SUBMISSION FROM HISEZ

1) While the recent SE Census lays down the starting point for measuring the scale of social enterprises in Scotland, we must remember that the figures are heavily influenced by a small number of exceptionally large organisations, especially Housing Associations and Credit Unions. If these groups are removed from the assessment of social enterprises in the Highlands and Islands, it leaves a large number of very small organisations; there may still be a handful of businesses with a turnover in excess of £1M, but most are much smaller and their assets are minimal. Understanding the scale of social enterprises is therefore important, but we need to remember that many in the more remote areas are tiny; however, their social purpose is likely to be critical and since by their geography their customers are likely to be few and far between, the Scottish Government should keep this in mind when offering support to the sector. While the First Minister and others may be aware of the high-profile social enterprises that operate around the big cities, it may well be the thousands that operate beyond that really need government understanding and support. The needs and experiences of these thousands of much smaller organisations are less likely to be known to Government as such organisations lack the resources to make themselves known in these arenas. Over the last few years we have seen a number of large high profile social enterprises in Inverness and further afield close their doors, whilst others have started up. Similarly some have shrunk and others have grown – it is a mixed picture and the vast majority remain vulnerable to financial pressures, particularly cuts in the budgets of the public sector.

2) HISEZ is a CIC, the social purpose of which is to support the start-up and growth of social enterprises in the Highlands and Islands. As delivery partners in the Scottish Government's Just Enterprise contract, and as contractors to HIE and Social Investment Business, we see around 100 social enterprises per year. HISEZ has been innovative in the following ways:

a) We avoid grants believing that they may lead to a loss of focus on the social purpose. We concentrate on finding contract work and this has led us to deliver a profit in 6 of the past 7 years.

b) We believe that unpaid directors may not always understand how a business works, so three of our seven directors are also employees of the company who are involved in day to day delivery.

c) We put our money where our mouth is and instead of seeking grants to buy our office, we obtained a 20 year mortgage from RBS.

d) Having employee/directors has enabled us to consider the very practical way in which we deliver our service and we now always work in pairs. This is counterintuitive as it doubles the (high) travel costs, but it leads to better delivery for our clients and to greater employee satisfaction. HISEZ staff numbers have risen from 2 to 6 over the past 5 years.

e) We find it interesting and perhaps disappointing that tax relief is not available to staff wishing to invest in the social enterprise that employs them and we would encourage the SG to consider this.
f) HISEZ bought a building with the express intention of creating a space that would be attractive to other social enterprises; we now count Community Energy Scotland and Social Investment Scotland amongst our regular tenants and have ongoing visits from Day One, HIE and Community Land Scotland. These tenants and visitors enable HISEZ to pay the mortgage and do away with the need for grants.

g) HISEZ is currently engaged in a conversation with researchers in Hokkaido, the northern island in Japan with a view to developing a relationship in an area with similar problems but very different social structures.

h) HISEZ has tried to truly embed the principles of equality in its operations. We are a highly flexible employer with no set work place or hours, but both are adapted to meet the needs of each employee. As those needs change over time, so does the method of working. So some of us work from home, others from the office, and others do both. Working round school hours suits some staff, whilst for others working in the evening is preferred.

i) we are working in partnership with Inverness College UHI, the Inverness Chamber of Commerce, and a private business, to deliver a UKCES funded project providing training for small businesses in the Highlands and Islands. This Catalyst programme aims to deliver enterprise training in a different way, and to reach clients who would not ordinarily take up training.

3) There is no shortage of funds available to the sector, but problems remain:

a) social enterprises and small businesses frequently do not know how to fund different items. They frequently do not understand term loans, overdrafts, leasing and the various forms of security that are required. We think that this may lead to future problems particularly with the recent enthusiasm that is being shown for the SCIO legal structure which in our opinion is in its present form, frequently unsuitable as the legal status for a social enterprise. SG should ensure that finance training remains core to the offering to the sector.

b) While grants remain, social enterprises will continue to apply for them. But the grants themselves lead to problems; we frequently see prices rising when the contractor hears that a grant is available, and we have personal experience of this. Some funders also encourage social enterprises to be more ambitious encouraging groups to apply for grants which are greater than their needs. Again we have direct experience of this.

