

## THE HIGHLAND COUNCIL

### PLANNING, ENVIRONMENT AND DEVELOPMENT COMMITTEE

Agenda Item	10
Report No.	PED 12/14

12 February 2014

### SOCIAL ENTERPRISE STRATEGY

#### Report by Director of Planning and Development

##### Summary

This report outlines for Members consideration a draft consultation report on the Council's social enterprise strategy. It sets out the Council's understanding of the sector, the benefits it brings to Highland and the challenges it faces before outlining its vision for the sector and possible actions that may be pursued to support and grow the sector. Once comments are received a final Strategy and Action Plan will be produced and presented to Committee.

The preparation of this consultation report is the first step towards the delivery of the Council's Programme commitment to "*work with partners to produce a social enterprise strategy*".

## 1. Background

- 1.1 In its 2012-2017 Working Together for the Highlands Programme, the Highland Council has a commitment to "***work with partners to produce a social enterprise strategy***".

In addition, the Council has made a number of other commitments which are of direct relevance:

- "review procedures including procurement ... to maximise opportunities for local businesses"
- "work with communities to identify innovative and affordable solutions to nursery provision, where appropriate ... co-operative provision"
- "engage meaningfully with the third sector ... agree ... a joint approach to supporting volunteering and community development"
- "encourage community empowerment and will introduce a community challenge fund ... which explore new ways of delivering services at a local level"

- 1.2 These commitments not only reflect the value the Council attaches to the benefit the sector brings to community wellbeing and to the quality of life for Highland citizens, but also its desire to equip and empower individuals and communities alike to do more. The Council believes the sector has a greater role to play in a diverse and vibrant economy; can help find new and better ways to deliver public services and can bring additional social and

environmental benefits when delivering services on behalf of the Council.

- 1.3 This desire to support the sector, however, is also matched by the sector itself saying that they want to do more and that they see the Council, and the wider public sector as well, as an opportunity by which they can grow. A strategy which will result in action to address these opportunities, and remove barriers at the same time, is sought.
- 1.4 Members will note from the draft Social Enterprise Strategy Consultation report in Appendix 1 that, when defining a social enterprise business, there is a close similarity to other businesses which may share a similar social mission and purpose but who are dependent on grant rather than trading income – referred to as enterprising third sector organisations. Accordingly, a key challenge faced with the Social Enterprise Strategy is whether it should ultimately be focused more narrowly on social enterprise businesses or have a wider scope and also include enterprising third sector organisations.

## **2. Approach**

- 2.1 In preparing this strategy, it is important that the Council listens to those active within or who support the sector, to ensure that any resultant actions address identified needs and opportunities. The consultation paper produced is therefore one which sets out the Council's understanding of the sector, the benefits it brings to Highland and the challenges it faces before outlining its vision for the sector and possible actions that may be pursued to support and grow the sector. Throughout the consultation report, a series of prompt questions are asked to help facilitate feedback. Consultees are invited however, to offer additional comments outwith these questions if they wish.
- 2.2 It is proposed that consultees be given until Friday 11<sup>th</sup> April 2014 to submit their written comments on the consultation paper. In addition, it is proposed during this period to hold a number of workshops and meetings with sector representatives to gather opinions which will help the Council make decisions about the way forward.
- 2.3 It is currently intended that a further report on the Social Enterprise Strategy will be brought to the May 2014 PED Committee but, subject to the number and content of comments received, the tight timeline involved between the end of the consultation exercise and the Committee deadline may require the final draft Strategy to be reported to the August PED Committee.

## **3. Implications**

- 3.1 There are no direct implications arising out of this report. However, in the implementation of a Social Enterprise Strategy there will be a number of potential implications, both positive and negative, that will need to be considered.

#### **4. Recommendation**

4.1 The Committee is asked to:

- i. offer comment on the draft Social Enterprise Strategy Consultation Report; and
- ii. agree to a period of public consultation, after which a final draft Strategy will be prepared and reported to Committee.

