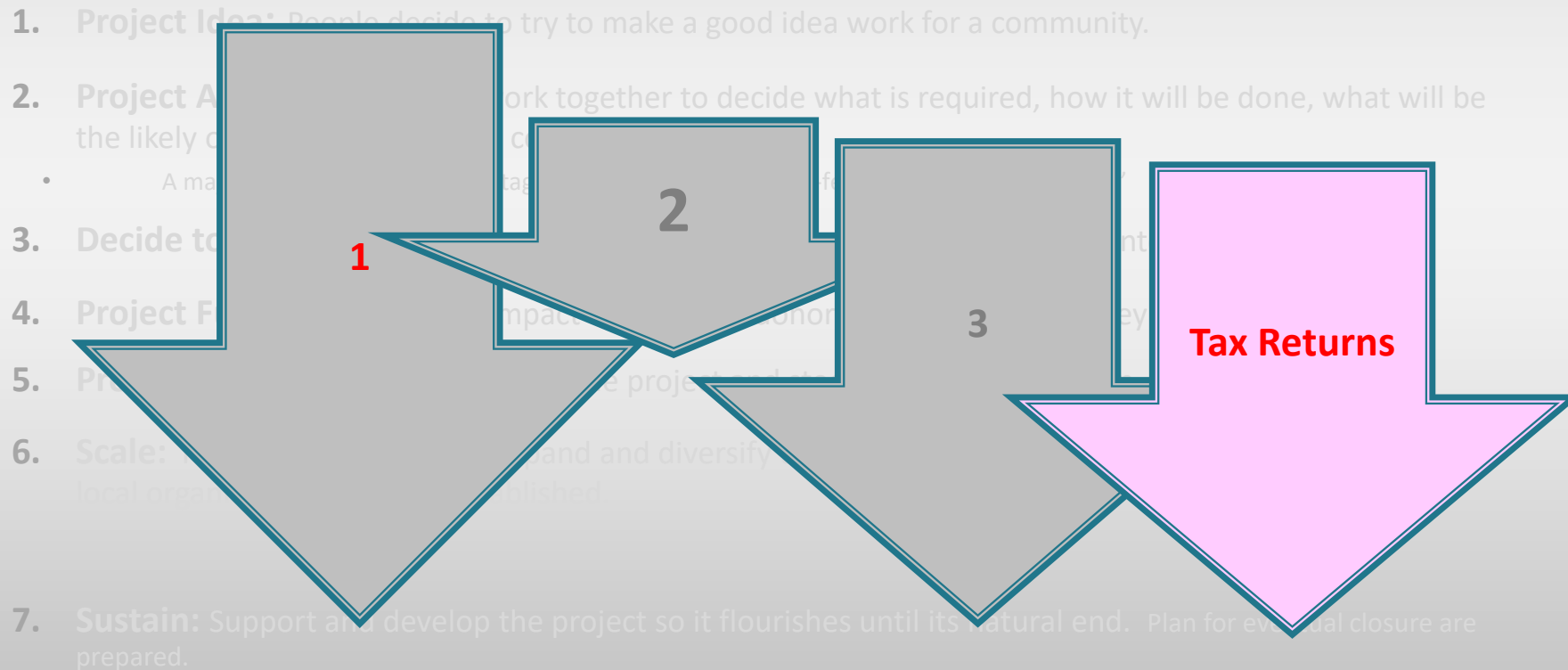
Countries will take a share of the 'surplus' money generated by a commercial business.

- Some countries exempt social enterprises from income tax (but may impose other taxes)
- The calculation of 'income tax' will be specified in government legislation.

Usually it is on the surplus money after deducting the expenses of generating that surplus.

