



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 27 January 2016

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ECONOMY, ENERGY AND TOURISM COMMITTEE
4th Meeting 2016, Session 4

CONVENER

*Murdo Fraser (Mid Scotland and Fife) (Con)

DEPUTY CONVENER

*Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Chic Brodie (South Scotland) (SNP)

Patrick Harvie (Glasgow) (Green)

*Johann Lamont (Glasgow Pollok) (Lab)

*Richard Lyle (Central Scotland) (SNP)

*Gordon MacDonald (Edinburgh Pentlands) (SNP)

*Lewis Macdonald (North East Scotland) (Lab)

*Joan McAlpine (South Scotland) (SNP)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Lorna Baird (City of Edinburgh Council)

Audrey Carlin (Workshop and Artists Studio Provision (Scotland) Ltd)

Fraser Kelly (Social Enterprise Scotland)

James McIlroy (Eurobiotix CIC)

Ken Milroy (Aberdeen Foyer)

Simon Teasdale (Glasgow Caledonian University)

Chris Thewlis (GTS Solutions CIC)

Brian Weaver (Highlands and Islands Social Enterprise Zone)

CLERK TO THE COMMITTEE

Douglas Wands

LOCATION

The James Clerk Maxwell Room (CR4)

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 27 January 2016

[The Convener opened the meeting at 10:15]

Decision on Taking Business in Private

The Convener (Murdo Fraser): Good morning, ladies and gentlemen. I welcome you to the fourth meeting in 2016 of the Economy, Energy and Tourism Committee. I welcome all our witnesses, members and guests in the public gallery. I remind everyone to turn off or at least turn to silent all mobile phones and other electronic devices so that they do not interfere with the sound equipment. We have apologies from Patrick Harvie, who has to be elsewhere.

Are the members present content to take discussions of evidence heard on social enterprises and employee-owned businesses in private at this and future meetings?

Members *indicated agreement.*

Social Enterprises

10:15

The Convener: Under item 2, we are taking evidence this morning on social enterprises, and I thank all the witnesses for attending. This is a follow-up session to a session that we had in 2014, when we skimmed the surface of some of the issues around social enterprise. The purpose of today's session—and indeed next week's session—is to look at some of those issues in more detail.

Before we start, it would be useful to go around the table and introduce ourselves. I am a member of the Scottish Parliament for Mid Scotland and Fife and I am the committee convener.

Dennis Robertson (Aberdeenshire West) (SNP): I am the MSP for Aberdeenshire West and I am the deputy convener.

Chris Thewlis (GTS Solutions CIC): I am with GTS Solutions CIC social enterprise.

Chic Brodie (South Scotland) (SNP): I am one of the MSPs for South Scotland and, happily, I am the convener of the cross-party group on social enterprises.

Ken Milroy (Aberdeen Foyer): I am the chief executive of Aberdeen Foyer.

Gordon MacDonald (Edinburgh Pentlands) (SNP): I am the MSP for Edinburgh Pentlands.

Brian Weaver (Highlands and Islands Social Enterprise Zone): I am the chief executive of the Highlands and Islands Social Enterprise Zone—HISEZ.

Richard Lyle (Central Scotland) (SNP): I am an MSP for Central Scotland.

Fraser Kelly (Social Enterprise Scotland): Good morning. I am the chief executive of Social Enterprise Scotland.

Audrey Carlin (Workshop and Artists Studio Provision (Scotland) Ltd): I am the senior executive director of WASPS, which stands for Workshop and Artists Studio Provision (Scotland) Ltd.

Lewis Macdonald (North East Scotland) (Lab): I am an MSP for North East Scotland.

Simon Teasdale (Glasgow Caledonian University): I am a professor of public policy at the Yunus centre at Glasgow Caledonian University.

Johann Lamont (Glasgow Pollok) (Lab): I am the MSP for Glasgow Pollok.

Lorna Baird (City of Edinburgh Council): I am the social enterprise adviser with business gateway Edinburgh.

Joan McAlpine (South Scotland) (SNP): I am an MSP for South Scotland.

James McIlroy (Eurobiotix CIC): I am the chief executive of Eurobiotix CIC.

The Convener: We also have the official reporters, who are noting down everything that we say, and our clerks, who are here to assist us.

We have until about 12 noon so we have some time but I ask everybody who makes a contribution to keep their remarks short and to the point to allow as many voices to be heard as possible.

I will ask members to chip in from time to time with questions or points that they want to make and, if people want to respond, they can catch my eye and I will bring them in as best I can, as time allows. If somebody makes a point that you either strongly agree with or perhaps more interestingly strongly disagree with, as that is when we really want to hear from you, do not be shy about trying to catch my attention and jump in.

We will try to look at a number of areas. We had a presentation in a private informal session earlier this morning in relation to work that is being done around the "Social Enterprise in Scotland: Census 2015", which has been very interesting on the scale of the sector. We are interested in looking at some of the trends around that, including sector growth; how social enterprises contribute to innovation; funding and accessing funding; what support is available from public bodies; and what more needs to be done from a policy point of view to support the growth of social enterprises.

I will direct my question initially to Fraser Kelly—that is to allow you to get your thoughts in gear, Fraser, before I fire it at you.

We have heard a bit from the census about the scale of social enterprise in Scotland. Anecdotally, it seems to be a story of rapid growth in the sector over the past few years. Could you give us your take on the what is driving that growth in social enterprise, whether you expect the trend to continue, and whether you see social enterprise becoming a more important part of the business and social and economic scene in Scotland over the coming years?

We will start with Fraser, and then get other views.

Fraser Kelly: Thank you, Fergus—

The Convener: I should say that I am not Fergus. I have not been promoted to minister yet.

Fraser Kelly: Murdo, sorry. My apologies.

The census data that I mentioned earlier was something that we did not have previously. It has set a baseline for where we take social enterprise in the future.

Jonathan mentioned the likelihood that we would repeat the census in two years. We will repeat it in two years and assume that the landscape will have changed.

Without policies to make the growth tangible, the census will say either that the number has increased by a couple of thousand or that it has gone down by 400 or 500 or a couple of thousand because the marketplace has changed and the conditions in which social enterprises are operating have changed for the better or worse.

The policy interventions that are already in place need more promotion around, for example, the Procurement (Scotland) Act 2015, which we could be making more of. In the view of Social Enterprise Scotland and its members, that was an important piece of legislation, but it was as if we were through on goal but managed to hit the post. It could have gone further.

To encourage business models, public bodies could and should be creating opportunities through their contracting and commissioning processes and driving the pace of health and social care integration, which, to some of our members, appears to be moving at the pace of glacial contraction. We could be doing more to create market opportunity.

On assessing the sources of funding and support that are available, you have already heard a number of comments on grant funding. We need to move away from the language of funding and talk about funding and investment in social enterprise. There are a number of emerging models and resources. The issue is not an absolute shortage of money: organisations are now entering the market to make social investments rather than simply to offer grants.

As I said before Jonathan Coburn spoke to us, social enterprise is in a reasonably robust condition. That said, there are some challenges and pressures. As the demand for public services grows, the resources are declining. How do we bridge that gap?

The more encouraging data that were included in the census results are around consumer-facing social enterprises that are providing goods and services to meet a public demand.

There is greater opportunity for us to influence the decision making of 5.3 million people in the street than the commissioning processes of 32 local authorities. Social enterprise is reasonably robust in the round but it needs policy intervention

and active implementation of those policies to make it grow.

The Convener: Thank you. We will want to explore a lot of the issues that you have touched on.

I should say for the record that the Jonathan to whom you referred was Jonathan Coburn from Social Value Lab who gave a presentation on the census to the committee in an informal session earlier today.

For the moment, I want to stick to the point about growth of the sector and future opportunities. Are there other thoughts on that from around the table?

Brian Weaver: The interesting thing about the research that Jonathan Coburn showed us was that 22 per cent of the social enterprises that are operating are in the Highlands and Islands area. There is no magic reason for that. Ms Lamont asked in the pre-session about how things were changing. The reason for the number of social enterprises in the Highlands and Islands is simply because, if you are living in a very small community, nobody else is going to do it for you. If there has only been one autistic child in your community in the past 25 years, nobody is going to parachute in and deal with that problem. Your community has to find a way of dealing with it for itself.

As budgets are cut or as funding goes down or is provided in different ways, I suspect that more social enterprises will start up in the rest of Scotland because people will realise that they represent a way of solving a problem or delivering something for their community in the way that the Highlands has been doing for the past 40 or 50 years.

