



The Scottish Parliament
Pàrlamaid na h-Alba

Official Report

ECONOMY, ENERGY AND TOURISM COMMITTEE

Wednesday 6 August 2014

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ECONOMY, ENERGY AND TOURISM COMMITTEE
20th Meeting 2014, Session 4

CONVENER

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

DEPUTY CONVENER

*Dennis Robertson (Aberdeenshire West) (SNP)

COMMITTEE MEMBERS

*Richard Baker (North East Scotland) (Lab)

*Marco Biagi (Edinburgh Central) (SNP)

*Chic Brodie (South Scotland) (SNP)

*Alison Johnstone (Lothian) (Green)

*Mike MacKenzie (Highlands and Islands) (SNP)

*Joan McAlpine (South Scotland) (SNP)

*Margaret McDougall (West Scotland) (Lab)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Alastair Davis (Social Investment Scotland)

Ewan Fraser (Dunedin Canmore Group)

Karen McGregor (Firstport)

Neil McLean (Social Enterprise Academy)

Andrew Nixseaman (Calman Trust)

Duncan Osler (Social Enterprise Scotland)

Fiona Pearson (West Lothian Social Enterprise Network)

Brian Weaver (Highlands and Islands Social Enterprise Zone)

CLERK TO THE COMMITTEE

Douglas Wands

LOCATION

The Robert Burns Room (CR1)

Scottish Parliament

Economy, Energy and Tourism Committee

Wednesday 6 August 2014

[The Convener *opened the meeting at 10:31*]

Decisions on Taking Business in Private

The Convener (Murdo Fraser): Good morning, ladies and gentlemen, and welcome to the 20th meeting in 2014 of the Economy, Energy and Tourism Committee. I welcome members and our guests and 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 system.

We have no apologies this morning, so we have a full house of members. I hope that everyone is suitably refreshed after our short recess.

Item 1 is to ask committee members whether they are content to take the consideration of our work programme at our next meeting in private. Is that agreed?

Members *indicated agreement.*

The Convener: Under item 2, are members content that we take item 4 on today's agenda, which is just a discussion of the evidence heard, in private?

Members *indicated agreement.*

Social Enterprises

10:32

The Convener: Item 3 is a round-table discussion on social enterprises, which I know are a subject that has been of interest to a number of committee members for some time. I am very grateful to our witnesses for joining us today for what I hope will be a free-flowing, informative and reasonably informal discussion, although it is on the record and official report staff are here taking notes of what is being said.

It might be useful if everyone around the table introduces themselves and says who they are representing. I will start. I am an MSP for Mid Scotland and Fife and convener of the committee and chair of today's session.

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

Andrew Nixseaman (Calman Trust): I am assistant chief executive of the Calman Trust. We operate a range of social enterprises in the Highlands as a vehicle for delivering employment and training to young people.

Mike MacKenzie (Highlands and Islands) (SNP): I represent the Highlands and Islands.

Brian Weaver (Highlands and Islands Social Enterprise Zone): I am the chief executive of Highlands and Islands Social Enterprise Zone, which delivers business support to social enterprises in the Highlands and Islands.

Chic Brodie (South Scotland) (SNP): I am one of the MSPs for South Scotland. I also have the privilege of being the convener of the cross-party group on social enterprises.

Duncan Osler (Social Enterprise Scotland): I am a partner with the MacRoberts law firm. I am here as chair of Social Enterprise Scotland, which is a member-led organisation promoting interest in and understanding and development of social enterprise.

Margaret McDougall (West Scotland) (Lab): I am an MSP for West Scotland.

Ewan Fraser (Dunedin Canmore Group): I am the chief executive of the Dunedin Canmore Group, an affordable housing group based in Edinburgh and working across Edinburgh and the Lothians.

Richard Baker (North East Scotland) (Lab): I am an MSP for North East Scotland.

Alastair Davis (Social Investment Scotland): I am the chief executive of Social Investment Scotland. We make loans and other repayable

investments to charities and social enterprises across Scotland.

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

Fiona Pearson (West Lothian Social Enterprise Network): I am the co-ordinator of the West Lothian Social Enterprise Network. We are one of the newer networks.

Marco Biagi (Edinburgh Central) (SNP): I am the MSP for Edinburgh Central.

Karen McGregor (Firstport): I am chief executive of Firstport, which supports new-start social enterprises across Scotland by providing them with business support, start-up funds and practical help.

Alison Johnstone (Lothian) (Green): I am a Lothian MSP.

Neil McLean (Social Enterprise Academy): I am the chief executive of the Social Enterprise Academy, which runs accredited learning courses for social enterprises and social entrepreneurs across Scotland.

The Convener: Thank you for introducing yourselves. We are also joined by Diane Barr and Dougie Wands from our clerking team.

I will run this session as a discussion covering three broad topics. First, I want to look at definitions. Do we understand what social enterprises are and the scope and scale of the sector in Scotland? Secondly, I want to look at the value, the benefits to society, the advantages and the social and economic opportunities that arise from social enterprises. Thirdly—and I suspect that this might be the meatiest topic of the three—I want to examine what we are doing to support Scottish social enterprises and discuss whether anything more can be done through Scottish Government policy and other agencies. As part of that, we can touch on issues such as funding, public procurement and business support.

Obviously, I need to chair the session, so anyone who wants to contribute should just catch my eye and I will bring them in. The MSPs should also feel free to chip in, ask questions and make contributions, but we really want to hear from our witnesses.

Moving to the first topic, I will start with Duncan Osler, given his role. Duncan, can you tell us what you think a social enterprise is?

Duncan Osler: Yes. [*Laughter.*] A social enterprise is a business that trades like other businesses but which has a more social purpose than the simple making of money. Charities have beneficial charitable aims, and community interest companies have community interests. The more fundamental question for social enterprises is this:

if your business generates a surplus, where does the profit go? Moreover, what employment, employability, environmental and other gains and impacts are achieved by the activities that you engage in to achieve that surplus, that income and that enterprise? Perhaps a different answer to the question is that, because of the nature of human endeavour, there is no standard, absolute, unchanging and fixed definition of a social enterprise.

The Convener: To what extent is the definition that you have very helpfully outlined agreed by everybody, or do different interpretations exist?

Duncan Osler: That discussion is fluid and on-going, and I am sure that others will comment on the matter. As a lawyer, I think that it is a good thing to have definitions, but I know that people do not always agree on them. It is important that we discuss the issue in order to get to the essence of the purpose of social enterprises. Indeed, another way to look at them is to say that they represent business with purpose.

The Convener: Does anyone else want to chip in on the question of definitions?

Fiona Pearson: What frustrates West Lothian Social Enterprise Network members is the term “not for profit”. Social enterprises are not not-for-profit organisations; the important issue is what they do with their profits.

Alastair Davis: Interestingly, the definitions of social enterprise that are used in Scotland are perhaps more rigid than those used in the rest of the United Kingdom and, indeed, in Europe and the United States. In those areas, there might be a more liberal interpretation of where the profits from a social enterprise can go, but the point is that it needs to have a social purpose. In Scotland, we are quite keen to lock in where those profits are distributed. There is certainly a difference between Scotland and other countries.

The Convener: You have said that there is a difference in definition between Scotland and other countries, but who in Scotland enforces that definition?

