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The Scottish Parliament
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Dear Murdo,

Thank you for your letter of the 9 February 2016 following on from the Committee's work on social enterprise, employee ownership and co-operatives.

I welcome the interest that the Committee has taken in both of these models of business which are a clear demonstration of the Scottish Government's key aim of inclusive economic growth and would like to thank you for facilitating the evidence gathering and dialogue that has been involved in this short piece of work. I would concur with your conclusion that entrepreneurs do benefit from having a range of business models to choose from and that having that spectrum of models ranging from enterprising third sector organisations to co-operatives, to for-profit businesses with a sense of social responsibility is evidence of a healthy and innovative sector.

The furtherance of inclusive business models, such as employee-ownership, is an outcome the Scottish Government is working towards. I fully support the evidence that you report, that notes that such models help build more resilient local economies and that they contribute positively to the general well-being of those working for such enterprises. Just as importantly they better engage their staff and in-turn stimulate a more entrepreneurial CAN DO culture that evidence shows leads to greater levels of productivity and innovation. Please do be assured that I will work to see such an outcome and a greater balance of business models brought to the Scottish business base.

I note the positive feedback from witnesses on the business support available but I recognise that there is always more that can be done. I hope the following information may be helpful in informing the Committee's legacy paper.

Business Support

You asked about the consistency of business and third sector support services across the country and what monitoring and mapping of services is ongoing.

Business Gateway

We work closely with local authorities which are responsible for the delivery of the Business Gateway service. That service provides a nationally consistent start-up and growth advisory service to businesses across Scotland. The core services are complemented by local services which reflect the particular needs and opportunities of businesses in different areas. Local authorities have developed an overarching service specification for the Business Gateway service. That specification recognises the need to provide support for different

business models such as social enterprises, co-operatives and not for profit firms. The Business Gateway site offers a wealth of information and diagnostic tools applicable for any business irrespective of its type, size, scale or sector and signposts businesses to other organisations providing sectoral or specialist advice and guidance, such as Just Enterprise and Co-operative Development Scotland, which adds value to what Business Gateway offers. In addition, our Enterprise Agencies also offer a range of information on alternative business models.

Just Enterprise

Just Enterprise is the Scottish Government funded, £4.8m nationwide business support contract specifically tailored for Social Enterprise. The current Just Enterprise contract runs from 2014-16, with two options to extend for one year. The contract builds on the success of the original £3m business support contract, Just Enterprise (2011-14) to help social enterprises, from start-ups to established organisations, develop and become more sustainable. To date Just Enterprise has supported over 5,700 individuals and organisations.

Just Enterprise offers support in start-up, business development, business recovery, pre-investment support, and leadership development. It is delivered by a consortium of Scotland's key social enterprise support agencies who contribute a wide range of skills and experience as well as ensuring geographical coverage across Scotland. This ensures a consistency of support to social enterprises across the country. Just Enterprise has a well-established relationship with Business Gateway and Scottish Enterprise, with referral mechanisms in place to ensure social enterprises receive the most appropriate form of support from the relevant agency.

The Scottish Government will consider how the referral relationships with Business Gateway and Scottish Enterprise can be improved and deepened and officials would be happy to hear directly from witnesses regarding any inconsistencies in support for social enterprise.

Third Sector Interfaces

The Scottish Government (SG) provides the TSI network model with core grant funding amounting to £8.154 million in 2015/16. The funding in 2015/16 is provided to support the following outcomes

- People have opportunities to volunteer and are supported to do so
- Volunteer involving organisations are able to recruit, manage and support volunteers
- Social enterprise is effectively supported to develop and grow
- Third sector organisations are well managed and deliver quality services
- Third sector organisations feel better connected with the Community Planning Process and are able to influence and contribute effectively to the design and delivery of the Single Outcome Agreement outcomes and Community Planning outcomes
- The Third Sector Interface is responsive to the diversity of the community and is well managed, governed and effective.

The Scottish Government has recently awarded a research contract to Blake Stevenson and Arrivo Consulting to carry out an independent evaluation of Voluntary Action Scotland (VAS) and the Third Sector Interface (TSI) network model to be undertaken during the first half of 2016.

The overall aim of the evaluation project is twofold: firstly to evaluate the role, function and effectiveness/impact of the third sector interface network model and Voluntary Action Scotland, and secondly to explore with research participants what the future strategic direction and approach to third sector support in Scotland should be at the local level.

The TSI network model and VAS are key parts of the current third sector infrastructure in Scotland. With this in mind, it is important to gain a sense of what is working and what is not around how the TSI network model and VAS are operating, the impact they are having, and what would contribute to improvement in this infrastructural context (e.g. what changes, if any, ought to be considered to ensure an effective infrastructure is in place to enhance the success of the third sector).

