EXPLORING THE SOCIAL ENTERPRISE POTENTIAL

For

SUPERHIGHWAYS

2004/2005

A SUMMARY REPORT

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Overview

This overview presents the key findings in relation to a feasibility study commissioned by Kingston Voluntary Action (KVA) and the South London CVS Partnership (SLCVSP) to explore the viability of adopting a more formal social enterprise model of operation for an existing ICT project, namely, Superhighways.

The proposal presented by KVA is unusual in that KVA is a 2nd tier infrastructure organisation and as such the vision presented differs greatly to the ideas and enterprises generally pursued by front line VCO's. In addition the current Superhighways project and the aspirations held are 'owned' by the South London CVS Partnership group comprising of six CVS organisations across South London including Croydon, Bromley, Kingston, Richmond, Kingston and Sutton.

It is now widely reported that the structure, culture, origin and the drivers behind any social enterprise proposal are key areas for review and critical to the success or otherwise of social enterprises. The unusual operating structure does therefore add a complex dimension in reviewing internal drivers and dynamics likely to impact on the vision and aspirations held for Superhighways. Many professionals and organisations supporting the social economy believe that an organisation's operating ethos and the extent to which they are able to apply traditional business approaches to establish and sustain a social enterprise will ultimately determine its performance.

In other words favourable market conditions alone will not ensure the success of a social enterprise venture.

This paper has been developed to provide an independent summary of the main findings detailed within the larger feasibility study report. At the outset a number of questions were posed by the Superhighways team, the main purpose and focus of this paper is to provide answers to the questions raised.

Introduction

Exploration of Social & Business Objectives

The social aims established with KVA at the beginning of the commission were:

To further the social mission of KVA & the SLCVS/Superhighways Partnership while at the same time provide an income source to support the short and longer term sustainability, development and growth of the project.

Furthering the social mission was also qualified as:

Building the ICT capacity and infrastructure amongst VCO's across the South London sub region to improve their effectiveness and efficiency
leading to improved sustainability
and
deriving a range of benefits for their respective client groups and communities.

Subsequent discussions with KVA's Director, Project Co-ordinator and project staff identified a further set of social impact aspirations including a desire to:

1. better meet the needs of front line CVO's, through for example improving the capacity to meet demand
2. expand service provision to meet perceived local needs (for example specialist work, supporting home workers, security related services)
3. maximise benefits for local organisations through effective use of ICT
4. improve strategic understanding of ICT and provide support to embed ICT into VCO's planning process

While several clear social objectives are apparent, **the 'business' aspirations for Superhighways were more difficult to identify and extract**.
The concept of social enterprise and what this might mean in business terms varied across the

project. Those closest to service delivery indicated more entrepreneurial, profit and income generation motives than those operating at a strategic level. Implied business objectives include:

1 establishment of high quality, value for money charged for services
2 identify opportunities for additional contracts via local authorities other sectors (staff)
3 take advantage of perceived market opportunities linked for example to security issues (staff)
4 gain a reasonable market share and good local project recognition across all sectors
5 Generate income to sustain and grow current project

Performance & Track Record

By any standards Superhighways is a highly successful, well established project that has clearly benefited from its collaborative operating structure. It has achieved quite significant growth over recent years (geographical, service delivery and staffing levels) under the umbrella of KVA (lead organisation) and its strategic 'owners' the SLCVSP.

The findings of this study confirm that Superhighways enjoys a good professional relationship with its beneficiary organisations and has a reasonably high profile across South London. Notably, Superhighways commands respect from others, including competitors, and the project is well networked to other organisations, initiatives and forums with ICT focus and interests.

KVA and the Superhighways Partnership has an excellent track record of project development and delivery and of managing large complex projects including large scale sub-regional capacity building programmes. The Partnership is progressive and there is evidence of an entrepreneurial approach to management, leadership, development and project delivery.

These findings are central to this study. Social enterprise requires a strong entrepreneurial mind-set and commitment across the organisation. A number of factors are seen as contributing to the right balance of governance, leadership and entrepreneurial spirit.

KVA is at a stable stage of its lifecycle and well placed to take reasonable and

considered risk <u>although the organisation is not currently a limited by guarantee company and this does raise questions in relation to risk for the governing body</u> if a social enterprise model of operation was pursued without this status. The KVA Board do however plan to adopt dual limited liability/charitable status in 2005/06.

At the time of writing the position of the Partnership is a little harder to evaluate since currently the Partnership is not legally constituted and as such is not structured to take risk nor can it be legally accountable. Under the current/ proposed operating structure risk associated with Superhighways sits within KVA. However the SLCVS Partnership are currently investigating options in relation to a new legally constituted partnership structure incorporating a new partnership strategic management team. This planned development brings increased potential and opportunity in relation to social enterprise.

