SUMMARY

Social Enterprises are important to Scotland’s economy. An expansion of their involvement in procurement may assist in achieving objectives of long term viability. However, since the Scottish Government has a long history of supporting the sector, the range of support it provides needs to be projected within a more comprehensive policy framework to support the sector as a whole, especially with a wider role in a Social Solidarity Economy.

A) INTRODUCTION – THE LOCATION OF SOCIAL ENTERPRISE

The Scotland Social Enterprise Census 2015 reports that there are 5,199 Social Enterprise in Scotland, 42% of which were formed in the last 10 years, with an average age of 17 years. (Social Value Lab 2015). This is an increase on the 3,500 reported in the Social Enterprise Mapping Study 2014, with an average age of 13 years (EkosGen Consulting Ltd 2014). This compares with “around 70,000” in the State of Social Enterprise Survey 2015 (Villeneuve-Smith, Temple 2015), with 49% less than 5 years old.

Since the Scottish 2015 Census was supported by all major third sector infrastructure organisations in Scotland, which encouraged their members to participate and respond to the survey, this submission recognises the 5,199 figure as a realistic estimate.

Social enterprise has a long history in Scotland. Earlier examples of social enterprise and third sector activity in Scotland – especially community businesses supported by local authorities under the Urban Programme - were localised self help responses to large scale deindustrialisation. Much of the background for social enterprise in Scotland can be traced back to local authority support for local community businesses as community anchors and local trading places. As recently as 10 years ago, there were still large numbers of community businesses. Alan Kay describes this (Kay, Community Business Scotland Network 2003):

“January 1997 CBS Network - 110 community businesses in Scotland, 1,095 full-time employees, 68 part-time, combined turnover £13.67mn”.

A coherent exposition of these earlier developments is given by John Pearce (Pearce 2003) who traces the history of social enterprise back to 1970s Job Creation Programmes. Despite these previous localised structures, many commentators today locate social enterprise in a New Public Management (Ferlie 1996) rather than a social economy context (Amin, Cameron et al. 2002, Hudson 2005). The social economy was summarised by Amin et al (Amin, Cameron et al. 2002):

“Clear sense of why they merit the label social enterprise, and they are part of a wider social desire for an alternative to the market society …but it can stand as a small symbol of another kind of economy, one based on meeting social needs and enhancing social citizenship”
This submission believes that this New Public Management context (Ferlie 1996) has cast many social enterprises in a role for which their antecedents above have not prepared them and for which most are not ideally suited.

This miscasting is highlighted in the Scottish Social Enterprise Census (Social Value Lab 2015), which shows that two thirds of social enterprises in Scotland have an annual turnover of less than £100,000 – so that they face great difficulty in participation in procurement exercises. Though the Scottish Government and others have cast a significant role for social enterprise and third sector structures in procurement for and delivery of public services, this submission advocates that this should be only one part of a wider framework for social enterprise, which should be extended to include providing the basis for a Social Solidarity Economy in Scotland. To enable this wider role, the governance, management and administration of funding and resources need to be completely devolved to the Scottish Government.

B) SCOTTISH GOVERNMENT SUPPORT FOR SOCIAL ENTERPRISE

The Scottish Government provides considerable support for social enterprise and the wider third sector, for which this section provides a summary.

1) Draft Budget Statement 2016-2017. The Scottish Government continues to anticipate that social enterprise and the wider third sector will play a significant role in public service delivery, as emphasised in its Draft Budget Statement for 2016/2017 (Scottish Government, Scottish Government 2015)

(p81) “The third sector contributes to our economic growth, plays a crucial role in the drive for social justice and is key to the future of public service reform and delivery in Scotland. We are therefore maintaining our support for the sector with investment of £24.5mn in 2016-17”.

