

## LOCAL SOCIAL ENTERPRISE NETWORKS

### Phase II: 2008 - 2011

#### **Introduction**

This paper seeks to give an overview of the ethos of LSENs and possible structures. It has been produced as a result of the Network Reps meeting on 14<sup>th</sup> March 2008, when Senscot was asked to produce a draft 'blue print' for the Local Social Enterprise Networks (LSENs). The draft was presented at the subsequent Reps meeting in Alloa on 12<sup>th</sup> June 2008 and the paper was then adapted.

#### **LSENs: What are they?**

The term 'Network' can be confusing, with different kinds of organisations from umbrella bodies to specialist service providers using the term, so it's worth clarifying what LSENs are and what they're not.

Local Social Enterprise Networks (LSENs) are groups of active (e.g. attending at least 25% of meetings in an 18 month period) social enterprises who come together regularly in an effort to grow opportunities for themselves and their sector locally. The purpose of meeting is primarily to discuss their businesses, exchange ideas, share knowledge and best practice. LSENs exist to meet the needs of the *local* social enterprise sector. It is not their purpose to grow into intermediary organisations or to deliver services which could and should be delivered by their members. Any services delivered by LSENs are those which help bring members together (hosting events), devolve opportunities to their members (brokering between members and procurement officers) or help them grow (offering backroom services such as shared IT, marketing and the like). LSENs are not lists of every social enterprise and/or social economy organisation in the area. In a region where there are a significant number of social enterprises, LSEN membership would likely lie between 5-20. Over 30 and productive relationships are prone to become more distant and difficult to maintain as the downside of going for size and scale is that the dense, interconnected pattern that drives group conversation and collaboration isn't supportable at large scale.

LSENs are examples of 'Communities of Practice'; groups of individuals with common interests and goals who recognise that by working together they can find solutions to the challenges they face. Research suggests that by creating focused, active connections it becomes possible to tap into and maximise the collective knowledge of a group. Among the many benefits of supporting and growing these communities are:

- Sharing best practices
- Solving problems quickly
- Driving Innovation
- Capturing knowledge
- Enabling professional development

## Guiding Principles of Senscot's Network Development

Senscot has a set of principles which have determined how the task of establishing new local social enterprise networks has been approached. The main principles have been:

- Not setting up a Network anywhere unless asked to by social enterprises
- Preserving a focus on grassroots social enterprises
- Ensuring accessibility to the networks of those who may not otherwise be invited or included
- Ensuring that LSENs work for the benefit of their members and that any services provided will be strictly for the benefit of their membership
- If there is a desire by the majority of Network members to carry out direct support service delivery it will be done as either a new organisation or as a trading arm of the Network.
- The structure of any LSEN is dependent on the aims and objectives of Networks and wishes of its members.

## Current Position

The number of networks currently stands at 18; 14 are geographically based and 4 thematic.

A significant development in 2006-2007 was tangible support coming from local Social Economy Partnerships (LSEPs). See table 1 for a list of existing LSENs, approximate membership and those that secured some funding.

**Table 1**

| Network             | Funding             | Source               |            |
|---------------------|---------------------|----------------------|------------|
| Abercorn            |                     |                      | Thematic   |
| A&BSEN              | <b>£30,000</b>      | LSEP                 |            |
| Borders             |                     |                      |            |
| Edinburgh           |                     | LSEP                 |            |
| East Dunbartonshire | <b>£10k in kind</b> | EDCVS                |            |
| East Lothian        | <b>£7,500</b>       | LSEP                 |            |
| Fife                | <b>£10k in kind</b> | LSEP                 |            |
| Aberdeen            | <b>£5,000</b>       | LSEP                 |            |
| Coalfields          | <b>£50,000</b>      | SCF                  | Thematic   |
| Dumfries & Galloway | <b>£10,000</b>      | D&G Council          |            |
| Tayside             | <b>£7,500 (tbc)</b> | LSEP                 |            |
| Clackmannanshire    | <b>£5,000</b>       | Communities Scotland |            |
| Midlothian          |                     |                      |            |
| Glasgow             |                     |                      | relaunched |
| Cultural            |                     |                      | Thematic   |
| Health              |                     |                      | Thematic   |
| Inverclyde          |                     |                      |            |
| Moray               | <b>£25,000</b>      |                      |            |

## Blue Print - A Template for LSEs

### LSEN Ethos

Local and thematic Social Enterprise Networks exist to provide social enterprises with a space to come together and support each other. The member social enterprises **own** their network and **directly** influence the activity of the network. Each network aspires to;

- Have a collective identity
- Be democratic
- Be owned and directed by active members – all members big and small
- Be independent (statutory bodies, funders and support agencies to attend by invitation only)
- Be a broker and exchanger of practical help and support (for example using a variety of venues on a rotational basis)
- Avoid competition with members and between members
- Hold regular open events
- Offer a light touch (see <http://www.jrf.org.uk/pressroom/releases/290307.asp>)
- Be self-managing
- Operate on a low budget for reasons of independence, sustainability and non-competition

Activity carried out by LSEs focuses on three outcomes:

- 1) Provide opportunities for social enterprises to learn how to run their business better (e.g. informal information exchange or action learning)
- 2) Provide opportunities for member social enterprises to grow their business which includes;
  - *internal* trading opportunities by highlighting the current work being carried out by members
  - *facilitate* joint trading opportunities between local members, members from other LSEs, or even partnerships between members and private and public sectors
- 3) Promote services and goods provided by members.

