



**SOCIAL
ENTERPRISE
SCOTLAND**

STATE OF THE SECTOR UPDATE REPORT

COVID-19 - Impact and lessons for the
Scottish Social Enterprise Sector:
Where are we now?

Social Enterprise Scotland - May 2021

  Social Enterprise Scotland  @SocEntScot

Social Enterprise Scotland is an independent, Scottish, membership-led organisation, built and governed by social enterprises. We're the first point of contact for the media and public and promote a positive vision for social enterprise. This report has been prepared with the support of the Fraser of Allander Institute.

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BACKGROUND AND INTRODUCTION

This report has been prepared by Social Enterprise Scotland to provide an update to our initial *State of The Sector* report published in August 2020 and consolidate our findings on the impact of COVID-19 on social enterprises in Scotland.

As we reflect on the year 2020-2021, we want to consider the impact and lessons learnt for our sector; including the role social enterprises play in community development and renewal. While issues are ongoing, the report reflects broadly what we could call “the COVID-19 year” period for social enterprises.

There is no denying the negative impact the pandemic has had on our sector. However, if we fail to recognise both the negative and positive changes that the COVID-19 lockdown has caused in how we operate - and the impact on our people and communities - then we'll lose the lessons learned as we seek to 'build back better.'

This report builds on research initially undertaken by the Scottish Charity Regulator (OSCR) at the end of May 2020, which was further updated in November 2020. To analyse the data from the November survey, we worked with the Fraser of Allander Institute at the University of Strathclyde, with the number crunching and data analysis having been prepared by them with our team at Social Enterprise Scotland adding additional narrative as required.

Where possible, we are able to compare results from the November survey to the May ones and provide commentary but, in some cases, it was impossible to offer a direct comparison between the two surveys as certain questions were asked in the November survey that were not asked in the May survey and vice versa.

The data from the November survey is from a new sample of respondents and includes the responses of 396 social enterprises across Scotland. This is considerably smaller than the sample of 774 social enterprises that formed the basis of the August State of the Sector report that we published. This can be explained by a lower response rate for the OSCR November survey than for the May survey.



Social Enterprise Scotland is a membership organisation that connects, supports and promotes social enterprise.

While most social enterprises in Scotland are registered charities, many are not. Therefore, as we have done in our previous report, we have also tried to include the perspectives of Community Interest Companies (CICs), who don't fall into the OSCR data set in addition to the original respondents' views.

These additional insights have been collected during phone and digital conversations with our members during the first quarter of 2021, and are summarised in our [Member Calls Insights](#) Report published in March 2021.

It is also important to note that the 2021 national lockdown had not been announced at the time of the last OSCR survey in November and it is therefore likely that this would have affected respondents' attitudes and outlook.

As we compile this report in May 2021, announcements are being made regarding the easing of restrictions. However, during the past few months, we have argued that we don't simply want a return to the old 'normal' and that there is an urgent need to build a better and stronger wellbeing economy that works for everyone.

The full impacts the pandemic lockdowns had on our sector are yet to be fully understood, but we ought to reflect and consider the lessons learnt to contribute to the wider discussion about how we move forward as a sector.

The next planned update to this State of the Sector Report will follow the publication of the new Social Enterprise Census in late 2021. As we close this Update Report, we will highlight both the lessons learnt and the key questions to consider. In our recommendations, we have taken into account other sector publications and evidence and we welcome further input from partners and members.

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FINANCIAL ANALYSIS

In our August report, we highlighted the financial threats social enterprises were facing across Scotland. The data from November 2020 shows that overall, the outlook for the respondents has improved.

Relative to the May sample, a smaller proportion face critical financial threat and a larger proportion face no financial threat. The largest percentage point differences are in Glasgow and the Highlands and Islands, where the proportion of social enterprises reporting a critical financial threat fell by 26% and 23% respectively.

The table below sets out these responses both in May and November.

