Introduction

Highlands and Islands Enterprise (HIE) is the Scottish Government’s economic and community development agency for the north and west of the country. Our region comprises over half the Scottish land mass (including 94 inhabited islands) and is home to around 470,000 people.

HIE’s role is to lead regional growth and development in line with Scotland’s Economic Strategy (SES), improving competitiveness and building a fairer society across the Highlands and Islands.

HIE’s approach to regional development is closely aligned to the national priorities described in SES: Investment, Innovation, Internationalisation and Inclusive Growth. We help build successful businesses, social enterprises and resilient communities; support the growth of industry sectors, and invest in the strategic interventions which create the conditions for a competitive region. Our current priorities, planned activities and budget information can be found in our Operating Plan 2015-18, Building our Future. [www.hie.co.uk/operatingplan]

We welcome the opportunity to respond to the Committee’s inquiry into social enterprises, employee-owned businesses and cooperatives, and the specific themes raised in the Committee’s call for evidence are addressed below.

1. Understanding the scale and growth of social enterprises and employee-owned businesses in Scotland

Social enterprises in the Highlands and Islands

The Social Enterprise Census undertaken in 2015 has provided, for the first time, a comprehensive understanding of the contribution social enterprises are making to Scotland’s economy. It confirms Scotland as world-leading nation in nurturing social enterprise, recognising this model as a fairer and more inclusive way of doing business.

The scale of the social enterprise sector in Scotland is greater than previously thought, with 5,199 active social enterprises across the country. Social enterprises come in many shapes and sizes, from large national companies and international businesses to small community enterprises. Overall, social enterprise is a sector characterised by small and medium-sized enterprises.

Rural Scotland as a whole comprises 19% of the Scottish population and just over one-quarter (27%) of social enterprises. The Highlands and Islands accounts for around 9% of the Scottish population but hosts a disproportionately high percentage of the country’s social enterprises (22%, with 16% in our fragile areas). HIE is currently leading research into the conditions that have helped social enterprises to flourish in rural Scotland. One influence may be the small numbers of sparsely located clients, which can restrict the delivery of public services and lead to market failure. Other factors appear to be the culture of self-help, where social enterprise resonates with rural people’s tendency to solve problems and help each other, along with the much closer connections between businesses and their communities in remote locations.

HIE currently estimates that social enterprises in the Highlands and Islands contribute £0.13bn Gross Value Added to the economy and support 7,315 jobs.
Social enterprises operate in many economic sectors, with the five main ones being Arts and Creative Industries, Childcare, Community Amenities, Health and Social Care, and Property, Energy and Land Management.

Historically, the cooperative model is most commonly adopted in the Highlands and Islands when communities are acquiring an asset such as a village shop. There are numerous examples of this in the Outer Hebrides such as Co-Chomunn na Pairc (Pairc Community Co-operative) and Co-Chomunn an Iochdair Ltd. This model is now increasingly used to fund community-owned renewable energy projects.

**HIE account management**

Account management was adopted by HIE in 2008 and now lies at the heart of our delivery of support to businesses, social enterprises and communities. HIE currently account manages 456 businesses, 193 social enterprises and 50 communities. HIE has created an environment which supports and drives ambition across the portfolio of accounts, resulting in significantly increased impacts for our clients. A recent re-emphasis of HIE’s account management model will ensure that HIE’s resources, including products and services to support innovation, research and development, internationalisation, entrepreneurship and leadership, are deployed and available to the organisations that have the greatest opportunity and ambition to grow, in line with SES aspirations. For businesses and social enterprises, this will produce improved productivity with resultant impact on bottom line and social outcomes.

As the HIE account management model develops, the growth of account managed social enterprises will become more evident through the development and monitoring of individual 'plans for growth'. These plans will enable HIE to record, track, monitor and evidence increased growth and opportunity in the social enterprise sector.

**Employee-owned businesses**

According to Cooperative Development Scotland (CDS) 7 companies in the Highlands and Islands follow an employee ownership model. These account for 657 jobs and a combined turnover in the region of £55.5m.