KVA operates with set policies to guide their work and a good flow of information to the executive is maintained. **It has not been within the scope of this study to consult KVA's Board and consequently some questions remain unanswered. For example is the level, detail and frequency of management information about Superhighways performance sufficient, and in the event of any form of social enterprise model being adopted within KVA is there a need for improved information and management of the potential risks this would invariably bring? *Probably!***

Is the idea viable?

The market conditions associated with this proposal are unparalleled. There is substantial political support, both in relation to social enterprise development and in relation to ICT infrastructure development and initiatives. Superhighways has already developed a solid reputation and professional relationship with its CVS member organisations and as such holds an exclusive market position, the integration of ICT within the whole community development package of capacity building activities and toolkits (for example governance, finance, capacity checking/health checks) would seem logical.

The proposed primary target group (local VCO's) have significant needs across all ICT service areas and the ICT Communications and Technology Industries generally are assessed as '*stable and poised for growth'*. New opportunities and trends are emerging with more and more

organisations across the voluntary, public and private sectors outsourcing their ICT requirements. Opportunities were found to exist in some specialist markets relating to accessibility, securities and connectivity in particular.

Today's top business leaders often attribute their success to 'having the right idea at the right time, in the right place'. The extraordinary market conditions identified would seem to indicate that there is unlikely to be a better time for Superhighways to apply an entrepreneurial philosophy to support the project's development and sustainability. However, market conditions alone will not guarantee the success of this social enterprise venture and herein is the first consideration – what would constitute success for Superhighways? For the purpose of viability analysis this is qualified as:

1. Generating sufficient income to make a full or partial contribution to the overall project costs thus reducing dependency on grant funding and/or

2. Development of an independent trading arm generating surplus income for reinvestment in the charity company to support the longer term sustainability of Superhighways to further social impact and benefits

The findings of this feasibility study indicates that an independent trading arm operating on a traditional SME model with employed staff is likely to struggle to become financially viable, at least over the early development years.

1. Financial analysis identified quite high operational costs and demonstrated that a venture of this type is unlikely to generate sufficient surplus income to make any meaningful financial contribution to the charitable company (KVA) over its first three year operational term.

2. The breakeven point for such a venture was assessed to be in the region of £80,000 per annum (or 228 days of service delivery @ £350 per day). In order to cover operating costs and also contribute sufficient finance to KVA to cover the costs incurred by the strategic hub, the enterprise would need to generate an annual income in excess of 120,000 or 342 days per annum of service delivery @ £350 per day.

There are therefore significant risks involved in proceeding with an independent staffed trading model if a primary business objective is for the social enterprise to make a reasonable return to partially or fully cover the costs of the Superhighways project.

An independent venture is likely to make a loss initially and financial analysis indicates a financing requirement of circa £55,000 start up and significant annual revenue funding over the early trading years.

In summary this route is unlikely to derive the type of success sought (in this case £) by the Partnership although there is the potential for an independent social enterprise providing ICT services to a wider market to ultimately become sustainable and derive a range of other benefits. For example:

1 Linkage to other sectors and markets
2 Provide a structure through which to put income and business deemed high risk or constitutionally inappropriate for Superhighways to pursue
3 Provide new learning and development opportunities for staff and volunteers
4 Open doors to other funding sources

It is probably worth noting that an independent trading arm of this nature is likely to require 3-5 years development time before it could be expected to achieve any level of profitability. In addition the level of work and risk involved possibly constitutes an unrealistic option for the Partnership at the current time. Two alternative routes are therefore suggested as potentially viable options for Superhighways and the observations and issues identified over the following pages are relevant to both:

Potentially viable options

1. *Adoption of a hybrid model of operation that involves adjustment and repositioning of the current project under the umbrella of KVA to more formally operate with clearly defined business objectives that sit alongside the social aims for the project*

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2. *Adoption of a hybrid model of operation and additionally establish a virtual trading arm to manage and deliver service areas identified as high risk or in conflict with charitable aims and governing documents*

Is the current and future structure for Superhighways likely to support or hinder a social enterprise model of operation?

This is a complex evaluation with several interrelated considerations ranging from the culture and aspirations held across the Partnership to legal constraints and implications.

Key observations and findings are as follows:

1 The basis of the structure is one of collaboration and this facilitates cost effective use of resources, encourages the sharing of good practice and can share the risks

2 In this model the strategic and operational functions are clearly defined. KVA houses the hub of strategic planning and management, informed and supported by the SLCVS Partnership. Each individual CVS is responsible for employing, line managing and, it is hoped, funding the ICT technical support staff at Borough level.

