

## The Need for a Social Enterprise Strategy

### 1. Introduction

- 1.1. This paper discusses the possibility of developing a social enterprise strategy for the Falkirk Council area. This paper was developed by Council officers, social enterprises and the 3<sup>rd</sup> sector interface provided by CVS Falkirk & District. It recommends that Falkirk Council, in collaboration with CVS Falkirk & District, takes the lead on developing a social enterprise strategy, to be developed in partnership with the social enterprise sector.

### 2. National and Local Context

- 2.1. Falkirk Council, like all local authorities, is facing significant budget challenges due to reductions in Government funding and the continuing effects of the recession. At the same time demand for services continues to grow and diversify. This results from the area's continuing growth, due to a combination of demographic and economic issues. We also face significant challenges arising from the implementation of Welfare Reform.
- 2.2. In June 2013, there were 4,223 unemployed people in the Falkirk Council area, accounting for 4.2% of the working-age population. This is a higher rate of unemployment than Scotland (3.8%) or the UK (3.5%). The number of local unemployed 18-24 year olds was also higher (8.2%) than in Scotland (7.0%) or the UK (6.2%).
- 2.3. The draft Single Outcome Agreement (SOA) places more emphasis on prevention and early intervention. The SOA also highlights the need to rebalance and reform service provision to encourage greater independence and self-management, as, for example, in our draft Strategic Commissioning Plan for Older People 2013-16. These issues require both the more efficient delivery of existing services and also the provision of different types of services, often at an earlier stage. This together with other aspects of public sector reform, arising from the key findings of the Christie Commission, require Local Authorities to take a fresh look at the best way to deliver future public services and be innovative and creative in who should provide them. These drivers provide opportunities, particularly for the not for profit sector, which includes social enterprise, to become more involved in the delivery of public services.
- 2.4. At its meeting on 22 March 2012 the Community Planning Partnership Leadership Board considered a report proposing the development of a Falkirk Social Enterprise Action Plan and agreed to receive this for approval at a future meeting. This proposal is to take that work forward.
- 2.5. The Scottish Government has put in place a programme of business support for social enterprises through a business support organisation, Just Enterprise. It will deliver a programme of work that promotes the ongoing growth and sustainability of an enterprising third sector in Scotland. It is intended to ensure that:
  - third sector organisations across Scotland (including those that are equalities-led) grow in financial resilience and sustainability;
  - enterprising third sector organisations operate as effective, and / or growing businesses;
  - third sector organisations win more contracts, including with the public sector;

- the response of the third sector to public sector application of Community Benefit clauses and the public-social partnership model is strengthened and maximised;
  - new social enterprises and social entrepreneurs are supported to become established and grow; and
  - third sector leadership is enhanced to support business development and sustainability.
- 2.6. Such investment and work will place third sector organisations, including social enterprises in a much better place to get more directly involved in the delivery of public services, should appropriate opportunities arise..
- 2.7. The 2013 UK budget included a commitment to introduce tax relief for social enterprises. Para 1.135 of the budget “red book” says:

*Social enterprises play an important role in growing the economy, reforming public services and promoting social justice. The Government will introduce a new tax relief to encourage private investment in social enterprise. The tax relief will complement the Government’s other recent measures to help social enterprises access the capital they need, such as the launch in 2012 of Big Society Capital. The Government will consult formally on the details of the relief by summer 2013 and the relief will be introduced in Finance Bill 2014.*

- 2.8. There is no legal definition of social enterprise. However, in 2011 the European Commission produced an EU definition:

*‘Social enterprise’ means an enterprise whose primary objective is to achieve social impact rather than generate profit for owners and stakeholders. It operates in the market through the production of goods and services in an entrepreneurial and innovative way, and uses surpluses mainly to achieve social goals. It is managed in an accountable and transparent way, in particular by involving workers, customers and stakeholders affected by its business activity.*