Alastair Davis: The social enterprise movement polices it to a certain extent, but as the movement grows in prominence and understanding, the definition will, I think, become open to more challenge and discussion by other organisations and people.

Brian Weaver: We have had years to properly define what a social enterprise is, but that has not happened. I am not a lawyer; I used to be a biochemist, and we liked hard definitions. My fear is that, because the UK Government has just decided that tax relief will be given to individuals on investments in social enterprises, that says to

me that it will be HM Revenue and Customs that defines a social enterprise. The tax authorities will decide what is and what is not a social enterprise. We have missed a trick, and I would like us to come up with a highly specific definition of a social enterprise.

Karen McGregor: It is worth mentioning that one of the membership organisations, Senscot, has a code of practice, which I think it is fair to say is widely accepted by social enterprises in Scotland. When it comes to getting close to an accepted definition, that is probably what most of us work to. However, Brian Weaver makes a fair point about who may end up giving us a tighter definition.

Ewan Fraser: From a housing association point of view, we have rules for registered friendly societies and charitable companies. We are in business to benefit the community. I go back to the idea of profit for a purpose. Every business has to make a surplus of some sort, but what matters is what it does with that. Profit for a purpose is the key thing for housing associations.

We have to deliver a housing service in the community, and the affordability of that service is extremely important. We must retain the service's affordability and, to do that, we must use our money wisely and create benefits for the community. Housing associations have been around for a long time, but it is only recently that they have recognised themselves as social enterprises, which involves using their enterprising nature to benefit the community.

Marco Biagi: I want to follow up on the point that Alastair Davis made about the definition being broader elsewhere. Where else would the returns from social enterprise go? Where do they go in the other areas that you referred to? Could you explain that?

Alastair Davis: In the main, a proportion of those profits might be distributed to the owners or the shareholders of the social enterprise. In Germany, for example, a social entrepreneur might be someone who wants to set up in business. They still have a social purpose, but they may extract personal wealth from that enterprise. We would not necessarily see that in Scotland. I am not for a minute saying that I believe that that is right in every case, but it is worth being aware that a range of definitions exist not only in Scotland but worldwide.

Neil McLean: At the risk of adding more confusion, I point out that many social enterprises also have charitable status. In a community interest company, there is a particular model of profit extraction. Charities are governed by those rules, too. In my view, in the broader third sector there are charities that are social enterprises but

which do not use the term. There are also organisations that use the term that are probably not operating as social enterprises; they have simply jumped on that bandwagon. It is a confused scene.

For me, it is about the code of practice that Karen McGregor mentioned that we subscribe to. There is also a sense that an exchange of value is taking place. There is a business context, an exchange of value takes place and, broadly speaking, the profit is retained to use for the organisation's purpose.

Mike MacKenzie: This is an interesting discussion, but I would be interested to hear more about an issue that Brian Weaver touched on. Does it matter that we do not have a precise, all-embracing, universally accepted definition of what a social enterprise is? Brian Weaver hinted that that gives rise to problems. Certain things occur to me. I am aware of some social enterprises that are undertaking projects, for which they are raising finance through a crowd-funding mechanism, which involves distributing profits to those who buy shares in the project.

Given the roles of HMRC and the Office of the Scottish Charity Regulator, is the lack of a definition and of an understanding of what a social enterprise is likely to cause problems, or is it already causing problems? I am keen to hear about that.

10:45

The Convener: Brian Weaver's point was that, if we are talking about a specific tax benefit, there will clearly need to be an agreed definition.

Brian Weaver: A piece of research that was done recently for the Big Lottery Fund inquired of about 3,500 organisations and got 192 responses. However, three or four pages into that report, we find that 42 per cent of the 192 respondents did not fulfil the definition of being a social enterprise. If the organisations that responded do not know or are confused about whether they are social enterprises, God help everybody else. We have seen probably 500 small social enterprises throughout the Highlands and Islands over the past six years. We are always trying to work out whether an organisation is a social enterprise or just a straightforward charity. Do they trade sufficiently, or should they just be a charity and leave it at that?

We put all sorts of demands on people because we have brought in the concept of a social enterprise. We should define it and say that, if an organisation is a social enterprise, it is aspiring to be a big business and therefore it should be VAT registered. Nobody has ever suggested that, but I think that a requirement for VAT registration would

really focus organisations' minds. Organisations do not need to be big to be VAT registered, but they need to be concentrated. Those are the kind of things that I think about and which keep me awake at night.

Andrew Nixseaman: Another point is that there are almost two different types of social enterprise. Part of the issue is to do with charitable status, but there is a question about whether an organisation's social mission is part of its activity, whether the activity generates a surplus that is then used for the social mission or whether it is a combination of the two. That adds another layer of confusion.

Richard Baker: I have a brief point that follows on from Brian Weaver's comments. He mentioned that some organisations that might be social enterprises do not define themselves as such. More and more local services are being contracted out to organisations. However, a care service, for example, might be in it for profit rather than to invest the profits in social causes or in the enterprise. To what extent are organisations actively looking to push the boundaries to define themselves as social enterprises when, actually, they are not? Of course, there might soon also be a tax incentive to do that, so it seems to me that the picture is quite challenging.

Chic Brodie: I have a view on what the answer to this question is, but it will be interesting to hear the views round the table. We have heard about what may or may not be a social enterprise. In the witnesses' opinion, who qualifies a social enterprise as a social enterprise?

Duncan Osler: Social Enterprise Scotland has members who are social enterprises. When an organisation applies to be a member, we assess whether it is a social enterprise, which is easier to do with a registered charity, because obviously its purpose is aligned with a social mission. When an organisation's purpose is unclear, we would not be comfortable with qualifying it as a social enterprise. That is the qualification process for the purpose of membership of our organisation. In a sense, it has no other significance.

Chic Brodie: That is good. Are the standards, interpretations or definitions the same for the other bodies that are represented? Is an organisation a social enterprise because it fulfils a set of criteria?

Fiona Pearson: That issue frustrates the West Lothian Social Enterprise Network and our members greatly. If I had a pound for every hour that I have spent trying to define "social enterprise" instead of actually getting on with my work, I would be making a profit myself. Our network is fairly new and we have a lot of traditional voluntary sector charities that are trying to become more

enterprising, although that does not mean that they will ever be a social enterprise business.

It is an interesting time for social enterprise development. A cultural change seems to be happening, in which businesses are being set up with the purpose of making surplus profit with which to do good things and supporting social good along the way.

There are the traditional voluntary sector charities, whose grant funding is being squeezed to the point where they are looking inwards and saying, "Can we sell what we do?" You can only make a business out of something that people want to buy. A befriending charity will never make a profit, because no one can pay for the end product. The people who use the end product do not have the money.

There are definitely two sides to the development of social enterprises. It is quite interesting. I used to manage a successful social enterprise in West Lothian that was set up as a cleaning business. It is a subsidiary of a housing association and donates its surplus profits back to that association. It runs as a business, with its own management committee. It is VAT registered and, occasionally, if it does not pay everything back to the charity, it has to pay corporation tax. Although it has given away £28,000 over the past five years to support the local community, it is a business first. It employs people in an area of multiple deprivation. It recycles 75 per cent of all the waste that it handles, so there is an environmental impact. It also supports organisations with the surplus profit.

