

Social Enterprise in Scotland: Census 2015



Introduction

SCOTLAND HAS A LONG HISTORY OF PIONEERING FORMS OF BUSINESS, INCLUDING MUTUALS, CO-OPERATIVES AND SOCIAL ENTERPRISES. THESE REFLECT A BELIEF IN A FAIRER, MORE EQUAL SCOTTISH SOCIETY WHERE BUSINESS ACTIVITY IS USED AS A MEANS TO THIS END.

During the last decade in particular social enterprise has enjoyed unparalleled levels of political and economic support.

So how many social enterprises are there in Scotland? What do they do? What contribution do they make? These are all obvious questions, but ones that have proven difficult to answer so far.

The search for better evidence has led to this ambitious project. The project aims to build the fullest understanding yet of social enterprise activity in Scotland.

This document provides a straightforward introduction to the Census.

About the research

The Social Enterprise in Scotland Census 2015 has been a collective endeavour, brought by those agencies with a shared interest in supporting social enterprise and growing its impact. It is about better co-ordinating evidence gathering, sharing learning, and taking action together based on this.

The research undertaken as part of the Census involved a number of main elements:

Identification of the population of 5,199 social enterprises, based on agreed criteria¹.

A full review of the financial performance and sustainability of the sector, based on objective accounting data from 73% of all social enterprises.

A large-scale Census survey, which yielded invaluable information and views from 1,100 social enterprises.

A comprehensive analysis of the data, including calculation of the sector's economic contribution.

The result is the most comprehensive snapshot yet produced of the scale, characteristics and contribution of social enterprise activity in Scotland.



1. Identification of social enterprises based on the Voluntary Code of Practice for Social Enterprise. For further information see <http://www.se-code.net/the-code-2/the-criteria/>.

1,118

Social enterprises (22% of all)



Scale and Maturity

There are now more than 5,000 social enterprises operating in Scotland. These operate as a distinct, inclusive and radical type of company within a wider business community.

Despite its deep roots and strong heritage in Scotland, the social enterprise sector is made up of a youthful group of organisations. One-quarter of all social enterprises active today formed in the last five years and 42% formed in the last decade (a period of very supportive public policy). Over 200 social enterprises are now forming each year.

Social enterprises come in many shapes and sizes, from large national and international businesses to small community enterprises. Nonetheless, most are small and medium-sized enterprises (60% have an annual turnover of less than £100k).

Collectively social enterprises now represent a substantial part of business and community life in Scotland. This research has estimated a combined income of £3.63bn, net worth of £3.86bn, employment of 112,409, and Gross Value Added (GVA) to the Scottish economy of £1.68bn. In practice, housing associations (Registered Social Landlords) make a proportionately large contribution.

Geography





Successive waves of social enterprise formation have left a rich and varied pattern across Scotland.

While, social enterprises are located across Scotland they are often clustered and more numerous in large urban areas. Scotland's two main cities alone account for just over one-quarter of all social enterprises – Glasgow (14% of all) and Edinburgh (13%).

Social enterprise holds a unique importance in rural Scotland. Thirty two percent of Scotland's social enterprises are located in rural areas. Indeed, the density of social enterprise activity in the Highlands and Islands is greater than in any other part of Scotland. The region accounts for 22% Scotland's social enterprises but only 9% of the nation's population. While across Scotland we typically find one social enterprise operating for every 1,000 people, this rises to up to four per 1,000 in remote rural and island communities in the region.

The uneven pattern of social enterprises across Scotland is complex and difficult to disentangle. The distribution of social enterprise activity generally mirrors that of civil society across Scotland – those areas containing most charities also tend to contain most social enterprises. The location of social enterprises also reflects the picture of relative deprivation and affluence across Scotland. However, it is particularly in remote rural and island communities where the conditions exist for social enterprises to really flourish.

