

Social Enterprise in Scotland



**CENSUS 2017
SUMMARY**



Introduction

This report presents the findings of the Social Enterprise Census 2017, the definitive biennial account of social enterprise activity in Scotland.

The Social Enterprise Census is a collaborative effort to track the changing scale, characteristics and contribution of Scotland's social enterprise sector. Now being conducted every two years over the course of the next decade, the study forms part of the Scottish Government's long-term commitment to realising the full potential of the sector.

By 'social enterprise', the study refers to organisations that are trading for the common good – addressing social needs, strengthening communities, improving people's life chances and protecting the environment. The organisations analysed as part of the study operate in a way consistent with the Voluntary Code of Practice for Social Enterprise in Scotland¹.

The study builds on the findings set out in the 2015 Social Enterprise Census baseline report, and represents the most comprehensive analysis yet conducted of social enterprise activity anywhere in the world. The study is based on a number of main elements: the screening of over **20,000** organisations against the agreed definitional criteria; extraction and analysis of financial data from the public accounts of **4,439** social enterprises; and a representative survey of the nation's social enterprises, which yielded **1,351** responses.



Sector Composition

The social enterprise sector brings together a large and diverse group of organisations with differing traditions, business models, motivations and goals.

Today there are an estimated **5,600** social enterprises at work across Scotland. This represents an **8%** growth in numbers since 2015, and means there is now one social enterprise operating for every **1,000** people in the country.

Despite the deep roots and long history of the social enterprise movement, most of today's social enterprises are reasonably young. Almost **600** new social enterprises have formed in the last two years and **34%** of all social enterprises are ten years old or less.

Social enterprises come in all shapes and sizes, from large international charities, to national housing associations and local community enterprises. In practice, however, the majority (**57%**) remain small, operating with an annual income of less than £100,000.

With no single legal definition, social enterprises adopt a number of distinct forms. Most operate as incorporated entities (**71%** of all), making them distinct under law from the people involved. They tend to trade as private companies, operating without share capital, and in three-quarters of cases are also registered as charities. There has been particularly rapid growth recently in the number of social enterprises operating as Scottish Charitable Incorporated Organisations (SCIOs) and Community Interest Companies (CICs).

The term 'social enterprise' itself has only become common currency during the last decade and is still only used as a basis for self-identification in just over half of cases (**56%**). However, the use and acceptance of the term does vary significantly across different parts of the sector.

Geographic Coverage



Social enterprises are located across the length and breadth of Scotland in what is now a well-established pattern.

Social enterprises continue to be located in the greatest numbers throughout the urban central belt of Scotland (East and West of Scotland), where **3,105** social enterprises are headquartered. The Highlands and Islands region also remains very significant in terms of the density of social enterprises located there (the region now contains **21%** of Scotland's social enterprises but only **9%** of its population).

Scotland is now a patchwork of social enterprise activity stretching across all local authority areas. Consistent with the picture revealed in 2015, the largest concentrations of activity can be found in the Glasgow, Edinburgh, and Highland Council areas. While the number of social enterprises has been growing throughout the country, there remain marked variations per capita and there are still some areas where social enterprise activity has not yet fully taken hold.

Social enterprises continue to play a particularly important and distinctive role in rural Scotland. Rural areas now account for **34%** of Scotland's social enterprises but only **18%** of the nation's population. These areas have given rise to a larger net growth in social enterprise activity than urban communities since 2015 and remain more densely populated by social enterprises.

Markets



From managing land in the Western Isles, to running a theatre in Ayr, to providing after school care services in Glasgow, social enterprises are becoming an increasingly familiar part of our daily lives.

Social enterprises tend to start out within local communities, in response to some form of 'market failure'. They often fill a market gap that the private sector cannot (profit margins too low and risks too high) or that is beyond the statutory responsibilities of public authorities. In just over half of cases (**54%**), the evidence points to no likely alternative source of supply in the absence of individual social enterprises.

Social enterprises are most likely to be found running Community Centres & Halls (accounting for **17%** of all social enterprises) but are financially strongest in the fields of Housing and Health & Social Care, which together account for **70%** of all income to the sector. In four-in-five cases, social enterprises are primarily a provider of services rather than supplier of goods.

In the last two years, a growing number of social enterprises have been selling to the general public (**79%** now do so). Nonetheless, public sector business remains important – it represents a source of income in just over half of cases and **20%** of social enterprises have been involved in bidding for public contracts in the last 12 months (most successfully).

The market area and reach of social enterprises varies from case to case, with most remaining local in orientation. The findings indicate that **26%** of social enterprises serve only a particular neighbourhood or community, while in three-fifths of cases activity does not extend beyond their local authority boundary. By contrast, the share of social enterprises operating internationally has remained steady at **7%** since 2015.