The Convener: That is a very good point. When I was in Glenelg last summer, I travelled on the Glenelg to Kylerhea ferry which is run by a community interest company that local people formed to save a vital public transport link that would otherwise have disappeared.

Brian Weaver: I would like to make that point, too—in the Highlands and Islands, social enterprise is not just about social care. It applies to everything from the petrol station to the ferry to the post office to the forest. There are loads of things about which communities in the Highlands say, “That’s what we need.” What makes our job really interesting is the fact that those folk are just running businesses in the same way that James McIlroy is.

Chic Brodie: This question is for any of our guests. It is clear that the Highlands and Islands is an exemplar for what can happen, but why is the growth in social enterprises in Glasgow so great?

Johann Lamont: That is partly to do with the fact that Glasgow City Council is a co-operative council.

Chic Brodie: Do any of our guests have any ideas on that?

Ken Milroy: As far as Aberdeen Foyer’s origins are concerned, the local authority was critical in helping to bring together public and private sector interests, which was the starting point for the organisation. I think that local authorities have a key role to play, although they might not have a direct input and that might happen through the community planning partnership. Some of the structures have changed but, for us, the local authority was critical in establishing the organisation.

Lorna Baird: The level of growth in Edinburgh is similar to that in Glasgow. One of the reasons for the situation in Edinburgh is that the local authority business gateway and all the other support agencies have a very joined-up approach. We are definitely working together very closely. A strategy is in place and we have strategy implementation meetings to progress it. That means that we are all pulling in one direction rather than operating individually. More can be done, but it is essential to have a strategy and a strong social enterprise network that leads the way and co-ordinates a lot of activity.

As far as my role is concerned, I aim to provide a bridge between mainstream support and specialist social enterprise support to ensure that social enterprises that are starting or growing have access to all the resources that are available, not just the specialist social enterprise resources. After all, we need to be mindful that a social enterprise is a business. It is a question of pulling all the resources together. That is essential, and partnership working is key to it.

Audrey Carlin: I echo what Lorna Baird said. WASPS operates across Scotland and works with a large number of local authorities. In the main, we do not simply respond to demand for services that are provided by the local authority; we do things that the local authority perhaps does not have the resource, capacity or specialist expertise to do. We bring old buildings, such as listed buildings or buildings of significant heritage interest, back into use, but we also want to bring about economic regeneration.

We very much rely on working in partnership with authorities, including some of the public bodies that Lorna Baird mentioned, to achieve what we achieve. That partnership is critical. Lots of social enterprises cannot work in isolation; they must work together to help achieve the objectives of the authorities with which they work. It is critical to ensure that local authorities recognise the

impact that a social enterprise can have, that they work in partnership with them and that they can achieve the outputs to which they aspire.

We work with Highlands and Islands Enterprise and are account managed by Scottish Enterprise. We seek to achieve a lot of not only business but social objectives. Our social mission is about providing affordable accommodation for artists to allow them to do what they want to do, which is to create great pieces of work.

10:30

Simon Teasdale: I would be a bit careful about the assumption of growth, particularly rapid growth. Jonathan Coburn was clear that this is the first time that the census has been conducted. We do not know what the picture looked like before. He knows from his own work that there has been growth in Glasgow. I do not have the figures in front of me, but about 5 per cent of all social enterprises were created in the past year. That does not suggest a picture of rapid growth at all.

The Convener: Thank you for putting that on the record.

Dennis Robertson: I want to explore with Ken Milroy an aspect of the Aberdeen Foyer, which operates in Aberdeen and Aberdeenshire, areas that are perceived to be affluent. Were there opportunities to set up social enterprises in the oil and gas sector's supply chain? If there were, are they under threat? Is the situation in that part of the world providing opportunities for additional social enterprises?

Ken Milroy: Working in what was a buoyant economy at the time most certainly created opportunities that we have taken advantage of. A number of our trading activities have played to those markets. Our first business was Foyer Graphics. Many of our graphic design and marketing materials customers have come from the oil and gas sector and we are beginning to see a decline in that trading activity.

The other business that we operate is one that we acquired: Roadwise Driver Training, which is a driver training school. A large part of its business was, again, with the commercial sector, particularly the oil and gas companies. The company aims to promote a safe culture when driving to work and supports employees coming in from other countries. We have seen a significant decline in a large part of that training activity.

Because of the broader economic decline, we are being challenged to look at diversifying those business activities. We are having some success in doing that, but we have seen quite a steep decline in Roadwise Driver Training's trading figures because of its oil and gas customer base.

Dennis Robertson: Are you suggesting that there could be opportunities for additional social enterprises in that supply chain or do they need to look elsewhere at a different market?

Ken Milroy: Roadwise Driver Training is one part of Aberdeen Foyer's portfolio of activities. We are looking at how we can deliver on larger-scale contracts. Although we are regionally focused in our activity, we must form alliances with similar organisations elsewhere in the country if we want to compete in the markets. We have recently secured a national contract from a global commercial company, but only because we have formed alliances with other organisations and individuals elsewhere in the United Kingdom.

There is the potential for a brokerage arrangement that would allow that to happen more easily. We are part of complex supply chains, and aspects of our business are involved in many public sector contracts. There are opportunities through those bits of work, but helping to broker arrangements like that could be considered.

Dennis Robertson: How does the local economy of an area—it could be Edinburgh or elsewhere—impact on the growth of social enterprises? Chris Thewlis's Edinburgh company has diverse operations. Does the local economy impact on what you choose to set up as a social enterprise?

Chris Thewlis: I do not know whether it is the local economy that makes an impact; above anything else, it is about what people want to do and why they want to set up a social enterprise. You have talked about supply chains and collaboration. For me, first and foremost, a social enterprise is an enterprise—it is a business.

Collaboration is the way that business is done on many levels, and that should be explored a lot more. On public sector work and supply chains, we are fairly successful in the public sector. We win contracts to deliver our services and, on the back of delivering those services, we have surplus funds that we can then reinvest, which is fantastic.

Collaboration deals should be possible for smaller social enterprises through public procurement. However, first and foremost in relation to public sector work, we need to educate people who are in the public sector. Unfortunately, procurement officers do not really understand things such as social benefits. They think that they do, they kind of hope that they do and they have their own idea of what those are, but that is not what they really are. There is a bit of education to be done on that.

The Convener: That is an interesting point about procurement. I would like to get other witnesses' perspectives on the procurement

process. Many social enterprises will hope to win public sector contracts.

James McIlroy: I have experience with national health service procurement. I have found that to be disparate and very difficult indeed, because each NHS board in Scotland seems to run independently and, in general, it is difficult to speak to the people who you want to speak to. I do not know whether anyone else round the table has had a similar experience, but I believe that MSP involvement could make the process much easier, especially when there is a highly scalable social innovation that could genuinely impact on thousands of people in Scotland and that should be scaled out as quickly as possible.

Ken Milroy: A large part of our business activity takes place through public sector contracts. About 90 per cent of our work takes place through trading activity and 70 per cent of that is through public sector contract work, and we have diverse experiences of dealing with different public bodies. Some of the issues that we continue to face are about the short-term nature of procurement. We still see one-year contracts for on-going and much-needed services. That is most notable with employability services, which is activity that will not cease. There is an issue around short termism.

Another aspect is that some social enterprises have been squeezed out of markets because of large-scale procurement, which is problematic. Lorna Baird mentioned the local strategies that can be put in place through local authorities and other organisations collaborating. That can help small social enterprises enter those markets. Large-scale public procurement has been problematic. Over the years in which we have been operating, I have certainly seen a shift towards large-scale procurement. The disadvantage of that is that it squeezes out some innovative players.

Chris Thewlis: When you say “large-scale public procurement”, are you talking about contracts of £1 million plus?

Ken Milroy: The areas of work that we are involved in are Department for Work and Pensions contracts. Generally, we are part of the supply chain arrangements with large-scale contractors but, previously, we had direct relationships with the DWP. Given that that aspect of activity is to be devolved to Scotland, there is opportunity to look at the procurement of any new employability activity. It would be helpful to build on what we have at local level rather than take a top-down approach.

Lewis Macdonald: Is that the experience more generally? I have certainly come across that in relation to a range of contracts, and I wonder how much it is impacting on the social enterprise

sector. For example, the hub model for procuring significant infrastructure investment in Scotland is typically used for large-scale contracts. Has that affected the social enterprises around the table or others that you know? I know that one or two of our guests may have an input on that.