Designation: Director of Planning and Development

Date: 21 January 2014

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## **APPENDIX 1**

### **Social Enterprise Strategy**

### **Consultation by The Highland Council**

#### **Consultation Process**

In its 2012-2017 Working Together for the Highlands Programme, the Highland Council has a commitment to *“work with partners to produce a social enterprise strategy”*.

In addition, the Council has made a number of other commitments which are of direct relevance:

- *“review procedures including procurement ... to maximise opportunities for local businesses”*
- *“work with communities to identify innovative and affordable solutions to nursery provision, where appropriate ... co-operative provision”*
- *“engage meaningfully with the third sector ... agree ... a joint approach to supporting volunteering and community development”*
- *“encourage community empowerment and will introduce a community challenge fund ... which explore new ways of delivering services at a local level”*

In preparing this strategy, which in turn will inform any actions undertaken, the Council wants to listen to those active within or who support the social enterprise sector and/or the wider third sector.

This paper is therefore one which sets out the Council’s understanding of the sector, the benefits it brings to Highland and the challenges it faces before outlining its vision for the sector and possible actions that may be pursued to support and grow the sector.

Throughout this paper the Council asks a series of prompt questions to facilitate feedback on its understanding of the sector and its thoughts for how it can in the future support the sector. Consultees are invited however, to offer additional comments outwith these questions if they wish.

Written responses to this paper are welcomed and should be sent to [planning@highland.gov.uk](mailto:planning@highland.gov.uk). **The closing date for responses is Friday 11<sup>th</sup> April 2014.**

**The Council will also be holding targeted workshops and meetings with sector representatives during the consultation period,** to gather opinions which will help the Council make decisions about the way forward.

## The Social Enterprise sector in Highland

The term social enterprise can trace its origins back to the days of mutuals, as well as philanthropic businessmen and industrialists who shared genuine concern for the welfare of their employees. Over the intervening years, various definitions have emerged and there is no one universally accepted definition.

The Social Enterprise sector in Scotland has set down the values and behaviours by which they recognise each other. They refer to this document as a voluntary code of practice - or simply the Code. <http://senscot.org/docs/VoluntaryCodeofPractice.pdf>

A study commissioned by Highlands and Islands Enterprise (HIE) in 2012<sup>1</sup> usefully captures current thinking and offers a definition to aid an understanding of the sector. The study also makes comparison between the social enterprise and the wider enterprising third sector.

### Definition of a Social Enterprise

1. Social enterprises have social and/or environmental objectives;
2. Social enterprises are trading businesses aspiring to financial independence;
3. Social enterprises have an 'asset lock' on both trading surplus and residual assets;
4. A social enterprise cannot be a subsidiary of a public body;
5. Social enterprises are driven by values – both in mission and business practice.

The key distinction between a social enterprise and an enterprising third sector organisation is that while both have a social mission/purpose and generate some level of trading income, social enterprises generate at least 50% of their turnover from trading income.

#### Question 1:

Is this a useful definition and correctly makes the distinction between social enterprises and other enterprising third sector organisations?

#### Question 2:

While there is a need for the Council to recognise and acknowledge the difference here, should this impact on what support is provided and who can access it?

The HIE study provides a comprehensive overview of both social enterprises and enterprising third sector organisations in Highland and across all of the Highlands and Islands. Key findings are:

- There are 224 enterprising third sector organisations in Highland, of which 100 are social enterprises.