Social Enterprise in Scotland

The Headlines



▲
5,600

Social enterprises currently operating in Scotland



▲
34%

Of all social enterprises located in rural Scotland



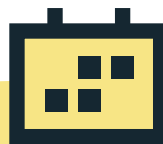
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79%

Of social enterprises selling direct to the general public



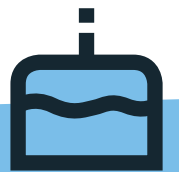
▲
61%

Of social enterprises generating at least half of their income from trading



▲
599

Social enterprises formed in the last two years



▲
20 years

The average age of a social enterprise in Scotland



●
7%

Of social enterprises involved in international activity

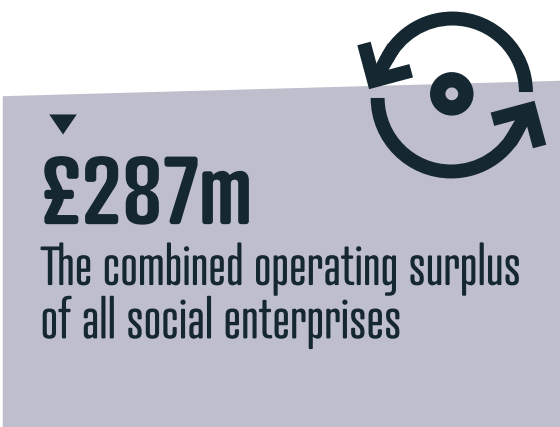
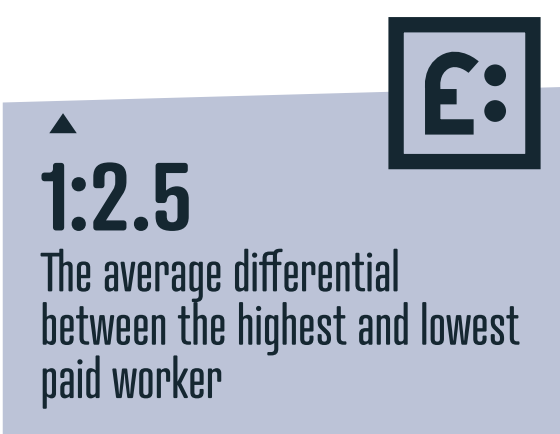
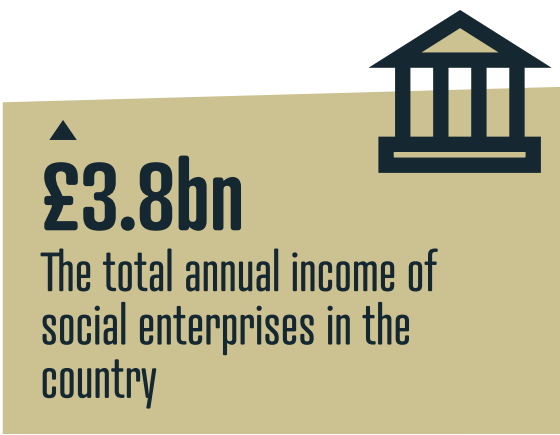
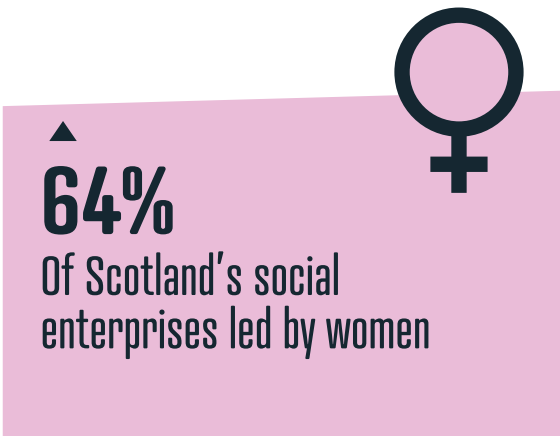


▲
50%

Negatively affected by the economic climate over the last 12 months

Comparison with 2015 Social Enterprise Census:

▲ Increase since 2015 ● No change since 2015 ▼ Decrease since 2015 ■ No comparison possible



Comparison with 2015 Social Enterprise Census:

▲ Increase since 2015 ● No change since 2015 ▼ Decrease since 2015 ■ No comparison possible



Business practices

Social enterprise is a distinctive and powerful way of doing business – one that is generally considered to be ethical, fair and inclusive.

Social enterprises tend to operate in a transparent and accountable way. Almost all operate under the stewardship of at least three unrelated directors/trustees, and **70%** are led by and accountable to people in a particular neighbourhood or community.