Fraser Kelly: There is an issue to do with where social enterprises can participate in that supply chain. Employability is a slightly different issue from the hub approach. We know that, in respect of employability, social enterprises can meet performance standards and quality thresholds and have financial capability and viability assessments. However, we cannot compete on price. When contracts such as the large national framework contracts that Ken Milroy talked about are driven by price and discounts, there is a huge challenge for social enterprises in participating anywhere other than in the lower ends of the supply chain.

On hub contracts and the large infrastructure projects, we have worked on community benefit clauses over many years. Many of them are implemented by larger contractors under a best-endeavours approach and some of them are more embedded. Organisations that have a more creative approach to building their supply chain with social enterprises, such as Sir Robert McAlpine Ltd, are certainly very good examples, but there is a challenge in obliging those contracts to include community benefit clauses that are in some ways arbitrary rather than asking the owners of those contracts to include social enterprises as part of the supply chain. There is also a challenge in putting in targets, whether by value or scale, for social enterprise participation rather than having the traditional CBCs that we have previously seen.

Lewis Macdonald: I think that you are saying that the best of the large contractors will choose or implement a community benefit that is meaningful and creates business opportunities, but they are not obliged to do that, and that the way that the contracts are procured is too permissive in that sense and allows them not to if they do not want to.

Fraser Kelly: They are too permissive in the scoring of their social impact element. That is a very small part of the contract assessment process. The question is whether the costs of the community benefit clauses are reintroduced in the contract in another way or, indeed, whether the community benefits are delivered over time.

Lewis Macdonald: Does Ken Milroy want to add anything about the DWP model, given its importance for future devolution? Do the same points apply there? In other words, you take part as part of the supply chain, but is the way in which those contracts are being let now supportive or

unsupportive of engagement with social enterprises such as yours?

Ken Milroy: It is very problematic for us that we run a number of contracts in that area. They will come to an end at the end of March, and at this point I am not sure what will fill that gap for our area. We have seen the unemployment statistics for the north-east soar. To what extent will the mainstream programmes through the DWP and Skills Development Scotland take into account the very sharp rise in unemployment that we are seeing? Perhaps that was not in the statistics six months or a year ago, but it is certainly showing now.

Joan McAlpine: Fraser Kelly mentioned the Procurement Reform (Scotland) Act 2014. Is enough use being made of the measures in it? Are procurement officers in local authorities confident enough to use the legislation that exists?

Chris Thewlis: I think that you will find that the answer to that is absolutely not. They do not really understand what has gone on. They do not understand things such as community benefits. They would like to think that they do and that they have the wherewithal, but the majority of the procurement officers in the 32 local authorities believe that community benefits are the things that larger companies can do for free and which will not cost them anything more on top of the costs of the service.

Joan McAlpine: Could more be done with the legislation that has already been passed?

Chris Thewlis: More could be done with the legislation that has already been passed and more could be done to educate the people who procure the contracts so that they have an understanding of what is out there and what value can be added.

10:45

Fraser Kelly: There is another side to the equation. With the procurement legislation that I mentioned, I think that we hit the post instead of scoring a goal. Yes, it could be implemented better, but there is still a challenge. The commissioning officers are one part of the equation and the directors of finance and legal services in public bodies are another, and they find it difficult to equate the social impact that social enterprise is delivering with a positive net present value that equates to a price consideration. It is difficult to get the commissioners to understand that in a way that enables them to say, "This is what will be achieved in the preventative spend outcome, and we can apply it to that contract value." Within the social enterprise arena, we need to find a better way of describing the social impact in terms of a net present value that the financial modelling

understands, because there is a bit of a disparity there. Money drives behaviour.

Joan McAlpine: In your experience of the public sector in Scotland, where is the lack of that education most acutely noticeable? Is it in local authorities? Are some public bodies doing better than others?

Fraser Kelly: We do not have empirical evidence or data that suggest either/or. There is a general feeling that, in some cases, the decision not to use the legislation could be self-selected; in other cases, it is simply down to a poor understanding of it.

We talk about consortia, joint ventures and the contracting model, but it is a very difficult process. Over a number of years, the DWP has described the framework contracts that it would like. For example, it has glibly said that it would like to see the third sector and social enterprise deliver more in the employability arena, and it has described special purpose vehicles. However, it does not know what that means and, when we test those approaches, they quickly fall apart. We spend an inordinate amount of time on designing the work programme that we think will fit the pre-qualifying questionnaire and the invitation-to-tender processes simply to arrive at the hurdle that it is a price-based contract. The big challenge for us is to understand better whether the rhetoric of having social enterprise and the third sector delivering more in the public service arena equates to the reality of "This is how the process will work, and we will engage you in it."

Brian Weaver: Can you see how irrelevant the issue is to 22 per cent of the social enterprises in Scotland—the ones in the Highlands and Islands? They have no idea how any of these big contracts work. They are small, local social enterprises, and they cannot get involved in multimillion-pound contracts.

Every now and then, it is suggested that we get into consortia to bid for those contracts. There is then the specific problem of deciding which is going to be the winning consortium. We found ourselves in that position. We were in a contract that, when it came to an end, was replaced by a Scottish Government contract, in effect, and, instead of HISEZ being able to bid for that piece of work, we had to decide to join a consortium. In 10 minutes, we had to decide which consortium was going to win and put all our work into that one. The Scottish Government then took months to decide that that was going to be the winning consortium. The process creates a real problem for people who are trying to run ordinary small businesses.

The answer is to make the process simple by giving the procurement officers the power to procure small amounts—in fact, to force them to

do so. Instead of having a contract for £1 million, have 10 contracts for £100,000 or 100 contracts for £10,000. That is how to get the centralised money down. If the contracts continue to get bigger, you will just get more companies like PA Consulting and all the multinationals coming in for them. Go for small contracts and you will get the money right down to the roots, where you want it to go, with local people delivering the services that the localities need.

I thank Lorna Baird for nodding—she knows what it is like.

Gordon MacDonald: Brian Weaver talked about giving social enterprises more training opportunities. We have heard that grant funding is important to social enterprises, and the stats say that 31.5 per cent of social enterprises, excluding housing associations and credit unions, depend on grant funding. However, in its written evidence, HISEZ said that

“There is no shortage of funds available to the sector”

and that

“grants themselves lead to problems ... grants also have a direct effect on the application process itself.”

In that context, you talked about the “Benbecula Principle”.

Brian Weaver: Oh, dear. [*Laughter.*]

Gordon MacDonald: I wondered whether you would expand on that.

Brian Weaver: I have been going out into the community for seven or eight years to give business advice and help local folk to run their social enterprises. I come from a commercial background, so I understand how things are done commercially, but when grants are in the background, they distort how people think.

We did an experiment at an event in Benbecula. We came up with the costs of delivering a particular output. We then separated people into two groups and we said to one group, “Here’s an opportunity for you to get into a business. You can apply for some money. There will be a contract, and you’ll be able to make money out of that in the future. Given that your costs will be £9,000, how much cash do you think you’ll need to get going?” We said to the other group, “You need £9,000. Grants are available; how much will you apply for?” In one scenario it was all grants; in the other it was business, and there was a bit of competition from other places.

We did the exercise quite light-heartedly. The figures came back straight away. The group that could get a £9,000 grant asked for £13,000 and the group that knew that it would be a business asked for only £6,000, so the group that was told that a grant was available asked for more. We

keep running that exercise, and the figures are getting wider and wider apart. Whenever we tell a person that they are going for a business or a contract, they ask for less; whenever they know that there is a grant, they ask for more.

We have bitter experience of that ourselves. At one stage, HISEZ decided that it would build a centre for social enterprise practice on the new University of the Highlands and Islands campus. We went to our board and said, “We can do this from scratch. We can borrow the money—we’ve already borrowed money from the Royal Bank of Scotland and we can do that again.” The board said, “Oh no, you need to go out and investigate grants.” We started looking for grants, and as soon as we started to speak to grant funders, we found that they wanted the project to be bigger. We said that we wanted a £400,000 building, although we could maybe go to £500,000. Without exception, the funders said, “You should be far more ambitious.” Grants enable social enterprises to have someone else’s ambition, and that is a scary direction to go in.

Dennis Robertson: Is that because grant funders generally give less than someone asks for, because the mindset is that someone who applies for £13,000, for example, will get only £9,000?

Brian Weaver: Absolutely. I am sure that researchers have looked at this. The approach develops a mindset that becomes self-defeating.

James McIlroy: This might be slightly controversial, but I think that the grant dependency culture that we have in the social enterprise network is pretty toxic. People have to ask themselves what will happen when the grant goes away—the whole thing collapses. We should be promoting investment and sustainable, profitable businesses. That is an important point, which I open up to the other panel members.