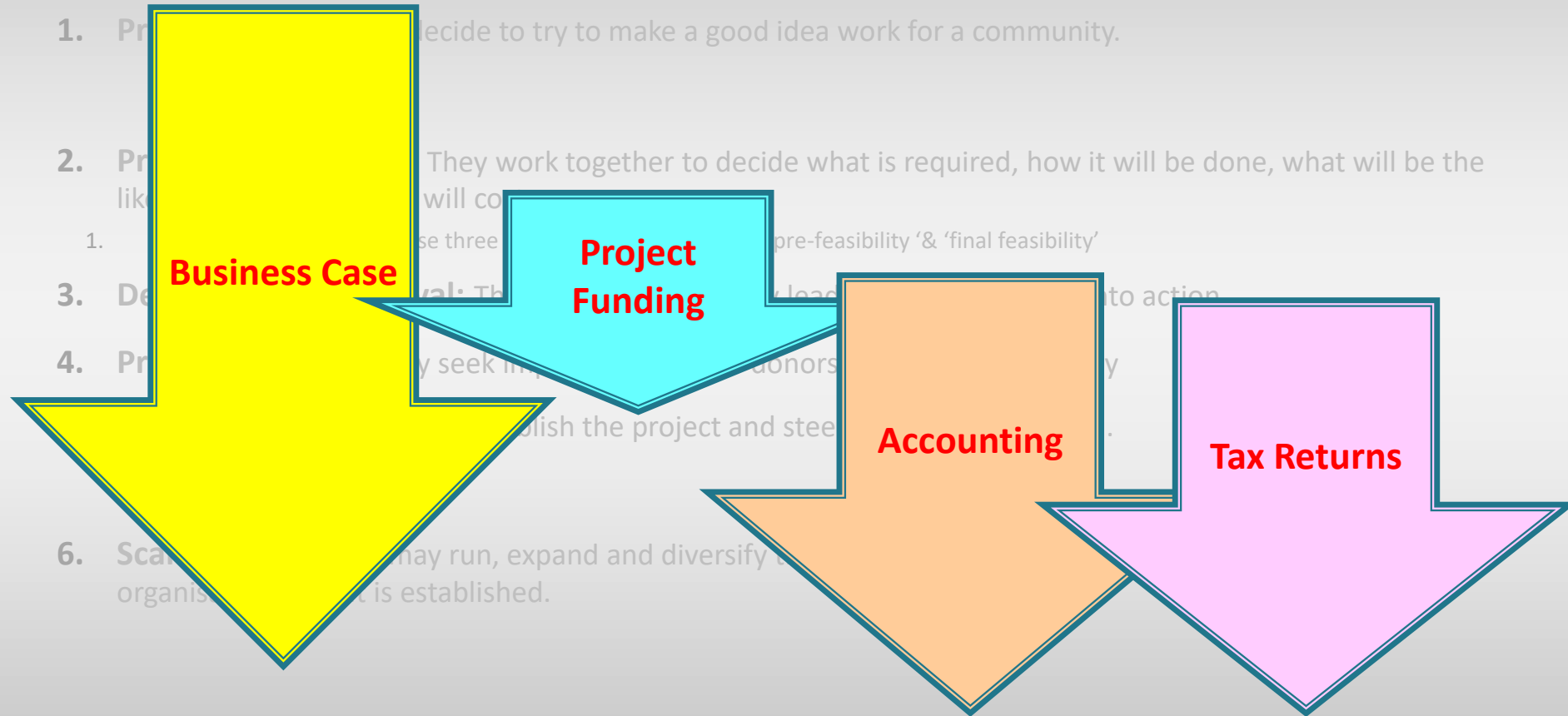
Most computations are similar to accounting concepts and use non-cash concepts. (so are unlike the cash flows of a business case)

- Tax returns begin properly when the project has been operating for a year.