That is fairly straightforward. However, another good example in West Lothian is a furniture recycling charity called HomeAid West Lothian. It used to give furniture free of charge to people who were coming out of homelessness. It now has to sell its furniture in a shop at prices that are above what homeless people can afford in order to generate profit to try to supply some free stuff. It is struggling badly with that shift.

Definitions are useful. We use the Senscot voluntary code and we would always look at whether there is an asset lock. For us, that is the thing. What happens to the profits? Are the assets of the company locked? If that company winds up, what happens to the assets? It is as good as we have got at the moment. I really wish that we had a clear definition and could stop talking about it and just do it.

The Convener: I sense that we are getting towards the end of the discussion on that particular point. Is there anyone else? I think that Dennis Robertson was next.

Dennis Robertson: If Social Enterprise Scotland says that it has a criterion for

membership—if there is something that sets out what a social enterprise is in terms of its membership—is it not logical to take that criterion and use it to come up with a definition? Is that just too simple?

Duncan Osler: I think that it is too simple because a genuine social enterprise—

Dennis Robertson: But you have a criterion that you set. You mark a social enterprise against a criterion for membership, do you not?

Duncan Osler: We are simply a member-led private organisation. Over time, we have developed criteria that are core—for purpose, for where profits go and for the issue of the asset lock—with specific reference to a charity or a community interest company. It is a clear and relatively straightforward test to meet.

The reason why that is slightly oversimple is that there are other ways in which an organisation could set itself up legally in order to achieve social mission. As time goes on, I would wish there to be greater development and enhancement of the sector. I do not want us to stick to things as they are at today's date and not to evolve.

Alastair Davis mentioned developments overseas. There is a fundamental need for great impact to be delivered. I would urge the committee to think about anything that tends to impair that. By impact, I mean social investment. The UK has introduced a social investment tax relief; it is not a social enterprise tax relief. That is an important distinction. It is because HMRC recognised that a definition of social enterprise per se is not as helpful as a definition of investment. It is about tax, money, finance and relief in relation to that financial component of a business. However, I would also say that it is not simply a matter of economic and financial activity. These businesses have a social purpose in some way or other. That is their essence.

Ewan Fraser: Putting social enterprise in a firmly defined box might curb entrepreneurship and prevent things from happening. Diversity is a strength. There must be a broad guideline on what a social enterprise should be, along the lines of making profit for a social purpose. To have a narrow definition would curb opportunity.

We are a social enterprise in the sense that we have two companies: one is a charity and one trades to support the charity. We do not want to live off grant funding all the time, because public money is disappearing quickly and is difficult to get hold of. However, we still have tenants and people in communities who have huge needs, so we seek to support them by considering how we can run businesses around the company. Those businesses will benefit communities as the profits are churned back into supporting people in a

range of ways, such as tackling homelessness, which Fiona Pearson mentioned.

We should see diversity as a strength and not put social enterprise in such a firmly defined box that opportunity is curbed.

Dennis Robertson: So you do not want a definition.

Ewan Fraser: I want a broad definition, not one that is too tight. We need some flexibility.

Neil McLean: Historically, the debate on what is and what is not a social enterprise in the third sector has been done to death, and the outcome is largely agreed on. The bit that is still to be agreed, which is interesting, is the question of what will happen between the social enterprises and the private sector, which does not exist in a vacuum and will respond as Duncan Osler described.

With regard to social investment, the question of where social change comes from is much more interesting than the issue of how we define the organisational structure in the middle. I agree with Ewan Fraser that we should keep the definition as broad as possible so that we do not box ourselves in to a corner.

Alison Johnstone: I will direct my question to Duncan Osler in the first instance. What are the links between traditional business models and social enterprise business models? These days, a lot of multinationals are falling over themselves to prove and emphasise their corporate social responsibility aspects.

I do not want to name any particular businesses, but there are companies on the high street that are determined that they are playing a really important role in their communities. Do you have anyone coming to you and saying, "We would like to get more involved"? Are you learning from one another? Could that sort of thing be useful?

Duncan Osler: We have a category of associate members, which are entities that do not meet all the tests for being a social enterprise but are nevertheless interested in working and collaborating with social enterprises.

I would distinguish a private business that has a corporate and social responsibility element from a social enterprise. There is a fundamental difference between a business that trades to make money privately that the owners then take as profit, and which may use corporate social responsibility in order to further that profit-making endeavour, and a social enterprise that has a social aim as its purpose.

Alastair Davis: There has been a lot of talk about investment and where it is going. By focusing too much on definitions, we run the risk of

forgetting that social enterprises are all about creating social impact, in whatever sense that may be.

It is a real sign of strength that the social enterprise community is now attracting the attention of business and investment, and the wider economy, because it is viewed as attractive, sustainable and viable. The private sector is interested and new streams of investment are opening up.

There is a risk that we may miss out on the opportunities that such investment may bring by defining too tightly the types of activities in which the money can be invested. That would be to the detriment of the people of Scotland in some senses; they may benefit from a slight opening up of the interpretation of what can and cannot be a social enterprise.

It is good that we are starting to have that discussion, although we should not compromise ourselves just for the sake of following the money that is out there.

The Convener: That takes us neatly on to the second part of the discussion. We have more or less exhausted the point about definitions, and I think that we have come to the view that we will not agree on the definition this morning, as there are several different views.

I see that Mike MacKenzie is desperate to make a point on definitions.

11:00

Mike MacKenzie: In my experience, having dealt with a number of constituents' problems, it is important that we get a definition—perhaps not a single definition, but a set of working legal guidelines—to give people some comfort and certainty. We MSPs always get called in when there are problems and perhaps our views are a bit jaundiced by that, but the lack of a clearly understood definition, in what are often very complex areas, can cause great harm and difficulty. I represent a rural area, and such problems come to the fore in rural areas more often than they do in urban areas.

I will give a brief example: the Viking wind farm in Shetland, which is a collaboration between the community—or a community interest company, if you like; something that would be broadly defined as a social enterprise—and SSE. The board members comprise a number of local councillors. The amount of difficulty that loosely defined “good purpose” has caused, for individuals and in terms of labelling and so on, is staggering.

As we get further into this territory, with more social enterprises and hybrids, I can foresee even more problems. A big recurring theme is HMRC

and VAT people struggling to keep up. All kinds of judgments are made that, in some instances, appear fairly perverse. Individuals who get involved with social enterprises, largely as volunteers who wish to do good for their communities, end up saying, “I don't want to have anything to do with this. I've been threatened with prosecution, fines, convictions—all kinds of stuff. It's too complex and no one seems to be able to give me clear guidance.”

I see the territory as being fraught with difficulty. The purpose of getting a good working definition—or set of definitions—is to give guidance to all who interact with social enterprises, from the local VAT inspector to the local volunteer who wants to do some good for their community.

The Convener: We move to the second part of the discussion, which is about the value of social enterprises. What are the benefits of having a vibrant social enterprise sector? Earlier Richard Baker touched on the fact that perhaps we are seeing more services that traditionally were public services being delivered through a social enterprise model. What are the advantages and potential pitfalls around that?