Johann Lamont: Does that mean that some services should not be social enterprises? I am interested in the question of substitution. If a service such as support for someone who has a learning disability or someone with autism is being delivered, should we really have to find a way of making a profit out of that activity? Should we recognise that the state should pay for some things? I am very much in favour of the third sector delivering services, because the family of a child with a learning disability know better than someone 100 miles away what the service should look like.

I think that two things are getting conflated. On the one hand, as far as services are concerned, because local authorities have no money, they will get the best bang for their buck by getting people to fight over bits of money. Then there are social

enterprises. I am very much in favour of the co-operative model, which says that there must be democratic accountability and that the activity has to work financially—it should not rely on grant at all. I wonder whether the question that is being asked means that those two things are being brought together, whereas we should be considering how we take them apart.

I am concerned that you are saying that some organisations are being expected to create a social enterprise for a service that, in a decent society, should simply be provided. We need to think about how best that can be done closest to the people who need the service concerned.

Chris Thewlis: It is important to say that the social aims and objectives should be the service. The social aim and objective that is the service should be delivered from the profit that the enterprise makes; it should not be about the enterprise delivering the service.

Johann Lamont: Except that we do not apply that rule in the national health service.

Chris Thewlis: We should.

Johann Lamont: What we start with in the national health service is providing for need. There are some things from which we can make a surplus—housing is a good example. I am very much in favour of community-based housing associations, but I am not sure whether the idea of investment and so on really applies to meeting the needs of a family with a child who has a learning disability. I do not think that those things are comparable.

Chris Thewlis: That is not essentially what I am saying. As I think James McIlroy will probably agree, when we talk about investment and so on, that is for the enterprise. The profit that is made from the enterprise should fulfil the social aims and objectives. I think that you are talking about the social aims and objectives. That is the whole idea: make the money, then spend it on those social aims and objectives; it is not a matter of making the social aims and objectives the way in which the money is made.

Lorna Baird: Social enterprises that work in the health and social care sector bring innovation to services. I agree that some services should be provided as standard.

I was involved in a social enterprise called miEnterprise, which provided support for people with learning disabilities in setting up their own small microenterprise. MiEnterprise operated according to a membership model, but it was the use of or the access to self-directed support that allowed the enterprise to be sustained. It was not about the profit or the generating of income. The

profit was to sustain and grow the enterprise so that it could reach more individuals.

That is the key when it comes to social enterprises. “Profit” is not a bad word; it allows organisations to achieve greater scale, scope and innovation. A local authority would never have provided such support, which came from the innovation of a social entrepreneur.

Johann Lamont: I agree absolutely with that. The best examples of change have come from the voluntary sector, the third sector, families and communities. Island and rural communities have been doing that for hundreds of years.

I simply ask the question. There is some evidence that social enterprises are quitting the field of care because the costs have been driven down. It is not a case of X amount of money being available to support and house the model for delivering care; people are saying that they are getting out of the sector because the costs are prohibitive. I would argue that the private sector is stepping in with a far poorer quality of service in some cases. I wonder what we are expecting. By its nature, if we try to define the sector too much, we will lose its energy. I wonder whether we are trying to get too broad a scope.

In my community, there is a good community transport service, which was self-starting. It gets bits of grant moneys and so on. At the heart of it is a community that wishes to get elderly people to the hospital to visit their relatives. It is as simple as that. If we analyse it too much, we lose it. That is very different from some of the big social enterprise models, where organisations are doing fantastic work. It could be argued that they are doing business better than it would be done otherwise.

Simon Teasdale: I agree with a lot of that. Social enterprise covers a wide variety of organisations, and some will always require grants; other types of organisations will be able to be profitable and plough the surplus back in. If we start worrying about grant dependency, however, that brings a worry that organisations will do only profitable things. There are some things in life that we cannot make a profit out of.

11:00

Lewis Macdonald: I will come back to the point that James McIlroy made. We have met and spoken before and I know a bit about the project that underlies the social enterprise in which he is involved. Will he tell us what the rationale was for his decision to go down the social enterprise route when many other university spin-outs go down a much more directly commercial route? Perhaps that will enable us to understand a bit better his firm's motivation or direction of travel.

James McIlroy: We get asked that question all the time, most often by investors. The first thing that they say is that we have a really interesting business proposition that could be quite profitable, and then they ask why we are a CIC.

The primary reason is that, as one of the company's founders and a future healthcare professional, I wanted to deliver the service to the national health service on a basis that was as close to cost recovery as possible, in order not to be a financial burden to, but to support, the organisation that I argue is the greatest social innovation in the history of the United Kingdom. If I was ever to lose control of the company—that is, if I were not to be the chief executive officer or a director—whoever was the director would have to maintain those community interests. That is regulated by the Regulator of Community Interest Companies. We also have an asset lock and a dividend cap.

That brings me quite nicely on to the voluntary code for social enterprises, on which I made a point in my written evidence. Some people do not believe that a CIC that is limited by shares is a social enterprise, because it is limited by shares, but I argue that, inherently, it has to be one because it is regulated by the CIC regulator, it has community objectives and it has a dividend cap and an asset lock. Furthermore, it can be quite an attractive proposition for investors. As a collective, we need to promote that idea, because the business model is really interesting. I am determined that we will be the first biotechnology CIC, as far as I am aware, to make it to first sale and to scale.

Lewis Macdonald: Is the attractiveness of the business to investors enhanced, rather than limited, by the fact that it is not a conventional commercial business?

James McIlroy: It is slightly hindered by the dividend cap but, at the transfer of business, investors still retain full value so, in the event of an acquisition, they would still make a return on their investment. However, it is incomparable to a company limited by guarantee that cannot take on any equity investment whatever. I do not think that such a model would go anywhere, especially in the biotechnology and healthcare sectors. Because a significant part of companies in those sectors is research and development, it takes a long time to get to market. That requires committed investors, not people who will commit to a company without any shares.

Being a social enterprise has really helped us when we have approached healthcare professionals, because we can see eye to eye. If we were a purely for-profit entity, it would be much more difficult for us to receive the support that we have received, which has been fantastic.

Lorna Baird: I will take up James McIlroy's point about the voluntary code of practice and the fact that community interest companies by shares are not recognised. In my experience of working with start-up social enterprises or social entrepreneurs, there is a much greater leaning towards community interest companies by shares. I assure the committee that that is not led by profit. Such individuals set up CICs by shares not for profit but because that allows them control over the organisation that they have set up and in which they have invested their time, their energy and, often, their personal money.

Social entrepreneurs who set up community interest companies are 100 per cent committed to the social impact that they are trying to achieve. They are trying to secure their position in their company in the longer term. If they adopted a limited-by-guarantee model, they could technically be kicked out of their own company if they fell out with the board.

The majority of CICs in Edinburgh involve social entrepreneurs. Those individuals are driven to address a particular social need and set up businesses to do that. They are adopting different and innovative new models. The CICs by shares have been adopted in England but less so in Scotland. However, I have certainly seen much more focus on CICs over the past two years.

From an investment point of view, certain organisations are very much suited to being limited by guarantee. That approach might be applicable for a community-based social enterprise or a social enterprise that is being developed by an arm of a charity. However, individuals who are setting up social enterprises want control and, if they want to scale up and have ambition, they also need to look for investment.

It is interesting that Social Investment Scotland is now investing in CICs by shares, so there is a change in the scene. That is really encouraging, because we will not get scale and growth in social enterprise without investment. If we want to move away from grant dependency, we need to be thinking that it is investment that we need to go for—every form of investment. There are individuals out there in the business angels sector who are interested in social impact and achieving social benefits and who want ways to invest. That can be done through a shares model.

The Convener: Joan McAlpine was keen to come in a moment ago. Was it on the same point?

Joan McAlpine: I will go back to the point that Johann Lamont made. It is an important question that a lot of people will ask—how can an organisation deliver certain services and also take a profit? The question might have been partly answered but, in my experience, there can

sometimes be quite a lot of top-heavy bureaucracy in public bodies. Is there any evidence that a social enterprise can deliver the same service, plus the redistributed profits, for less money? Can you deliver a better service because you do not have the top-heavy bureaucracy that we see in some public sector organisations?

Ken Milroy: The comments have been really interesting and it was good to hear a bit more about the business model, but I caution that there is merit in us being a broad church and in our diversity. Having a policy framework that went down a particular route would be a flawed approach. The approach needs to be broad based if it is going to keep everybody in the tent, and we should be trying to keep everybody in the tent. We need to be careful that we do not put all our eggs in one basket. A fantastic business model has been described, which we would encourage, but I also encourage small community-based enterprises, for which that might not be the right model.

