SUPPLEMENTARY SUBMISSION FROM SKS SCOTLAND CIC

An Overview of Social Enterprise

Social Enterprise has had a long and proud tradition beginning in the mid-19th century with the advent of Cooperativism led by the Rochdale Pioneers. The movement has moved through various incarnations including: the reinvention of cooperatives in Mondragon in 1950s Spain; the 1970/80s Community Business movement (led primarily by John Pearce, see Social Enterprise in Any Town); Community Enterprise in the 1990s, followed by the re-definition of the approach as social enterprise by the first Blair Government.

There have been significant disputes regarding definition of social enterprise which could be categorised as a Scottish versus Anglo-US approach.

- The Anglo/US approach is based on the concept of “impact business” advocated by the Schwab Foundation, Harvard Business School and in the UK, UnLtd. For this approach, there is a “what works” philosophy to creating social impact; organisational form and democratic/community control are not relevant. Private profit is acceptable and the role of the individual social entrepreneur is key. For the advocates of this approach social enterprise is any entity that uses earned revenue to pursue a double or triple bottom line

- The Scottish approach is firmly based on the work of John Pearce. It is summed up in the Senscot Code of Practise which emphasises: trading in the marketplace; a lock on assets; democratic control and non-distribution of profit. Values, good employment practises, collaboration and empowerment are key foci rather than simply social impact.

The Scottish and UK social enterprise policy frameworks have shifted apart over the past 10 years. UK Government policy moved significantly since the 2010 UK general election. Some have argued that UK support for social enterprise lies in a Thatcherite approach. Key issues include The Big Society, public service reform and the Localism agenda predominated. Briefly:

- **Health** - The UK Health Act indicated that individuals will have the power to choose any healthcare provider that meets NHS standards

- **Education** - Reforms enabled communities to set up and run “free schools” and will develop new “Academy Schools”.

- **Housing and Local Government** - Reforms gave people and organisations the right to request to take over local state-run services and the right to buy community held assets.

The general direction of travel was clear: England saw revolutionary change in the public service landscape which had a significant impact on the social enterprise sector.
The Right to Request initiative was introduced by the Labour Government in 2008 as a process through which NHS clinicians and managers working in the NHS in England could seek to develop a social enterprise to deliver Community Health Services. It also provided access to the Social Enterprise Investment Fund which could be used to support staff groups in completing their business cases. The former Coalition Government continued the scheme, and it is estimated that approximately 10% of the community health services currently provided by Primary Care Trusts are in the process of completing their business cases or have already launched as social enterprises.

In August 2010, the Cabinet Office launched the first wave of new Pathfinder Mutuals that piloted groups of public sector staff in a range of service delivery areas who are exploring spinning out into their own organisations.

Former Health Secretary Lansley has declared a wish to transform the NHS into “the largest social enterprise sector in the world”.

In Scotland, the Governmental path taken was less radical and not so aggressive an assault on the idea of public service provision. The policy and funding framework from the Scottish Government based itself on the Senscot Code, emphasising asset ownership and investment in organisational effectiveness, developing trading income levels, support for international social enterprise activity and developing new markets.

The Scottish Government and COSLA have jointly endorsed the concept of community anchors as the key feature of when genuine community empowerment takes place. This opens up new opportunities for social enterprise approaches reflecting that anchor role by:

- Providing a vehicle for community asset acquisition and management
- Providing a catalyst for sustainable community regeneration;
- Providing services for its constituency;
- Driving community renewal and local environment;
- Operating in partnership.

The Scottish Government argued that social enterprises potential should also be seen against the backdrop not only of the Community Planning Agenda, the Community Empowerment Act but also the likely devolution of powers from Central to Local Government and subsequent emphasis on subsidiarity principles. The new EU Structural Funds are also likely to be very supportive of this approach.

In Scotland, there are estimated to be around 3500 social enterprises which include:

- Trading charities and SCIOs
- Community Interest Companies both limited by Guarantee (Senscot compliant) and by Share Capital (not Senscot compliant)
- Cooperatives (some Senscot compliant and some not)
• Community Benefit and Industrial Provident Societies (some Senscot compliant and some not).

Types Scottish Social Enterprises include:

• Development Trusts
• Social Firms
• Community Land Buy Outs
• Credit Unions
• Community Energy Companies

The future spread of Scottish social enterprises will likely be most noted, although not exclusively, in the following markets:

• Asset transfer holding bodies from Local Authorities based on the new Community Empowerment Act
• Organisations active in local energy company ownership
• Community Land buyouts
• Social care including residential/domestic/day-care and brokerage for self-directed support.
• Employability support based on the devolution of further powers to the Scottish Government
• And, the role of individual social entrepreneurs, such as Frankie Hodge and Jackie Dunsmuir and Matt Fountain.