Fiona Pearson: Social enterprises can be very well placed to deliver public services, especially if they work in partnership. It is very rare, certainly in a small area such as West Lothian, for any social enterprise to get the whole pie, but working together they could all have a piece.

The issue that we have—this is another discussion that we seem to have been having for years—is community value and how it is valued in the procurement system. West Lothian Council is fairly forward thinking and has gone through each of its contracts to see whether it can put in a community benefit or social benefit clause. Unfortunately, that is not weighted in the decision-making process. If we are going to say that social outcomes have a value, we need to have a mechanism with which to value them. That is another box of frogs, quite honestly.

West Lothian Council, with the help of money from the Scottish Government, is doing a research project with the University of Strathclyde to see whether there is one tool that can be used across community asset transfer, procurement and the measurement of social outcomes from funding. We have to be able to measure the value of that.

Richard Baker: It is clear from other countries and other parts of the UK that it would be possible to give a higher weighting to community benefit clauses, for example, than is often currently the case. Have some of the issues not been addressed through the Procurement Reform (Scotland) Act 2014? Is some of that work still to be done?

Fiona Pearson: It is on-going—it has been kick-started by the procurement reforms. That is only a good thing, but we must get it right. We cannot spend another five years messing about deciding whether to use social return on investment or social auditing.

It might well be that each authority will decide on its own mechanism, but we are saying that the process should not be made too complicated, because many of the smaller social enterprises just look at it and say that it is beyond their resources to do an SROI calculation. I did one and it was horrible. Somebody else did it and came out with a different figure, so we could make it say what we wanted.

We have been given a useful kick start and we are on the right lines. It can be fairly frustrating to do the research and the background work but, in West Lothian, we think that it is really important that, when the council puts the clauses in, we have one mechanism that can be used across the disciplines. It might be that that would not work for other authorities, but it seems to be the way that West Lothian Council is going.

Chic Brodie: The Procurement Reform (Scotland) Act 2014 has just been mentioned. I seek some comment on how local authorities view social enterprise and how they engage with it. I am trying to get a social enterprise set up in Ayr that would involve youngsters going around on rickshaws encouraging people not to drop litter. How could we measure the success of that other than by assessing whether the place looked better? I am not persuaded that the local authority will necessarily jump up and down and say, "Great!"

It would be interesting to find out what opportunities exist for outsourcing in areas that will experience social benefits and whether local authorities will embrace the idea that they should provide the core elements that they exist to provide and be prepared to outsource—particularly, but not exclusively, to social enterprises—services that deal with issues such as litter that clearly demonstrate a social value and social benefit.

The Convener: Do we have a sense of the total value of social enterprise to the Scottish economy? Has anybody done that calculation?

Marco Biagi: I am not speaking on behalf of social enterprises, but I would have thought that, because so much of the impact is social, it would be almost impossible to quantify it. Is that a fair analysis? I have seen economists try to analyse the value of clean water in streams, for example. There is nothing that economists will not attempt to quantify, but it strikes me that quantifying the total value of social enterprise would be difficult

and, therefore, a challenge for the sector in justifying its value.

Karen McGregor: At Firstport, we evaluated our services over the past five years. I am talking about young, fledgling businesses, because we work with individuals from a standing start. We found that the social enterprises that were up and running had stayed up and running and had been going for, say, just under three years. On average, they created 2.4 jobs in their areas and about 140 people benefited from each enterprise.

We tried to find some harder statistics. Marco Biagi is right. Because we are not necessarily delivering the social impact, it is hard for us to go out and measure it. However, it is important to realise that not all social enterprises are set up to deliver public services. Many of them trade like ordinary businesses and deal directly with the consumer.

I will tell you about a particular initiative that Firstport has been running in Glasgow, which is part of the Commonwealth games legacy. We started a project called beyond the finish line. We set ourselves a target of working with 10 young social entrepreneurs at a very early stage and gave them a deadline of the games to get up and running. The quality and variety of ideas were so good that we ended up working with 15 of them, and I am pleased to say that, by the time the games kicked off, about 10 of them were trading.

Many of those businesses were from the creative industries—they were businesses with craft-based products and environmental upcycling businesses. We find that the biggest issue that those young businesses now face is finding the right kind of affordable short-term lease. At a local level, there is a real issue with how landlords approach that. That will be the case not only for social enterprises; I think that it is an issue for small businesses across the board.

A really positive outcome of that work, not just in Glasgow but across Scotland, would be for local landlords, whether the local authority in the properties that it owns or some of the absent landlords, to start really looking at that issue, because we would all benefit from that.

We have demonstrated that social enterprise can tackle the problem of empty shops and vacant spaces in the high street. Nobody wants to walk down the street and see them. Retail is not the only answer and it is not providing us with the whole solution. A social enterprise can go in and deliver a completely different experience. Our high streets are places to learn, to be creative, to meet and to be active, and all those things are important.

That brings me back to the question of the value of the role that social enterprise can play. The

regeneration agenda is not just about economic regeneration. It can help to make an impact on that, but only if we all work together, and the local authorities have to work along with social enterprises.

Neil McLean: In terms of scale, the published numbers suggest that the size of the social economy in its broadest sense is about 3.5 per cent of Scottish gross domestic product and that about 4 per cent of employees in Scotland are employed in some form of third sector organisation. The EKOS study that was done by the Big Lottery Fund suggested that the majority of that was in the social enterprise category, but that takes us back to definitions. That is the scale of the sector.

Andrew Nixseaman: To pick up on what Karen McGregor said, we need to be clever about what we try to measure. My organisation supports about 400 young people a year, trains about 150 and employs 40, but the reason that we do business is because we believe that the training that we provide is better, not necessarily to increase the numbers. We can train more people with employability skills if we train them in a real business, which means that they become better employees when they move on.

Our interest is in measuring the sustainability of the outcome rather than the number of young people involved or the income generated, but all three are important.

Dennis Robertson: Does social enterprise provide opportunities for individuals or groups of individuals who perhaps do not get into the employment market through the standard means of getting out and finding a job? Are the training opportunities for certain individuals who might find it hard to get into the employment market the social benefit of some of the social enterprises?

Andrew Nixseaman: That is the essence of the organisation in which I am involved. We can employ people who, when they join us, are not employable because they have other challenges in their lives. For example, we can put in place support to work with young people who might be late to work every day because they are carrying out an inappropriate caring role at home. We can work with them to solve that problem while offering them training and employment. Not many employers would be able to take that amount of time.

Dennis Robertson: In his submission, Ewan Fraser viewed the issue as one that offered opportunities rather than barriers. Is that right?

Ewan Fraser: Yes. We try to create opportunities.

One of the initiatives that we have is with a homeless hostel in Leith. People come to the hostel because they are homeless and because they have a range of issues or problems. We try to break that cycle of homelessness. The way to do that is to get them a house and a job, but the people who come to hostels are probably unemployable. Therefore, we assess them for eight to 12 weeks, then put them into what we class as a training flat and teach them social skills, budgeting skills, computer skills and how to write a CV—anything to get them into employment and make them employable. Then we move them from a training flat into a permanent tenancy. That creates opportunities for people who have personal issues.

We have had a 100 per cent success rate, with the people who have gone through that system over the past two or three years sustaining their tenancies for more than a year. That is very good. Many of them now go to college. They can go on to employment. They can hold down a job and, if they can do that, they can sustain their tenancy.

