

Social Enterprise Barometer August 2022

“It's tricky out there at the minute.
Funding has dried up, no one is buying,
and contracts and procurement are being
super slow.”

Social enterprise in the East Midlands

The Social Enterprise Barometer provides a regular update on social enterprise performance. It uses data from Social Enterprise UK (SEUK)'s Social Enterprise Advisory Panel to give a picture of the current financial health and growth of social enterprises.

This Barometer paper also looks at the impact that inflation, high energy prices and overall cost of living increases are having on social enterprise.

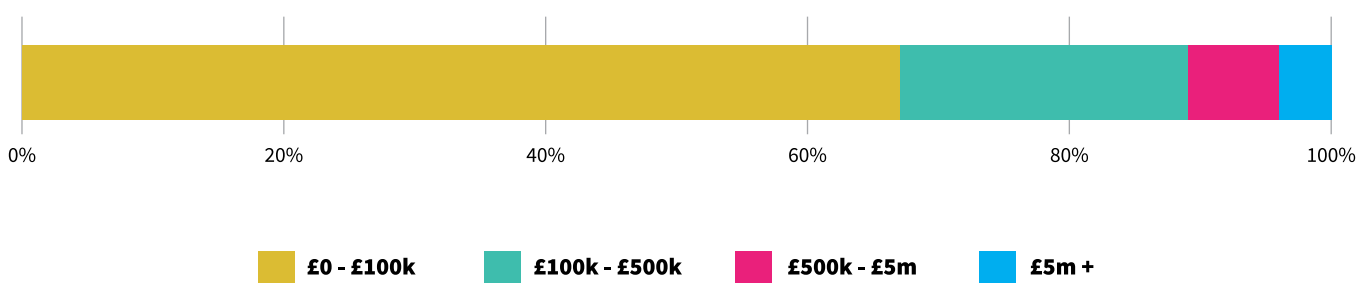
Who are the respondents?

The July 2022 SEAP Survey ran between 7th and 29th July and received 173 valid responses.¹

Responses by location

East England	4%
East Midlands	7%
London	22%
North East	3%
North West	12%
Northern Ireland, Scotland & Wales	11%
South East	15%
South West	10%
West Midlands	6%
Yorkshire and the Humber	10%

Responses by turnover band



What is the Social Enterprise Advisory Panel?

The Social Enterprise Advisory Panel (SEAP) is a regular short survey which collects snapshot data on social enterprise. We use SEAP to help raise awareness and understanding of social enterprise, influence policymakers, to promote social enterprise in the media and general public, to drive more relevant investment and funding, and to inform useful product and service delivery, including by SEUK for our members.

Key Findings

Social enterprise performance in July 2022 looked relatively positive, having recovered from a dip in January and in spite of challenges of creeping operating cost increases and supply chain constraints. However, the anticipated hike in energy costs and the likelihood of recession put this progress in jeopardy. Whereas other businesses might increase prices or cut staff to offset rising prices, we are seeing, as we did during COVID, that social enterprises are picking up the slack in ways which remain commercially viable, at least in the short term. Yet there are clear signs of strain – financially, but also in terms of leadership and staff capacity and wellbeing.

Having seen a dip in turnover growth in January, July 2022 data indicates that social enterprise turnover levels have recovered. The proportion with growing turnovers was back at July 2021 levels. Those with decreasing turnover have also shrunk significantly since January.

Staff numbers in the last quarter have also returned to November 2021 levels, having dropped significantly in March 2022.

However, growth reduction and closure rates are at their highest since August 2021. Although there is a small increase in the proportion of social enterprises anticipating growth compared to January 2022, and a lower level of uncertainty about growth. Growth levels are highest in the North of England, particularly so in the North East region.

There is a continuing downward trend in the proportion of social enterprises with 3 months' or more worth of cashflow and an ongoing increase in those with less than a month's funds.

Compared to data from FSB on small businesses², social enterprises appear significantly more resilient in the face of current challenges – revenue/turnover performance and expectations are higher for social enterprises, and social enterprises are retaining and recruiting staff at a far higher level than other businesses.