Social enterprises are increasingly being led by women (**53%** of directors/trustees and **64%** of paid leaders are women) and they are more likely to have female leadership in place than businesses in other parts of the economy. However, there is more work to do to ensure that the leadership of social enterprises reflects the diversity of Scotland's population.

Social enterprises strive to be good employers, providing fair pay and a flat wage structure. The average differential between the highest and lowest paid employee has held at **1:2.5** since 2015 and **72%** of social enterprises now pay all employees at or above the Living Wage in Scotland (up from **68%** two years earlier).

Social enterprises generally recognise that security of employment, work and income are important foundations of fair employment. However, social enterprises operating in the care industry in particular can find it difficult to offer regular or secure work, and are therefore more likely to rely on zero hours working arrangements.

Social enterprises value and develop talents from all sections of the community and strive to create fair work that is available to everyone. Almost four-in-five social enterprises draw more than half of their workforce from their local labour pool and two-thirds provide training or support intended to boost employability. Many actively work with and seek to extend employment opportunities to people furthest from the labour market.



Financial performance

The social enterprise sector is significant in financial terms, although financial strength is highly concentrated and performance is uneven within the sector.

The total income of the sector is substantial. It has grown by **5%** since first reported in 2015 and now stands at **£3.81 billion** annually. However, these figures conceal major variations within a sector where most typical social enterprises hold only modest or declining incomes.

Trading income within the sector is increasing. It has grown by **22%** over two years and stands at **£2.74 billion** (**70%** of all income). A growing proportion of social enterprises are also earning the majority of their income from trade (up from **51%** to **61%** over the period).

Beneath the positive headlines, however, spending has increased further and faster than income during the last two years. A **14%** increase in costs has been matched by a **5%** growth in revenues, leading to a squeeze on profits. As a result, the sector's annual surplus has reduced by **5%** to **£287m**, and in the latest year **41%** of social enterprises returned a loss.

Despite uneven financial performance, the balance sheet of the sector remains strong. At year end, social enterprises held assets totalling **£15.59bn** and liabilities of **£10.55bn**, with net worth growing from **£3.9bn** to **£5bn** over two years. However, this financial strength is increasingly concentrated among housing associations, which now account for **41%** of the sector's income, three-quarters of the total value of assets and half of net worth.

Despite this concentration of resources, the financial independence of typical social enterprises has held up well in terms of their ability to meet short term obligations (liquidity), their level of self-sufficiency, and the financial reserve they have built up through trade.



Contribution To Scotland

Social enterprise is a way of doing business that is good for the national economy and good for the global environment and society.

Social enterprises make an important contribution to inclusive economic growth in Scotland, helping to create greater prosperity while ensuring fairness in how wealth, resources and opportunities are distributed. This economic contribution has been valued at **£2bn** of Gross Value Added (GVA), the official measure of the value of goods and services produced in any part of the economy. Housing activity accounts for one-third of the GVA produced by the sector, while Health & Social Care providers deliver the largest Value Added in absolute terms (**£753m** GVA).

The economic contribution of social enterprises can also be gauged in terms of employment – the jobs that the sector creates and sustains. The data available in 2017 indicates that the social enterprise sector is a significant source of employment, supporting **81,357** Full Time Equivalent (FTE) employees.

Beyond its economic contribution, Scotland's social enterprise sector is part of a global effort towards social change. Consistent with earlier results, the 2017 data illustrate the breadth of interrelated issues being tackled by the sector and the range of ways in which social enterprises are working to make Scotland a fairer and more prosperous country, improving outcomes for all.



Prospects and needs

While social enterprise activity has been growing overall, and is proving reasonably resilient, there are some big challenges ahead for the sector.

The period between the 2015 and 2017 studies has been one of considerable change in Scotland's political and economic landscape. The economic climate during the last year has proven particularly challenging, with half of social enterprises reporting a negative effect on their prospects.

Set against this challenging backdrop, there has been weakening confidence within the sector. Over one-third of social enterprises (**37%**) have reported feeling slightly or much less confident in the economic prospects facing their organisation for the next 12 months (compared to the previous 12 months).

The findings also indicate that the level of optimism within the sector has waned somewhat since 2015. The forecast growth in key variables such as turnover and employment for the coming year is generally more modest than stated two years ago.

Social enterprises like all businesses are coming up against obstacles that can cause them to stall or serve to limit their potential. Along with a reported lack of time/capacity, the influence of insecure or declining funding and increasing costs has become more pronounced since 2015.

The Scottish Government is committed to ensuring that social enterprises have the resources, knowledge and networks they need to reach their full potential. In this latest study, help with measuring social impact was the most widely requested form of support (reported by **44%** of social enterprises). Also among the forms of support deemed most useful to the sector were help with researching new opportunities, collaborating with others, developing the workforce, and developing marketing strategies.



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