Fraser Kelly: I will square the circle a bit. One of the pieces of data on page 15 of the social enterprise census suggests that 82 per cent of our social enterprise and community enterprise activity is operating outside the worst 20 per cent of enumeration districts in Scotland under the Scottish index of multiple deprivation. That suggests that only 20 per cent of those enterprises are operating inside those areas.

The rationale of social enterprise is to work with the people who are hardest to reach and work in the most disadvantaged communities. Many of our members tell us that that is what they are doing. The committee will remember that I made a distinction between fragile communities in the Highlands and Islands, for example, which Brian Weaver described very well, and disadvantaged communities in urban areas.

Johann Lamont mentioned the role of housing associations and registered social landlords. In the informal session before the meeting, Jonathan Coburn suggested taking housing associations out of the equation, because they distort the picture a bit.

Housing associations are fundamentally asset led. Their assets were transferred through a community asset transfer process. Housing associations are locally owned and locally controlled and they are governed. They have deals to die for when it comes to investment-led processes and they operate in our most disadvantaged communities. What we should aspire to is bringing the rest of the social enterprise scene and economy up to that scale. We ask again what more public bodies can do to facilitate that. There is asset transfer, which is

covered in the Community Empowerment (Scotland) Act 2015.

When organisations have an asset on their balance sheet, that makes them much more capable of bidding for a public service contract or doing any other form of business, as Brian Weaver described, because the organisation is investable. Investment flows to it much more quickly if it has an asset and if it has a contracting framework. Lorna Baird is right that much more social investment is coming to the table.

Such things need to be squared off. The pieces of the jigsaw are there, but we do not have the lid at the moment. For me, the route that the housing association model has taken is part of the lid, and what James McIlroy described is the other part. The approach is inclusive and broad based, but we need to put in place the things that we have established will make it work more effectively.

That was a conversation stopper.

The Convener: Chic Brodie was the first to catch my eye.

Chic Brodie: I agree with what Fraser Kelly has said. There are already dynamics in the social enterprise landscape that will mean the production of more social enterprises and the development of existing ones.

I liked what James McIlroy said. The large companies that chase unlimited profits die eventually. They fall on their own swords, or their own profits. Many of those running social enterprises whom I have met certainly intend to make profits, but it is interesting to note that their dedication is primarily to the social involvement of their enterprise.

Because of the involvement of the people who work in social enterprise, we need to consider the change in productivity and the fact that it is quite marked. It comes back to the public procurement issue and looking at that. The value added by social enterprise is substantially greater than doing something internally. The partnership between public enterprise and social enterprise can be very productive for the customers, the employees and those who run social enterprises.

The Convener: Richard Lyle, do you want to ask a question?

Richard Lyle: Yes, thank you. I have two.

In his submission, Chris Thewlis said:

"It is unfair to say that the Scottish government isn't doing enough to encourage social enterprise but we can say that Scottish government isn't doing the right things to encourage the growth and sustainability of social enterprise business models."

What should the Scottish Government be doing?

Chris Thewlis: If you read further down the paper, you will see that it goes into that a bit more. We talk a lot about getting into public procurement, but we do not educate the buyers in public procurement to understand what happens in social enterprises. I have often come across public procurement officers who do not understand what a CIC is. They refuse tenders because the CIC is not formed as a company.

There is a need to educate people in those sectors and to join such people together so that every local authority has a place for employability. Do the people who do procurement speak to those who are involved in employability? Probably not. Do they see that there is value in having a contract with a social enterprise that also delivers employability through its profitability that could be passed on to the local authority? Definitely not.

The problem is more with education than anything else. We are doing good things, but more could be done internally so that more local authorities understand more about social enterprise.

Richard Lyle: I totally agree with you. Very boringly, I was a councillor for 36 years and had to deal with officers. Earlier, Brian Weaver made a point about smaller contracts. I introduced a company to the officers that saved the council £0.25 million because it did something different.

One of the many other things that social enterprise is going to have to face is “We’re all in”, which is about everybody having to have a pension. Are companies gearing up for that? Will small companies be able to get geared up for it?

One of the submissions says that

“the Scottish Government should investigate the central provision of pensions for everyone in the sector”

and ensure that everyone is getting a pension. What do you think about the pension situation? Organisations have to be in the scheme this year to give their workers pensions.

11:15

Chris Thewlis: We are all already in. The majority of us already pay the living wage, and we hope that more enterprises will become accredited to prove that they are paying the living wage. The pension is a minimal extra cost on top of that. If we are going to commit to all those things, it is important that it is noted, because it is quite a drawback when competing on costs. Margins have to be a bit tighter. When we are all in the pension scheme, margins will become a bit tighter still.

There should be some form of point scoring on a tender process that makes it clear whether the organisation pays the living wage and pension contributions, such as there is with procurement.

There could be a few more points for those who pay more. That might force the private sector to follow suit.

Richard Lyle: James McIlroy made a comment about getting the local MSP behind you. Politicians can speak to officials to get advice, for example.

A problem that used to annoy me intensely was that small companies could not get through the door to see someone. The same old companies were dealt with for years, and they were charging the council a fortune. The other companies who came in were prepared to be more innovative—which is the point that Johann Lamont made earlier—in order to ensure that a local organisation succeeded.

A number of years ago, the Association of Public Service Excellence, which is based in Manchester and does things for councils, produced a paper that stated that for every £1 that was spent locally, £1.60 was generated in the local economy.

I would be very happy to give James McIlroy a hand if he has any problems in my area. Sometimes companies do not talk to politicians enough—they participate in round tables, but do not talk to politicians. Politicians have surgeries and offices, so companies should go and see them, talk to them and get involved. Then we could all work together. I would be more than happy to help James if he is out Motherwell way.

Johann Lamont: James Kelly made the point that only 20 per cent of social enterprises operate in the most disadvantaged communities. I understand—and you can correct me if I am wrong—that there is some evidence that in poorer working-class communities, such as the one that I came from, people do not expect to run their own businesses. In fact, they are more likely to be involved in a social enterprise than in setting up their own business. There is an economic argument for creating social enterprises as a way of stimulating economic activity locally within disadvantaged communities. How should those who have the responsibility direct energy towards creating social enterprises where the impact in terms of employment and setting up businesses is most evident? What needs to be done to support that?

Fraser Kelly: There is something very clear that we can shift our emphasis to, and that is to put the individual in all our communities at the heart of every decision that we make. A number of activities over a long number of years have been trying to spatially target big lumps of money. I arrived in Castlemilk when the new life for urban Scotland money of £280 million, which was pumped into housing, was coming to an end. That did a lot for housing but not for the people.

We have gone through enterprise zones, urban regeneration companies and business improvement districts, and are now on city region deals. We have gone through areas of priority treatment, priority partnership areas, social inclusion partnership areas and are now on community planning partnership areas. All of those are structures; they are not about individual people.

When people challenge me on that, they say that because the characteristics of every individual are so different it is extremely difficult to design a universal service. Our services should not be designed on a universal basis; they should be designed on the basis of the needs of the individual. Individuals should be able to come into service provision at whatever stage they are at. We should measure the distance that they travel. The outcome is what change there has been. The outcome will not necessarily be a job, which is usually what is expected in the payment-by-results model that is designed and delivered in the public sector.

That is why so many more social enterprises are delivering goods and services to consumers, the resources from which they are using to work with a group of individuals. If I were to ask everyone in the room to come for a coffee, how many people would like to go to Costa, which has said that it will transfer the cost of the living wage on to the price of its coffee, and how many people would like to come round the corner to Serenity cafe, which repatriates every penny of its profits into working with people who are on a journey of recovery from addictions? That is the choice that we have to make. It is a case of putting the individual at the heart of every decision that we make, whether as individuals, public bodies or private sector companies.

Johann Lamont: What do we have to do to make that happen? I am not sure that I agree with what you said about social inclusion partnerships. Time has moved on, and Scottish Enterprise no longer has any responsibility for people or place, although HIE does. We have moved away from locally based social inclusion partnerships to community planning, which is for everybody and is much more centralised. Community and individual involvement in that is much more limited.

How do we translate the aspiration that you described into policy decisions to stimulate social enterprise development in poorer communities?