2) Supporting Social Enterprise Alliance (SSE). Until last year, the Scottish Government provided considerable infrastructure support for social enterprise, for which SSE has been the main programme. An alliance of Senscot, Social Enterprise Scotland and Social Firms Scotland provided the main social enterprise infrastructure support, which influenced and contributed to development of policies that add value to communities across Scotland. £320,000 annually has been provided for a programme of social enterprise “Expected Outcomes and Outputs to be delivered”. SSE was the Scottish Government’s basic infrastructure programme for social enterprise and included these Core Outcomes:

a) “Social enterprises at a grassroots level are better informed, encouraged, networked and supported in order that they can develop and grow and contribute to public service reform.

b) “The profile of social enterprises is enhanced via policy engagement and the media, and the value they bring to local communities
and in meeting Scottish Government objectives at both a local and national level is better recognised and understood.

c) “Collective influence and contribution to policy development both nationally and locally is enhanced.”

3) **Social Entrepreneurs Fund.** Administered by Firstport, the startup Fund supports new social enterprises and individual entrepreneurs with ideas to start social enterprises. Since 2009 the Fund has helped more than 250 individuals to develop their ideas. In 2014-2015, £500,000 was allocated.

4) **Enterprise Ready Fund.** Administered by Foundation Scotland, supports new, emerging and established organisations. The Scottish Government allocated £6mn from 2013 to 2015. Grants up to £250,000 have already been made to over 115 third sector organisations. (Swinney 2014)

5) **Just Enterprise.** Since 2011, Just Enterprise has supported 5,000 organisations and includes a contract ‘Business Support to the Enterprising Third Sector’. Senscot is a partner in the Ready for Business LLP which includes CEiS and Social Firms Scotland for delivering “Developing Markets for Third Sector Providers”, to support more involvement of social enterprise and third sector in procurement.

6) **Scottish Investment Fund.** Managed by Social Investment Scotland. The Scottish Government provided £28.8mn for the Fund for 2008-09 to 2010-11 and a further £3mn in 2011-12. By March 31 2014, the Fund had made 70 investments in third sector organisations, totalling £31.8mn.

7) **Scottish Community Reinvestment Trust.** With support from the Scottish Government and Big Lottery, Senscot works in partnership with Airdrie Savings Bank, developing this financial institution since “the sector needs a financial investment infrastructure suited to its culture, purposes and working landscape. The Scottish Community Reinvestment Trust has identified key funding gaps for unsecured loans: (Scottish Community Reinvestment Trust 2014) (p22):

   - at the smaller sum end (£2,500 to £35,000), which most providers find uneconomic
   - at the £100-200,000 level for investment in soft assets”

C) **SOCIAL ENTERPRISE AND PUBLIC SERVICE DELIVERY**

Public Service Reform and the involvement of third sector organisations were projected in Report of the Christie Commission on Public Service Delivery, which advocated that (Christie Commission 2011)

(p22) “In our view, it is essential to the future success of Scotland’s public services that all stakeholders now work together in an urgent,
sustained and coherent programme of reform of how Scotland delivers public services.

But Christie (Christie Commission 2011) also advocated local community involvement:

(p59) “maximise the contribution that community engagement can make in enabling communities to identify and achieve their own ambitions; allow for particularly innovative approaches to service delivery, for example through specialised not-for profit providers”

However, there are ongoing difficulties for involvement of third sector organisations in the Community Planning process. Audit Scotland recently reported that Third Sector Interfaces: (Audit Scotland 2014)

(p24) “are not a substitute for consulting and working with individual voluntary bodies or engaging with local communities.”

To stimulate further social enterprise involvement in public service delivery, “Building a New Economy: Scotland’s Vision for Social Enterprise 2025” (Coburn 2015) Scotland’s social enterprise organisations advocated radical changes to implement some of this, which included:

(p24) “We call on the Scottish Government to consider ambitious WISE-specific legislation modelled on the experience of other countries (e.g. Germany, Italy, Finland, Australia) which have accelerated growth in the sector, stimulated job creation and led to a marked reduction in unemployment and associated welfare costs. …. to enable Social Firms and WISEs to take on new employees with higher support needs and/or offset the reduced productivity arising from a workforce experiencing impaired health and other barriers to employment”.