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<sup>1</sup> The Highlands and Islands Social Enterprise Sector, March 2012, Ekosgen for HIE

- Highland has 48% of all the social enterprises in the Highlands and Islands. Across the wider Highland economy this equates to 10 social businesses per 1000 businesses, rising to 15 per 1000 businesses in the Lochaber, Skye and Wester Ross area.
- Across the wider Highlands and Islands, enterprising third sector organisations employ 3500 people (3% of workforce) of which social enterprises employ 1708 or 1.5%. As the sector typically operate within the local economy, the enterprising third sector supply chain supports an additional 1,224 FTE jobs.
- Highland has a higher proportion of jobs than elsewhere in the Highlands and Islands in both enterprising third sector organisations (1715 jobs) and social enterprises (888 jobs). Of these social enterprise jobs, 546 are located in the Inner Moray Firth area.
- The main activities undertaken by enterprising third sector organisations and social enterprises across the Highlands and Islands are:
  - Arts and Culture (12% enterprising third sector and 10% social enterprise);
  - Economic and/or Rural Development (10%/8%);
  - Learning and Training (9%/7%);
  - Hospitality and Tourism (8%/12%);
  - Social Care (6%/6%);
  - Retailing (5%/10%).
- Typically turnover is smaller than the average Highlands and Islands business base but over 80% of all trading income is from within the Highlands and Islands and 58% of social enterprises reported a trading surplus of £13k in 2010/11.
- There are perceived gaps in business skills across the sector, with business planning, governance, marketing, accounting and financial planning, human resource management and procurement skills all highlighted as skills needs.
- Not surprisingly income sources vary significantly between enterprising third sector organisations and social enterprises, with social enterprises securing 48% of their income from sales and trading and 11% from grant funding. This compares to enterprising third sector organisations who secure 32% from grant and 25% from sales and trading. Social enterprises also secure more income from contracts/service level agreements (13%) than enterprising social enterprises (8%).
- Access to finance remains a key challenge to the growth and sustainability of the social enterprise sector.

#### Key observations made:

- Enterprising third sector organisations and social enterprises alike typically generate a wide range of benefits for their communities and the local environment.
- The primary reasons for the existence of enterprising third sector organisations and social enterprises is normally to address market failure and provide services in local communities that would otherwise not be provided by the public or private sectors.

- The sector has a positive outlook and considerable optimism for the future, with 65% believing that they will be able to increase turnover through increased activity in existing markets, providing a new service or introducing a new product; 25% think turnover will remain the same, and only 10% consider there will be a decline.

**Question 3:**

Are there any other key findings or observations which should be recognised and could influence any action the Council may take in support of the sector?

## **Purpose**

The reasons for why the Council wishes to prepare a Social Enterprise Strategy are fourfold:

1. Across Highland there is a strong tradition and sense of community with individuals and community based organisations alike, including enterprising third sector organisations and social enterprises, actively contributing towards community wellbeing and the quality of life of Highland citizens. In its aspiration to represent and deliver for the Highlands, the Council is keen to support and grow such community effort by equipping and empowering individuals and communities to do more.
2. A diverse and vibrant economy is one where there is competition and choice and the Council is keen to encourage a mixed economy of provision across public, private and third sectors.
3. There is a rising demand for services but a reducing budget to provide for. There is a need for new and better ways to deliver services and the Council believes that enterprising third sector organisations and social enterprises can bring innovative thinking and new and flexible models of delivery appropriate to local needs and circumstances.
4. Community benefits are increasingly integral to contract specifications and the Council believes that enterprising third sector organisations and social enterprises are well placed to compete for and deliver on contract requirements plus they have the potential to bring additional social and environmental benefits.

However, in addition to this and from what the Council hears from its communities, the desire for the Council to support and grow the sector is a mutual one. The consistent message received is that they want to do more for the benefit of their communities and that they view the public sector including the Council, as both a constraint to achieving this but also as an opportunity by which the sector can grow.

A strategy and resulting action plan that addresses these constraints and removes barriers at the same time as creating opportunities for greater involvement is sought.



## A Vision for the Sector

For these reasons the Council has outlined a potential vision for the sector which it would like to see achieved by 2017:

*A competitive and enterprising social enterprise sector which positively contributes to the sustainable growth of the Highland economy, to the wellbeing of its citizens and to the improvement of public services.*

In realising this vision the Council's ambition is one where:

- The social enterprise sector is well known, understood and is a respected partner in delivering public services
- Opportunities are created for a continued and growing contribution by the sector
- The sector is supported to have the skills, capacity and investment resources to grow.