Fraser Kelly: I agree with you. I was not suggesting that community planning was a better part of the process; I was just suggesting—

Johann Lamont: With respect, you were suggesting that all the previous initiatives that you mentioned were rubbish at dealing with

individuals. They might not have been massively effective, but some of them—particularly the social inclusion partnerships—had a big focus on working with individuals and communities and fitting them into the structures. Although the bend the spend money on budgets and so on was never properly delivered, at least it was a policy aspiration, which we have now shifted away from.

Fraser Kelly: I agree with you, but the difficulty is that we change the initiatives every three years and there is an assumption that that is not working, because we do not have an evidence base that shows that there has been a material change. If we take something such as the Scottish index of multiple deprivation, we could potentially have a situation in which there is a reduction in the number of people who are employment deprived but an increase in the number of people who are income deprived. The policy makers cannot seem to understand or make sense of that, so they change things again.

There are ways of doing what is needed. It is a case of giving accountability back to local people. I come back to housing associations. They are anchor organisations; they are locally owned and locally controlled by people who understand what the needs of local communities are. A number of housing associations are becoming more active in social enterprise activity, whereas a number are stepping away from it. Some of that is to do with the regulatory framework, because any subsidiary activity that has the potential to impact negatively on the core housing business is seen as quite risky. I think that we need to use locally owned, locally controlled anchor organisations to develop local capacity in some of the most disadvantaged areas.

Brian Weaver: From our experience in the Highlands, I think that it is impossible to come up with a blanket solution, because it is people who make a difference. We cannot choose people; we cannot say to someone, “You have to make the difference.” What we are finding is that it is the individuals in communities who say, “Do you know what? Here’s what we can do”—we have some of them in this room—who are the people whom we have to find a way of backing.

I made my comment about pensions because my concern about our small social enterprises is that such individuals invariably have a board around them that is made up of people who are very supportive, but who are also inexperienced and unpaid. We expect them to become the operators of fairly substantial businesses in a fairly short time. Someone can decide to do something about the fact that there is no post office or that the petrol station is about to be shut. They can get the money, buy the petrol station, get the staff, train the staff, deliver the petrol and make the

profit, but they will have a volunteer director standing beside them who has never done that before. We expect them to go from nowhere to being able to run a million-pound business. Then we expect them to know that—uh oh—they are not running a charity anymore, so their Business Stream water is going to cost a lot more than they ever thought it was. Then they realise that they are going to have to deal with pensions this year.

Enterprise is about running a business. The social part is written down beforehand and delivered on a yearly basis, but the enterprise part is how the business is run day to day. With due respect, committees do not run businesses. Individuals such as James, Isobel, Ingrid, Duncan and Christine—all people whom I have seen in the past month—are the people who run the businesses. Those are the people who run the enterprises and the social enterprises. Find those folk and support them, rather than try to support an institution.

Dennis Robertson: Following on from what Brian Weaver and some other witnesses have touched on, I am interested in where the information is at the beginning for the start-up. If I decide to set up a social enterprise, who do I speak to? Who do I go to? Who has the right information? Who can guide me? Who can put in place for me all the factors that Brian just mentioned, and tell me how to take my idea or proposal forward? Where do I go, and how is that information gained? Are the right people providing it?

Simon Teasdale, from your perspective, what information do we need for the future? We have a snapshot in time from the census, but what do we need to collate to make that information meaningful, so that we understand not just where we are but where we should be?

Simon Teasdale: To get the information we need, we need to repeat the survey in pretty much exactly the same way every two years for the next 10 years. There needs to be a commitment to the investment, and that is expensive. From that we would be able to understand not just the overall growth but different changes within the sector, such as how more of some types of organisations are coming through and other types are disappearing. We can begin to get a picture that way.

James McIlroy: On a slightly unrelated note, I say to Richard Lyle that I have had support from Maureen Watt and Lewis Macdonald in my area.

Richard Lyle: My compliments to both.

James McIlroy: Dennis Robertson asked who you would seek advice from if you were a social entrepreneur who wanted to start a social

enterprise. Fourteen months ago I started a social enterprise, so I think that I am reasonably well placed to answer that question.

The answer depends on where you live. That is true, because there are a number of different organisations that offer different kinds of advice. We have been very lucky in the sense that some people deem our social enterprise to have the potential to be very financially successful, so we have had support from Scottish Enterprise through its high-growth start-up unit, which has been excellent. We have also had support from Firstport Scotland and from the Enterprise Campus initiative at the University of Aberdeen, which Lewis Macdonald knows about. As a graduate of the University of Edinburgh, I have also had support from Launch.ed, and we have had support from all the business competitions that we have entered and subsequently won. I suppose that it depends on how successful you are in business competitions and on where you are located.

I have also had support from Lorna Baird, even though we are not based in Edinburgh. She is very good, so we need more Lornas in business gateways. [*Laughter.*] It is true; I am not just saying that because she is here—she has been excellent. We need more people like Lorna who have expertise in starting up social enterprises. I do not know whether many people in the advice centres that we have in Aberdeen, such as Elevator, have expertise in setting up social enterprises. I know that the university support centres that we have—Enterprise Campus and Launch.ed—do not have people who specialise in giving advice to social enterprises.

Maybe we need a social enterprise MSP who organises a group of experts, and that expertise can be transferred through the organisations that I have spoken about, so that people like me who want to start social enterprises and who genuinely want to make a difference to society can get the advice that they need when they start.

Dennis Robertson: Does that provide an opportunity to set up a social enterprise? Maybe we can look to Ken Milroy and the Foyer to provide that initial advice. In the case of young people, I suspect that no school offers even a hint about setting up a social enterprise in its career advice.

James McIlroy: I agree with you. I have spoken to a lot of people my age whose business models would have worked as a social enterprise. They did not set up a social enterprise because they did not know anything about them.

Dennis Robertson: That is interesting.

The Convener: Maybe Lorna Baird can comment on that. Lorna, you are based in Edinburgh and your role is dedicated to social

enterprise, but how many other Lornas are there around the country?

11:30

Lorna Baird: It depends very much on the local authority's commitment to social enterprise and how important it sees it as being for its overall economic strategy. In Edinburgh, we have a huge commitment to social enterprise and, two years ago, I was employed as a dedicated social enterprise growth adviser, although I see everyone from pre-start right up to growth stage. We have a huge social enterprise commitment in South and North Lanarkshire. We also have commitment in Fife and in the Scottish Borders. The level of support is very much driven by the local authorities and how important they see social enterprise as being in terms of the overall structure of their economies.

In an Edinburgh context, I see about 100 to 110 social enterprises each year. My role is to have a foot in mainstream business support and a foot in social enterprise support. That gives social enterprises the best of both worlds. We need to work towards more of that integration of the support that is out there. Partnership working is key to success in Edinburgh. I work closely with the University of Edinburgh and competitions such as the Scottish encouraging dynamic growth entrepreneurs—EDGE—fund and converge challenge, which are now focusing very much on a social enterprise angle that was not there previously.

There is much more interest, particularly from the university sector. Graduates and students are passionate about social enterprise and I think that that is where the real growth will come from. There will be individuals very much like James McIlroy who see an opportunity to set up a social enterprise in their area of expertise. That is very important.

Where there is a weakness in how we approach support for social enterprise is in how we support very disadvantaged communities to grow those individuals that Johann Lamont was talking about—how do we support those individuals? Brian Weaver is absolutely right: it is individuals—individuals who are passionate, who want to change the world and who want to make a difference—who drive social enterprise. It is not as though someone says, "Oh, there's a need—I'm going to set up a social enterprise to address that market opportunity." They are there to address a social need and it is all about the individuals who will drive that social enterprise.

I would like to see more support for communities and to see more social enterprises being built in more disadvantaged areas. That may be where

the gap is, but we need to be much more joined up in terms of support because there is a lot of support out there but we need to work more closely together.

Brian Weaver: There is a lot of support out there for anybody who wants to start a social enterprise. If you simply google it, all the options will come up. The Scottish Government funds the just enterprise consortium, for example, which HISEZ delivers. Any organisation that is out there can come to just enterprise to ask for any kind of business advice connected to either starting or growing their business.

I accept that support will vary from one area to another and business advisers vary from one area to another. Sometimes you like them and sometimes you do not. However, that support is there. The big thing about it is that, if you are keen about starting something, you will find out how to do it. If you ask yourself, "How do I do it?" you are probably the last person to start a social enterprise because the kind of person who is going to start things just goes ahead and gets them done. Lorna Baird will see such people coming in every day.

We were talking about education. In HISEZ, we have been into a dozen secondary schools in the past year. The Social Enterprise Academy runs a scheme for developing social enterprises inside schools. HISEZ is a sponsor within the catalyst programme in the UHI, which is all about mentoring people who want to start social enterprises and businesses and so on. There are loads of us out there offering support. The great thing is to get yourself in the right mood to go out and do it.