Looking across the respondents whose turnover, growth and cashflow positions are less strong we find that these tend to be social enterprises with smaller staff teams and are more likely to be early-stage ventures. Social enterprises with lower growth expectations, weaker cashflow positions and lower turnover growth are likely to be seeking new funding/finance, some for start-up activity, but also for growth activities, or because previous revenue sources have dried up. Reduced demand for products/services doesn't appear to be a factor in reduced resilience.

Operating cost increases are affecting social enterprises. 66% of respondents said that their operating costs had increased in July 2022, up from 57% in March of this year. Social enterprises in the Midlands and East of England and in the Devolved Nations are most likely to have seen operating costs increase significantly.

A third of social enterprises have taken measures to protect their staff in the face of the cost-of-living crisis and almost 70% of social enterprises have taken some measures to adapt their business operations as a result of increasing prices. One in ten have paused plans to expand or invest in their business.

¹ In addition to location and turnover band, we previously reported on the ethnicity of the leadership team of respondents. We are in the process of cleaning/updating this data and will report on it again in future publications.

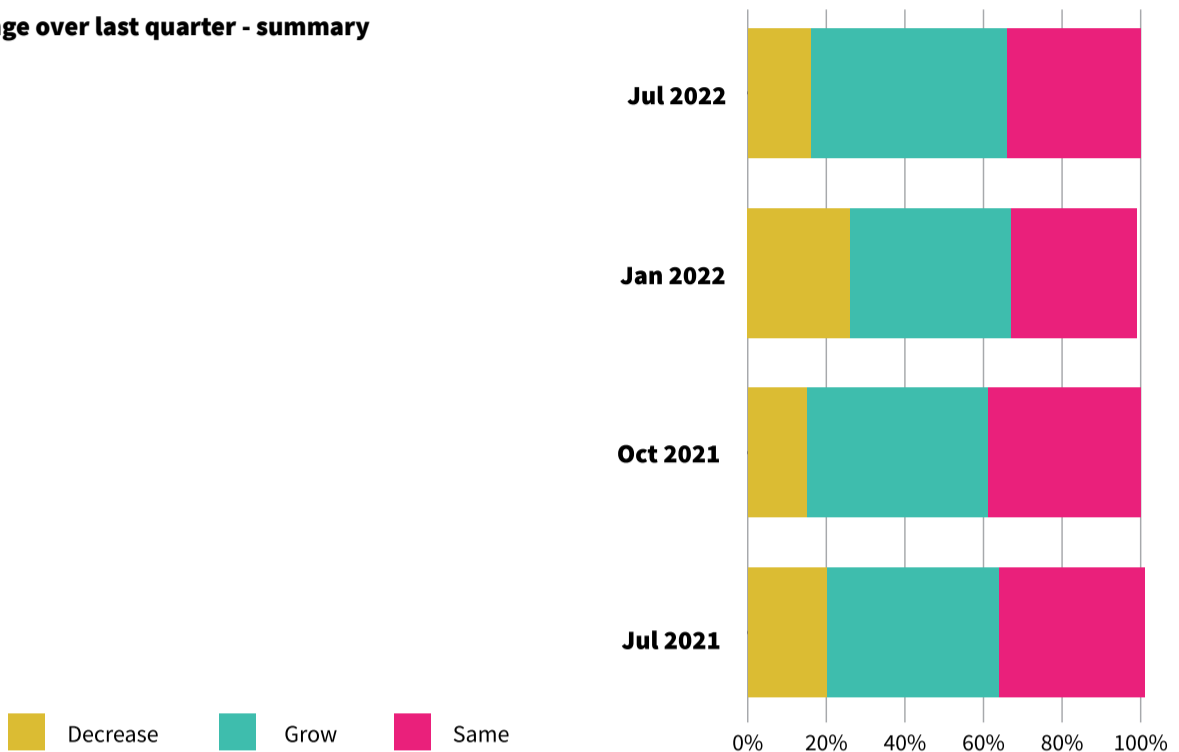
² <https://www.fsb.org.uk/resource-library.html> - this paper draws on data from the regional and devolved nation reports on 2022 Q2 Small Business Index data. At the time of publishing, reports were available for the East and West Midlands, East of England, South West, London and Scotland.