Though traditionally, Scotland’s delivery of these services has not followed the same pattern as other EU countries - where the state has never been a deliverer of many mainstream services - this submission advocates an examination for a possible expansion of this approach in Scotland.

D) DIFFICULTIES FOR THIRD SECTOR ORGANISATIONS IN PUBLIC SERVICE DELIVERY

1) Procurement Problems. As shown above, the difficulties for social enterprise involvement procurement are amplified in the recent Social Enterprise Census (Social Value Lab 2015), which shows that two thirds of social enterprises in Scotland have an annual turnover of less than £100,000 – so that they face great difficulty in participation in procurement exercises. “State of Social Enterprise 2015” by Social Enterprise UK (Social Enterprise UK 2015) also shows 47% of social enterprises with less than £100,000 turnover. This means that in practice, more than half of UK social en-
Enterprises will encounter difficulties in any procurement process or tendering competition based on payment by results and impact measurement, social investment, social impact bonds and payment by results.

The “State of Social Enterprise 2015” (Social Enterprise UK 2015) also shows that (p26) “The proportion of social enterprises whose main source of income is trade with the public sector has grown strongly to 27%”. But the Report continues (p26):"Trade with the public sector as a social enterprise’s main source of income is directly related to the size of the social enterprise. The largest social enterprises, those with turnovers of over £5m, are nearly three times more likely (49%) than the smallest social enterprises, with turnovers of less than £10,000 (17%)”. So most involvement in procurement and public service delivery is carried out by a small number of larger social enterprises.

For the wider social enterprise community, the EkosGen 2014 Social Enterprise Mapping Study Survey showed (p25): (EkosGen Consulting Ltd 2014)

- “36% no perceived need of bidding for contracts from public agencies/private bodies
- 23% with no experience
- 41% experience
- 59% either no experience yet in contracting or feel that contracting is irrelevant to them”

2) The Procurement Process. There were also considerable difficulties for local authorities and their procurement mechanisms in a more detailed study for the National Community Planning Group of COSLA (Garven, Grimes et al. 2014)

“(p15) Local authorities were aware of a number of barriers in relation to engaging with the third sector:

- 44% identified lack of scale or capacity
- 44% identified the quality of tenders
- 42% identified their own lack of knowledge about third sector providers
- 32% said they had difficulty in engaging with the third sector
- 26% identified that they were not competitive on price

3) Ready for Business. Arising from these difficulties above in 1) and 2), this submission advocates a radical overall of the Scottish Government’s Ready for Business Programme. Through a collection of partners, including Senscot and Social Firms Scotland, this Programme seeks to engage more third sector organisations in pro-
curement for public service delivery. However, despite a detailed programme of events and engagement in a friendly and often informal style, many social enterprises and third sector organisations feel that this programme faces the public sector rather than third sector organisations themselves. This submission therefore calls for an evaluation of the programme before further decisions are taken on its renewal or extension.

E) FURTHER PROCUREMENT DIFFICULTIES

There is evidence of difficulties elsewhere for third sector organisations and procurement processes. Though the recent EU Procurement Directive enables national governments in limited circumstances to prefer social enterprises and mutuals in a restricted competition, interpretations are left to national governments. The UK Cabinet Office Regulations are not as favourable as others (Cabinet Office 2015) since they enable private organisations to assume third sector structures only after winning contracts. The Scottish Government has not yet transposed this EU Procurement Directive into Scottish Law.

Pirvu et al describe these difficulties across Europe (Pirvu, Clipici 2015) (p19)"It is obvious that these entities cannot face competitive challenges within the contemporary economy. Therefore, the support of Governments is necessary"

Rees et al highlight difficulties already emerging in the Greater Manchester procurement process: (Rees, Rose 2015): (p89) “These tensions, added to more general pressures such as the workforce implications of the more widespread adoption of spot contracting, raise pressing questions about the ability of VSOs in the area to contribute to the longer-term maintenance of effective services that create meaningful outcomes for clients and citizens more broadly”

Further literature is emerging which demonstrates that many social enterprises are being cast in a role for which they are not equipped and in which they may not succeed.