As context, it is worth noting the much larger proportion of companies in the Highlands and Islands with 4 employees or fewer, compared with the rest of Scotland. IDBR (Inter Department Business Register) business data indicates there are 18,795 businesses with 0-4 employees in the Highlands and Islands. There were also 1,239 start-ups in the Highlands and Islands in 2014, indicating that there are significant employee ownership businesses of a small scale operating in the region.

Sole traders and partnerships which can innovate are provided with support through Business Gateway and other agencies to bring their proposition to market successfully, enabling growth with the potential to enter HIE account management in the future.

**2. Examples of innovation from businesses, for example employee involvement in developing new products, services or processes and innovative partnerships within communities.**
HIE has extensive experience of supporting social/community enterprises to become more sustainable through innovative approaches to service delivery and partnerships, below are some examples:

**Locheilnet** community broadband network is delivering transformational broadband speeds to the shores of Loch Neil, Loch Linhe and Loch Lochy. The fixed wireless network has been in operation for over a year and has helped more than 200 homes and businesses access faster broadband. Project funding from Community Broadband Scotland, which is operated by HIE, enabled Locheilnet’s dedicated volunteers to complete their network, connect customers quickly by hiring local tradespeople and build in significant resilience to the network, ensuring the best possible service for their growing numbers of subscribers and businesses.

**The West Harris Trust** is taking forward an ambitious local energy project with support from HIE through the Low Carbon Infrastructure Transition Programme (LCITP).

As the first project in the Highlands and Islands to be supported through the new European-funded programme, West Harris Renewables Ltd – established by the Trust to manage the project – is investigating the installation of a new locally-managed innovative green energy system. Work is under way to investigate the feasibility of installing an array of small scale wave energy units in the Sound of Taransay in partnership with a private developer. The wave energy generated would power and increase the sustainability of the new Community Enterprise Centre and social housing units which are also being developed at the site at Rubha Romagaidh in Horgabost. The wave energy will be integrated with a small wind generator and innovative storage devices to ensure that power can be supplied on a continuous basis to customers across the site.

**Stramash** provides children and young people with access to personal, social, emotional and educational opportunities through creative use of the outdoors. It is leading the way in creating a network of outdoor pre-school education and wrap-around nurseries. Other activities include: schools outdoor learning programme; sea kayak trails throughout Argyll; native tree planting; rural skills teaching and dinghy sailing development.

The business was established in 2009 with one employee and turnover of £40k. Through innovative partnership working and a strong drive to make a difference in the lives of young people, the business now works, on average, with over 3,000 individuals each year. Since 2009 it has delivered 31 apprenticeships and now employs 23 FTEs and has a turnover of £550k pa.

HIE will continue to account manage Stramash as it has ambitions to grow the nursery element and it is currently considering locations to be included in the 5 year strategy.

**Gaelic Innovation Investments Scheme.** Introduced to HIE’s suite of innovation products in 2015, our Gaelic Innovation Investment scheme is designed to support business innovation by providing initial investment / seed funding to enable businesses and third sector organisations develop new ideas for products and services that enhance the economic and social use of Gaelic from idea stage to market readiness. Taigh Chearsabhagh Trust’s Taigh Tasgaidh gun Ballachan initiative provides an example of where HIE has awarded a Gaelic Innovation Investment to support the development of new digital products in the Gaelic arts sector. This investment has enabled Taigh Chearsabhagh Trust to progress a new collaboration with St Andrews University to provide an interpretive experience of the culture and heritage of Uist using digital interpretation. This initiative will further act to promote awareness and use of Gaelic in emergent digital technologies.
Aquascot

Aquascot is an employee-owned company which has benefited from support through HIE and is now account managed. Aquascot are like many employee-owned organisation of a similar scale, with employees elected to a leadership council and able to provide real influence in the development of the business.

3. Assessing the sources of funding support and support available

As a public body, HIE can grant State aid to a business or social enterprise through an “umbrella” of powers known as block exemptions, other approved schemes and also De Minimis aid.

The range of tools used by HIE includes the following:

- Advice
- Grants
- Loans
- Equity
- Tailored solution support

For advisory requirements, HIE has in house knowledge that we use in a team approach to support organisations with their challenges and opportunities for growth. Innovative businesses and social enterprises of growth can access advice and through various programmes, may be eligible to receive financial support through HIE.