3 The model is a good structure to provide more consistent and standardised services – something which Superhighways is keen to achieve. Health checks, strategic work and specialist work would benefit from delivery to a common framework

This model is however challenging and, in terms of social enterprise raises a number of issues, particularly for example in relation to development, management and risk.

Is this model likely to present increased risk, management challenges or weaknesses?

A number of operational challenges & potential issues were identified:

1 Strategic decision making and overall management is distanced from the operational functions and will rely heavily on clear two way communication channels

2 The introduction of any serious 'business' activity will undoubtedly involve change and bring new and increased risk**.**

3 **Potential risk for KVA and their respective executive Board is increased due to the organisation not operating a dual legal status – the organisation is not currently limited by guarantee however the Board proposes to adopt a dual legal status within the next twelve months.**

4 **KVA's governing document prevents the organisation '*undertaking any long term trading activity*, given a social enterprise model explicitly trades, KVA would need to review and amend this document before a social enterprise model was pursued**

5 **There are further legal complications and constraints relating to charity law and trading, VAT and taxation that would warrant close attention and management to ensure the social enterprise and KVA meet regulation and legal compliance**

6 **Based on general knowledge of CVS Boards it is also probable that some knowledge gaps exist, particularly at governance level, around charitable trading and social enterprise management. If this is the case then the decision making process is further complicated since due process and consideration of pursuing a social enterprise model of operation for Superhighways can only be meaningfully undertaken if appropriate knowledge exists amongst those who will be legally responsible.**

7 In relation to risk it is an interesting proposal that the ICT workers are/will be managed by each CVS at Borough level. While this arrangement shares some aspects of funding, management and employment it raises two considerations.

i) By definition if each CVS is funding and managing their own technical support worker then it is likely that priorities for that worker will be based on local needs and to some extent each CVS 's local agendas. While this is a strength in terms of providing flexibility to deliver on local priorities, tensions could arise whereby business priorities and strategic decisions and targets for the social enterprise may not always support the local picture or priorities for each CVS. Given KVA/Superhighways are not the funders or employers of staff on the ground, what would have priority, the local needs of the CVS or the longer term strategy to

develop and sustain Superhighways?

ii) In the event of poor service delivery or worse (professional negligence) although KVA and Superhighways do not employ and manage technical staff, workers will be operating under the branding of Superhighways. Consequently the social enterprise and the CVS network and Partnership are likely to suffer collectively if an issue arose in one borough.

1 The model proposed by KVA is conducive to using elements of the circuit rider concept. However there are no practical models for the implementation of such a service **that have yet become sustainable.** Review of organisations who have offered to deliver the service have been funded for two to three years without any continuation. **After withdrawing, the expectation is that within the period of support the Voluntary and Community Organisations (VCOs) would have received sufficient training and developed enough to be self-sustaining.**

Evidence however shows this is not the case

There would be a need to review insurance arrangements/provision across the six CVS's to ensure consistency in for example, Employers Liability, Professional Indemnity, Product Liability etc.

An area to watch

Charities that undertake trading are receiving closer attention from the Charity Commisssion, particularly those organisations with turnovers over a quarter of a million. It is possible that the Charity Commission **may consider any paid work Superhighways undertakes with 2nd tier organsiations to constitute non primary purpose trading** (see legal section of main report). KVA's current governing documents and charitable purpose is focused on the delivery of services to front line VCO's. This raises the question of what this might mean if attentions and resources were directed to support 2nd tier, umbrella organsiations (including for example the existing CVS's within the Partnership) It's possible that the Commission may take the view that KVA does not primarily exist to support other CVS's and2nd tier organisations, as such any income from this source is likely to require a different accounting treatment.

Operational Model Summary

In theory the model could work well and Superhighways would seem to provide a good opportunity to develop a highly successful flagship social enterprise that would build on the Partnership's success to date. A social enterprise venture is also consistent with the Partnerships general social enterprise stated priority on which Sutton CVS leads. A successful social enterprise developed by the Partnership would bring added value in terms of raising the profile and understanding of this sector amongst the voluntary, public and private sector across the region. **This model does however rely heavily on addressing and managing the issues and risks identified and will require the full co-operation and 'buy in' of <u>all</u> CVS'**s within the partnership.

The proposal to adopt a hybrid social enterprise model of operation represents an extension of the work already undertaken particularly since Superhighways has derived some income from service delivery and could already claim to be an emerging social enterprise under its broad definition. The hybrid model builds on what the CVS's do best, capacity building and representing the interests of local VCO's: a social enterprise approach would represent a natural extension of their core work.

Does this model provide the best route to achieving stated social and business objectives?