ESTIMATED SCALE AND SHARE OF SCOTLAND'S SOCIAL ENTERPRISE COMMUNITY

	 Registered Social Landlords	 Credit Unions	 Other Social Enterprises	 Total Scotland
Estimated income	£1.30bn	£0.03bn	£2.29bn	£3.63bn
Estimated employment	12,613	385	99,411	112,409
Estimated net worth	£1.99bn	£0.05bn	£1.82bn	£3.86bn
Estimated Gross Value Added (GVA)	£0.40bn	£0.02bn	£1.27bn	£1.68bn

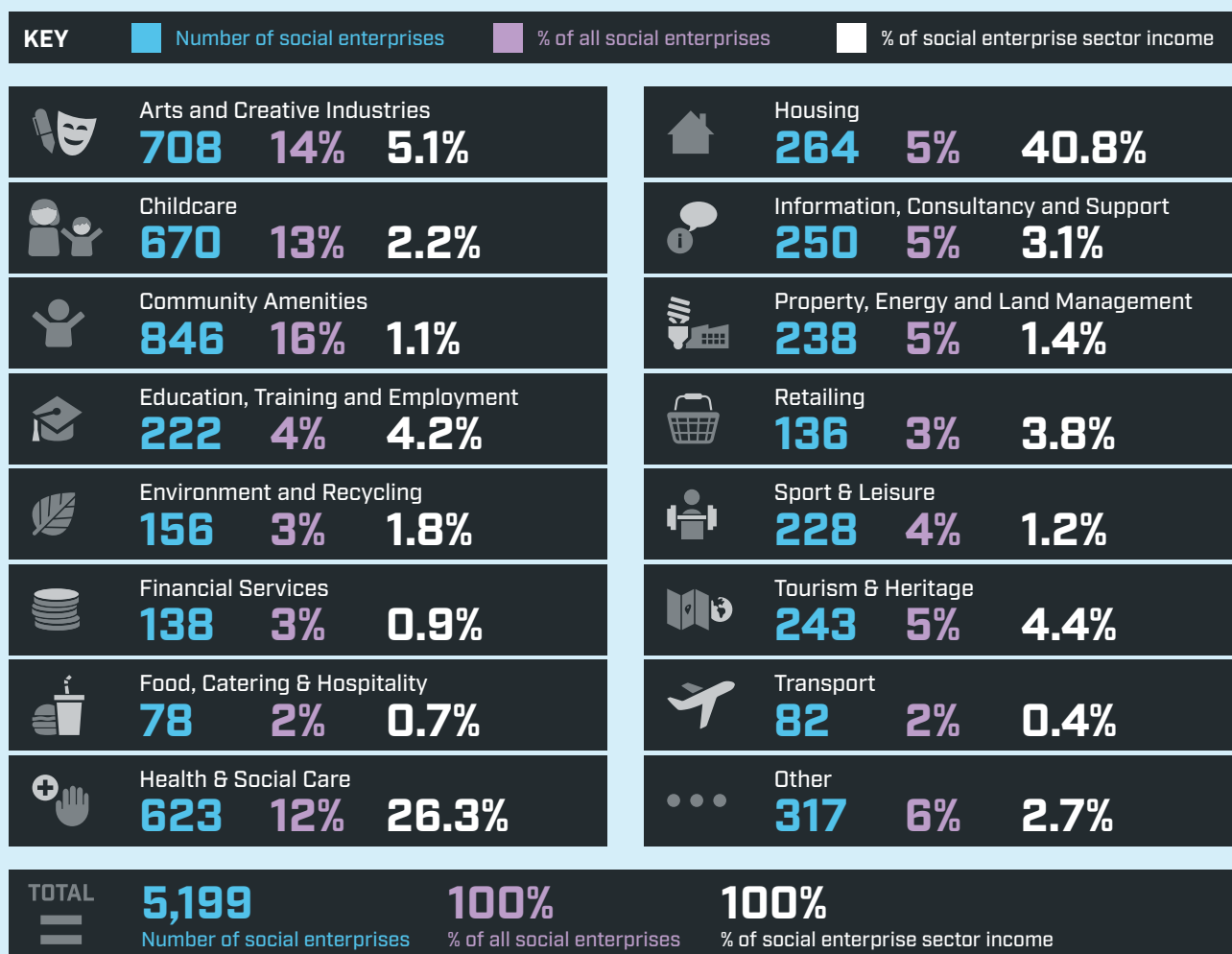
Economic Sectors

Social enterprises operate in almost every part of the economy.

Social enterprises operate in greatest numbers in four main fields; Community Amenities (centres and halls), Arts & Creative Industries, Childcare, and Health & Social Care. The level of trading activity by social enterprises is particularly substantial in two fields – Health & Social Care and Housing. Together these account for two-thirds of the social enterprise sector’s income.