c) We suspect that grants also have a direct effect on the application process itself. At a recent training session HISEZ carried out an experiment where we split the delegates into two groups. We set scenarios for the groups where the set-up costs were £9,000 and we asked each group how much cash they would need to deliver the project. The average figure when a grant was involved was around £20,000. Without a grant it was £6,000. We were shocked at this but it has been repeated on further occasions and with the same results. We first delivered this in Benbecula so we have named it the Benbecula Principle.
As regards support, there is no shortage in the Highlands and Islands. Business Gateway and Just Enterprise is delivered everywhere, BIG deliver support through their contract with Social Investment Business and HIE also offer it through their contract with PA Consulting. Last week HISEZ met an organisation that had had no fewer than 6 consultants in the past year. However, SG may care to consider whether national or international contractors are the best way to deliver advice and support to small local organisations when it is impossible for them to have an awareness of the social and business realities in small, remote communities. Again, we have direct experience of wrong information being put into feasibility studies and business plans, simply because the contracting advisor was parachuted in for a day and had little relevant knowledge of the community. An easy solution to this problem is to reduce the size of the advice contracts to encourage local contractors to take part in the tendering process.

4) SG is funding a substantial number of support organisations and it is perhaps time to revisit this. Social Enterprise Scotland, Senscot, Development Trust Association Scotland, Social Firms Scotland, Social Enterprise Academy, and many others receive core funding from Scottish Government and each of these organisations is based in Edinburgh. This must be wrong. The talent in this sector is spread throughout the country and so should the support organisations. There is no market failure now, so the Scottish Government should decide what it wants and should go out to tender for all of this in the same way as it does for the Just Enterprise contract. There is no logic to some organisations like HISEZ having to survive on contract work alone when organisations delivering some of the same services are receiving core funding.

SG could lever in more funding to the SE sector by creating safety nets to encourage more risk taking. This could include:

a) generous start-up loans that would only be repayable at such time as the organisation begins to generate surpluses.

b) tax relief for employees wishing to invest in their company.

c) encouraging Social Investment Scotland to act as an investor to create a market in social enterprise businesses.

d) underwriting or guaranteeing commercial loans undertaken for social purposes.

e) taking equity in appropriate small company start-ups. Brian Weaver having been involved in delivering the Business Start-up programme for HIE 10 years ago, has recent knowledge of major successes in some of these businesses, one with a turnover of £1M a month and another which was recently sold for £70M. Early investment by government agencies in these businesses would have created a substantial revolving fund to support future start-ups.

Finally, from the HISEZ experience with small social enterprises, we feel we should flag up some general concerns that the government should be aware of. We frequently see unpaid directors trapped in a problem not of their making and these
problems can be immensely distressing, and again we speak with personal experience. We have seen:

a) unpaid board members being responsible for debt because they were not protected by a legal structure - yet a funder awarded them a grant.

b) unpaid and inexperienced board members being responsible for million pound businesses

c) unpaid and inexperienced board members having to make substantial numbers of well-paid staff redundant.

d) board members who are unaware of their responsibilities when the company is facing insolvency.

We should not expect ordinary people to be able to go from running local volunteer groups to running a substantial business over a short time. HISEZ has grown from 2 to 6 people, has bought an office and has a turnover of £200K, but we have done this over 6 years with highly capable directors and very diligent staff. However, we see local organisations who receive massive grants and are suddenly propelled into the building and operating of a substantial business with little previous experience. This year many of these directors are going to be faced with the responsibility of ensuring that all their employees also have pensions.

These responsibilities are massive and I would make the following suggestions:

1) The Scottish Government should investigate the central provision of pensions for everyone in the sector.

2) It should be illegal for any funder to award a grant to an organisation without incorporation.

3) Every social enterprise in receipt of any award must employ a company secretary with a relevant qualification to ensure that the organisation adheres to the rules which apply to it at any one time.

4) There should be a specific insolvency service to lift the responsibility from board members at an early stage.