### **3. Definitions – What is a Social Enterprise?**

- 3.1. There are estimated to be around 64,000 social enterprises in the UK, contributing an estimated £24bn to the economy. This includes about 3,000 social enterprises in Scotland, with a combined turnover of £2-2.5bn p.a. although the number in Falkirk is not known at present.
- 3.2. Social enterprises are businesses that operate on a not for profit basis but also secure other community related benefits. They are trading organisations whose primary purpose is social, economic or environmental. In order to achieve these objectives, they aim to be financially independent, profit-making organisations whose surpluses are used to further their social mission. Their constitution *must* include an “asset lock” which ensures that all surplus and residual assets are invested for the organisation’s social purpose.
- 3.3. Some social enterprises start up without any requirement for grant funding. Others grow from existing third sector organisations which increasingly take on trading activities or which set up a social enterprise trading arm. New social enterprises may initially request grants to help with start up or core running costs, but in those cases the intention is always to become financially independent through trading activities, service level agreements etc.
- 3.4. It is therefore important not merely to consider social enterprises as small organisations which require ongoing grant funding to survive. Successful social enterprises may not

always be thought of in terms of the “social enterprise” label. Taking this wider definition into account, local social enterprises include Grangemouth Carers, and Paragon Housing Association.

3.5. Social Enterprise Scotland provides a concise definition:

*Social enterprises are independent businesses that exist specifically for social and/or environmental purposes. Social enterprises trade in all markets, selling goods and services to individual consumers, local authorities, government and private businesses. Social enterprises exist to make a profit just like any private sector business. However, profits or surpluses are always reinvested into their social and environmental purposes.*

3.6. The central characteristics of social enterprises were identified in 2010 by SENSCOT in conjunction with the Scottish social enterprise community. This widely accepted definition includes 5 key criteria. They are, in brief:

- Criterion 1 – Social Enterprises have social, economic and/or environmental objectives. They must be able to demonstrate their social mission.
- Criterion 2 - Social Enterprises are trading businesses aspiring to financial independence. This is demonstrated by earning at least 50% of their income from trading.
- Criterion 3 – Social Enterprises have an ‘asset lock’ on both trading surplus and residual assets. Whether or not it is a charity, all of a social enterprise’s distributable profit is reinvested for the purpose of its social mission.
- Criterion 4 – Social Enterprises cannot be the subsidiary of a public sector body. They must be constitutionally separate from any public body, but may be the trading subsidiary of a charity.
- Criterion 5 – Social Enterprises are driven by values – both in mission and business practices.

#### **4. Social Enterprise Services**

- 4.1. Social enterprises can exist in all economic sectors. They can be any size from a couple of staff in a start up organisation to an established organisation with hundreds of employees.
- 4.2. New and established local social enterprises cover a wide range of services including adult and child care, tourism, environmental and recycling services, art, catering and housing. Elsewhere, social enterprises include The Big Issue, The Eden Project, Jamie Oliver’s restaurant 15, and GTS Solutions CIC, which is a Scottish private security company.

#### **5. Constitutional Arrangements**

- 5.1. A wide range of constitutional arrangements are possible so long as the constitution includes an asset lock. Common constitutions used by social enterprises include Scottish Charitable Incorporated Organisation, Community Interest Company, Company Limited by Guarantee, Development Trust, Co-operative and Housing Association.

- 5.2. Social enterprises should not be confused with other types of organisations which use these legal formats, such as a public sector arms-length company. They also differ from private sector businesses that choose to operate in an ethical way but equally could choose to stop doing so. Although social enterprises may be charitable, they are distinct from charities that do not trade (or trade very little) as they need to make a profit and be financially sustainable in order to meet their social and environmental objectives.