F) A SOCIAL SOLIDARITY ECONOMY FOR SCOTLAND

Since the above shows significant difficulties for social enterprises and the third sector in any projected expansion of their role in public service delivery, this submission advocates that the Scottish Government should widen its programme of support beyond procurement. This submission’s advocacy of an enhanced role and wider support framework for social enterprises in a Social Solidarity Economy is based on a summary of values and prospects to which most diverse communities across Scotland subscribe.

In an unpublished paper for a Conference on the “Potential and Limits of Social and Solidarity Economy”, held in Geneva in May 2013, by International Labour Organisations and the UN Research Institute for Social Development, Christian Arnsperger outlines his vision of the Solidarity Economy much more appropriately. Arnsperger’s closer definition of a Social Solidarity Economy aligns closely with the concept promoted in this submission for Scotland (Arnsperger 2013):
“The Social and Solidarity Economy (SSE), while not exclusively non-profit-oriented, is a deliberately low-profit endeavour. By this I mean that SSE businesses generate profits within strict constraints pertaining to criteria linked to social and solidarity-related values. As a result, their net financial surpluses are often lower than they would be in a similar business that did not embrace such constraints. Low-profit enterprises include both

(i) non-profit businesses deliberately choosing to reinvest gross surpluses into the business and drive net profits down to zero;

(ii) what one might term pure SSE businesses producing a good or service whose very anchoring in social and solidarity-related values implies that it will not be produced by any for-profit firm.

For its contribution to a Social Solidarity Economy, Senscot has over 1,100 social enterprises within its 23 networks. Together with Social Firms Scotland, Development Trusts Association Scotland and the Scottish Community Alliance there are more than 3,000 local and community organisations, including social enterprises, mutuals, cooperatives, community organisations, which are ready to make a contribution.

Since negotiations with the European Commission and other EU bodies have always been conducted by Westminster and Whitehall, Scotland has been effectively excluded from discussions on the full benefits of EU Membership – much of which might already have laid foundations for a Social Solidarity Economy. There is a significant range of discussions on issues where Scotland has different aspirations, from participation in which Scotland’s social enterprises and its third sector would undoubtedly have benefitted.

From the mid 1980s onwards, EU discussion on social exclusion was encouraged during the earlier years of Jacques Delors’ Presidency of the European Commission. Initial negotiations for a European Social Chapter included Recommendation 92/441/EEC on common criteria concerning sufficient resources and social assistance in social protection systems (European Council of Ministers 1992).

From 1999 onwards, a new devolved Scottish Government gradually evolved its own approach to these issues. It distinctive features included Social Inclusion Partnerships, Social Justice Officers, Communities Scotland, the Better Neighbourhood Services Fund in 2000 and Local Outcome Agreements. Despite 20 years with a different approach, Scotland and its third sector organisations had no direct say in these matters when discussed at EU level, though they probably have more interest in their outcome than other parts of the UK. Accordingly, this submission recognises that funding provided by the European Commission and Scottish Government for Scotland’s third sector organisations might still lay foundations for a Social Solidarity Economy. This paper recognises that a wider debate on these EU policy issues is overdue for Scotland, es-
especially at a time of critical relevance for Scotland during the Referendum on membership of the European Union.

G) CONCLUSION

During the 20 years following UK opposition to the development of the EU Social Chapter to current developments based on private social investment in third sector organisations, Scotland, its social enterprises and third sector organisations have either been excluded from policy making or their policies have been dominated by London. This submission believes that through access to more of these EU policies and funds, the Scottish Government, Scotland’s social enterprises and wider third sector might extend a wider framework of support for their contribution to a Social Solidarity Economy.

H) REFERENCES