Jim Bennett
SKS Scotland CIC
December 2015
Support for Social Enterprise in Scotland

A very useful database of social enterprise support agencies has been developed by Senscot and can be found here. The database is divided into a number of thematic areas:

- **START UP DEVELOPING, PLANNING & TRAINING**
- **GOVERNANCE & LEGAL**
- **FINANCE & FUNDING**
- **BUSINESS DEVELOPMENT**
- **IMPACT MEASUREMENT**

Social Enterprise in Scotland has a number of umbrella groups which act as information, training, lobbying and policy making bodies which are useful to be aware of. These include:

- **Social Enterprise Scotland**: the national representative body for social enterprise. One of our consultants was a co-founder of SES under its previous incarnation as the Social Enterprise Coalition.
- **Social Enterprise UK**: Social Enterprise UK sees itself as operating in non-devolved areas in Scotland and are therefore a useful source of information/lobbying, especially on taxation issues.
- **Senscot**: is the influential national network for social entrepreneurs (which one of our consultants is a former board member of). Its weekly bulletin is a useful source of information and polemic on social enterprise issues.
- The **Social Enterprise Networks**: are a range of thematic and geographic networks which link social entrepreneurs active in Scotland.
- **Development Trusts Association**: DTA Scotland (founded originally by Senscot and the Association of Small Towns in Scotland) is an invaluable source of support to local asset based Development Trusts. It offers and excellent range of services on many issues facing Development Trusts. An example of this is:
- **Community Shares Scotland**: which advises on and develops community based share supported organisations.
- **Social Firms Scotland**: Social Firms Scotland is the national support body for Social Firms in Scotland. A Social Firm is a specific type of Social Enterprise where the social mission is to create employment, work experience, training and volunteering opportunities for people who face significant barriers to employment.
- **HISEZ** offers Business Support to new and existing Social Enterprises throughout the Highlands and Islands. HISEZ deliver support as part of the Just Enterprise Programme as well as networking opportunities and training.
- **Community Land Scotland**: the representative body for Scottish community landowners.
- **Voluntary Action Scotland** is the national organisation for local third sector infrastructure. Each local authority area in Scotland 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.
A range of Scottish Government supported initiatives are operated, sometimes by social enterprise agencies, and at other times by quasi-Governmental agencies:

- **Just Enterprise**: is a consortium bringing together Scotland's social enterprise support agencies to provide business support and development services to Enterprising Third Sector Organisations across Scotland. Its principal role is to deliver the Scottish Government's contract for Business Support to the Enterprising Third Sector.

- **Ready for Business** delivers the Developing Markets for Third Sector Providers programme. The programme, offers a unique opportunity to develop and embed a number of leading market development solutions, including the Public Social Partnership (PSP) model, Community Benefit Clauses (CBC) and the use of Social Value throughout public sector commissioning and procurement in Scotland.

- **Co-operative Development Scotland**, an arm of Scottish Enterprise, supports the development of co-operative and employee-owned enterprises across Scotland. Support includes exploring the options, structuring the company, financing the business and developing member participation. We are CDS specialist advisors.

- **Business Gateway**: supports business in Scotland including taking on account managed organisations such as larger social enterprises which meet their criteria. This can assist them with Intellectual Property, business growth and international expansion.

- **Highlands and Islands Enterprise**: provides similar services to Scottish Enterprise but additionally, specific support for Community Land Buyouts, account managed communities and social enterprises and vulnerable areas.

A number of social enterprises provide their own paid-for support services for social enterprise. They include:

- **SKS Scotland CIC**: a social enterprise which specialises in consultancy support to other social enterprises and Third Sector organisations. It is a paid for service which uses its income generated to provide employment and services for people with long term conditions.

- The **Social Learning Company** provides access to expertise, advice and consultancy specialising in EU transnational programmes and agricultural based programmes.

- **CEiS**: a significant social enterprise which offers support to social enterprises across Scotland both on a paid-for basis and through Scottish Government contracts.

- **CEL Ltd**: a West Lothian based social enterprise offering a Scottish wide service including marketing development, venue advertising and social enterprise product sales platforms.

Learning is an important area of social enterprise support provided by two main social enterprises:

- The **Social Enterprise Academy**: was co-founded by one of our consultants to provide social enterprises and Third Sector organisations with sector specific learning and development opportunities. The Academy now works on an international basis in countries such as Australia, South Africa and Ireland. It
has an international reputation for the quality of its leadership programmes and provides Government contracts in schools and amongst social enterprises on a geographic and thematic basis.

- The **School for Social Entrepreneurs**: provides intensively supportive programmes for start-up social entrepreneurs co-financed by the Bank of Scotland.

Scotland does not lack for social enterprise support agencies. The [Scottish Government](https://www.gov.scot) 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.

**Jim Bennett** of **SKS Scotland CIC**

December 2015
Funding & Legal Identity for Social Enterprise

This briefing mainly related to funding in Scotland for social enterprises although it will also be relevant to those based in the UK. We make the assumption in the following that the core activity of all social enterprises is trading, so we have not addressed this here. In assessing a funding/investment plan for social enterprises, the following should be taken into account regarding legal identity:

- The ability to maximise external grant funding
- The minimisation of taxation
- Protection of individual business operation streams
- Ease of operation.

A number of key factors include whether the social enterprise:

- will hold property/assets
- will perform potentially charitable activity
- will perform straight forward commercial activity.