Audrey Carlin: I would echo that. There is a lot of support out there for social enterprises and, as an organisation, we have benefited from operating as a business and being recognised as that and getting the support that there is for businesses as well as being able to take advantage of the social enterprise support network.

We accommodate a lot of people who have started up cultural social enterprises, often as individuals. They value having someone to signpost them to where the support is, and the Cultural Enterprise Office has a presence in some of our buildings across Scotland. They also value mentoring from other social enterprises, which should not be undervalued in gaining an understanding of how you do it.

There are models in other parts of Scotland that run services in local areas. An amazing part of coming into the social enterprise scene is the fact that there are networks all over Scotland. They are invaluable. People share their time freely. The advice is there and people are quite happy to

share it, more so than you would probably find in the commercial business sector.

Signposting is important, as is mentoring. We are looking at graduate support all over Scotland for people who have trained in the creative industries but who, having come out of university, do not know the first place to go to get support. They end up just working in a coffee shop or going down to London or wherever.

The legitimacy of social enterprise is now there in the census. That has been a fantastic element of the census. We were able to put that page out there and say, "This is what the sector is about. This is who we are. Don't underestimate our role in the Scottish economy." More people can be a part of that. Signposting, providing support and mentoring are important.

Dennis Robertson: You mentioned university graduates; does what you said apply to colleges?

Audrey Carlin: Absolutely. We have been funded by the Scottish cities alliance to look at retaining creative talent in Perth, Stirling and Inverness, because they are finding that the talent comes through their colleges and universities and leaves because there is no collaborative and supportive network to enable them either to learn from other people who have been through the process or to set up their own social enterprise or business. They tend to gravitate to wherever the majority of their sector is, which is likely to be either in the central belt or in London.

Chris Thewlis: Just to take it back a step, we are asking where the support is, but when somebody says that they are going to set up a business and they are going to do this and they want this to happen from that, the question is what they do first. Maybe they ask their next-door neighbour who has already got a business and the neighbour says, "Okay, you need to go to the business gateway and you can set up a limited company or you can do this, that or the other." How many next-door neighbours in the world will say, "Actually, there are about seven different models of business you could set up"? If you go to the business gateway, what is the first thing that the business gateway adviser will say? It is probably not, "Have you thought about a social enterprise to get to where you want to be? Have you thought about a CIC type 3 limited by shares where you can pull in a bit of investment? Have you thought about this model or that model?"

People need to realise that there are options and that setting up a limited company or becoming a sole trader or whatever is not the only option. In that conversation at the moment, you will not hear social enterprise mentioned. That is where we need to be. There are people out there who want to do it, but a lot of them just do not realise that

they can. They do not know that it is available, or that it is how they want to do it. We need a lot more Lornas and a bit more push at the front end for more Lornas.

The Convener: We have about 20 minutes left. I want to raise another issue that we have not touched on, which is the question of funding, although Chris Thewlis has mentioned it in passing. In the current climate, how difficult is it for social enterprises to access external funding sources?

Chris Thewlis: What type of funding sources?

The Convener: Anything. Equity funding, bank funding, crowd funding—anything.

Chris Thewlis: The landscape is changing a little bit and I can certainly tell you about my experiences. When we formed as a CIC limited by shares in 2012, we asked the bank for a bit of money. The people at the bank laughed at us and said, "No thanks. How are we going to secure our money against anything at all? No chance. None whatsoever." I told them that we had an asset lock and a dissolution clause and all the rest of it, but they did not understand it. They thought that what it all meant was that the bank would never get its money back, whatever happened, so the answer was no.

Then we tried some other people at the other end of the scale, who all looked down their noses at us and said, "You are not a real social enterprise, are you? You are not the real deal. You might get some money from us and you will steal it, so we are not going to give it to you, because you are going to put it out as shares, and so on."

Now there has been a bit of a sea change. There are funding bodies out there that do great work. Some of them are limited in where they can do that work—I am not sure how. There is an opportunity to open that up.

There are now private investors coming into the field. For private investors, it is an appealing proposition to have a CIC and social investment tax relief together. It gives them a great opportunity to put money into things and the benefits are good for them.

It is important that we look at external investment and definitely move away from grant funding. There is a need for loan funding, which is great because that money gets recycled and grows slightly. The situation is shifting and moving, but we could do with pushing it a bit more.

Audrey Carlin: Our organisation has been around for a long time. It is 39 years old—40 next year, which will be a big milestone. It started as a trust and developed into the social enterprise model. It relied on grant funding to get it to where it is today. We had to form a CIC to be able to

borrow. Developing an asset base and looking at what our strengths are, we have been able to borrow and to support what we do.

For anything new, we rely on other sources of funding, and we understand that public sector grants are drying up quickly. We rely on trusts and foundations and have been very successful in that. There are a good number of trusts and foundations that support social enterprise specifically, such as the Robertson Trust and the Paul Hamlyn Foundation.

We now have to look at how we change our business model and how we structure ourselves. A lot more time and energy has to be put into the business for finding other sources of funding, from sponsorship to private investors to philanthropic. The latter two are particularly time consuming, but we know that they are important to move to, and we have something that some investors are interested in and we can sell. It is a mind shift: you have to go out and sell your organisation in a different way.

Brian Weaver mentioned being a slave to grants. That is absolutely the case. For some of the public grants that we are going for at the moment, we have had to write three different business plans for the same project, to meet three different types of funder requirements. That is time consuming and costly. We are now at a scale that we can do that, but it still takes away a lot of time from the core business. For smaller organisations, however, grant fundraising is costly, time consuming and frustrating. If there are other ways of raising money, that helps: having an asset base to move forward with is something that we strove to achieve. Now, 98 per cent of our income is from our asset base.

Chic Brodie: I support that. Before I came to this august place, I was involved in company turnarounds and starting up small businesses and social enterprises, and there has been a quite significant shift in some of the funding sources. The phrase “ethical investment” is becoming more and more dominant in discussions with funders—I suggest that Social Investment Scotland falls into that category. There is no question but that, in relation to the investment regime, business angels and even banks now consider the ethics of their investments, at least in some cases. We have to keep promoting that as what we mean when we talk about investment, particularly in social enterprises and the third sector.

Fraser Kelly: Again, we have to be careful about confusing funding and investment as being the same amorphous blob of money.

There are some things that we need to be focused on. If there is to be a programme of grant funding, it needs to be very specifically targeted. It

cannot be a general fund—we have had general funds over the past few years—because we have started to develop a very creative and innovative social investment scene in Scotland. If we simply put in a blanket grant programme such as the enterprise ready fund or the enterprise growth fund without specifically targeting it—there was an element of targeting previously but it was not specific enough—that would destroy social investment capacity, because no one will go near social investment while free money is available. That free money should certainly be part of the journey, but it should not be part of sustainability.

11:45

Other issues come into the social investment arena. State aid legislation becomes a problem for organisations that are seeking social investment. Chic Brodie mentioned a range of people. The Triodos Bank, the Unity Trust Bank, the Co-operative Bank or the Charity Bank all offer funds but none of them will go under £250,000. If Social Investment Scotland gets involved in the arena and lends between £10,000 and £50,000, it must do so at a rate of 8 per cent; if Resilient Scotland gets involved, the rate would be 6.5 per cent. When we crowd out that investment because we are not creating a competitive arena, the assumption is that there is absolute market failure in money. That is incorrect, because the issue is the price and availability of money and the terms under which the money is available. We must be clear about what horse is required for the course and, rather than allowing things to crowd one another out, we must make sure that all the elements fit with one another.

Brian Weaver: I was involved in the finance industry for 15 years before I came into social enterprise and I understand the language. A building came up that we were interested in buying. We had never before borrowed money or had grants, but we had a history of producing a set of accounts that looked respectable. We phoned the Royal Bank—the world’s biggest social enterprise—at about 10 o’clock on a Monday morning. The man from the bank came at 20 to 5, and by 20 past, he said, “You know what? I think we’ll probably lend you this money.” The money is there; it is about knowing how to speak to the lenders and what products there are. Do I use short-term borrowing for a building? Do I use an overdraft for that? Do I buy cars with cash? No, I do not. People need to know about all those things.

We run small social enterprises that suddenly get a pile of cash, but they do not know that they should lease a van, rather than spending the cash to buy one. The issue is about having knowledge. Lorna Baird could tell people all those things, but

they would need to know that she is the person to speak to.