We need to look at the opportunities that exist. For example, we have been looking at how to build confidence. We work with Street Soccer Scotland, which is a social enterprise, on an initiative called football works. The participants play football and then we give them a bit of training. Part of the deal is that, after they have had their game of football, they must attend our session in the classroom, at which we will give them computer literacy skills and advice on how to write a CV. Linking such simple activities creates opportunities. That work is getting people back into employment and is helping the economy, but how we measure its success in numerical terms is difficult.

11:15

Brian Weaver: The convener's question was about the value of social enterprise. We have just heard about homelessness, care and employability, which are the big issues that we see all the time. When you go into a Highland village, you might come across a generation that does not have any of those problems, but there might be other issues to deal with. For example, the economy might be so small that no national organisation will come into the area.

All over the Highlands we have small social enterprises that do everything from running the ferry in Glenelg to running village halls—hundreds of them do that. Others aim to bring into the community new crafts or to retain old ones. Therefore, we have a wide range of bodies that deliver a social value that would never be delivered commercially because there is not

enough money in it for commercial organisations to be interested in it.

I sometimes hear that the process is becoming more centralised and that social enterprises are being told what they can do for Government and the delivery of its policies, but the reality is that social enterprise is about the people who live in communities and what they want. There are some brilliant arts centres and other wonderful organisations all over the Highlands. For example, if local communities did not run their transport associations, they would not have any.

I ask the committee to keep in mind the fact that, outside Edinburgh, there are loads of social enterprises that do not just do the things that hit the headlines all the time.

Marco Biagi: Those groups appear where there is not a critical mass for commercial delivery, so how do they make their money? How do they bridge that non-viability gap?

Brian Weaver: That is a fascinating issue. Over the past 10 years, contracts have got bigger and bigger. That is a real problem for small social enterprises. A social enterprise may run a village hall because it has someone there to act as the janitor. If that enterprise could also cut the grass locally, it could get enough money from that to help to run the hall. However, as the grass-cutting contract is likely to be worth £1 million, it will be picked up by a multinational company, because national contracts are awarded for such services.

Community benefit clauses have been mentioned. They enable local authorities to award contracts to good organisations, but having small contracts makes that even easier. HISEZ has a turnover of £225,000 a year. We cannot go for a £3 million contract. We need small ones. If contracts worth £30,000 were offered, we could go for them all the time. Therefore, I ask the committee to think about small contracts.

The Convener: That is a very interesting point and it leads neatly on to the third and probably the most important topic that we want to discuss—the public policy support that is available for social enterprises from Government, local authorities and agencies.

We touched on a procurement-related issue. Parliament agreed to the Procurement Reform (Scotland) Bill a few months ago, which included provisions on community benefit clauses. That is a step in the right direction, but it may not go far enough. I am interested to hear about the experience of public support for the social enterprise framework, access to funding and all the other issues. What more needs to be done?

Duncan Osler: It is a fair assessment to say that Scotland, compared with dozens of other

countries, has a leading position on social enterprise. I and others here have travelled internationally to visit the social enterprise world forum. Scotland is regarded with envy because there has been a long-term, consistent and coherent programme of support for social enterprise from the ground up. The Scottish Government is to be commended for that and, over a number of years, a number of organisations have added to it. In that sense, Social Enterprise Scotland's role in promoting policy is less important than the work of the programme delivery agencies that have implemented the programmes over many years. It relates to training, enterprise funds and the like. That is all good.

There is, however, much more to be done in this context, and I will make a couple of points on value and measurement. We need to measure and there needs to be a broad base of data, but it is impossible to measure a young person's gain in confidence, so there is a limit to that exercise. If we look at Christie and the requirement for preventative measures, the people whom Ewan Fraser is talking about are, as a result of social enterprise endeavour, able to make a greater contribution to society, be employed and contribute, so their families do not need the social support. There is a cost reduction there that is not so much a percentage as, often, a factor of the benefit—financially, if nothing else. Although a procurement lawyer will tell you that an authority such as West Lothian Council must create a level playing field for all potential bidders for contracts, if an authority is able to take into account the impact, it is a pretty tall order to compete with an effective social enterprise.

Furthermore, one of the key things about the Procurement Reform (Scotland) Act 2014 is not just community benefit but the requirement for authorities to think about breaking contracts into lots. Currently, to too great an extent, the language of the procurement rules at the European level is mere money—currency—whereas we are all interested in social matters. Procurement is about doing things for people and, socially, people to people. As Brian Weaver says, breaking things into smaller units is very helpful. At the end of the day, we are talking about social matters.

There are many different types of social enterprises, as Karen McGregor said. Many face the public sector to support and work with local authorities and the like. Many seek to trade on a retail basis and compete head on with high street shops, which is to be commended because, as Neil McLean said, the proportion of the Scottish economy that is social enterprises is 3 to 4 per cent. That is not insignificant, but we would wish it to be greater.

Richard Baker: I accept what Duncan Osler says about the sector in Scotland being in a positive position compared with the sector in other countries, but I and many of my colleagues hear that life is getting increasingly tough for social enterprises in terms of their getting support and in terms of retendering exercises and the fact that there is less money for the contracts that they carry out. A long time ago, we had debates about a strategic funding review and full cost recovery, but those seem like ancient history now. What more can be done to alleviate the situation?

I am frequently asked about three-year funding cycles. For a long time, we talked about making progress on providing more financial security for social enterprises through their grants going forward. I would be interested to hear any comments that the witnesses have on those areas and on that specific question.

Duncan Osler: As I have said, there has been a long-term procurement programme to support social enterprise, which is a good thing. However, you are right to say that the focus must be on the future and how we go forward. The reality of increased demographic pressures and a widening gap in relation to the affordability of current levels of health and social care, for example, means that we have pressing needs. I suggest that social enterprise is a serious contender to be one of the solutions for making that gap as small as possible, and all those round the table have better explanations of why that is so.

We need to work hard, and there is not one whit of complacency about what needs to be done. We are not resting on any laurels—we do not have any.

Karen McGregor: I offer a broader point from our perspective. We are interested in building a healthy and robust pipeline of new starts that will come through. From where I am sitting, we need to look at that pipeline and who is starting up. I would like to see us bringing in more people who are more ambitious and confident, whether they are starting up a private business or a social enterprise.

We need to share more success stories, but not everyone will relate to the Tom Hunters and Richard Bransons of this world. We need to show people that people just like them can go on and be successful and start up really good businesses.

There is funding out there, whether it is the new social investment funds or existing grant funds or whether it is a question of finding the right market for trading. That funding exists, but it is about who is coming forward and where the pipeline is coming from.

Chic Brodie: On Karen McGregor's final point, there is no question that social enterprise in

Scotland has been a remarkable success. The danger in that is about who decides who the new entrants are and how they are qualified. That is compounded by the fact that many of them require business support. Where do we qualify those who are supposed to give bona fide business support to the various social enterprises, particularly to new entrants?

In the committee's access to finance inquiry, which included small businesses, we heard that there are 330 different funding streams. I would like to hear Alastair Davis's view on this point. We have to keep the free entrepreneurial spirit going, but there has to be some form of discipline in qualifying those who give business support and in the funding streams. We need some form of discipline to define three or four different types of social enterprise and to qualify those in the business support community so that they can meaningfully guide social enterprises towards a social end.