Question 4:

Does this vision correctly describe the challenge faced and offers the right ambition for the sector by 2017?

Question 5:

Should the vision explicitly include enterprising third sector organisations as well as social enterprises?

Question 5:

Is there a need to better reflect the positive impact the sector can have on the environment and those individuals and communities who are disadvantaged - as for many this is at the heart of the third sector's work, or arguably does the reference here to the 'sustainable growth of the Highland economy' capture these aspects implicitly?

## Supporting the Sector

Linked to its vision for the sector, the Council proposes that it will target its support to realise each of the three ambitions:

### **Ambition 1:**

#### **The social enterprise sector is well known, understood and is a respected partner in delivering public services**

There is a concern amongst the social enterprise sector that its profile is not high and accordingly the benefit it brings to the Highland economy and to its local communities is not always recognised. This in turn can adversely impact on it being seen as a viable business model and one which can compete successfully alongside the private sector when delivering contracted out public services.

There is a need to find a way in which such awareness raising can be achieved and critically, sustained over time with Council leaders, service managers and procurement staff.

While the Council considers this can be achieved through a regular programme of briefings to elected members and Council personnel and opportunities are taken to celebrate and promote the sector, the Council also needs those within the sector to work jointly with it to do this.

#### Question 6:

Do you have any ideas on how to raise the profile of the sector and what actions should the Council take to help achieve this?

The Council recognise that when the social enterprise sector deliver services on its behalf or in partnership with it, the social enterprise business involved can typically bring additional social and environmental benefits. However, such benefits cannot always be easily recognised and therefore this makes it difficult to demonstrate the true value of the social enterprise sector.

While the Council acknowledge that mechanisms exist through which the economic, environmental and social value of social enterprises can be measured, it is concerned that this can at times feel academic and does not easily allow for an simple understanding of the value of the sector.

#### Question7:

Do you have any ideas on how best the value of the social enterprises can be measured and communicated?

## **Ambition 2:**

### **Opportunities are created for a continued and growing contribution by the sector**

Transforming the way public services are delivered is a key challenge facing the Council and its partners. Already social enterprise and enterprising third sector organisations deliver a wide range of services, but as these services evolve there is the opportunity to do more as there is a need for innovative thinking and new and flexible models of delivery appropriate to local needs and circumstances. As detailed earlier the Council believe that the sector has a valuable contribution to make here alongside its own delivery and that of the private sector.

In its 2012-2017 Working Together for the Highlands Programme, the Highland Council has made commitments to:

- *“introduce a community challenge fund of £1m of recurring expenditure to support community projects which explore new ways of delivering services at a local level”*
- *“review procedures including procurement ... to maximise opportunities for local businesses”.*

The Community Challenge Fund seeks to deliver the same level of Council service at a lower cost and be sustainable going forward; to provide a higher level of Council service for the same cost and be sustainable going forward, and help reduce the Council's costs for maintaining premises, by taking on the maintenance and running costs going forward with a one-off fund contribution. All community groups including social enterprises can apply. Full details of the Fund can be found on the Council's website:

<http://www.highland.gov.uk/livinghere/communitiesandorganisations/communitychallengefund/>

#### Question 8:

Do you support the purpose of this fund and have any suggestions on how it could be improved to enable social enterprises to take on and manage Council services and premises?

Excluding care services the Council spends around £240m per annum on externally sourced services, supplies and works. Just over 40% of this is with Highland businesses. It is considered that in delivering on this commitment to maximise opportunities for local businesses the Council will also be delivering and creating opportunities for social enterprises.

The Council is currently in the midst of its procurement review including looking at how the 40% of procurement placed with Highland businesses can be improved upon; how the Council can improve its corporate procurement approach; how duplication and bureaucracy can be minimised; and how community benefit and best value can be maximised simultaneously.

