INTRODUCTION
This paper will cover three of the four areas which the Scottish Parliament EET requested evidence on: innovation, funding and support for social enterprise in Scotland. It is written by Jim Bennett who has thirty years’ experience in working with and for social enterprises. He is a Director of SKS Scotland CIC and Freedom Bakery CIC and has had a long association with the Camphill Movement as a consultant.

Please press CTRL and click on phrases underlined in blue to access further details.

INNOVATION
We will give three examples of innovation which the committee may find interesting: SKS Scotland CIC (creating jobs for people with long term conditions), Freedom Bakery CIC (financial innovation based in a prison) and the Camphill Movement (reorienting from charitable to socially enterprising business model).

SKS Scotland CIC: is a Community Interest Company Limited by Guarantee which has a social aim of providing jobs for people with long terms conditions through its provision of consultancy services. It has:
- Operated for the last five years
- Offered flexible employment opportunities to up to 10 people in anyone one year
- Delivered structured, paid for support to around 20 other social enterprises in each year
- Operated without external grant support for its day-to-day work (i.e. based on commercial income)
- Delivered around 75% of its work through people with long term conditions
- With the support of The Alliance founded Work4ME, a consortium cooperative which brokers work opportunities for self-employed people with the chronic disease ME.
- Achieved a turnover of around £120k pa, making profits and paying tax.

Many thousands of people, 40% of the population in Scotland, live with long term condition including M.E., Diabetes, Arthritis, Depression and a range of others. The chronic nature of these conditions, and their unpredictably, inhibits many of their sufferers from accessing and maintaining meaningful employment. SKS Scotland CIC and its sister Work4ME’s approach, partially akin to the models outlined in the Harvard Business Review, offer an opportunity for people with debilitating long term conditions to access the jobs market in a flexible way. Problematic areas include:
- Issues for Work4ME co-operators with benefits entitlement whilst working
- The difficulties of operating a social firm such as Work4ME and SKS Scotland CIC purely commercially whilst requiring also providing support for its staff with long term conditions.

 Freedom Bakery CIC is a Community Interest Company Limited by Guarantee based in Low Moss Prison which will reduce re-offending rates by offering prisoners training as artisan bakers, equipping them with skills needed for employment. It achieves this within the context of a prison-based commercial bakery.
three-fold: a wholesale bakery, direct retail as well as operation of the Prison Visitors Café.

Its start-up funding is unique in Scotland as the first and only user of the UK Government’s Social Investment Tax Relief (SITR) incentive scheme. £50k of the start-up capital for Freedom Bakery was raised via SITR. Six private investors invested in around £8k each. This means that the investors get roughly a 1.8% per year return from the Bakery but about 7.5% pa from the HMRC, giving a return of around 9.3% pa in total. However, the cost to Freedom Bakery of the finance is only 1.8% pa, compared to the 6-8% currently being asked for by other social lenders. So, Social investment (with associated private profit) is actually around a quarter the price of current social loan finance – incredibly good value for social enterprises. Resilient Scotland also assisted with a £25k loan (at 6%) and a £12.5k grant.

Reoffending in Britain costs the taxpayer £15 billion per year. 50% of Scottish prisoners come from addresses in just 155 of the 1,222 wards in Scotland. Of those released from Barlinnie, only 3% find employment. Research tells us that ex-offenders are likely to be unemployed, have fewer qualifications, report financial difficulties and are likely to reoffend if jobless. Supported Employment/Training such as offered by Freedom Bakery has been successfully used as a model for supporting ex-offenders to secure and retain paid employment. 97% of UK bakery sales are by industrial bakers. Freedom makes bakery products using healthy, traditional craft techniques and locally sourced ingredients. Both the products and processes make social impact. Problem Areas include:

- The difficulties of operating a social firm purely commercially whilst requiring also providing support for its staff in readjusting to the labour market
- Cultural fit within a Prison establishment
- Commercial limitations of operating within a prison establishment.