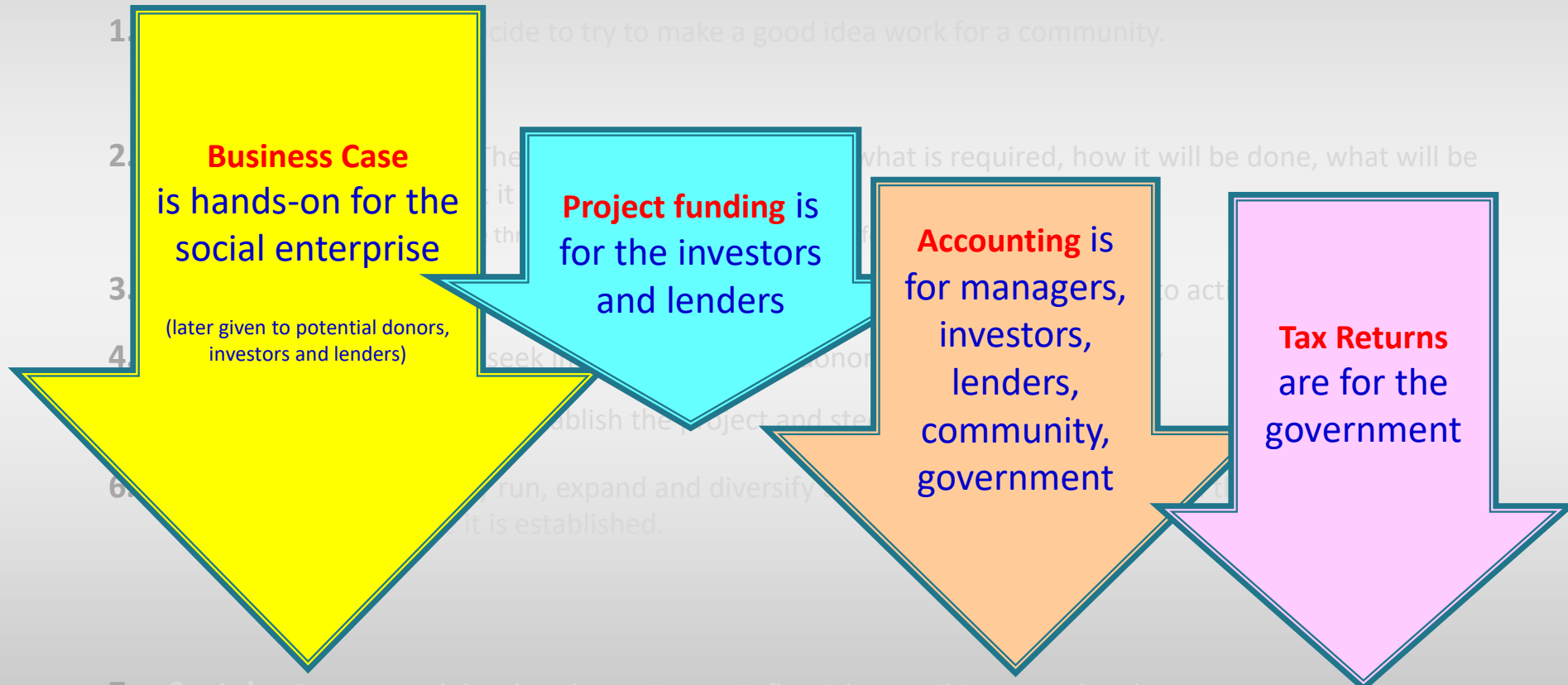
**Each is essential:** one is not more important than the other

**Each has a different purpose,** but they all use much the same data in different ways



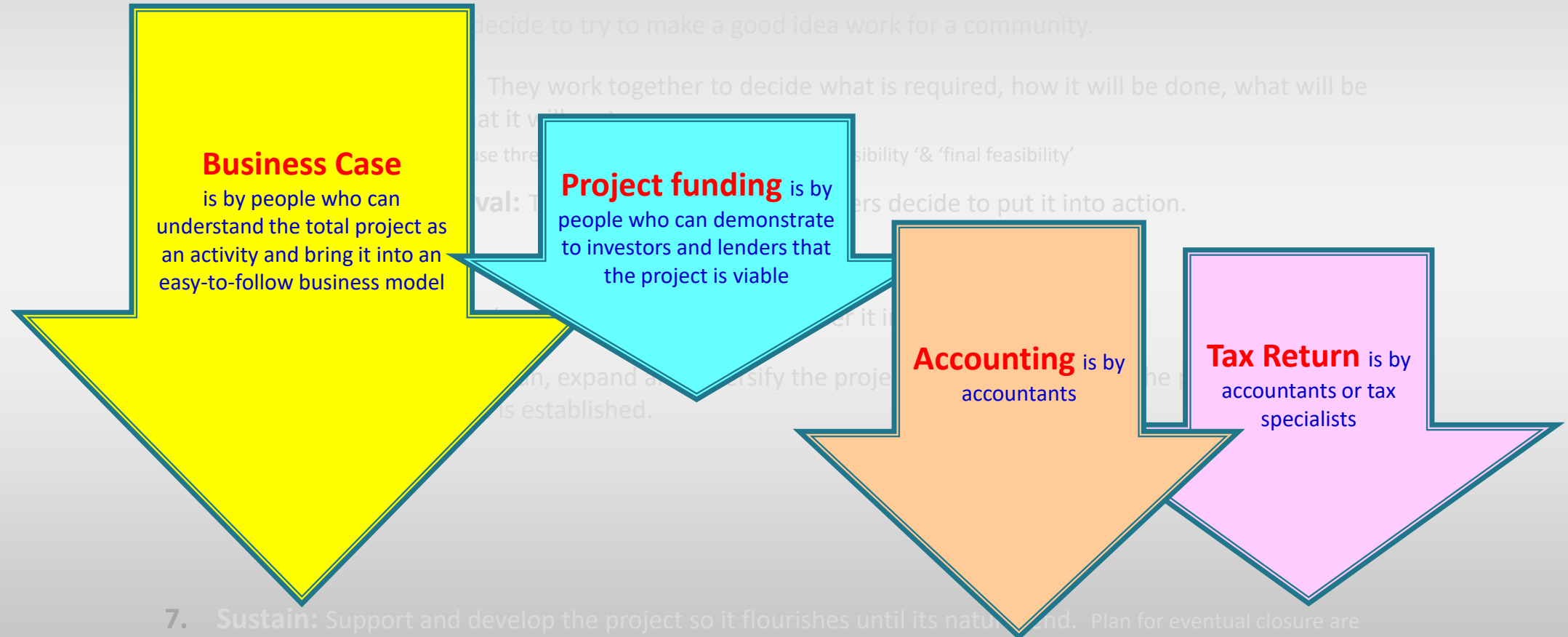
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organis is established.
7. **Sustain:** Support and develop the project so it flourishes until its natural end. Plan for eventual closure are prepared.