There are, however, major regional variations. Community Amenities (centres and halls) and Property, Energy and Land Management make up a larger share of the social enterprise sector in the Highlands and Islands than in Lowland Scotland. On the other hand, Childcare and Health & Social Care activity are more common within the social enterprise sector in Lowland Scotland.

NUMBER AND INCOME OF SOCIAL ENTERPRISES ACROSS ECONOMIC SECTORS



Form and Structure

The social enterprise sector in Scotland takes a variety of organisational types and legal forms.

Most social enterprises operate in a way that is distinct under law, and helps manage risk for the people involved. Around 70% of social enterprises are registered as some form of company or society. Such structures ensure that surpluses are generated for the common good and do not allow excessive profits to be distributed to shareholders of assets to be sold for private gain. A small but growing number of social enterprises are now

being formed as Community Interest Companies (CICs), a legal form established with social enterprises in mind.

In practice many social enterprises are emerging from charitable forms of activity. Currently two-thirds of social enterprises are also registered charities. This is an increasing trend as many charities move away from dependence on grants and donations to greater self-reliance through trading (as social enterprises).

Fairness, Equality and Opportunity

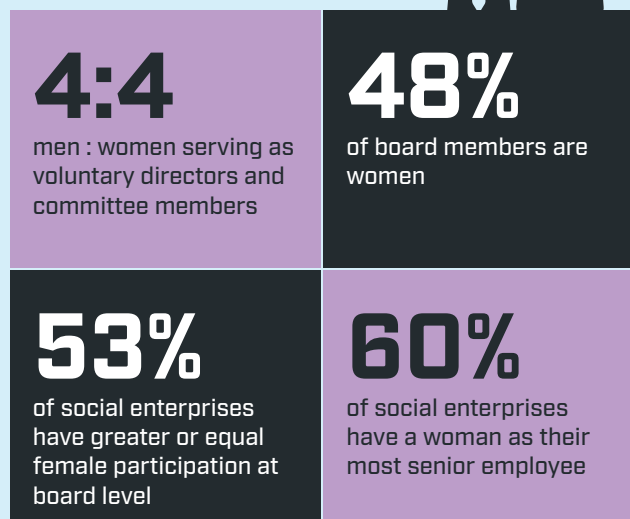
The values and behaviours of social enterprises are very closely aligned to the principles of fairness, equality and opportunity.

Social enterprises already embrace diversity at the top. Just over half of social enterprises (53%) have reported greater or equal participation by women at board level and in three-in-five cases (60%) the most senior employee (CEO or equivalent) is female. This sits in stark contrast to FTSE 100 companies where only 24% of places on corporate boards and 9% of executive directorships are held by women.

They strive for fair executive remuneration. The average pay differential between the highest and lowest paid within social enterprises was found to be 1:2.5, with the vast majority of social enterprises (97%) not exceeding a ratio of 1:5.

Social enterprises also aim to be good employers, offering a dignified workplace experience and fair pay and contracts. In contrast to other parts of the economy, just over two-thirds (68%) are now paying the national living wage (£7.85 per hour) and only 12% report making use of zero hours contracts of employment.

Social enterprises also strive to offer a diverse and inclusive workplace. In 70% of cases social enterprises draw at least half of their workforce from among the female population. Similarly, in three-quarters of cases the workforce is predominantly made up of people that live locally. Around half of social enterprises also employ previously unemployed young people (aged under 25 years) and people disadvantaged in the labour market. Indeed, many social enterprises (28% of respondents) target recruitment efforts towards disadvantaged areas or groups.



Markets and Trading

Social enterprises aspire to some level of financial independence through trading. To achieve this they must balance a variety of social and commercial goals and make careful choices about who their customers should be, what market area they will cover, and what they will sell. Most social enterprises have a direct customer relationship with the general public (68% do so). Also significant – perhaps more so in terms of customer spend and reliance – is the level of purchasing by the public sector. While business-to-business trade exists, the findings indicate that this is somewhat more modest (especially in relation to trade with private businesses).