There is no shortage of money out there, but there is a shortage of knowledge on the part of organisations' directors and managers.

Chris Thewlis: I want to come back to CICs limited by shares, Sitr and suchlike. Brian Weaver is absolutely right. I would challenge anybody to pull up a raft of social enterprises that sit in that category of organisations that are looking for investment and get them to tell someone who is willing to invest—and there are people out there who are willing to invest on that level—“This is what you're going to put in, this is how the system works, this is what you're going to get out and this is your exit plan. This is what we're offering and this is where we're going to take it.” Most social enterprises are not in a position to do that. If they are CICs limited by shares, with a Sitr option and that is where they are looking, they need to be able to stand up and say, “Here it is.” I keep coming back to this, but people must be taught how things are done and what they need to do along the timeline, as Brian Weaver said. That is done well in the private business sector, but not in the social enterprise sector.

James McIlroy: Earlier, Jonathan Coburn from Social Value Lab said that he thinks that social enterprise start-ups are more successful than traditional private limited companies. That was an interesting comment that sparked a question in my head: is that because social enterprises are more risk averse and do not attempt technological innovation that is as advanced as that undertaken by private limited companies? If so—and I believe that that is the case—is it because they are not able to raise the funds to do the research and development to achieve innovative social solutions? It comes back again to the voluntary code for social enterprises, which I have mentioned a few times. By definition, a CIC limited by shares does not come under that code, unless my interpretation is wrong. I wonder whether there is consensus around the room that perhaps the code needs to be revised. Can you make decisions about such things at round-table discussions such as this?

The Convener: Well, we are not here to make decisions—we have no particular authority to do that—but we would be interested to get the views of the people who are round the table and find out whether there is consensus.

Brian Weaver: HISEZ was the first community interest company in Scotland and the first CIC to be a company limited by shares. I agree that it is really horrible to feel that we are excluded. We just do not fit the model, but it is fairly obvious that Chris Thewlis, James McIlroy and I understand how enterprise works. If you are going to use the

word “enterprise”, you should use all the other things that come along with it, so we should discuss that.

Chris Thewlis: I would not worry about the code. It is voluntary, not compulsory.

James McIlroy: Many grant-making organisations subscribe to the code and do not give money to companies that are limited by shares, regardless of the social purpose. When somebody is deciding whether a particular company is a social enterprise, the first things that they should look at are the business model and the social impact. The legal structure should be secondary. That is just my opinion and it is up for debate, of course, but that is the approach that we need to take.

Chris Thewlis: I am totally in agreement.

Ken Milroy: It is worth having such discussions. Over the past 10 or 20 years, the visibility of social enterprise has soared. If we can find ways to increase its visibility, whether through the code, the awards that Social Enterprise Scotland runs or targets in procurement arrangements, we will increase the number of people who are aware of the sector.

Simon Teasdale: If grant-giving organisations are giving grants to organisations that describe themselves as social enterprises and James McIlroy does not want grants anyway, the code of practice is not a massive problem.

James McIlroy: Sorry, what is your point?

Simon Teasdale: You said that the grant-giving organisations are giving grants to social enterprises under the Senscot code, but you also said that you did not want grants. Is that right?

James McIlroy: We could definitely do with grants. I just think that they need to be targeted at enterprises that have high-growth potential, and I classify ours as one of those.

Simon Teasdale: Sorry—I misunderstood you.

Chris Thewlis: Everybody would like a grant; the question is where the grant goes. If grants are going to be handed out, let us make sure that they are targeted at something that creates growth and moves along, rather than at sustaining something that is faltering.

James McIlroy talked about how robust social enterprises are as start-ups. The census has been great, but it needs to ask many more questions. One would be how many social enterprise start-ups are spin-outs from the charities or other organisations that sustain them.

Fraser Kelly: The code of practice is, as Chris Thewlis mentioned, voluntary. It is a set of values and behaviours. In Social Enterprise Scotland, we

support but do not subscribe to it because under the code's definition, we are not a social enterprise. Brian Weaver was a board member of SES. We have three or four board members who are from CICs limited by shares.

There is no intention to build a fortress round the code. It is intended to be a benchmark with which we build bridges out to ensure that anyone who wishes to participate in social enterprise can do so.

I say to Simon Teasdale that the code is not Senscot's, if I understand the position rightly; it is owned by the bodies that subscribe to it, which are a group of social enterprises. It sits on the Senscot website and there is a review group that considers it regularly—I think that it is considered in March each year. I say to James McIlroy that I am happy to have a dialogue with that group on the basis of the comments that he made. Social Enterprise Scotland is not part of the review process, but I am happy to pick up on that.

James McIlroy: To rebut Simon Teasdale's comment again, I was talking about a culture of grant dependency. We just need a grant to start up and then we will be financially sustainable and will not need to take on any further grants. That is the difference—perhaps that is where the misunderstanding arose.

Simon Teasdale: CICs limited by share are great, and some voluntary organisations that will never make money from trading are great as well. There needs to be a blended funding arrangement that suits all organisations. There is fantastic support for graduates from various universities to set up really interesting social enterprises that might have been private companies in the past, but we also need targeted support for deprived areas in the east of Glasgow, from where people will never go to university.

Lewis Macdonald: This has been a very interesting part of the discussion. I would be interested to hear from some of the longer-established social enterprises that are not following the CIC model. We have heard about some of the issues around that but, before we close, it would be good to hear whether any change in regulation or legislation would be particularly helpful for the longer-established models such as companies limited by guarantee.

Chic Brodie: We have the Scottish business pledge, which has goodness knows how many parameters, and we have the Procurement Reform (Scotland) Act 2014 and the Community Empowerment (Scotland) Act 2015. To come back to the point that Simon Teasdale made, I know, having been involved in this area for too many years, that in some deprived areas there are young people who have great ideas but cannot

develop them because of funding issues. There might be an argument that something should be incorporated in the business pledge, and particularly in the public sector approach to procurement, to say that consideration has to be given to the community impact of the issuance of contracts. I do not like prescribing too many ideas for any enterprise, particularly social enterprises, but that might be a solution to really kick things off.

I will probably have John Swinney at the door in a minute now.

Dennis Robertson: Ken Milroy made a point earlier about the sustainability of some of the services for the work programme that are based on one-year contracts, perhaps because the local authority says that they can only be funded for a year. Would it not be more sensible to have a minimum of, say, three years? If funding is year on year, towards the end of the year, the organisation has to submit another application for funding to continue the work whereas, with a three-year contract, it can concentrate more on service delivery.

Ken Milroy: I could not agree more that we need knowledge of the procurer's plans and the commissioning arrangements. As we get towards the end of any contract, we need positive engagement with the commissioner. I fully understand the constraints on the public purse, but it is important that we have dialogue about managing the change—and we will manage it.

Short-term contracts present us with real problems in relation to securing and retaining staff, because we can guarantee only a one-year contract. Something could be done on that.

On Lewis Macdonald's question about the structures that more established social enterprises have adopted, our structure has served us well, but it has presented us with issues when things have not worked out. As I said in my written evidence, we have run some business activities that were not successful, and we have had to close businesses. We have to make those difficult business decisions, and they can cause problems for governance and have tax implications. I am not sure whether legal changes need to be made, but legal and financial expertise is necessary when social enterprises face those particular challenges. I would say that there are constraints in that regard. As a successful organisation, we have had financial constraints because we have had loss-making businesses that we had to close. We had to carry the loss in our overall accounts.

The Convener: We are almost at the end of our time, but if anybody is keen to make any points on that issue or on anything else, now is the time—we will close very soon.

12:00

Audrey Carlin: I want to comment on the issue that Lewis Macdonald raised. On what the committee can achieve, the first thing is on the visibility of the sector. As we have heard, people in the sector know that all the support is there, but someone who is not in the sector and who is just a person in a deprived community with an idea will not really know where to go. Therefore, the visibility of the sector is important.

Local authorities often bring us in to give advice because someone has had an idea that they have tried but they have not had the right model. The whole idea about social enterprises mentoring, giving support and rolling out the tried-and-tested models to other communities is important. It is not necessarily for us to do that, but others can learn from and adopt those models.

Grants have their place and they are still important in some of the most deprived communities. They are essential in relation to targeted attention, so we should not underplay their role. They will always have a role in some form. However, we should also think about investment. Social investment bonds are being investigated down south and we could perhaps consider that up here.

The Convener: If no one else has any final points to make, I thank the witnesses very much for coming and helping the committee. It has been an excellent session. Next week we will have an evidence session on employee ownership.

12:01

Meeting continued in private until 12:25.

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