Different people/organisations are targeted by each: -



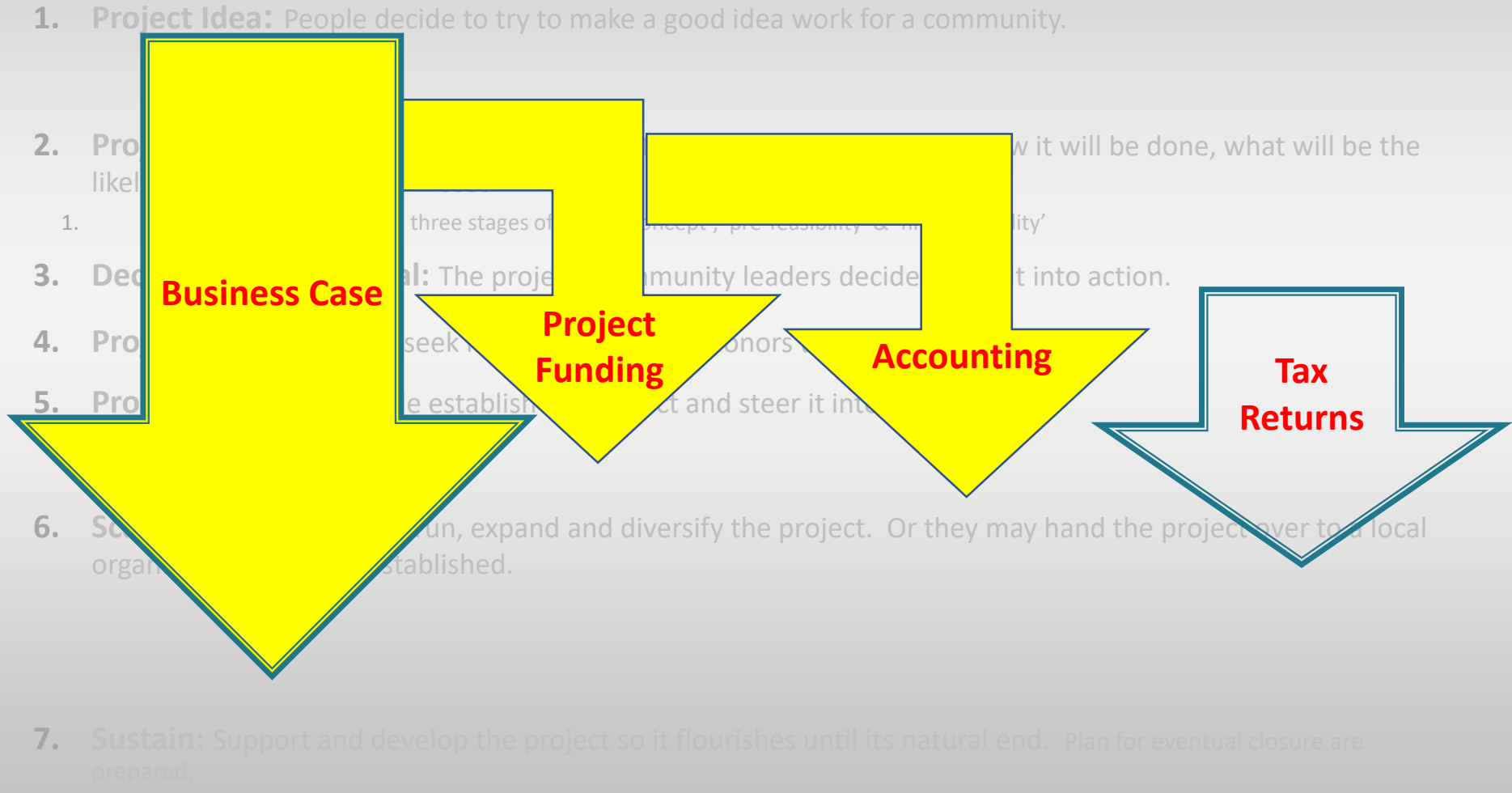
*The Business Case is done for inside the Social Enterprise.  
The other three are primarily for external people*