The model appears more conducive to deriving the social objectives held than the business aspirations. Differing aspirations were found to exists between operational staff, management and strategic decision makers within Superhighways and this suggests (assuming a social enterprise model was formally adopted) a need to more closely aligned social and business objectives, particularly since one of the most challenging aspect of social enterprise management is achieving the equilibrium; the right social and business mix. Both sets of objectives need to be clearly understood and communicated to ensure resources are directed appropriately

If a social enterprise venture was pursued **it is highly likely that some tensions would arise in maintaining the equilibrium between social and business aims. This is not unusual when social enterprises develop from within a charitable organisation**. **Some policy and practices may therefore need to be introduced/adapted to afford a more flexible operating environment to enable the enterprise to adapt and respond to changing markets.**

If a hybrid model was pursued the development of four or five overarching business strategies together with income generation targets and regular trading performance reviews would need to be built into current reporting mechanisms. This would enable Superhighways to take best advantage of the market opportunities identified.

Is there an alternative or better way of moving Superhighways forward?

Not really. Superhighways has four or five options, three of which are considered not viable or assessed as unlikely to be the best way forward at the current time. The five options considered are:

1. Change nothing
2. Adoption of a hybrid model
3. Hedge options by adopting a hybrid model and establishing a staffed trading arm
4. Hedge options by adopting a hybrid model and establishing a virtual trading arm
5. Transfer Superhighways activity to an independent trading arm

1. Change nothing

The project is already operating as a small scale social enterprise and a decision not to formally position Superhighways as a social enterprise is unlikely to result in any immediate negative impact. Given however the favorable PEST environment, entrepreneurial skills of those involved, market potential, favorable support for social enterprise development and the difficulty of providing long term development services on short term insecure funding, this option fails to capitalize on identified opportunities and does nothing towards sustaining the project post Change-up and current funding arrangements.

2 Adopt a more formal SE model under the umbrella of KVA and the South London CVS Partnership.

This option is the most obvious and straightforward route, and although continuing the project along current lines with more formal attention and positioning of the project as a social enterprise is undoubtedly a reasonable and realistic next step for the project, this route is not without implication and issues.

The main considerations being:

2 The governing documents of KVA that prevents the organisation entering into any long term trading

3 Risk would be increased if KVA pursued any form of social enterprise activity before Company Limited by Guarantee status was adopted

4 The opportunity to capitilise on identified growth markets that sit outside current remit and focus are lost

5 There is a ceiling and capacity issues that will limit the earning potential

6 Under KVA the primary target market should be limited to primary purpose trading and this restricts service delivery to local VCO's. Research suggests that this market alone is unlikely to generate enough income to achieve total self financing. Although this option is *viable if the business objective* was to generate small income levels to contribute to sustainability

3. Hedge options by maintaining some services as a project under KVA and also establish a virtual trading arm

This option probably offers the best potential to maximize income generation and manage identified risks. It is also likely to be the best route towards meeting all the objectives and aspirations held across the Partnership.

The virtual social enterprise trading arm would simply act as a conduit for earned income and would operate on a small scale initially with the sole purpose of housing charged for service deemed as high risk and/ or likely to conflict with charitable Objectives. Superhighways could continue to deliver appropriate development focused services from within KVA and continue its role as the strategic hub supporting technical workers on the ground and co-ordinating the sectors ICT training.

This trading arm will enable the SLCVS Partnership to maximise identified 'trading' opportunities while providing an appropriate structure to manage risk and pursue 'business' opportunities that may conflict with charity law, charitable objectives and/or CVS remit (service based or geographical).

The trading arm should not however be limited to IT related activity, but should be structured to support two or more service divisions, for example IT and Workforce Development. The new CIC structure scheduled for launch in Autumn 2005 is recommended as the most appropriate legal form.

Given current capacity constraints and anticipated need to give priority to the legal structure and operational changes planned by the SLCVSP, a phased approach is recommended whereby a virtual trading arm is established initially with a view to progressing this to a fully functional staffed traditional trading entity following a year of virtual operation (or sooner if opportunity and circumstances dictate).

4. Hedge options by maintaining some services as a project under KVA and also establish a staffed trading arm

As already discussed there is a questionmark over the viability of this proposal, unless it was pursued on quite a large scale. There would therefore be the inevitable challenge of funding this although the climate is favourable and options exist through Future Builders, other grant sources and loan financing such as that provided by Charity Bank. The level of financing required will clearly be dependent on the scale of business to be established. In this respect there is some scope to be adventurous and use the business and current funding environment to finance a large initiative – mirroring for example the social enterprise in Devon (COSMIC) where there is designated training center and cyber café resources. Although their target market is different it is not impossible to develop an initiative on this scale to benefit VCO's and local SME's .

If a large scale initiative is sought then development funding would be needed to undertake comprehensive business planning and all the associated ground work.