## Possible Legal Structures for LSEs

[Legal structures at a glance; [www.diycommitteeguide.org/index.cfm/section/news/key/SCTN2\\_DIYGUIDE\\_13](http://www.diycommitteeguide.org/index.cfm/section/news/key/SCTN2_DIYGUIDE_13)]

Four structures which could be used by a social enterprise network are outlined below.

### 1. Informal without any constitution

#### Pros

- Flexible
- Proven system which can help promote local social enterprise
- Number of LSEs already received significant funding via a host organisation on behalf of Network (e.g. £50,000 to Coalfields SEN over 2 years)
- No requirement to have formal arrangements e.g. reporting systems, legal obligations
- Uses and invests in LSE member resources
- Not likely to end up competing with members to provide services
- Requires significant levels of trust to make it work properly

#### Cons

- Perhaps not clear to some funders who or what it is
- Requires significant levels of trust to make it work effectively

### 2. Company Limited by Guarantee with Charitable Status

#### Pros

- a legal identity
- the ability to own property in the company's name
- the ability to enter into contracts in the company's name
- limited liability (i.e. members limited to £1 liability )

#### Cons

- Costs money to set up and run a company. A registration fee for the Mem. & Arts and an annual return must be submitted to the Companies Registry and there is an annual fee
- Bureaucracy – companies must comply with the statutory requirements of the Companies Orders

#### Charitable status

Because of its not-for-profit nature, a company limited by guarantee with charitable objectives can apply for charitable status. Among the advantages of charitable status are:

- It presents an image of integrity
- It opens up sources of funds
- If there are any surpluses, a charity will not be charged corporation tax, while a non-charitable company limited by guarantee may be

Disadvantages are:

- Limitation on trading unless in pursuit of objectives
- Charities should not campaign politically

### 3. Community Interest Company (CIC)

#### Pros

- easy to set up
- a statutory "lock" on the assets and profits of CICs
- a "community interest test" which companies must pass in order to be registered
- an annual report explaining how their activities have benefited the community and how they are involving their stakeholders
- a CIC regulator responsible for ensuring that CICs comply with their legal requirements

#### Cons

- Cannot become a charity
- Cannot choose who to pass assets on to if would up
- Have legal requirements to produce returns to CiC regulator

### 4. Community Benefit Company (Industrial & Provident Society)

<http://www.businesslink.gov.uk/bdotg/action/detail?type=RESOURCES&itemId=1077475850>

#### Pros

- Set up specifically to conduct a business or trade
- Run and managed by their members
- Can raise funds by issuing shares to the public
- Profits are not distributed amongst members, or external shareholders, but returned to the community.
- Can apply for charitable status, allowing them to raise capital through public grants and charitable trusts. If approved, they're known as exempt charities - reporting to the Financial Services Authority (FSA)

#### Cons

- Cost – the rules of the IPS are submitted to the Registrar of Friendly Societies who will register the IPS on payment of a fee. The fee is over £100 if model rules are used, or several hundred pounds if the group draws up its own rules. It takes longer to register the IPS with the Registry than it takes to register a limited company
- Lack of privacy – in common with the company structure, the IPS is subject to public scrutiny as annual returns are made to the Registrar

## Notes:

1. **Informal:** During Phase I of the Network development project, Senscot deliberately stayed away from a formal structure as the most important aspect was to show demand and value. We still believe this is a valuable and viable format and should be seen as the first option, as it is flexible, low cost, easy to manage and has not presented any barriers to progress of LSENs.

2. **Community Benefit Company (CBC):** it is clear there are a number of Networks who are interested in adopting a more formal structure with interest being shown by some in the becoming a CBC due to its co-operative and democratic approach. Legal elements involved with this model could make it prohibitively expensive. Senscot has agreed to develop a set of model rules, which will then be available at a much reduced cost to any LSEN who chooses to adopt that structure.

3. **LSEN Finance:** From our work over the last 4 years, we believe that whatever structure is adopted by a Network should a) avoid LSENs competing with their members and b) take a continuous 'light touch' approach. The LSEN Reps meeting in Alloa on 12 June agreed that £15k a year would be an effective starting point for financing this.

[This is backed up by a Joseph Rowntree Foundation study ([www.jrf.org.uk/pressroom/releases/290307.asp](http://www.jrf.org.uk/pressroom/releases/290307.asp)) which showed that a little mentoring by a trusted facilitator and a small, flexible pot of money was found by to be a highly cost-effective method of developing skills, offering support and providing inspiration.]