Camphill Communities in Scotland There are 11 Camphill communities in Scotland basing their work on the philosophy of Rudolf Steiner and working here for the last 70 years. They support more than 500 people with learning disabilities and other needs. All Camphill communities focus on the needs of individuals, and how people can be supported and encouraged to develop through community life. At the same time, each Camphill community is slightly different, in the people they support and in the things they offer. In this section, we will give examples of three Camphill Communities: Blairdrummond, Corbenic and Simeon.

The communities named are all charitable companies Limited by Guarantee, all employed significant numbers (50-100 staff each), turned over £1 million + p.a. each, contracted with up to 30 local authorities and provided below average cost care. However, their business models were based on a charitable framework and required revising to avoid depleting reserves and lack of profitability.

The three organisations decided that they needed to expand their client base in order to survive which meant each of them developing new premises. Against a background of few reserves, difficult profitability and no substantial history of external fundraising they entirely reoriented their business models and set out plans for significant capital development. Capital development would:

- Increase numbers of clients
- Build economies of scale
- Develop comfortable profitability levels
- Begin to establish decent reserves
- Recruit additional staff
- And build their quality of service.

In each case, the plans took a few years to complete, however, each succeeded in financing the construction of new buildings to expand their client base and long term profitability. The important elements in this include:
- A move from a charitable business model towards a socially enterprising model
- Preservation of philosophical approach and social impact
- The assistance of significant technical expertise, networks and commitment from their respective boards
- Significant financial investment from Camphill in consultancy, fundraising and architectural advice,
- The key initiating role played by accessing Social Investment Scotland’s (SIS) former 50% Loan / 50% Grant funding.

It’s very important to point out that Social Investment Scotland’s total of £2.4 million part loans, part grants played a key role in acting both as a commercial focus for the organisations in their transition but also as an assurance to other potential funders that due diligence had been completed by a reputable source. This provided a building block for the development of each organisation’s funding campaign.

**Funding**
There are a number of issues requiring to be addressed in this section, including: Senscot’s Code, UK Tax Incentives, promotion of loan investment and failures in past funding programmes.

*Senscot’s Code*: although this code has no formal role, many funding organisations take their cue (including the SG) in addressing social enterprise through its content. The key problem with it is that it specifically rules out organisations which distribute even part-profit or dividends from being classified as social enterprise. As a result, the SITR approach taken by Freedom Bakery CIC wouldn’t be encouraged. The consortium cooperative tac taken by Work4ME wouldn’t be deemed a social enterprise and most shares based approaches such as Community Interest Companies Limited by Shares or Industrial Provident Societies wouldn’t meet with approval. In the case of shares based “social enterprises”, since 2009, 286 community share offers have been successfully completed or are underway in the UK. According to the Community Shares Unit, more than £80m of share capital has been raised from over 60,000 investors since 2009. The approach of the Senscot Code limits the promotion of these routes, particularly CIC Ltd by Shares, in Scotland.

Community Interest Companies Limited by Shares has a number of attractive features which promote investor confidence: an automatic ‘asset lock’ is designed to ensure that the company’s cash and assets are only used for the stated community purpose. A ‘dividend cap’ ensures that a CIC limited by shares can only distribute 35% of distributable profits to shareholders and the other 65% must be reinvested in
the community mission. And the CIC is overseen by a community interest regulator who will only register it if it has a genuine community purpose.

Against that background, the Senscot Code confuses good, local social enterprises with the likes of a Goldman Sachs share offering. It might be worth taking a more nuanced approach towards social investors. Obviously Goldman Sachs aren’t in it for the social return but if you’re going to attract small scale investors looking for potentially good returns with an ethical base, then this is an excellent approach. We think it is important to recognise that community share issues and Social Investment Tax Relief provide real opportunities to bring small investors into financing social enterprises. People who have no connection with social enterprise before, providing risk capital less expensively than standard lenders should be welcomed rather than its rejection by the Senscot's Code.

**Loan Finance:** There are a large number of social lenders making offers to Scottish social enterprises. However, we feel that the ending of Social Investment Scotland’s (SIS) former 50% Loan / 50% Grant funding scheme is a loss to the sector. The scheme was part financed by SG and withdrawn some time ago. We feel that the incentive of combining a loan with a grant assisted the Camphill Communities in Scotland in a crucial period of their shift from a charitable business model to a socially enterprising model. The part grant/part loan approach is being taken with great effect by Resilient Scotland but it is restricted to particular geographic areas. It would be worth examining its reinstatement to support asset acquisition and development.