5. Transfer all Superhighways activity to one of several trading arm

options, for example through establishing a company limited by shares or guarantee or a Community Interest

All things considered this is not the best way forward. The Superhighways Partnership, the operating structure, project positioning and reputation within the voluntary sector are without question immensely valuable. There is likely to be grant funding available to finance elements of the existing project for some time to come.

In brief there is no need to fix something that isn't broken and the way Superhighways operates brings numerous benefits. Establishing a separate entity and transferring Superhighways would bring employment issues and significantly change the relationship with local VCO's. This route would likely reduce the projects sustainability prospects rather than enhance it.

What could Superhighways change/implement to become a hybrid social enterprise model?

This option requires only moderate adaptation and as such represents a natural next step . The main changes and action required include:

1 Rebranding and market positioning of the project as a social enterprise or an emerging social enterprise with clearly defined business and social objectives communicated to all stakeholder groups

2 <u>Optional but recommended</u> is the introduction of a tiered membership structure. There are many models and options here. Other models appear to have introduced a charge for organisaitons based on the number of pc's used – this is mostly costed at £200 per pc unit. Local research indicates this model would be hard to implement in South London. Instead a membership structure is recommended with fees set somewhere between £30 and £150 perhaps with three membership fee scales to accommodate small, medium and larger organisations.

   It is possible (and beneficial) to also offer a free associate membership to all VCO's in the region to ensure information and communication is maintained through for example circulation of the newsletter. Full membership should offer additional benefits for example priority booking, help line access and

possibly discounted training etc. The introduction of an annual membership event to disseminate developments, good practice and celebrate collective achievements could be a further benefit offered to members only.

If a more corporate style is preferable then a membership initiative could for example facilitate a buyers club or introduce annual award/reward scheme for members who have *traveled the most distance in developing their ICT* infrastructure or who have produced *an innovative e-idea that supports access issues* etc.

Membership awards hold potential 'corporate' benefits by:

- Celebrating success and improving motivation and awareness
- Providing good marketing and press opportunities for Superhighways
- Helping to 'sell' the membership concept
- Encouraging project beneficiaries to measure their outcomes and impact and feed these to Superhighways to support overall monitoring

Note: the introduction of a membership structure would involve quite considerable work and ongoing co-ordination and management. It is likely therefore that KVA would need to employ a membership/marketing co-ordinator or similar.

There is also scope to introduce/run alongside the VCO membership a corporate membership whereby tutors and other ICT freelancers could be invited to join for a fee (given they are likely to derive significant financial and other benefits from their association with Superhighways)

The Membership element could also seek corporate sponsorship to help fund its management and events. However care would be needed to ensure sponsorship was applied and promoted in a way that did not compromise independence or promote sponsors in a way that would constitute non primary purchase trading income (charity law)

Other recommendations in relation to the hybrid model include:

3 Introduction of a social audit framework and corresponding reporting mechanism

4 Review of current policies and procedures and adaptation where needed

5 Comprehensive risk analysis and the upgrade of MIS to manage those risks (particularly trading law elements)

6 Formally register and link Superhighways to social enterprise support organisations and forums to provide the 'business' networks and support

7 Identify key trade associations likely to bring best benefits and subscribe to widen resources and knowledge base (*provided in appendices of main report)*

8 Invest in training of key people in core areas, social enterprise management, marketing, legal compliance etc

Although this option represent a cautious way forward it is likely to be attractive as it requires the minimum amount of change (<u>but not necessarily risk</u>). Adoption of this route would of course still retain the option to establish a staffed trading arm in the future, particularly **if the CVS partnership became a Company in its own right and a more formalized infrastructure was in place within the Partnership to support the establishment of a trading arm. The establishment of a virtual trading company would require less attention and investment and it is recommended that a trading company of this nature is established alongside the adoption of a hybrid model.**

Does KVA and the Superhighways Partnership have the necessary skills and knowledge base?

A key factor in determining the success or otherwise of a social enterprise is the skill base of key people involved. **One of the strengths of this project is the wide-ranging, high level skills, experience and knowledge displayed across the Partnership and project.**

The Directors across the CVS Partnership bring a diverse range of skills and strategic management experience to this proposal. It is also evident that CVS's in the London South sub region operate closer to the business model than might be apparent. Strategic planning, negotiation, marketing, public relations, financial and risk management feature prominently. Increasingly CVS's employ a wide range of traditional business/entrepreneurial skills and this gives some advantage to this proposal over other social enterprises reviewed as part of this study.

The project success and achievements to date is evidence of high standards in project management. In interview it is evident that the project coordinator has a very solid understanding of both business and philanthropic environments and working practice. Her role has historically involved the application of both approaches.