The evaluation project will be undertaken from February to May 2016 and a final report, with recommendations for consideration by Scottish Ministers, is expected in June 2016.

Rolling funding and continuity of service

You shared concerns that support services subject to rolling funding made planning for the future a concern and that services may be lost.

The Scottish Government is aware of these concerns which arise due to the nature of funding for support services, where grants are awarded on a rolling basis or where contracts are extended or re-let. As part of the ongoing evaluation of such contracts and funding, early consideration is given to how successful the service provision has been, whether it is appropriate for the contract or funding to be renewed, any risks which might arise as a result of not renewing a service and what, as part of succession planning, might be needed to be in place to replace a body or service which comes to an end.

Community Shares Scotland

To clarify, Community Shares Scotland (CSS) is not currently funded by the Scottish Government and is funded for three years until March 2017 by the Big Lottery Scotland and Carnegie UK Trust.

Community Shares refer to the sale of shares in enterprises serving a community purpose and is a model for community bodies to raise money. CSS is a consortium of 5 partners: DTAS, Plunkett, Co-Operatives UK, Locality and Rocket Science. It is another mechanism to advance community participation and empowerment. It differs from other mechanisms in Scotland as it involves a financial investment at an individual level as well as an organisational level. However, it is seen more of a social investment in the local area. Scottish Government officials sit on the Community Shares Scotland Strategic Reference Group which meet quarterly and would be happy to give consideration to any proposal seeking Scottish Government funding.

Alternative Business Models

You asked about promotion of alternative models of business and funding for such businesses who are keen to establish themselves.

Awareness raising and funding

As mentioned earlier, Business Gateway, Cooperative Development Scotland and our Enterprise Agencies provide information on alternative models of business.

Social Enterprise Intermediaries – the Scottish Government currently funds a number of intermediary bodies, including Social Enterprise Scotland, Social Firms Scotland and Sencot, whose function is to raise awareness of social enterprise on a national level, influencing in the public sector, the media, government and in local areas through local social enterprise networks. Part of their remit includes raising awareness of the various business models of social enterprise, which include organisations with charitable status or SCIOs engaged in trade, Community Interest Companies (CICs), limited companies with an asset lock, development trusts, social firms and cooperatives and mutuals.

Social Enterprise Funding – the Scottish Government currently has two mechanisms which provide funding (grant and loan) to Social Enterprises.

- **Social Entrepreneurs Fund** - The Social Entrepreneurs Fund, delivered by Firstport on behalf of Scottish Government, provides support to individuals with ideas to start up new social enterprises in Scotland. Since 2009, there have been **340 awards** made and more than **280** individuals
- **Social Investment Scotland/ Social Growth Fund** - Social Investment Scotland is a charity and social enterprise that provides loans to other charities, social enterprises and community groups across Scotland. It provides funding for social enterprises by borrowing money from banks and investors, and lending it out at affordable interest rates. The **Social Growth Fund** opened (to applications) in May 2014. This is a joint Social Investment Scotland (SIS)/Big Society Capital fund which will provide up to £16m in loans funding for third sector organisations over the next 3 years. The Scottish Government has allowed SIS to use £8m in repayments over the next 3 years to loans from the Scottish Investment Fund (an SG fund for third sector organisations and social enterprises managed by SIS) to match a similar commitment from Big Society Capital.

In addition, our social enterprise intermediaries, Third Sector Interfaces, Just Enterprise, Big Lottery, Business Gateway and Local Authorities can all offer advice either online or through direct contact on the availability of funding. The Scottish Government also maintains a register of funds open to community groups who may be operating as social enterprises or another alternative business model at the following link: <http://www.gov.scot/Topics/Built-Environment/regeneration/communityfunds>

Scottish Enterprise

You mentioned suggestions to consider extending the remit of Scottish Enterprise to include community development particularly in rural areas.

As Scotland's main economic development agency, Scottish Enterprise (SE) focuses on opportunities for growth across all communities, sectors and businesses in Lowland Scotland. Its commitment to inclusive growth means they support social enterprises, co-operatives and collaboration through Co-operative Development Scotland; support job opportunities in areas of disadvantage through Regional Selective Assistance grants; encourage businesses to focus on youth and engage with communities through the Scottish Business Pledge; and work with underrepresented groups on entrepreneurial activity. SE works extensively in rural communities, particularly in the South of Scotland, where it has supported a rural regional economic plan. Additionally, their work with all Community Planning Partnerships and the developing Scottish Cities agenda continues to increase understanding and yield opportunities.

There are currently no plans to review the powers and remit of SE.

Community Empowerment Act

The Committee's question was whether the implementation of the Community Empowerment Act can foster social enterprise and co-operative models.

The Community Empowerment (Scotland) Act 2015 is not specifically intended to foster social enterprise and co-operative business models, but to help communities have more control over land and buildings, and over decisions that affect them.