Financing Options

There are a number of potential financing options available:

- Crowd funding
- Charity/Trust Grants
- Governmental & Quasi-Governmental Grants
- Loan Finance
- Community Share Issues and their underwriting
- Social Investment and other Tax Reliefs

Pros and Cons of Some Legal Identities

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<tr>
<th>Type</th>
<th>Advantages</th>
<th>Disadvantages</th>
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<td>Charity by Guarantee or SCIO</td>
<td>• Potential Community control</td>
<td>• No ability to extract profit</td>
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<td></td>
<td>• Some Access to grants</td>
<td>• No financial return on investment for investors</td>
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<td></td>
<td>• Minimised taxation</td>
<td>• Can only operate “charitable” activities</td>
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<td>• Potential Social Investment Tax Relief</td>
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<td>• Future potential of restricted share issue dividends.</td>
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There is a new format emerging in Scotland which is a Charitable Community Benefit Society being developed between Community Shares Scotland and Stephen Phillips at Burness Paull Solicitors. This is fairly exciting (for us geeks) because it will allow investment by shares at the same time as having the advantages of charitable status. Watch this space!

**Charitable Grants**

Most social enterprises draw in some way from charitable grant finance. There are many commercial and free grant databases which can match geography, client group and organisational form:

- [Funding Scotland](#)
- [Grant Finder](#)
- [Funding Central](#)
• **Trust Funding.**
For start-ups, individuals can access small awards of up to £5000 then £20000 to develop their ideas from **Firstport**, usually followed, after incorporation, by an **Investing in Ideas** or **Awards for All** application for up to £10000. The **Big Lottery**, **Comic Relief** and **Children in Need** fund revenue and capital projects involving social enterprises.

**Governmental & Quasi-Governmental Grants**
The EU, Scottish Government, local authorities and the UK Government all have funds available for investment in social enterprise:

• **EU Funding**: The 2014-2020 EU programmes consist of substantial levels of investment in a number of streams, many of which support the role of **social enterprises**. Particularly in the field of **employability**.

• **Scottish Government Funding**: The Scottish Government has provided multi £million support for the development of social enterprise, from start-up to expansion and international work. One of our consultants conceived and developed the Governments **Social Entrepreneurs Fund**. Scottish Government support for social enterprises can also be found in their general **funding programmes**.

• **UK Government**: many Scottish social enterprises assume that UK funding is off-limits. Whilst this is largely true, there are occasionally **funding opportunities** promoted at UK level which can be missed.

**Loan Finance**
Loan finance is becoming more popular for social enterprises to develop activities including **new trading areas** and **capital development** (we helped each of these projects broker their funding). Information on Loan funders can be found here:

• **Scottish Community Investment Trust**: provides the best summary of loan providers in Scotland currently.

• **Social Investment Scotland**: offers loans in conjunction with Big Society Capital and others of up to £1m. They offer **flexible terms and start-up loans**. One of our consultants has been a member of investment decision making panels in SIS since 2007.

• **Resilient Scotland** has an excellent **grant/loan combination** for certain postcode areas available both to start-ups and developing social enterprises.

• **Big Issue Invest Scotland**: works in conjunction with **DSL** and **Life Changes Trust**

• **Triodos**: offer an ethical lending/investment policy.

Many social enterprises often use generalist business loan funders such as BoS and RBS, However, the noted new private entrants to the field of social enterprise finance include **Airdrie Savings Bank** and **Handelsbanken**.

*SKS Scotland CIC – An Overview of Social Enterprise*
Crowd & Peer Funding

Crowd Funding has become a significant new way of raising finance quickly with few strings. There are some crowd funding platforms specialising in crowd sourcing community share issues and a number which prioritise Scotland:

- The Lending Crowd
- Crowd Fund Scotland
- Just Giving

NESTA, amongst others, are lending their support to this developing area. A typical example of a recent small crowd funder that one of our consultants advised on is Common Good Food.

Community Shares & SITR

Taking a Community Shares approach would usually mean setting up a Community Benevolent Society. A summary of the attributes are as follows:

- Tax shelter for three years for investments up to £20000
- Board are elected by members – members are investors
- Members have an equal voting rights irrespective of investment
- Interest rates should be reasonable

The disadvantages for potential larger scale investors would be their potential lack of control of the direction of the company. A number of organisations can underwrite share issues, including:

- Resonance
- The Coop

An alternative/additional approach would be to utilise investment through Social Investment Tax Relief, Enterprise Investment Scheme (EIS) or Seed EIS (SEIS). An analysis indicates that SITR

- is not as generous as SEIS
- offers the same tax reliefs as EIS
- allows for tax relief on debt (unlike SEIS & EIS)
- is much more attractive for you financially than commercial loan finance
- can attract up to £200k investment for start-ups (soon to be £5 million)

SKS Scotland CIC worked on the very first SITR investments in Scotland, assisting a community bakery to raise £49k in SITR loans. The defining characteristics of the SITR loan are as follows:

- 30% of the amount invested is deducted from the investor’s income tax liability
• Carry back facility for investments made after 5 April 2015
• Investors must hold their investments for at least three years in order to qualify

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