Turnover

We ask respondents what has happened to their turnover in the last quarter, compared to the previous quarter. Having seen a dip in turnover growth in January 2022 as fewer social enterprises reported growth and more reported contraction, July 2022 figures indicate that turnover levels have recovered. The proportion with growing turnovers was back at July 2021 levels, with those seeing turnover decreasing also having shrunk significantly.

Looking at FSB Small Business Index figures for 2022 Quarter 2, we see that net revenue growth was -6%. Net change in turnover position in the last quarter for social enterprises was 51%. The two data points aren't fully comparable as the wording of the question is slightly different, but this is a stark enough difference to indicate significantly greater growth amongst social enterprises than amongst all small businesses.

Turnover change over last quarter - summary



In terms of distinctions by organisation size, larger social enterprises were more likely to be experiencing significant growth than their smaller counterparts in July 2022. Smaller social enterprises were the most likely to see turnover reduce significantly, which is of concern given that these businesses are likely to be newer and due to their age and size, likely to be less resilient to financial difficulties.

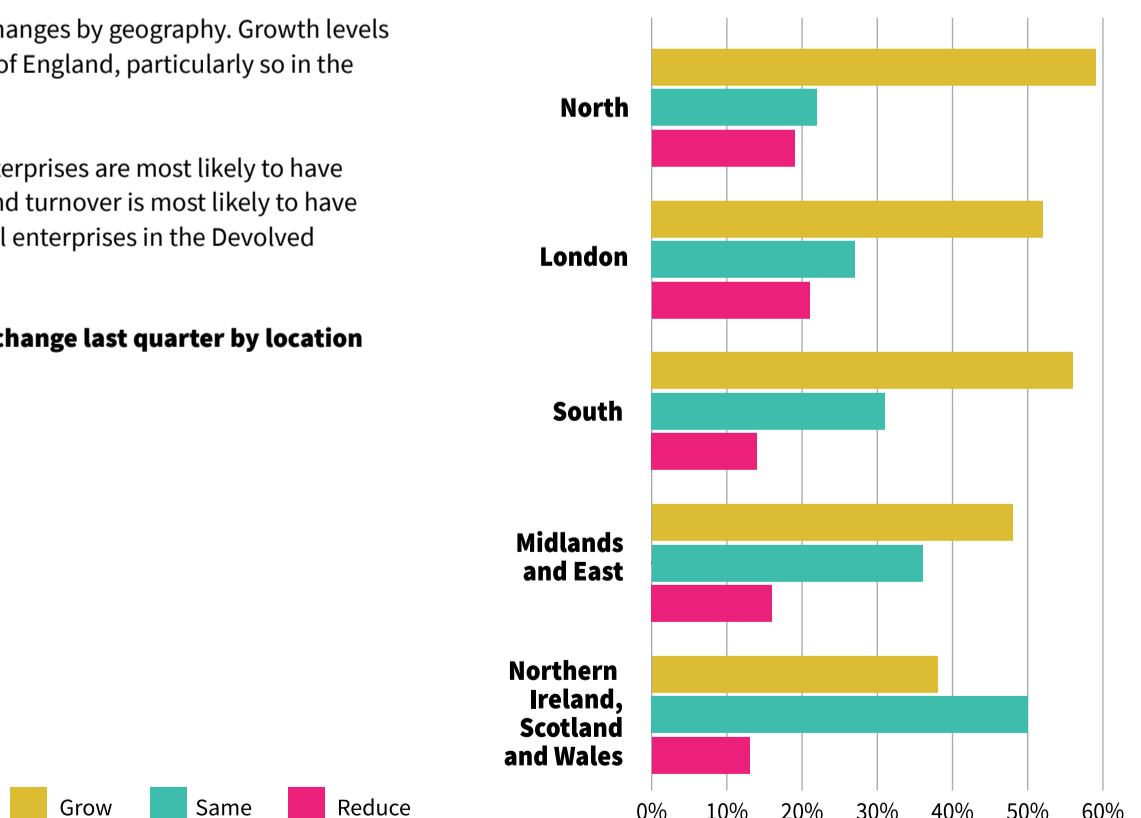
Summary of turnover change last quarter by turnover size (July 2022)



We looked at turnover changes by geography. Growth levels are highest in the North of England, particularly so in the North East region.