Accordingly there is an opportunity with this work to identify additional or specific activity which will enable the sector to competitively compete for services, supplies or works. For example:

- Early information and open advertising are essential, as is a procurement timetable that is long enough to encourage bids from smaller social enterprise providers, partnerships and consortia. The use of Public Social Partnerships as a model of strategic commissioning with social enterprises.
- Integrate community benefit considerations as core to contract specifications and thereby open the door to increased involvement of social enterprises.
- Use Article 19 of the EU public procurement directive to restrict the tendering process for goods or services to supported businesses only.
- Think social enterprise when designing contracts, including appropriate scale of contracts and breaking contracts into Lots (geographically or otherwise) etc.
- Ensure social enterprises are included in any 'How to Tender' training provided.

Question 9:

Do you have any ideas and examples of how the Council's procurement activity could be designed and delivered to improve the opportunities for social enterprises to compete for contracts?

The Council has a track record of transferring Council owned property assets to the third sector and remains willing to actively consider new requests from the sector. The Council is currently undertaking a rolling programme of strategic property reviews across Highland to determine how best to use this property base for its own use but also how property assets no longer required could be used in the future be that for community use or sold on the open market.

There is a need as part of this process to formally prepare a community assets transfer policy and ensure support is in place to enable communities to prepare business plans and have the skills and capacity to manage such property overtime.

Question 10:

How important to you is community ownership of property as opposed to long-term leases?

Question 11:

What should the Council require from enterprising third sector or social enterprises before it agrees to asset transfer/long-term leases?

**Ambition 3:**

**The sector is supported to have the skills, capacity and investment resources to grow.**

There are various organisations who provide free advice, support and information to enterprising third sector and social enterprise businesses including HIE, Business Gateway, HISEZ, the Third Sector Interface and its network across Highland of local voluntary services, Sencot, Development Trusts Association Scotland, The Social Enterprise Academy etc. Allied to this there is a range of funding and investment sources from European, Scottish Government, Trusts, Lottery and private finance institutions. See <http://www.se-networks.net/mapofsupport.php> for a full overview of the support and assistance available.

The majority of Council funding for the sector is payment for services provided rather than investment to grow albeit the Council, through its wholly owned enterprise trust - Highland Opportunity Ltd. will consider loans from social enterprise businesses.

There is a need to ensure that this package of support is available, is known about and is working across all of Highland. Anecdotally it appears that there are differing views on how comprehensive and available this support actually is with some saying that the support is adequate and available but others saying otherwise. However, possibly the issue is low awareness and limited take up rather than availability.

Question 12:

What are your experiences in knowing about and accessing the various forms of advice and support services you require to sustain and grow your business?

Question 13:

Is access to investment finance (grants and loans) a barrier to the growth of your business?

Problems can periodically arise when grant investment funding is given to enterprising third sector organisations or social enterprises and this is viewed by locally competing private businesses as unfair and disadvantages them when trading. This is a challenging aspect of policy and practice in support of social enterprises and a balance needs to be struck between the wider social and environmental benefits secured as well as ensuring there is no disproportionate adverse impact on the private sector.

Question 14:

Do you recognise this issue and have experience of when such conflicts have arisen and solutions secured?

## **Delivery and Measurement of Success**

There is a need to identify a mechanism that will monitor and ensure delivery on the commitments made in the Council's Social Enterprise Strategy. While it is anticipated that many of the actions will be internal to the Council, others may require partner organisational input and a contribution direct from the enterprising third sector and social enterprises.

Allied to this is a need to be able to determine whether the actions undertaken are actually making a difference and enabling the sector to grow and contribute more to the Highland economy and its communities. This requires an information baseline to be gathered now and compared to over time. For example, the Council could record its procurement spend with the social economy by number of social enterprises and value of contracts (actual £ and % share of Council spend), while social enterprises could record turnover increase.

### **Question 15:**

The Council would like to hear of any ideas you may have on how best to ensure the Social Enterprise Strategy is being delivered and that it is making a difference?