Social enterprises and co-operatives include a range of different models and structures and do provide benefits to the wider community and should, where appropriate, be included in community planning and other participatory decision-making approaches. Social enterprise models which consist of single business owners or a small group who retain control of decision making, would not meet the requirements for a "community-controlled body" for the purposes of participation requests or asset transfer requests. Co-operatives are also excluded if they distribute profits.

If a community controlled body wishes to make an asset transfer request for ownership it must be a company with an asset lock to the community sector, a Scottish Charitable Incorporated Organisation or a Community Benefit Company. There was very little appetite for co-operatives or community interest companies to be included during the passage of the Bill, although Ministers can amend these definitions or designate individual bodies to be eligible if that is considered appropriate at a later date.

Public Sector Procurement

You asked what steps the Scottish Government have taken to encourage SMEs of a range of different types to bid for public sector contracts, and what further action can be taken.

Developing Markets for Third Sector Providers

In November 2011, the Ready for Business consortium was commissioned by the Scottish Government to deliver the "Developing Markets for Third Sector Providers Programme." The primary focus of the programme was to work with public sector commissioners and procurement officers across Scotland to;

- promote and improve understanding of the delivery competence of the third sector and the added value it can offer;
- promote understanding and adoption of the Public Social Partnership (PSP) model of service design;
- encourage and facilitate third sector engagement in service design to meet community needs; and
- facilitate communication and shared experience between commissioners and front line delivery providers to identify opportunities for ensuring wider community benefit

The Developing Markets for Third Sector Providers programme forms a key part of the Scottish Government support strategy for the Third Sector and complements other initiatives and activities, including business development support for the third sector, the Procurement Reform Act and the preventative spend agenda.

The Developing Markets Contract has provided a unique opportunity to embed social value throughout public procurement by developing and enhancing a number of leading market development solutions, including PSPs and Community Benefit Clauses (CBCs). In

particular, the programme seeks to raise awareness amongst public sector commissioners and procurement officers of the role that the Third Sector can play in delivering public services and the social value that the sector can contribute.

Public-social-partnerships (PSPs) build on the Italian model of co-planning by involving the third sector in the design and then piloting of a service alongside a public sector body. PSPs typically consist of 3 stages:

- Design - third sector organisations work with a public body to design how a service can be delivered and how social benefit can be maximised. This is commonly referred to as co-production.
- Piloting - the service is delivered by third sector organisations (potentially in a consortium that could include public and private sector partners) for a limited time. During this time the service can be adapted to maximise social benefit.
- Longer term delivery. If the pilot meets its outcomes then the public sector partners potentially commit to delivering the service in the longer term. This typically involves putting a contract out to tender. As the service specification for any contract will build on the pilot, it will maximise social benefit and could include Community Benefit clauses.

An example of one of the strategic PSPs is Low Moss Prison PSP - a programme to meet the needs of short-term prisoners whilst still in prison and after release with a focus on ensuring that reoffending is reduced

Supplier Development Programme

In 2014 the Scottish Government's Digital Scotland Business Excellence Programme provided £360,000 to the Supplier Development Programme (SDP) to help an additional 2,200 businesses develop their digital capability and be more efficient in bidding and fulfilling public contracts.

In the last year over 7,300 new suppliers have registered with the Supplier Development Programme, an increase of over 7% on previous years. Suppliers include SMEs, social enterprises and third sector organisations. Through the SDP the Scottish Government has, in partnership with enterprise agencies and local authority economic development and procurement partners, provided local businesses with access to advice and a programme of regionally delivered (plus online via webinar) training events to raise awareness of the opportunities and how to do business with the public sector and to exploit the Scottish Government's eCommerce Shared Service to find and win public sector contracts in Scotland and beyond.

Procurement Policy

The Scottish Government recognises SMEs, including social enterprise, as being critical to the economic health of the country and we want them to thrive. Much is being done to ensure they can compete for public contracts including making access easier for SMEs and the third sector and simplifying processes. We are working with the Scottish business community to standardise the public procurement process and reduce bureaucracy to make it easier for SMEs and third sector organisations to access public sector contracts.

The Procurement Reform (Scotland) Act 2014, (the Act) places a general duty on contracting authorities to consider how to:

- Improve economic, social and environmental well-being of the authority's area (with a focus on reducing inequality);
- Facilitate involvement of SMEs, third sector and supported businesses;
- Promote innovation.

And to act in a way to secure such improvements. This duty commences on 1st June 2016.