## 6. How Can Social Enterprises Benefit Falkirk?

- 6.1. Social enterprises offer a unique combination, creating both financial and social capital. As sustainable *businesses* they have an ability to lever in additional investment or funding from a wide range of organisations in order to meet local needs. They can gain business support from other organisations such as Just Enterprise, and they generally have a good understanding of the impact of their business on their community.
- 6.2. Unlike charities and voluntary organisations they are (or are aiming to have) financial independence rather than requiring on-going annual grants to enable them to deliver their services. The asset lock on social enterprises means that all profits are reinvested in the community. Money generated by social enterprises can have a local multiplier effect, particularly when employees live and spend their money in the same area, and the enterprise uses local suppliers.
- 6.3. As *social organisations*, social enterprises also provide added value in addition to their impact as local businesses. Social enterprises can play a key role in building social capital and community cohesion through their service provision, employment, training and mentoring, and contribution to community development activities. They often have a strong local focus, with roots in the local community. Their social mission is likely to address questions of local disadvantage or environmental issues. Many have a focus on employability and training or social inclusion. Examples of how social enterprises elsewhere add value include:
- 6.4. **Clean Close Company** in Dundee achieves several of those objectives. It was set up in 2005 to help regenerate an area of Dundee, initially employing a manager and 2 trainees. It provides vocational and employability training for local unemployed people. It offers a range of cleaning services from close cleaning and house clearances to grounds maintenance and graffiti removal. It also has a subsidiary, Clean Carpet Company which cleans and recycles old and donated carpets, and makes them available at a very low cost to people referred by the council's Homeless Unit. In 2010/11 it employed 26 people and its income of £336,000 was entirely generated through its trading activities.
- 6.5. **Buchan Dial-a-Community Bus (DACB)** is a social enterprise focusing on reducing social exclusion through the provision of high quality community transport delivery and support services to people who are elderly, disabled, rurally or socially excluded in the Buchan Area. It was established in 1993 since then has grown into a major provider of local transport services, providing over 50,000 passenger journeys in 2009/10. Their services now include a shopping service, community use, alternative patient transport to and from hospital, evening transport and Peterhead Shopmobility.
- 6.6. Buchan DACB has a subsidiary company, also a social enterprise, **DAB Plus C.I.C.** which provides a wide range of driver training for individuals and fleets throughout North East Scotland.

- 6.7. In 2010 Buchan Development Partnership carried out a Social Return on Investment evaluation of the shopping service for elderly and less-abled users. It found that “for every £1 that was invested in the DACB Shopping Service, £3.03 was returned in social added value.” In addition, the service

*makes a real difference to the lives and wellbeing of their clients and stakeholders, giving true added social value to an investment.*

*Social changes that were identified included:*

- *As a result of DACB shopping service clients feel happier*
- *As a result of DACB shopping service clients feel they benefit from greater social interaction*
- *As a result of DACB shopping service staff feel more secure in their work and happier with what they are contributing to others*
- *As a result of DACB shopping service travel escorts feel more valued*

- 6.8. **Community Ventures Limited (CVL)** is a Middlesbrough based charity, with 6 subsidiary social enterprises. They provide employment for local people and gift all profits to CVL. The funds are used by CVL to provide a range of services for local communities including Community Alarms provided free to vulnerable residents; Community On-Line Centre, that provides free broadband internet use; and the European Centre of Excellence for Social Enterprise which is a one-stop shop for potential social enterprises seeking advice and support.

- 6.9. The largest of CVL’s social enterprises is **Complete Security (Europe)**, (CSEL), which provides security services. It employs 70 local people, and has commercial contracts with both public sector organisations and private sector clients. CSEL currently has a turnover of £1.2 million per annum.

- 6.10. Social enterprises therefore have the potential to make a significant contribution to social and economic regeneration. In 2007 the Scottish Government’s Economic Strategy identified that social enterprise can make an important contribution to sustainable economic growth. The EU’s structural funding programmes – for supporting social and economic restructuring – are expected to have a specific priority to support social businesses from 2014.

- 6.11. Social enterprises, can secure significant benefits to the local community and economy, contributing to a fairer economy and society, fostering social and environmental innovation and providing employment and training opportunities within disadvantaged communities and for the most marginalised members of society.

- 6.12. Social enterprises are more likely to start up and thrive in areas which provide a suitable environment for them. A social enterprise strategy would therefore lead to increased benefits within the Falkirk council area.

## **7. How Can Social Enterprises Contribute to Achieving Falkirk’s Strategic Community Plan?**

- 7.1. The social and environmental focus of social enterprises means that their aims and mission are often closely aligned to aspects of Falkirk’s strategic community plan.