**Past SG Funding Programmes for Social Enterprise**

There has been a difficulty in past funding programmes from SG to social enterprises:

- The funding programmes have been intermittent
- They operate on a rapid turnaround, time limited way e.g. single year programmes where all finance is to be physically spent by short deadlines
- Criteria are often vague e.g. talking about capital investment but on enquiry excluding building programmes
- The criteria are often odd e.g. allowing “fit outs” of premises but not “refurbishment” (we can supply correspondence)
- Peculiar decision making e.g. funding one project but denying a virtually identical one (again we can supply details).

One of the problems in the larger funding programmes is that their administration is often undertaken by consortia of Scottish social enterprise support bodies which lack experience in fund management. Additionally, given intermittent funding cycles with short notice and short deadlines, the view could be taken that the clients of those agencies which administer the funding programmes might be better prepared to access those funds rather than others which are not.

**Support to Social Enterprise in Scotland**

Scotland does not lack for social enterprise support agencies. The Scottish Government has tried to develop a coherent support framework over the last few years which has partially succeeded. However, criticisms of the support offered includes
the observation that quality levels, particularly in the Just Enterprise programme, vary considerably.

Each local authority area in Scotland also has a Third Sector Interface to support, promote, develop and represent the third sector which includes social enterprise. There is a continuing turf war between many local SENs and TSIs which can be unhelpful. Again, the quality of work completed by TSIs is completely variable, dependent on the individual organisation and staff involved.

The problematics of both the Just Enterprise and TSI approach is that the organisations involved tend to employ full time staff who offer the advice and support to social enterprises. This always gives an incentive to keep support offerings in-house so that the host organisation is paid for the work. Whilst this might be of benefit to the contract holders of the Just Enterprise programme and TSIs, it means that the social enterprise clients are fishing in a limited gene pool of support.

There are two examples in Scotland where a different mechanism is employed successfully: Highlands and Islands Enterprise and Cooperative Development Scotland. Although they differ in degrees, the general approach towards supporting social enterprises and coops is similar and far more tailored to the needs of social enterprises than Just Enterprise or the TSIs.

Highlands and Islands Enterprise account management structure allows for specialist support to social enterprises by pre-screened specialist consultants on an HIE register. When a request for support is received, an invitation is given to the consultant database with interested consultants returning a one-page expression of interest. The most appropriate consultant is then chosen based on the specific needs of the social enterprise and paid a fixed rate for the job. The system will be cheaper and more effective with no incentive for host organisations to utilise their own staff who may not be appropriate for the job.

Cooperative Development Scotland operates a specialist advisor programme where they select specialists for any project from a list of practitioners recruited through a framework agreement. Again, clients receive specific, quality advice appropriate to their needs rather than simply the staff who happen to be employed in any contract holding organisation.

Summary
In summary, we would like the committee to recognise:

- SKS Scotland CIC and its sister Work4ME in creating jobs for people with long term conditions
- the financial innovation of Freedom Bakery CIC in utilising SITR and operating in a prison environment
- the assistance of 50% Grant/50% loan funding utilised successfully by Camphills Blairdrummond, Corbenic and Simeon in their transition from charitable to socially enterprising business models
- the difficulty in operating a social firm commercially whilst requiring to support staff with additional needs. Perhaps SG could look at potential support for this?
that funders should perhaps take a more nuanced approach towards social investment than Senscot's Code, particularly in relation to Community Interest Companies Limited by Shares

that investment incentive schemes such as community share issues and Social Investment Tax Relief could play a much greater role in the Scottish social enterprise scene

that 50% Grant/50% loan funding programmes (or similar) are useful to incentivise social enterprises in transition

that SG funding programmes need to be longer term, less intermittent and operated by professional grants administrators

that the support structure for social enterprise might benefit from an assessment of its effectiveness and value for money as compared to the Highlands and Islands Enterprise and Cooperative Development Scotland approaches.

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