The technical support staff consulted were found to have good levels of technical ability coupled with entrepreneurial aptitudes. This is also reflected in the reasonably high satisfaction rates and general feedback received from beneficiary organisations over the course of this study.

A review of success factors linked to social enterprise indicates that best results are realized when the enterprise is driven by a key person with an entrepreneurial aptitude. The assessment of the current skill base and approaches in evidence is therefore an important factor in determining the viability of Superhighways pursuing a social enterprise model. There is likely to be some skill gaps and weaknesses

<u>particularly at Governance level</u>

More generally there is some indication that investment in further skills development would be beneficial in the following:

1. Charity law and trading
2. Company law
3. Taxation and VAT
4. Consumer law
5. Social enterprise development and management
6. Marketing & branding
7. Securing income through sponsorship
8. Forecasting and profit margin analysis
9. Social auditing
10. Contracting (and potentially procurement)

These skills are likely to be required at senior/strategic levels and development may not need formal training – in some areas an updating of knowledge through research and or visits to other organistions and professionals may be all that it required. Technical support staff acknowledged a need for skills development in high skills and specialist and emerging markets – securities for example in order to keep pace with developments.

What are the key messages and findings from research conducted with Superhighways primary target market?

Superhighways is highly regarded locally, many VCO's classified the ICT support services provided as 'vital'.

There are at least 3,000 member VCO's across the proposed geographical operating area and most will already have a relationship with the local CVS and/or Superhighways.

On the face of it there would seem a good potential for Superhighways to generate significant income from this already established market base. However, national and our local research returned a very mixed set of findings and a number of challenges exist in relation to this proposal.

While there is a clear need for, and desire to receive ICT support and related services amongst local VCO's, the sectors ability (or willingness) to pay for this provision is highly variable.

In terms of converting to a social enterprise model it is not particularly helpful that Superhighways has been providing free services to so many for so long. **A precedent has been set amongst local VCO's and there is a general expectation that Superhighways will and should continue to provide support on a free or heavily subsidised basis**. The following feedback is fairly representative of the views and fears expressed.

I wonder how superhighways has been funded previously and why it is now becoming necessary to charge vol.orgs. for the service they have provided free in the past? And a very excellent service it has been!! Charging for services will change the relationship with member orgs. And the costs will soon go up beyond many orgs budgets.

There is also **evidence to suggest a high level of expectation and reliance on Superhighways and a belief that someone will always be there to help**.

There appears to be very little recognition that Superhighways is simply another voluntary sector project (albeit an excellent one) and its ability to continue to offer services is entirely dependant on KVA's ability to secure project funding.

Despite some negative perceptions held and the general adversity amongst local VCO's to pay for ICT provision, **clinical analysis indicates that there should still**

be a reasonable market opportunity for Superhighways.

For example, our research suggests that the total annual VCO's market spend on ICT across the sub region is likely to be in the region of £3½ M over the next one to two years (using scaled up figures).

Using our sample group the predicted expenditure in specific ICT areas is:

1. **£335,417 (10%) is likely to be invested in training**
2. **£939,168 (28%) is likely to be spent on maintenance**
3. **£1,844,794 (55%) is likely to be spent on Equipment and renewal**
4. **£33,541 (1%) is likely to be spent on Consultancy**
5. **£100,625 (3%) is likely to spend on other ICT investment areas**

There is therefore evidence of quite a substantial local market value. Research suggests that at least 14% of organisations hold a solid intent to buy training services from Superhighways. A potential market share of 15% of the local VCO training would seem a realistic target and this would equate to a total annual market potential of £49,958 for Superhighways in relation to training alone.

10% of organisations consulted stated a definite intent to buy consultancy services from Superhighways, scaled up analysis suggests an achievable market value in this service area would be £3,354. I addition a further 30% indicated purchases to be very likely which adds a further £10,062.

A 2% market share in relation to maintenance and non technical work would equate to £18,783 annual income

In theory there is a good income potential for Superhighways , Based on the above targets to secure 15% of the total training market, 10% of the consultancy market and 2% of maintenance markets Superhighways would derive a estimated annual income of £72,095

Clearly this level of income could not be achieved instantly and it would require solid business strategies to secure this market share.

Income through Membership

A membership model based on Superhighways securing membership from 10% of total local VCO population (300 members) equates to the following income potential

No of organisations	Annual Fee	Total Income
300	**30**	**9,000**
300	**50**	**15,000**
300	**75**	**22,500**
300	**100**	**30,000**

A Model based on Superhighways securing membership from 20% of total local VCO population (600 members) is as follows:

No of organisations	Annual Fee	Total Income
600	**30**	**18,000**
600	**50**	**30,000**
600	**75**	**45,000**
600	**100**	**60,000**

Based on research finding whereby 30% of local VCO's responded positively to the concept of a membership structure for Superhighways, in theory at least 1,000 local organisations would, or could be persuaded to support the concept. A market appears to exist here however the issue is more about the logistics of servicing and managing the membership base and co-ordinating the associated activities and administration to ensure continued support and income via this route could be sustained.