- 7.2. The development of new and expanding businesses, which provide training and employment opportunities whilst creating both social value and economic return are core aspects of all social enterprises. They therefore have the potential to make a significant impact on *Growing Businesses & Prosperous People*.
- 7.3. **Recyke-a-Bike** provides an example of a successful social enterprise that contributes to many of the outcomes and priorities of the strategic plan. Recyke-a-Bike has been operating in the Falkirk Local Authority Area since 2008. It currently has four trainees based here and a further two from the Denny area are employed in its Stirling base. Its annual turnover is now £420,000 of which £140,000 is within Falkirk, where it is looking to expand and has just opened a retail outlet. Its aims and activities contribute to strategic planning outcomes in a number of ways. Some examples include:
- Protection of the environment through the recycling of bicycles and promotion of cycling;
  - Collection, repair and reuse of unwanted bikes which reduces the amount of waste going to landfill and carbon emissions caused by the production of new bikes
  - Promotion of cycling for commuting, including outreach services at the employers' location
- 7.4. Enhancing employment opportunities through direct employment and the delivery of employability skills training:
- Get Ready for Work cycle maintenance training programme;
  - Get Ready for Work Recycling Operations SVQ;
  - Community Jobs Scotland Employment training Programme;
  - Employability skills placements; and
  - Volunteering opportunities.
- 7.5. Promotion of cycling as an healthy, worthwhile and environmentally friendly activity, and its sustainability through cycle skill and bike maintenance skill training:
- Provision of low cost reconditioned bikes
  - Cycle hire scheme
  - Bike maintenance courses
  - Bikeability (cycle skills training) in schools
  - Bike repair service
- 7.6. Examples of social enterprises contributing to other Strategic Community Plan themes include:

*Young People Who Are Confident and Successful*

- 7.7. **First 4 Kids** is a social enterprise that is part of the Falkirk Out of School Care Network. It provides childcare in 11 schools for children from 15 schools throughout the Falkirk area, and runs before-school, after-school and holiday sessions. It currently has 460 children registered. In 2012-13 it had an income of £356,000 of which over 97% came from trading. First 4 Kids employs 3 full-time staff and 40 part-time play staff. It is currently piloting a scheme to offer free sessions to children with additional play needs.

- 7.8. **Forth Valley Language Support** is a social enterprise and Community Interest Company (CIC) offering interpreting and translation services. All profits go to support the work of the Central Scotland Regional Equality Council. Its clients include Forth Valley Health Board, HM YOI Polmont, local housing associations, 3<sup>rd</sup> sector organisations, and private businesses, enabling individuals to fully participate in a range of service provision. It employs 1.5 members of staff and has 101 sessional translators on its books, who translate over 40 languages. The service provided 307 sessions in 2012, of which approximately 80% were to unique service users. All its income comes from trading activities.

## 8. Why Do We Need a Social Enterprise Strategy?

- 8.1. There has been relatively little sector development in Falkirk and a strategy is necessary to provide a mechanism for promoting the development of sustainable social enterprises that could fill gaps in the market, whilst also achieving social, environmental and economic aims. Our approach has also been very fragmented and as a result of a lack of cohesion has perhaps not realised its full potential or contribution. A social enterprise strategy would allow the local area to benefit from the added value offered by social enterprises and help to reduce grant dependency.
- 8.2. Specifically, the development of a strategy would provide an opportunity to identify appropriate criteria for intervention and support by the Council. It would:
- co-ordinate efforts across the Council and the sector;
  - take account of the diverse needs of social enterprises at different stages in their development;
  - help to ensure that Falkirk can gain maximum benefit from the potential of social enterprises;
  - take into account national developments such as the introduction of self-directed support and the proposed community empowerment and renewal bill / asset transfer etc;
  - ensure that the Falkirk council area optimises benefit from the tax breaks being considered by the UK Government and the EU's forthcoming structural funding programme;
- 8.3. There are essentially two separate routes into becoming a social enterprise. The first is to create a start up enterprise where the social mission is built into the business plan from the start. Secondly, existing organisations currently dependent on grant funding (e.g. community groups, 3<sup>rd</sup> sector organisations) may decide to take a more enterprising approach and gradually increase the proportion of their income earned from trading, with the intention of becoming financially self-sufficient.
- 8.4. Although the formal definition of a social enterprise is an organisation that earns at least 50% of its income from trading activities, the reality is that many organisations take some time to achieve that status. A well established 3<sup>rd</sup> sector organisation may need support to move away from 100% grant funding towards becoming financially self-sufficient, whereas a start up social enterprise may derive a high proportion of its income from trading but require support on governance, organisational and management issues.