If we look at the funding sources, we see a maze of contacts between social enterprises, business support and funding resources, and all of that must mean costs. It must swallow up money that could be used elsewhere. I would like to understand the views of the experts in the field on how it all hangs together—or how it could hang better. I was about to say “better together”, but I will not say that. *[Laughter.]*

The Convener: Politics is definitely off the table today.

Alastair Davis: Chic Brodie makes a good point. As social enterprise has developed, the social investment marketplace has matured alongside it. More investment, funding and grant options are available to social enterprise than there have perhaps been in the past, and that is not just coming from Scottish Government sources, which have been an excellent supporter of the continuum of funding support during the past five years or so. There is a requirement on organisations such as Social Investment Scotland and others that operate in the field to make it as straightforward as possible for organisations to access that finance.

We have to understand that it can be terribly bamboozling for a social enterprise that takes on investment for the first time, because of the jargon and language, the techniques, the tools and the products, which people might not be aware of if they come from a background of applying for a grant and spending it, then moving on from there. There is a big job for organisations such as ours to do to work with other providers to develop the investment readiness of the social enterprise sector. Social Investment Scotland is doing that quite actively with support from the European Union.

To go back a bit, someone asked about Scottish Government support for the social enterprise community. Social Investment Scotland has managed the Scottish investment fund for the past five years. That was approximately third in terms of value under the “Enterprising Third Sector Action Plan 2008-2011”. We recently evaluated that programme and we have been quite amazed by the results because 100 per cent of the 67 organisations that received investment said that they are more effective and, on the whole, a lot more optimistic about the future, and there is more optimism than we have evidence for. Also, 96 per cent of them have increased the proportion of their income that they earn from trading, and 95 per cent say that they have increased their capacity.

There is a movement of organisations that have taken the risk by moving forward and taking more control of their destiny and they are proving that that has made them more sustainable and more optimistic about the future, so they are able to deliver more social impacts. That is a particular type of social enterprise in Scotland; there are more than that, but by telling that story and using the example we can help other organisations along their journey and provide the support and advice that Chic Brodie mentioned.

11:30

Marco Biagi: Can you be clear about what sectors those groups work in and what services they provide?

Alastair Davis: It is pan-sector; there is no particular theme. However, a proportion of the money that came from the Scottish investment fund was repayable, so the organisations had to already have income streams that could be used to repay the investment. In some ways, that distinguished them from the broader social enterprise community.

The mission of the Scottish Government support has been to make social enterprises more enterprising by providing enterprise-ready funding and business support, and to help organisations on that journey to raise more income from their own resources.

Andrew Nixseaman: The other benefit is that it enables organisations to get a match. We could match money from the social investment fund with grant funding that we could not otherwise have accessed, so the impact was doubled.

Neil McLean: When we go abroad to talk about social enterprise, one of the reasons that people are jealous of the situation in Scotland is that it has been joined up and strategic for a long time. Business support is funded, investment is supported—as Alastair Davis described so well—and learning and development are supported. We

have a few legs to the stool on a joined-up basis across Scotland.

An earlier question was about where we get social entrepreneurs from. Another part of the Scottish Government’s strategy was to use the curriculum for excellence to support entrepreneurship education in schools through social enterprise. We have now worked in 600 schools across Scotland, with 1,000 teachers and 24,000 young people. Generally speaking, we have found from teachers that if we put the word “social” in front of the word “enterprise”, schools are more receptive to the principle of entrepreneurship as a subject. We see that youngsters accept the principle of entrepreneurship because they have been involved in a learning-by-doing approach to social entrepreneurship, and they know because they have done it that they can start a business at some point.

That pipeline—the joined-up approach that the Scottish Government has taken so well—is to be commended, and it will bear fruit in the future.

Dennis Robertson: However, that will not necessarily be social enterprise. Entrepreneurship is taking them forward—you are saying that they have the confidence to move forward.

Neil McLean: Absolutely. We have not pushed them on what business model they want to adopt. We are saying that entrepreneurship skills are completely transferable and they are the same across the piece. What those young people want to do in the future is their business.

Research shows that to start entrepreneurship education at university or later is too late. Entrepreneurship education at primary and secondary school allows young people to say, “Yes, I can”, and we are seeing the results of that. It is early days, but the situation is very positive.

Alison Johnstone: I am hearing a lot of positive input about support—financial and otherwise—for social enterprises. The Big Lottery Fund’s research suggests that 64 per cent of social enterprises think that the future is rosy and expect to increase turnover in the next three years. Is that your expectation?

I would also like to understand survival rates among social enterprises better. How do they compare with private business survival rates?

Karen McGregor: Since 2009, Firstport has managed the Scottish Government’s social entrepreneurs fund. I know that you will all have read our “Start Something Good” impact report, because we posted a copy to all MSPs. We found that three out of five of the social enterprises that are continuing on their journey—generally, those that had accessed what we call the level 2 “build

it" awards—are still around after five years. We were extremely surprised, but very positive, about that. I do not have a comparison with business gateway figures for the private sector.

I have brought some extra copies of "Start Something Good" here today. If you read it, you will see that most of the data come from social entrepreneurs who set up social enterprises through support from the Scottish Government. That tells us that supporting start-ups really does work. There was a big change in 2009, when the Scottish Government looked at putting start-ups in its wider third sector action plan.

I will come back to Chic Brodie's point about there being a maze. We joined up with another fund—the Millennium Awards Trust—to run a joint programme that involves the Government's social entrepreneurs fund. We take in all the complexity, but the individual who is starting out has just one point of access.

Money must be combined with support. If money is given in isolation, without support, it will not deliver the best outcomes, and vice versa; there can be support, but each start-up business requires seed funding to get going.

Chic Brodie: How do you establish and qualify the good business support that is needed for social enterprises? My experience in the industry was that there were some good business support people—I will not use the word "consultants"—but some people were on the make, to be frank.

Karen McGregor: That is a fair point. At Firstport, when we employ business support advisers—we keep them separate from the people who make judgments on funding applications—our approach is always that they should come from a commercial background. The people whom we have employed know about business and can sit down with someone to help them to analyse their market and their customers. We have built that into our recruitment processes and how we run the organisation, but it is subjective.

You are right that lots of support can be provided through different networks, but it is probably patchy. In some ways, we are fortunate in being a small organisation; we have only two business advisers who cover the whole of Scotland. We measure their effectiveness first based on feedback from clients, which is largely about customer satisfaction. A year or two years after clients have had support, we go back to look at the direct links and see which of our interventions have made the biggest difference. People getting one-to-one support makes a big difference.

We have continually changed our service and we are moving towards providing a much more intensive service, which is slightly more expensive

to provide, because of staff time. We can balance that, because we know the points when people will come to us, where they will get to and when we can add a more intensive service that will be more effective.

Brian Weaver: HISEZ delivers the just enterprise programme for the Highlands and Islands. Just enterprise is a Scottish Government programme to provide advice for social enterprises. We measure our success simply by the number of contacts. If we do not get phone calls, folk do not like us, and if we get more phone calls than we got last year, forget the research—that means that we are running the corner shop properly and people are coming to us for advice. We have loads of inquiries coming in.