The size of the market area in which a product or service is traded varies greatly. In around one-quarter of cases social enterprises serve only a single neighbourhood or community and therefore might best be described as ‘community enterprises’. While these social enterprises often opt to remain small and local others have grown to operate across one or more local authority areas and less commonly across Scotland and beyond. Indeed, an increasing number of social enterprises (approximately 7%) now operate overseas, selling goods and services or attracting international visitors to Scotland, collaborating with distant partners or contributing to the delivery of international projects. The trading income generated by social enterprises in these markets is substantial and growing. Last year Scottish social enterprises generated an estimated combined trading income of £1.15bn. Individually, social enterprises strive to increase financial independence through trading and in just over half of cases (51%) now secure the majority of income from trading (as opposed to grants, gifts and donations which continue to remain important and reflect the public good that social enterprises deliver).

Financial Strength and Performance

Social enterprises make and do things that earn money, which in turn helps them to remain afloat and deliver on social and environmental goals.

Like any business, social enterprises need to generate a surplus (profit) over time to become financially sustainable. Collectively the estimated surplus of all social enterprises last year was £300m. For typical social enterprises this represents a respectable 4.4p profit for every £1 of income. However, the data shows that 39% of social enterprises returned a deficit during the year. This is common where social enterprises actively manage a small surplus in some years and a small loss in others in order to maximise their social impact, sometimes deliberately spending more than they earn (and dipping into reserves) in order to invest in necessary services or secure long-term assets (e.g. buildings).

Despite cost pressures and differing levels of profitability, the balance sheet of the social enterprise sector remains financially strong. The sector holds combined assets of an estimated £8.77bn. This is set against an estimated £4.91bn in total liabilities (anything from short-term loans to long-term pension liabilities). When taken together the resultant net worth of Scottish social enterprises is almost £3.86 billion. Collectively social enterprises have built up unrestricted reserves of an estimated £1.06bn, meaning that if income dried up tomorrow they could continue to operate for more than half a year.

ESTIMATED GVA OF SCOTLAND'S SOCIAL ENTERPRISES

	Estimated GVA
Registered Social Landlords	£397,642,000
Credit Unions	£16,338,556
Other Social Enterprises	£1,268,453,203
Total Estimated GVA	£1,682,433,760



Economic and Social Impacts

Social enterprises aim to operate in a way that is good for business and good for Scotland. They are founded on the belief that social fairness as well as financial success should be pre-conditions of all business activity. In operating as they do, they deliver a variety of economic and social outcomes.

The data produced as part of this study indicates that social enterprise makes a significant contribution to Scotland’s economy. The estimated Gross Value Added (GVA) of the sector is £1.68bn. Although difficult to compare directly with other key economic sectors, since social enterprise activity weaves through the economy, this GVA estimate is very significant indeed. Social enterprise as a way of doing business is taking hold in key sectors, particularly the Creative Industries, and also making a substantial contribution outside of these priority sectors (for example, its economic contribution now exceeds that of Life Sciences).

Social enterprises are also a major source of employment. The sector accounts for approximately 112,409 jobs nationally and a further 67,768 regular volunteering opportunities. Again social enterprises make an employment impact within and outside of Scotland’s key economic sectors. For example, the level of employment in social enterprises is almost as great in magnitude as that of the Food & Drink sector and greater than that of the Creative Industries and Energy sector.

Critically, social enterprise represents a way of doing business that makes its impact in more than economic terms. Social enterprises always strive to maximise the amount of public good they can do.

The top five most widely held social and environmental goals among social enterprises are as follows.

1. Providing volunteering opportunities

2. Helping people to actively participate in the local community

3. Improving health and wellbeing

4. Promoting learning or education

5. Creating employment opportunities

In particular, while conventional private businesses operate to maximise shareholder value rather than create jobs or improve employability; for social enterprises the reverse is often true. Almost half of social enterprises attempt to create employment opportunities as part of their social mission and two-thirds provide training or support designed to boost employability.

Future Prospects and Needs

Like all businesses, the economic climate is very important in determining trading conditions for social enterprises. The evidence from the 2015 Census suggests that the economic climate over the last 12 months has tended to have at best a neutral effect (reported in 56% of cases) or indeed negative implications (31% of cases).

Within this context, a number of main obstacles have been identified. Most notably, social enterprises have reported a lack of time or capacity at their disposal to develop trading activity (cited by 59% of Census survey respondents). This is followed by the combined challenges of insecure or declining grant funding together with a variety of less common challenges.

Despite some challenges, there remains considerable optimism within the social enterprise sector. The survey data suggests particular confidence that incomes will grow over the next year (cited by 66% of respondents), including from trading.



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The Social Enterprise Census 2015 is a project endorsed and guided by the following main partners.

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