Table 1: Financial threat faced within 12 months following survey by geographic area

Area	Critical threat			Some threat			No threat Area		
	May 2020	Nov. 2020	p.p. Change	May 2020	Nov. 2020	p.p. Change	May 2020	Nov. 2020	p.p. Change
Highlands & Islands	32%	9%	-23%	58%	75%	17%	8%	10%	2%
Glasgow	35%	9%	-26%	60%	82%	22%	1%	3%	2%
West Scotland	18%	0%	-18%	71%	81%	10%	6%	6%	0%
Mid-Scotland & Fife	25%	14%	-11%	69%	69%	0%	5%	14%	9%
North East	27%	6%	-21%	64%	77%	13%	6%	6%	0%
Central	42%	33%	-9%	51%	50%	-1%	7%	8%	1%
Lothians	33%	18%	-15%	55%	59%	4%	6%	15%	9%
South Scotland	27%	7%	-20%	60%	72%	12%	10%	13%	3%

Source: OSCR

On the one hand, by the time the survey was conducted in November, social enterprises could have developed ways of coping with the impacts of the pandemic and been able to access the available funding and support.

Social enterprises expecting brighter financial prospects could be a sign that support measures are working to give organisations a better chance of remaining viable. On the other hand, the outlook could have improved because the most vulnerable social enterprises have ceased operations and dropped out of the November sample.

We may also want to consider whether the results are also impacted by the types of organisations that responded to the survey on both occasions. In the May sample, 32% of respondents were from the Arts and Creative Industries sector. At that time, emergency COVID-19 funding for organisations in this sector had not been announced.

The aggregate level of financial threat faced by social enterprises in Scotland decreased in the period between the two surveys. Nevertheless, the outlook for organisations remains challenging with only 10% of social enterprises saying they are not facing financial threat in the 12 months following the November survey.

Our *Member Calls Insights Report* published in January 2021 (based on personal calls and emails to members as the new lockdown had just started) noted that 58% of respondents said they had been negatively impacted by the pandemic, with two thirds of them applying for financial support.

Conversely, we were now also starting to see data from organisations reporting an increase in sales (11%) and increases in funding income and associated delivery (5%).

ORGANISATIONAL TYPE

In the May 2020 survey, a good proportion of organisations were from the Arts and Creative Industries (Arts, 32% of respondents and Sports 25%). If we compare this to the Social Enterprise 2019 census data, it's important to note that only 14% of the sector is based in the Arts and Creative industries and that only 5% of the sector is based in Sports and Leisure.

At this stage, we had noted that these high responses to the survey may suggest they were still requiring additional support; a statement that was backed up by the answers regarding whether their organisation faced financial threat in the next twelve months. COVID-19 support targeting these sectors came in after the May survey but before the November one.

In looking back over the past year, perhaps one of the most significant indicators of the challenges faced by social enterprises in the context of COVID-19 relates to the length of time an organisation had been established. Unknown cash and profit projections, a lack of average data and a fear of fraud meant that organisations at a very early stage in their development were often not eligible for financial support schemes, whether those were mainstream or sector specific.

While for some at an early stage of the enterprise journey costs may have been low and they have simply placed their organisations into hibernation, for others the loss of income has been a devastating blow. We continued to report this as an issue in our January 2021 update, following our calls to Social Enterprise Scotland members.

OPERATIONAL IMPACTS

The table below shows how operational impacts have differed between the May and November surveys. Perhaps expectedly, the vast majority of social enterprises are still experiencing negative impacts as a result of the pandemic.

Impact	May 2020 Survey	Nov. 2020 Survey	% Point Change
Overall negative impact to operation	97%	93%	-4%
Disruption of support or services to beneficiaries	52%	35%	-17%
Planned work / events postponed or cancelled	83%	67%	-16%
Increased demand for services	13%	16%	3%

Source: OSCR

There have been notable reductions in the proportion of social enterprises experiencing disruption to their service delivery and those having to cancel activities. This could be the result of a resilient third sector, adapting to COVID-19 restrictions and employing COVID-19 safe practices.

Adaptability is something that has been seen across many Scottish sectors, for instance Construction. Since the start of the pandemic; sectors which were severely impacted by the first national lockdown have since had time to adapt to COVID-19 restrictions and now have greater capabilities to operate throughout the crisis.

In January we reported that while many had changed their delivery systems and/or developed new products and services, it was those that had been used to running more practical face to face training and events that had found the transition to digital much harder in terms of engagement. Retail moving online rather than from a physical space also noted a significant drop in sales.