An interesting point that I would like people in central Scotland to think about is that, in the north of the country, Highlands and Islands Enterprise has a social remit. Quite a lot of social enterprises ask us for advice about particular subjects on which—lo and behold—we can work with consultants from Highlands and Islands Enterprise, who can deliver on those things. We also use business gateway, which delivers specific services. There is a lot of support in that mix.

However, Chic Brodie is right that some advisers are rubbish. Others are good, but people do not get on with them. When people have a choice of using HISEZ, business gateway or Highlands and Islands Enterprise, the chances are that they will use somebody they can pick up the phone to talk to. I had better not say anything else, before anybody asks for names.

The Convener: I seem to remember that Chic Brodie was a consultant in a previous life.

Chic Brodie: I was a transitional adviser, not a consultant. [*Laughter.*]

Dennis Robertson: Are you aware of the business start-up success rate in the Highlands and Islands and in other remote and rural parts of Scotland, in comparison with other areas?

Brian Weaver: Success rates are always too high, because people do not give up when they are doing something impossible. [*Laughter.*] We go into social enterprises all the time and we say to people, "No! Stop!", because what they are trying to do is insane, but we cannot get them to stop, because they are trying to deliver a social good. They will be working for 10 hours on top of their day jobs, trying to make something impossible happen. You have to love them for that.

Margaret McDougall: I have listened to the discussion with interest. I should say that I am convener of the cross-party group on volunteering and the voluntary sector, and I know that many

social enterprises rely on volunteers; they do not all have paid employees. There is a crossover between volunteers and employed staff. In addition, some organisations call themselves social enterprises while others say that they are charitable organisations when, in fact, they are social enterprises. As I understand it, most of them seek funding from sources such as the Government and the Big Lottery Fund.

How do we tie all that together? We hear that getting funding is a minefield; social enterprises in my area tell me how difficult it is to get funding. Once they have funding and have reached the magic level at which they can fill in the application forms and are recognised, it is easier for them to get funding in the future, but there comes a stage when that dries up. How do we look into the future? How do we make social enterprises sustainable so that they can continue to do what they want to do, which is to put something back into their communities and provide social benefit? We do not have a clear definition of a social enterprise and we cannot measure the value of social enterprises, because that is very difficult to do, so where do we go from here? However, you say that you give funding to various social enterprises, so you must be able to measure that.

It is a difficult situation. Does anyone have an answer on the funding issues and the value that is provided to communities?

Duncan Osler: Thank you for the question.

The third sector is phenomenally complex; the interface between the range of bodies in the third sector and the other stakeholders is phenomenally difficult to interrogate. I ask the committee to remember one thing above all: a social enterprise trades to generate surpluses year on year so that it is economically viable and sustainable in the longer term. Although to begin with a social enterprise may wish to receive support—grant funding will be available and a programme will be in place—the aim of a social entrepreneur is to create over time a self-standing business that does not need to be subsidised. That is the distinction between social enterprises and other equally valid and important third sector entities; for example, charities that have an endowment or are based on some other approach, and which have at their heart a mission or an endeavour that could never be made into a business—we heard the example of befriending. In some cases, making activities fit a business model is extremely hard.

It is about recognising and identifying social entrepreneurship. The activities that the Social Enterprise Academy pursues are designed to encourage that identification process. It is important to identify how to support the social entrepreneur effectively in order to enable as many businesses as possible to succeed, and to

reduce the attrition and failure rates. Part of the process is about connecting with investment that will provide support in the longer term. That raises the question of how we maintain the integrity of a social enterprise. If an investor comes in, will that weaken or impair the dedication to the mission?

Overall, I ask the committee please to remember that a sustainable social enterprise should be able to operate without public subsidy. That is a benefit in relation to the work that needs to be done to maintain the level of social and community support that we all wish to be provided in Scotland in the future.

11:45

Ewan Fraser: On a similar theme, along with social entrepreneurship goes social responsibility. I do not think that we lose that. Professionalism is required. One of the things that Dunedin Canmore is doing now is paying the living wage. That is important.

The other thing that we look at all the time is quality: we will not compromise on our standards. An organisation such as ours is in it to give services in the long term and to have long-term sustainability. The downside of that is that it can make an organisation less competitive. We must ensure that we strike a balance—we must have quality and pay people properly for doing a job, as professionals. Voluntary work is good, but there is regulation around disclosure and so on. There is another range of issues around what we do.

However, it is important that social responsibility goes along with social entrepreneurship and having socially driven companies. That can almost have a negative effect in trying to win tenders, but it can have a really positive effect when it comes to customer satisfaction. There are several issues.

Fiona Pearson: Volunteers have a huge role in some of the social enterprises in our area. Volunteering also opens up opportunities for people who traditionally find it difficult to get into the workplace.

You can almost be a victim of your own success when you run a social enterprise: you get to a crossover stage at which the manager can no longer do everything and needs extra staff, but the organisation is not earning enough money to pay extra staff. There is a social enterprise in West Lothian that is at that stage. In fact, I will bend Alastair Davis's ear about it after the meeting. If an enterprise is not sustainable—if its capacity has grown to the point at which it needs to take the next step but does not have the resources to pay for another member of staff—the danger is that the whole thing will collapse. The organisation that I mentioned has about 40 volunteers attached to it who will have nowhere to go. There is a gap.

The enterprise ready fund and the enterprise growth fund have been really useful in helping organisations to make the next step. However, some need a wee bit of help before that. Volunteers will always be involved in social enterprises, but the business should not rely on its volunteers. There is a danger in cramming the place with volunteers in order to get an enterprise up and running. In respect of shops, there is lots of health and safety training and first aid training and everything that goes with that, which is really good, but if the shop is dependent on the volunteer workforce, that is an error. Volunteers should be used for the extras, so that the volunteer gets something out of it. We should not lean on volunteers in order to grow a business, because there comes a critical point at which an enterprise needs paid staff. There is a wee bit of a gap at the step up. Social Investment Scotland might come in at that point.

Lots of social enterprise boards are very risk averse, so there is a cultural change that we need to try to promote. Businesses reach a stage at which there is a need for investment. We always ask our members, "If you were running your own business, where would you go for the money? No one is going to come along and give you a grant if you're running your own business. What would you do if you got to that critical growth stage?"

In West Lothian, we have a very good relationship with business gateway, with Scottish Business in the Community and a lot of the intermediary providers. There is lots of support out there. The just enterprise fund is absolutely brilliant for people who are at that stage of growth and who may just need the skill or advice on a particular aspect that can take them over that hurdle. My fear is that we will grow social enterprises to a certain stage, but if they cannot get the right support at that stage to keep them going, we will in the future have a worse attrition rate.

The Convener: Brian Weaver and Neil McLean want to come in. We have about 10 minutes to go. When we have done that, I would like to go around and ask panel members for one or two things they want the committee to take away and try to influence after the meeting. Have a think about that in the next few moments. Let us continue the discussion—first, with Brian Weaver.

Brian Weaver: Margaret McDougall was asking about funding and so on. Our experience with the 500 social enterprises that we have seen over the past six years is that funding is not really a problem for them; frequently they know how to get the money. The big problem that we see all the time is the capability of boards—not so much the management—and it might be interesting to look at that over the next few years.