Therefore different skills and different people are required: -



7. **Sustain:** Support and develop the project so it flourishes until its natural end. Plan for eventual closure are prepared.

**Later you will see how the Business Case will feed and incorporate the Project Funding and preliminary Accounting**



## Two different money terms are used.

**The business case usually is in “real” terms** – that is to exclude inflation.

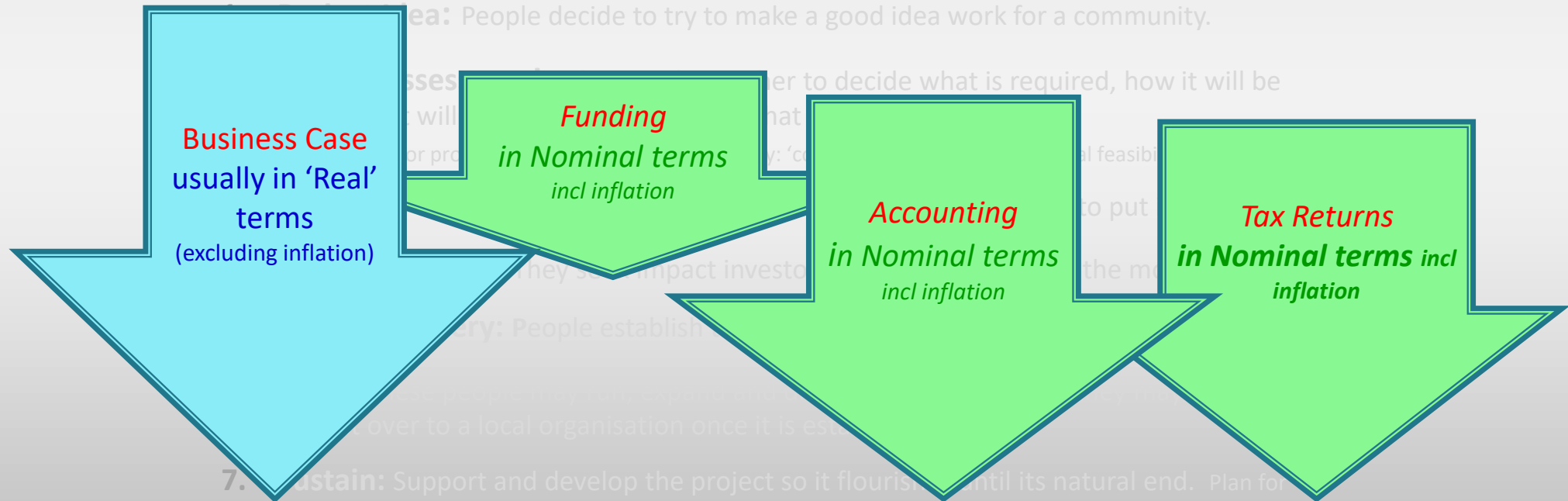
For example, if a cost is \$2.50 today it may be \$2.50 in five years time.

It is easier to understand and errors are far more obvious.

**The other three use “nominal” terms** – they do incorporate inflation so are dollars of the day.

For example, if a cost is \$2.50 today it may be \$3.47 in five years after inflation.