TRADING ACTIVITY

Unlike the May survey, the November survey asked a dedicated question regarding lost income from trading activities. This allows for a clearer understanding of how social enterprises have been affected by the restrictions on trading activities imposed by lockdown restrictions.

The table below shows how social enterprises have been affected according to whether their annual income is greater or smaller than £25,000. For reference, according to the last Social Enterprise Census, 45% of social enterprises have an annual turnover over £100,000 and 12% of social enterprises have an annual turnover over £1,000,000.

As would be expected, a sizeable majority of social enterprises have experienced a significant decrease in income from trading activities. Smaller organisations appear to have been more severely affected with 72% of social enterprises with an annual income under £25,000 experiencing a significant fall in trading income compared to 61% of social enterprises with an annual income over £25,000. This resonates with our January update where earlier stage social enterprises and those with small incomes reported they were significantly affected.

Impact	Income Level	
	(Nov. 2020 Survey)	
	Up to £25,000	Over £25,000
	100%	100%
Led to a significant decrease	72%	61%
Led to a slight decrease	8%	15%
No difference	2%	6%
Led to a slight increase	0%	6%
Led to a significant increase	1%	3%
Don't know	0%	0%
Not applicable	18%	10%

Source: OSCR

SUPPORT & FUNDING

Funding support

Throughout the year we have been keen to understand where social enterprises are going for support and which sources of funding they are accessing. Given the furlough scheme was the most common form of financial support it was no wonder that in our January survey, a number of organisations expressed concerns about the end of the scheme. At this stage we were still in lockdown and information regarding a 'roadmap' out of this situation had not yet been announced.

In the table below, we can see the types of funding support that social enterprises responding to the November survey have either used already or would find useful in the future. Unlike in the May survey, specific funding schemes were not asked about in the November survey, so it is not possible to draw a direct comparison.

The only exception is local authority funding: in the May survey, 20% of social enterprises said they had already taken advantage of local authority funding and 40% said they were considering using it – the only other funding scheme social enterprises had used more was the UK Government's furlough scheme. The take up of local authority funding is even higher in the November survey with 45% of social enterprises already having used it and 62% expecting to find it useful in the future*.

Funding support social enterprises have used or would find useful in the future

Type of Funding (Nov. 2020 Survey)	Already Used	Useful in the Future
Independent grant funding	25%	45%
Scottish Government funding	42%	60%
UK Government funding	19%	27%
Sector specific support	17%	34%
Local authority funding	45%	62%
Funding for essential or core costs, such as staffing (not UK Government)	11%	38%
More flexibility in currently-funded projects, such as removing restrictions on how funding can be used	13%	32%
Simplified requirements for reporting on grants or outcomes	10%	33%
Funding for digital delivery	12%	24%
Longer grant/contracts	4%	24%
None of these	24%	10%

Source: OSCR

* Social enterprises that had already used local authority funding and expected to find it useful in the future were asked to respond positively to both questions, making the total response rate greater than 100%.

SUPPORT & FUNDING

Non Funding support

The same questions about non-funding support were posed to social enterprises in both surveys, allowing for a comparison to be made. In the table below we can see the response rates for non-funding support that would be helpful in the future from the May survey and the November survey.

Response rates are remarkably similar except for information and advice on the financial support charities can claim, which sees a 25% increase between surveys.

A possible explanation for this could be that in the initial months of the pandemic, social enterprises were drawing on their financial reserves in order to remain open and now, as time has passed and reserves have been utilised, organisations are more keen to seek financial advice and support.

Non-funding support that would be helpful in the future

Type of Support	May 2020 Survey	Nov. 2020 Survey	p.p. Change
Information and advice on the financial support charities can claim	42%	67%	25%
Flexibility in filing or reporting deadlines	39%	35%	-4%
Support or training on HR/staffing issues	19%	21%	2%
Support or training on volunteer issues	18%	17%	-1%
Support or training on remote leadership	22%	15%	-7%
Technical support and training for working remotely	20%	21%	1%
Staff, charity trustee and volunteer wellbeing resources	28%	30%	2%
Maintaining momentum on current policy and government business unrelated to COVID-19	25%	20%	-5%
More guidance on how charities should adapt and continue during the pandemic	51%	47%	-4%
None of these	14%	13%	1%

Source: OSCR

IDENTIFIED GAPS AND RISKS

Data limitations

The analysis and insights offered by the OSCR survey data is a good start, but the survey size for social enterprises is relatively small, reduced for the November survey as compared to the May survey, and it does not represent any organisations established as Community Interest Companies and other types of social enterprises.