HIE has developed a range of products and services to assist organisations to achieve their growth aspirations, including:

- Strategy workshops
- Leadership programme
- Entrepreneurship development
- A range of graduate placement offerings including a bespoke programme for social enterprises
- Access to specialist advice, e.g. Internationalisation

HIE is able to facilitate access to other support services such as Interface (Knowledge connection with business), Scottish Manufacturing Advisory Service (SMAS) and Scottish Development International (SDI).

In addition to the above, our ‘Board Healthchecks’, which are available to account managed and non-account managed social enterprises. This provides an in-depth assessment of the skills and knowledge of voluntary Board members in relation to the activities their organisations are involved with or wish to undertake. At the end of this process the Board is provided with a development plan highlighting any skills/capacity issues. In conjunction with this HIE has set in place a range of training programmes that can address the needs identified.
Social Investment Scotland, with support from HIE, is delivering a series of getting ready for investment workshops. These are aimed at organisations seeking an introduction to social investment and also to more mature social enterprises who are considering repayable investment packages for the first time.

Community Broadband Scotland (CBS) is a Scottish Government programme, led across Scotland by HIE. CBS works with those communities who will not be served by the Digital Scotland Superfast Broadband programme by providing support so that communities can gain access to faster broadband by creating and managing their own infrastructure.

HIE, in partnership with BIG, will deliver the Scottish Land Fund (2016-2020) with an annual budget of £10m. The new programme will provide support to communities (rural and urban) to acquire land and buildings for community benefit.

HIE has been working in partnership with the Third Sector Division of the Scottish Government to develop a programme to grow the social economy, which will be part funded by European Social Fund 2014-2020. A key element of this will be a social innovation fund with a budget of £1.08m in the Highlands and Islands.

Across the region HIE works with a number of Third Sector Interfaces, who also have a role in supporting the development of social enterprises; this partnership approach ensures that organisations can access the correct support at the right stage of their development.

4. What public bodies are doing and should be doing to encourage these business models

Social enterprise is critical to the economy and society of the Highlands and Islands, and the social enterprise business model is an active choice for many of our region’s most innovative entrepreneurs. HIE therefore highly values the intrinsic importance of the social enterprise sector. In terms of support and encouragement HIE invest through direct support, tailored products and services, account management and capital investment (as outlined above). HIE also provides support so that the leadership, innovation and the business dimensions of the sector can be strengthened, in turn supporting increased capacity, development and organisational growth.

In addition to account management, HIE provides support across the area to develop the social enterprise sector and potential clients for account management through a variety of mechanisms.

Just Enterprise – HIE in partnership with the Scottish Government fund this programme that supports social entrepreneurs to start-up social enterprises, ongoing business development as well as learning opportunities.

Social Enterprise Academy (SEA) – HIE contracts with SEA to deliver a range of opportunities that assist social/community enterprises to develop new businesses opportunities that will increase their sustainability, along with leadership development.

Vital Spark – HIE is the main funder in this innovative project delivered by Firstport. Vital Spark aims to build enterprising local cultures through creating social enterprise hubs where emerging social entrepreneurs can flourish and set up social enterprises. The project is based in Dunoon, Rothesay and Campbeltown.
HIE has utilised its experience of working with social enterprises, and the extensive knowledge gained from the census, to formulate a programme of work centred around the Scottish Government’s four economic priorities Internationalisation, Innovation, Investment and Infrastructure with the aim to further grow the contribution that social enterprises make to Scotland’s economy. This programme will be delivered over the next two years.

Co-operative Development Scotland and HIE

Where succession challenges may be present, or the business may benefit from an employee-ownership model, HIE will signpost organisations to Co-operative Development Scotland (CDS) for specialist support.

CDS will work with organisations where HIE requests support, and also with and other organisations from the Highlands and Islands that find their way directly to CDS. Once CDS conclude initial discussions and where CDS believe there is an opportunity for the model to work for an organisation, HIE may support an organisation by funding an element of consultation costs. This support is discretionary and has in the past been provided to organisations which are not account managed by HIE.

Part of the journey for the organisation may be about demonstrating ambition and growth potential, so there is a natural role for HIE to understand those ambitions and if there is further support that should be provided. Those considerations may in future mean that more employee-owned businesses enter into account management and achieve follow up support through HIE.