A number of provisions in the Act and Public Contracts (Scotland) Regulations 2015 will complement work to date to make contracts accessible to businesses of all make-ups. Many of these apply at lower Act thresholds (£50,000 for goods and services and £2 million for works). Principally:

Act Thresholds:

- Contracting authorities will be required to use the centrally-funded PCS advertising portal to advertise contracts and award notices
- Contracting authorities will be required to provide information on the scale and nature of their procurement activity;
- Prohibiting of charges for participation in the procurement process;
- Increased provision of debriefing to advise economic operators on their bids;
- A provision to reserve contracts for supported businesses that applies from Act thresholds;

Directives Thresholds (goods & services - £106,047 (central government)/ £164,176 (local government); works £4,104,394):

- Use of lots – contracting authorities must explain their decision not to sub-divide procurements subject to The Public Contracts (Scotland) Regulations 2015 into lots; and
- A new procedure, the innovation partnership, that may encourage collaboration in service design.

Community Benefits (£4 million):

- A requirement to consider use of community benefits for all contracts at or above this value.

These provisions will take effect from 18th April.

The Scottish Government is working with SMEs and the Third Sector to improve access to contracts:

- Representatives from the private, public and third sectors sit on the Ministerial Strategic Group for Procurement (MSG-P), that provides strategic leadership on procurement. This includes Federation of Small Businesses (FSB) and the Scottish Chambers of Commerce.
- SMEs are winning public sector work. Of the *circa* £11bn annual public sector procurement spend in 2013/14, 46.8% went to SMEs.
- We have developed a suite of tools to improve and standardise the public procurement process, and to support SME access.

We are making it easier to bid for public sector work

- Early engagement with the market is a key feature of our published standard procedures.
- We lead the UK by using a comprehensive, joined up suite of procurement tools to drive procurement reform and deliver greater value for money in public procurement, including Public Contracts Scotland (PCS), the Scottish Procurement Information Hub, and the Procurement Journey.

Other Relevant Policy intentions

You asked also for a note of any other relevant policy intentions to the subject area and I would like to highlight two.

Social Enterprise Strategy

The Scottish Government will, in the coming months, be co-producing and publishing both a ten year National Strategy for Social Enterprise in Scotland, and an International Social Enterprise Strategy for Scotland. The national strategy will build on the extensive consultative visioning work carried out by the sector and will set out the Scottish Government's approach to social enterprise for the coming decade. It will build on and develop our world renowned "ecosystem" of support for social enterprise. The vision developed by our partners focuses on four key themes:

- Building a movement that is more confident, coherent and wide-reaching in Scotland.
- Building capability through investment, business support and leadership development
- Building markets that are open to social enterprises in which they can thrive
- Building on potential by making the most of the human and physical assets available

The Scottish Government and its enterprise agencies will also continue to work with the sector to develop and deliver an International Social Enterprise Strategy for Scotland aimed at expanding activity in international markets; growing the sector's international footprint and revenues; sharing learning and experience; and raising Scotland's profile and reputation as one of the best places in the world for social enterprise.

Fair Work Convention

The committee identified the benefits of greater employee engagement in employee wellbeing. The Fair Work Convention is currently considering related issues, and was established by the Scottish Government in April 2015 as a key recommendation of the Working Together Review published in August 2014.

The purpose of the Convention is to provide independent advice to the Scottish Government on matters relating to innovative and productive workplaces, industrial relations, fair work and the Living Wage in Scotland.

It is co-chaired by former STUC President Anne Douglas and Linda Urquhart of Morton Fraser. The other Convention members have been drawn from trade unions, public and private sector employers and the third sector.

The Convention over its first year is to drive forward the Fair Work agenda by producing a Fair Work Framework by the end of March 2016. This Framework will:

- Articulate a practical blueprint for Fair Work which promotes a new type of dialogue between employers, employees and trade unions, public bodies and the Scottish Government.
- Support the Scottish Government's objectives of increasing sustainable economic growth and reducing inequality through the promotion of greater diversity, innovation and equality in the workplace.
- Understand business challenges in adopting Fair Work principles and offer help to support a progressive change.

The Convention has met as a group on a monthly basis during which it has engaged with a number of stakeholders. It has also hosted a number of stakeholder engagement sessions, presented and attended various forums, and working groups.

The Convention has gathered views from approximately 200 stakeholders ranging from business, business organisations, trade union representatives and stakeholders from a number of sectors. A Fair Work Convention website has been created and has the capacity for additional feedback on issues.

The Convention has identified 5 main dimensions it will take into consideration in the development of the Fair Work Framework. These dimensions are:

- Opportunity
- Fulfillment
- Security
- Respect
- Effective Voice

In addition to the above themes 2 cross cutting themes have been identified, these are equality and well-being.

The Convention is currently reflecting on the evidence gathered and is now into the drafting stage of the Framework it is aiming to have the Framework drafted by the end of March 2016.

I look forward to reading the Committee's legacy paper. This is an important area of work, and one which contributes significantly to our priority of inclusive economic growth for Scotland.

JOHN SWINNEY