While we have complemented the data with insights from our calls to Social Enterprise Scotland members undertaken in January 2021, this is of course a rapidly changing environment and it is important to collect more data and insights about the support needed by Community Interest Companies and other types of social enterprises.

Data to watch in 2021

Every two years a social enterprise census takes place in Scotland. This provides valuable insights into the sector and how it is evolving, in terms of the number of organisations, their turnover, key issues and of course, social impact.

Following the [Social Enterprise in Scotland 2019 Census](#), an updated report is due to be published later this year and this will hopefully give us additional insights.

How has COVID-19 affected the number of social enterprises in Scotland?

- Has the number of employees (FTEs) in our sector been affected?
- Has average turnover reduced? Has this affected some sectors more than others?
- How has the % trading figure altered? Again, is this sector specific?
- What has been the impact on reserves and again, have some sectors been affected more than others?
- Of those organisations seeing an upsurge, is that through emergency funding and increased demand or through greater levels of trading?
- Last, but perhaps most importantly, what has been the impact on beneficiaries?

LESSONS LEARNT

Which other factors should we consider?

- **Trust** - Funders and local authorities had to place trust in organisations to do the right thing for their community. Time did not allow for full risk assessments, contracts and agreements.
- **Agility** - Small, locally led organisations had a key role to play in delivering local responses. Large scale contracts and usual procurement procedures were too slow for the situation we were facing.
- **Collaboration and partnership** - Organisations from across the sectors quickly came together around a shared common objective.
- **Leadership** - Leadership seems to have played a key role in the way some organisations have been affected by the crisis.
- **Financial balance** - Funding and earned income were valuable to organisations to build a solid financial foundation.
- **Experience** - While quick responses were much appreciated by many in the sector, there were still unintended consequences of fast decision making.
- **Uncertainty** - For groups on the ground, there is still a lack of clarity in our sector of where to go for support.
- **Reach** - We need to build a more thorough, consistent and up to date system for reaching and sharing news within the social enterprise ecosystem.
- **New ways of thinking** - Social enterprises had to act instinctively, which boosted creative solutions and activities that were not normally considered.
- **The social enterprise business model** - Social enterprise responses proved that the model is agile and it's imperative that social enterprise is included in recovery and rebuilding efforts after the pandemic alongside traditional public and private sector business models.

SECTOR ROUTE TO RECOVERY

How else can we inform the recovery efforts ahead?

In our last report we noted that, while it is important to recognise the critical financial impact for larger social enterprises and the disruption to their beneficiaries, it would be wrong to overlook small organisations, their key role in leading community resilience, and how important that will be in the coming months.

Public funding came quickly for many organisations and was directed to the right places on most occasions. However, we should review and assess future funding needs to ensure that no organisations are left behind. We received feedback that some viable organisations missed out on funding. How can we be more creative with funding and finance models? How can we better inform funders regarding the needs of social enterprises?

Particular businesses like start ups were adversely affected. Is there a way to be more creative in support for these and other excluded types of social enterprise, for instance, by offering early stage companies tax breaks as they start to trade given that many were ineligible for support during the COVID-19 lockdown?

A challenge also arises in the case of potential further lockdowns. With increased public debt and reduced public spending, as a result of the past year, what support can or should be offered to social enterprises and third sector organisations in future? Can we look at options now, in order to future proof and ensure that trading organisations continue to be protected if this situation arises again? What financial support will actually be available?

Social enterprise must form part of the bigger policy picture in government and be placed at the centre of broader economic strategies. Without this we will be unable to build a wellbeing economy and a green recovery. Social enterprises have proven their unique social and economic contribution over the past year and their future economic role will be more vital than ever.



Learn more about social enterprise in Scotland:

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