Summary of income potential estimates across all area

Despite favorable research finding in terms of demand, the sector's ability or desire and intent to pay for services is highly variable and a precedent of free and heavily

subsidized services has been set. There will always be a range of organisations that can pay, can pay something or can't or wont pay at all. Although the ability to pay is linked to size and income factors, this is not always the case. Some smaller organisations and those with very low incomes indicated ICT as a priority and showed a commitment to pay reasonable rates for support.

The shift towards more strategic interventions will help the sector to derive sustainable ICT strategies, ICT budgets and improve the understanding generally of how ICT can improve efficiency and effectiveness. Ultimately this should move the sector away from reliance and dependency on free services towards budgeted annual ICT investment. This will steadily improve market potential for Superhighways and indeed **their competitors**.

Reasonable demand exists in relation training across basic, intermediate and higher levels. Significant training demand was found in relation to specialist training.

There are significant issues and external pressure in relation to ICT accessability and this area would seem to complement Superhighways intention to mainstream ICT into organisations planning process.

The main question is **would the small fee levels the sector is willing to pay be worthwhile?** Analysis indicates that structured and introduced carefully a reasonable return could be derived **to at least cover a significant proportion of the costs incurred by the 'strategic hub' operating within KVA.**

Over time the findings also indicate that it is not impossible for Superhighways to set some challenging income targets. A conservative estimate based on the statistical information gathered over the course of this study suggests Superhighways could realistically develop strategies to derive an income (based on primary purpose trading) of £85,000 (and upwards) per year.

This said investment and costs, including VAT will also apply and the caveat here is one of *speculate to accumulate. An income level of 85,000 does not represent profit or surplus income. After deducting all associated costs the surplus is likely to be in the region of £20 -25,000.*

So , what are the likely costs of adopting a hybrid model?

The current project is operating at or very close to capacity. The estimated costs of the strategic hub within KVA is in the region of £40-45,000. Although this does not take into account significant in kind support provided by KVA. Adoption of a hybrid model would incur several new costs and a preliminary costing indicates additional costs to be in the region of £58,000. This figure might seem excessive however to ensure quality and good practice measures are maintained this budget includes a healthy provision for:

1. Employment of a Membership & Marketing Secretary/co-ordinator
2. A generous training budget
3. A significant budget to support re-branding and marketing
4. Funds to cover the implementation of a social auditing framework

How would a hybrid model impact on Superhighways resourcing, funding and sustainability prospects?

There is evidence to suggest that it would be beneficial for Superhighways to adopt this model. There is sufficient income generating potential to make this worthwhile and a formal positioning of the project as a social enterprise will open up a few new potential funding sources all of which serves to improve Superhighways longer term sustainability prospects. A list of potential funders is annexed in the main report.

A move to position Superhighways as a social enterprise is likely to require additional staff resource and would have time and cost implications for KVA's, Board, Director and Project Co-ordinator. Repositioning of the project would inevitably require other additional resources, for example desk space for additional staff, higher usage of consumables etc.

CONCLUSIONS & RECOMMENDATIONS

The way forward for Superhighways is certainly not a straightforward consideration. All options carry opportunity, pros, cons, constraints, change and risk. One or two viable options appear to be available to Superhighways. The study makes two development recommendations.

1. **The existing project should be repositioned to operate as a hybrid social enterprise model with the Superhighways 'strategic hub' placed within the proposed new SLCVS structure and Partnership Team** . **Adoption of a hybrid model should involve re-branding of the existing**

project including the introduction of a fee based membership structure and social auditing framework. Operationally it should continue to function along current lines whereby technical support staff are employed and funded at an individual borough level. (Comparable with the Accountability model)

2. **It is further recommended that an independent virtual trading arm be established under the umbrella of the proposed new SLCVS structure**. This trading arm will enable the SLCVS Partnership to maximise identified 'trading' opportunities while providing an appropriate structure to manage risk and pursue 'business' opportunities that may conflict with charity law, charitable objectives and/or CVS remit (service based or geographical).

   The trading arm should not however be limited to IT related activity, but should be structured to support two or more service divisions, for example IT and Workforce Development. The new CIC structure scheduled for launch in the Autumn of 2005 is recommended as the most appropriate legal form.

It is unlikely that implementation of these two recommendations will result in Superhighways becoming totally self financing over the short term and as such it is likely that the hybrid project will always be reliant on some element of grant financing. There is however a real opportunity for Superhighways to generate income to generate at least 50% of the strategic hub costs.