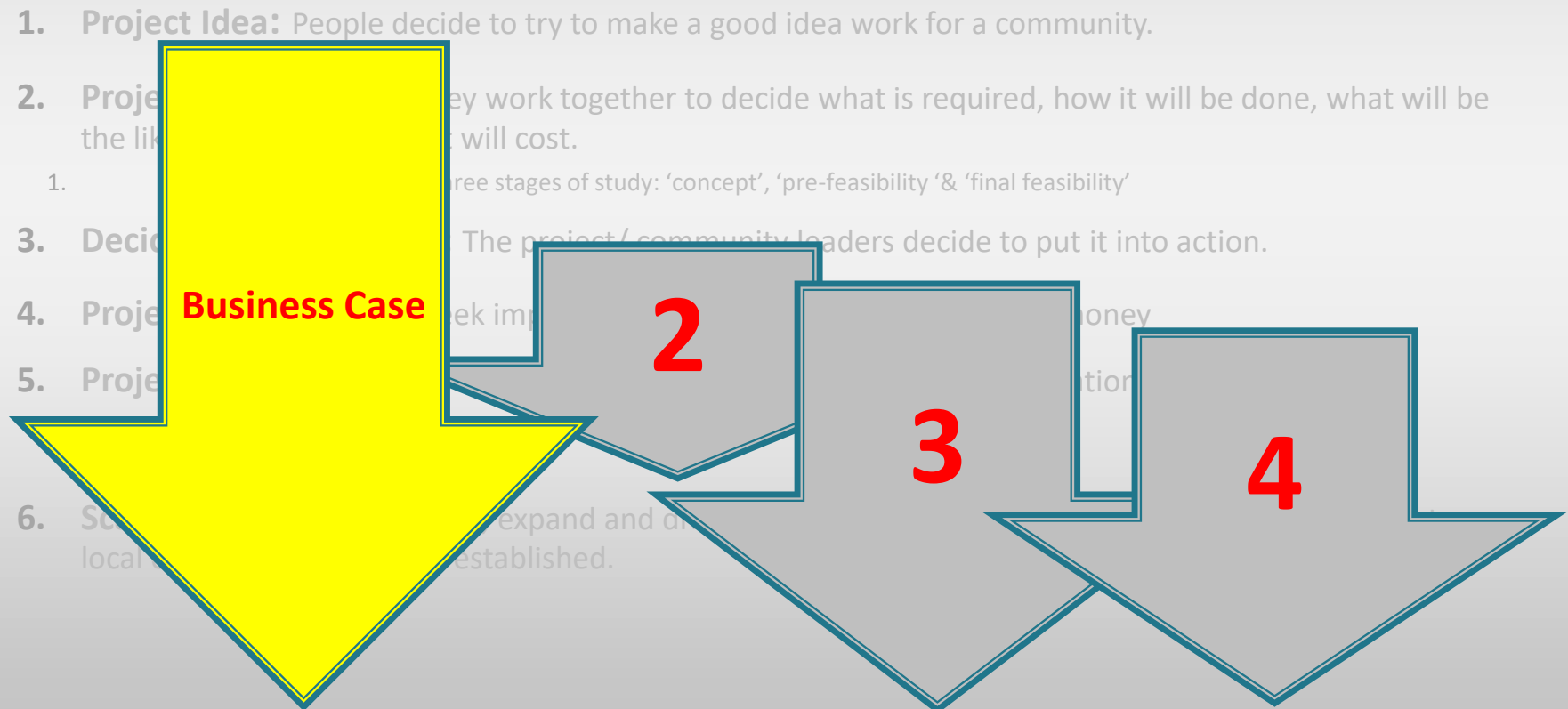
*This website uses italics to indicate nominal terms and vertical font for real terms.*



## So almost anyone should be able to follow the business case.

- Everything is just as it is in real life
- There are no accounting concepts that seem abstract or puzzling to non-accountants.
- Money is in real terms