I would love it if there was a law that said, "You can't be on a board for more than four years." What happens is that you get 64-year-old guys, who are going to be there for the next 20 years, and they are too embarrassed to say, "I can't remember what we're talking about." [Laughter.]

The Convener: I have that problem in this committee all the time.

Brian Weaver: There is another horrendous issue: why do we not pay boards? It is interesting that, if you do not pay boards, you get a whole lot of 64-year-old guys. What you do not get is 30-year-old women, because they need to earn. If we look at all the boards of small social enterprises, we see that they are all old folk who do not know how to make a board work. One thing we could do is deal with that, as well as limiting the period that board members can be on a board.

We could also maybe ask board members to have some kind of qualification. It is not fair to ask somebody to be a volunteer board member of an organisation that employs 10 people when that volunteer board member does not understand solvency and insolvency and could potentially put the employment of 10 people, and their families, at risk.

We should therefore pay the board members or ask them to make an investment, or we should require a qualification from them, before we give them half a million quid.

Margaret McDougall: Would that not be an issue in smaller communities? You are talking about the Highlands and Islands, where there may not be such a person in a small village.

Brian Weaver: Absolutely—there may not be. That being the case, do not dare give them £200,000 and expect them to be able to do anything worth while with it. Alternatively, give them £200,000 and just accept that they are not going to do anything with it.

Neil McLean: Duncan Osler eloquently described the point of arrival—where people would like to get to—but the reality is that a lot of folk are on the journey. The code of conduct certainly talks about aspiring to a trading context.

I think that the issue comes back to a function of leadership. Organisations are faced with a changing environment because of the reduction in grants. We need to keep investing in leadership development across the sector. Such investment is ubiquitous in the public and private sectors, but we are not seeing the same levels in this sector. There is some in the Scottish Government's plans, but it is not enough.

The governance question is also a question of leadership. Boards need to be well led. There is far too much focus on competencies, such as

reading a financial paper, rather than a reflective discussion that asks, "What is your role as a board member in delivering this outcome?" That is a reflective leadership question that requires some safe space to be talked about.

There should not be a sole focus on competence. The competencies obviously have to be there, but the bit that we need to add is people having the opportunity to look reflectively at those questions in a safe space.

The Convener: We have just over five minutes left. I ask each of our guests to address the question I put earlier: if you wanted us to take away one or two key issues from today's session—things that need to be changed or areas where you think we might be able to influence policy—what would those be?

Alastair Davis: I suppose that my answer is selfish in that it relates to the social investment marketplace. I would plead with the Scottish Government to be respectful of the fact that there is now a diverse and active social investment marketplace. The Government has a role to play in not compromising the development of that marketplace. Instead, it could support its development, perhaps by supplying less direct investment and using that investment as a way to attract new funds into the sector—funds which come in in an appropriate way that does not compromise anyone's mission, integrity or definitions, and which help to grow further the social economy in Scotland.

The Convener: So Government funds as a catalyst rather than a replacement.

Alastair Davis: Funding in an intelligent way—in a way that is aware of the infrastructure and market that has developed.

Fiona Pearson: I would like to see a bigger role for the social enterprise networks. We are all member led, and we know our members and how to get them tapped into the right places. West Lothian is probably the envy of a lot of social enterprise networks in that we are not attached to the local third sector interface. That presents its own problems, but if SENs could be more independent, there would be better outcomes in social enterprise.

Karen McGregor: I would like you all to take away a copy of the report "Start Something Good: Our impact 2009-2014", as it will save me from having to carry them back to Glasgow.

The Convener: That is an easy ask.

Karen McGregor: I would like MSPs and the Scottish Government to look more closely at the start-up scene. A healthy investment has been made in it since 2009, but I think that we can do a lot more. There are some interesting

developments with the start-up scene joining up with, for example, Social Investment Scotland in a way that would normally have been seen as quite a linear process. I think that really exciting things will come out of that, so it is a case of paying closer attention to it.

Neil McLean: I repeat what I said earlier: there needs to be a bigger investment and acknowledgement of the role of boards in terms of leadership and leadership development across the third sector. A modest investment is being made just now, which is very welcome, but more is needed to allow partnership working to happen and to continue the move towards sustainability.

We also need a shift in mindset. We have fantastic resources in Scotland, and we see a shift coming through in transformational learning—when people see themselves differently and see the role that they have on the board as one of policing themselves, rather than being asked to leave. I therefore think that we are missing a huge opportunity in that regard.

Andrew Nixseaman: I am involved with one of Brian Weaver's 64-year-old board members on the development of a large social enterprise hotel on the Inverness campus. It is a £20 million project, and to date we have received huge amounts of support and encouragement from both Highlands and Islands Enterprise and the Scottish Government. My request would be for that to continue, because the interest and encouragement gives us credibility and a momentum that we would take a lot longer to generate on our own.

Brian Weaver: I would like to go back to the issue of procurement and suggest that you look very carefully at requiring procurement officers to come out with smaller contracts—it is as simple as that. The other point is that, if you are putting large sums of money into organisations, I would like board members to be qualified in some way and probably limited so that they cannot be on a board for 30 years.

Duncan Osler: I thank the committee for the chance to speak with you today. I hope that you will take away the point that social enterprise has huge potential for Scotland and the Scottish economy. I hope that you will appreciate that there are stratas and different types of social enterprises. We have talked a lot about the ones that complement the public sector, but there are innovative commercial entities that are social enterprises and which could and should be part of the Scottish economy. That should be done strategically. In relation to health issues and innovations in the research sector, we will face social challenges in 10, 20 and 50 years' time for which social enterprise will be part of the solution.

An unusually high number of women are involved in social enterprises and as social entrepreneurs. As well not being ageist, we should be bringing forward the potential, the empathy and the skills of half of Scotland—the female side of things—which will give huge benefits. It is, to an extent, another source of untapped potential.

Ewan Fraser: I agree with everybody else, but I have a couple of points, one of which is on grant funding as the catalyst for investment. It was suggested earlier that that investment should be for a three-year period. Things do not happen overnight, and there is a feed-in time to allow people to become established and create their own markets, which will lead on to other things. I therefore agree that there should be longer-term grant funding to ensure that there is adequate time for people in that position.

The other aspect that I would like the Government to consider is measurement. The difficult question is about how we measure the return on a social investment. We need ways in which we can measure and appreciate outputs. We need some thought on how we can do that so that we do not have to sell the outputs so hard every time, which is sometimes really difficult to do. The Government could perhaps give some consideration to that point.

The Convener: With impeccable timing, we have reached the end of our session. On behalf of the committee, I thank you all very much for coming along and contributing to the discussion. I have certainly found it very useful, as I am sure committee members have. The committee will now consider how we can take some of the issues forward.

The committee will now go into private session very briefly. I think that I heard the rattling of lunch arriving outside, so I hope that you can stay on for an informal lunch—some other people will join us as well. I now have to ask you to vacate the room and go outside, where you can help yourselves to the lunch. We will have a discussion and then we will come out and join you. At that point, we can all come back into the room, have lunch and continue the discussion in a more informal manner.

12:00

Meeting continued in private until 12:08.

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