A virtual trading arm does not require high financial investment or other resourcing, this concept and structure would however provide a good solution to some of the identified risks and in itself represents a low risk development opportunity for the Superhighways Partnership. Sometimes no amount of research will confirm a market – often success comes from simply doing it! It is likely that many benefits will be derived from the establishment of a virtual company not least linkage to external

markets that will undoubtedly open doors and lead to some exciting developments and new opportunities for Superhighways. This structure is also useful should opportunities arise that would warrant progressing to a staffed structure – for example contract and procurement work.

This recommendation is also in-keeping with Superhighways development history. Success to date can, in part, be attributed to steady staged project development strategies and continuation of this measured and considered development approach is likely to derive the best outcomes and results.

General Observations/Considerations:

1 Probably more cost and time efficient to build in virtual trading arm plans now with a view to establishing the new SLCVSP Company and virtual trading arm at the same time (April 06), utilising current legal advisors to structure and advice on constitutional models and relationships between the two legal forms.

2 It would seem fair an equitable (and probably critical to motivation of linked project staff) if the trading arm was constitutionally arranged to enable surplus income generated by each division to be redirected back to the core project. For example, surplus income generated by the IT division of the trading arm should be redirected back to support the Superhighways strategic hub.

3 Clear social and business objectives would need to be agreed for the trading arm and resources and systems will be required to effectively manage identified tensions (social versus business motives for example).

4 Linked to above a clear policy/decision criteria to identify the work and contracts that should be placed through the virtual company will need to be developed

5 The recommendation to establish an independent trading arm also supports another of the SLCVSP's current strategic priorities (social enterprise led by Sutton CVS). Harnessing the entrepreneurial skills evident across the Partnership to establish a flagship social enterprise serving and bringing a range of economic and social benefits to the sub-region will ultimately have a positive impact on SE policy at sub-regional and borough levels (within LA's for example)

6 It is emphasised that preliminary financial analysis indicates that a staffed trading arm will require 3-5 year development time before it is likely to break-even and be in a position to generate surplus income. The enterprise would need quite significant financing including loan facilities. Perhaps worth noting that income generation is not the only benefit likely to be derived, linkage to other sectors, trade bodies, support organisations and funders should bring added value for the Partnership .

The following recommendations are made in addition to those already related within this summary report and relate principally to the hybrid model .

1. Take further legal and accounting advice in relation to the issue identified in KVA's governing documents, and gain a clear perspective and understanding of VAT, taxation and primary purpose trading issues

2. Further develop the outline implementation plan and timescales for Superhighways conversion to a social enterprise model with particular attention given to re-branding, the development and adoption of a social audit framework and the introduction of a membership structure.

3. Explore grant funding to support the cost of implementing changes to convert Superhighways to a social enterprise model of operation

4. In consultation with technical support staff undertake a more comprehensive risk and constraints analysis and identify how risks, tensions and capacity issues can best be addressed or managed

5. Building on the work already in progress develop a clear pricing strategy for training with clear income targets and projected spreadsheets to support implementation and delivery

6. Clearly define services that Superhighways will 'sell' and develop a clear pricing, costing and delivery strategy in relation to each of the services proposed.

7. Give serious consideration to addressing the skills and development needs identified, particularly in relation to governance and business skills and think about organising a visit to the social enterprise COSMIC in Devon

8. Review and upgrade business plan to provide clearly defined business objectives and review preliminary financial analysis to produce a detailed financial plan with monthly income targets

9. Develop a marketing strategy, including actions to explore corporate sponsorship

10. Based on legal and accounting advice, review appropriateness of current MIS upgrade where necessary

11. Review social audit framework and reports produced by other social enterprises and decide what and how you are going to measure and how you will disseminate audit findings

Concluding Comments

The recommendations made are based on a number of inter-related feasibility findings that go way beyond favourable market conditions and identified opportunities. The

suggested way forward is judged as the best route to ensure Superhighways can be developed and sustained beyond current funding arrangements.

Recommendations seek to protect what is good about Superhighways, culture, ethos, operational arrangements and relationship with CVS members for example, while maximising growth and development opportunities in a measured and risk controlled manner.

The project's current status and positioning suggests the time is right to introduce moderate changes to the way the project operates, including for example the introduction of streamlined, standardized services, the introduction of a fee based membership structure and a charging policy for some services (training and specialist support work are identified as presenting the best income generating options).

Any proposed change will need to be carefully considered and communicated to all stakeholders, particularly the primary target market (VCO's) and Board members. There is evidence of low levels of understanding around social enterprise concepts and this suggests a need for clear marketing and communication strategies to be employed (internally and externally to the organisation)