→ *The other three require accounting knowledge*



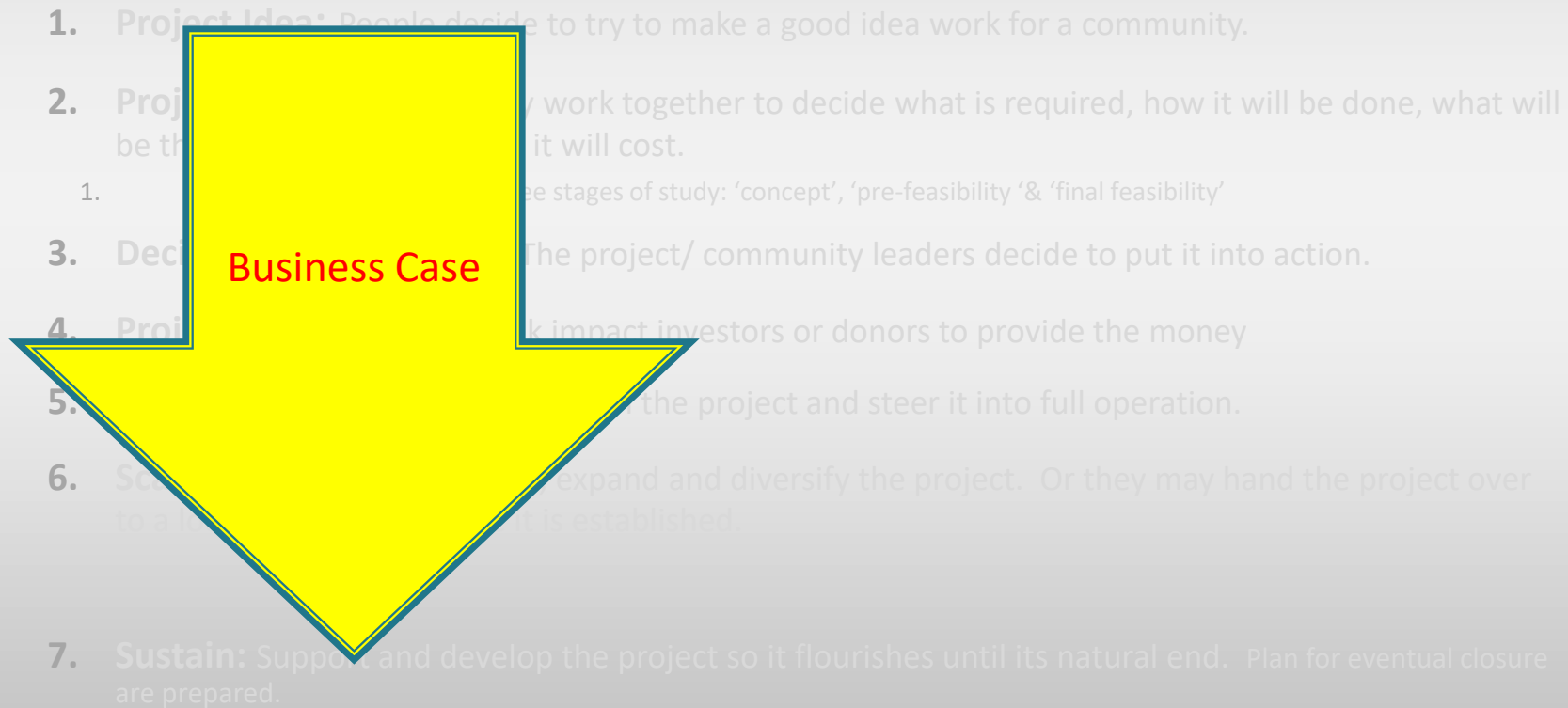
7. **Sustain:** Support and develop the project so it flourishes until its natural end. Plan for eventual closure and handover.



## From the beginning, the business case gives the Social Enterprise a 'helicopter' view of the project .

- It allows it to investigate various scenarios, optimise the activities and to take control and steer.
- It becomes the working tool.

When the business case is looking promising, a copy can be shown/given to potential donors, investors and lenders so they can quickly understand the project's viability and decide!



<b>Glossary</b>	
<b>Business Case</b> (Economic Evaluation)	Assessing what resources are inputted against what benefits are generated to test the health/viability of the project. For social enterprises the time period might be until the project becomes self-supporting. Later versions of the business case can introduce funding (investors, lenders and donors) and ownership structures.
<b>Project Funding</b>	Getting donors, investors and lenders to provide cash to fund the project
<b>Accounting</b>	A highly regulated way of assessing the performance of the project over a specified period given past inputs and future liabilities
<b>Tax</b>	Extracting money from the project as entirely defined by government legislation - and which usually has parallels with accounting.
<b>Real terms</b>	Before applying inflation – example \$2.50 today and still \$2.50 in 5 years
<b>Nominal terms or 'Dollars of the Day'</b>	<i>After applying inflation – example \$2.50 today becomes \$3.47 in 5 years</i>

end