- 8.5. Our strategy should take account of both development routes into social enterprise and ensure that appropriate support is available for each. It would provide a link to national programmes, and support organisations to become more sustainable and to build in a degree of resilience to help cope with any setbacks.
- 8.6. The social enterprise sector impacts on many different areas of the Council's work, including procurement, community learning and development, social work, business support and economic development. A strategy would raise awareness of the benefits and potential of social enterprises, and help to embed support for them across the Council. It would facilitate a co-ordinated approach and targeted investment of time and resources by the Council.
- 8.7. There are limited opportunities for additional resources in the present climate, but a greater commitment to social enterprise throughout the Council could ensure that existing resources are redirected to social enterprises as appropriate. A strategy would also be able to highlight the procurement opportunities that might be available to social enterprises and help to ensure that they are well positioned to take advantage of them.
- 8.8. The external funding function within Corporate and Neighbourhood Services may also be helpful in identifying additional sources of funding for social enterprises.
- 8.9. The social enterprise sector itself (including the interface, CVS) should also take some responsibility for its own development. A strategy would also be able to identify wider areas of ownership and responsibility and draw in resources from within the social enterprise sector and its support networks. For example, it could encourage information sharing, promote the development of a social enterprise market, and garner support from agencies such as Social Enterprise Network Scotland, Just Enterprise etc.
- 8.10. Experience elsewhere suggests that a strategy can bring significant benefits to the local social enterprise sector.

## **9. Opportunities for Social Enterprise**

- 9.1. A social enterprise strategy would help to develop an environment that helps to foster the development of such enterprises. Many of these organisations will not require any more specific support from the Council than would be available to any new organisation through Business Gateway. They will also be able to access additional supports through First Port, Just Enterprise and other sector specific organisations.
- 9.2. In addition to this however, the Council may wish to promote or support the development of specific social enterprises where there has been a market failure to provide a service for which there is an identifiable need, or where they could provide additional benefits for the public purse. The need for such services will emerge over time, and will be subject to other market and socio-economic factors. However, a quick trawl within the Council has suggested a number of areas of work where a social enterprise could fill a perceived market gap, or increase value for money. The examples range from those that would require substantial service level agreements to others which would be predominantly self-funding.
- 9.3. A Community Development Finance Institution (CDFI), which is especially important in light of welfare reform. CDFIs lend money to individuals (as well as businesses or other social enterprises) who struggle to get finance from high street banks and loan companies.



They help deprived communities by offering loans and support at an affordable rate to people who cannot access credit elsewhere. This idea is already being pursued internally.

- The provision of respite care for people with mental health issues
- A grounds maintenance / factoring service
- A carpet recycling service
- A home improvement service, carrying out tasks such as energy efficiency measures, safety audits etc.
- Delivering some or all of the Garden Aid scheme through a social enterprise which would provide increased training and business development opportunities.

## **10. Development of A Strategy**

- 10.1. It is proposed to set up a small strategy development group, consisting of 6 or 7 individuals representing social enterprises, the Council and CVS. This group would undertake the bulk of the work, led by Business Development and Corporate and Neighbourhood Services.
- 10.2. The biggest challenge for the Council will be to get buy-in from essential departments (including procurement, community learning and development, social work, business support and economic development) especially as not all of them will be full members of the strategy group. Similarly, within the sector the challenge will be to involve a wide range of organisations, including those who do not currently participate in existing structures such as the Falkirk Social Enterprise Forum.
- 10.3. In addition, there may be an opportunity to include interested community planning partners, although this would not be essential for at least the first phase of a strategy.
- 10.4. The strategy group would undertake a range of consultations with other organisations. It is likely that there would be a 2-stage process. In the first stage, the strategy group would draft an outline strategy for discussion, and consult through a range of internal and external mechanisms (focus groups, electronic questionnaire etc). This would include establishing the sector's own strategic priorities as well as identifying the implications for different Council services. The second stage would be to develop a full strategy and invite comments prior to finalising it.

## **11. Timescale & Conclusion**

- 11.1. There are a number of factors to be taken into account when estimating the time required for the development of a strategy. In particular, there is a need to include two rounds of external consultation, and to establish what different Council departments are able to commit.
- 11.2. A period of 12 months is likely to be necessary.
- 11.3. This paper demonstrates the need for a more cohesive approach to be taken to enable the development of a vibrant and sustainable social enterprise sector in the Falkirk Council area. The development of a local social enterprise strategy in partnership with the sector and other key stakeholders would help to facilitate this.