London-based social enterprises are most likely to have seen turnover reduce. And turnover is most likely to have remained static for social enterprises in the Devolved Nations.

Summary of turnover change last quarter by location (July 2022)



Cashflow

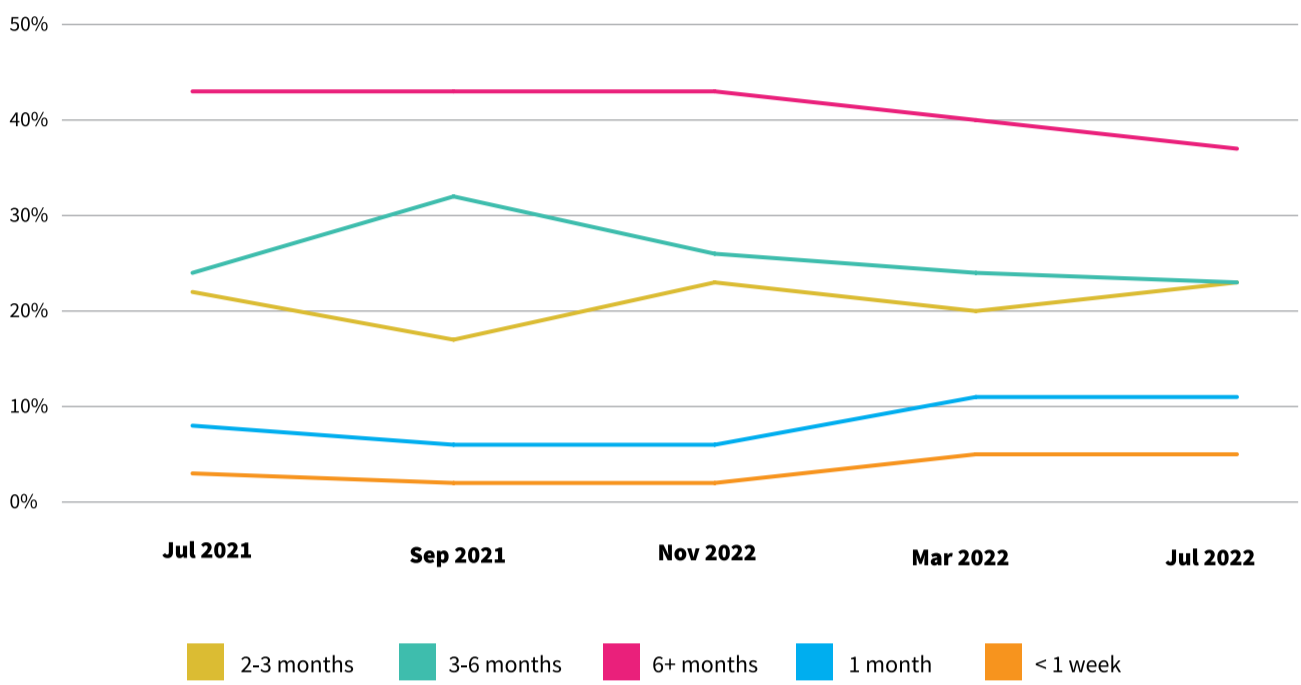
Although turnover growth looks relatively strong, cashflow positions are less positive this quarter. There is a continuing downward trend in the proportion of social enterprises with 3 months' or more worth of funds. And an ongoing increase in those with less than a month's cashflow.

Based on the open text responses about turnover and growth, we see that many social enterprises are basing their turnover and growth expectations on future business, funding and finance. This goes some way to explaining why cash flow positions may not be as strong as they have been in recent times. But it does also raise concerns for what will happen if growth and financing plans aren't realised, particularly for smaller social enterprises.

“[Our] sector is still suffering from Covid considerably [...] This difficulty in bringing our income streams back is still causing us financial constraints. [...] This is making it difficult to build our [services] back up which is a core income stream. In addition to this the cost-of-living increases is also having an impact on [clients] being able to afford [our services].”

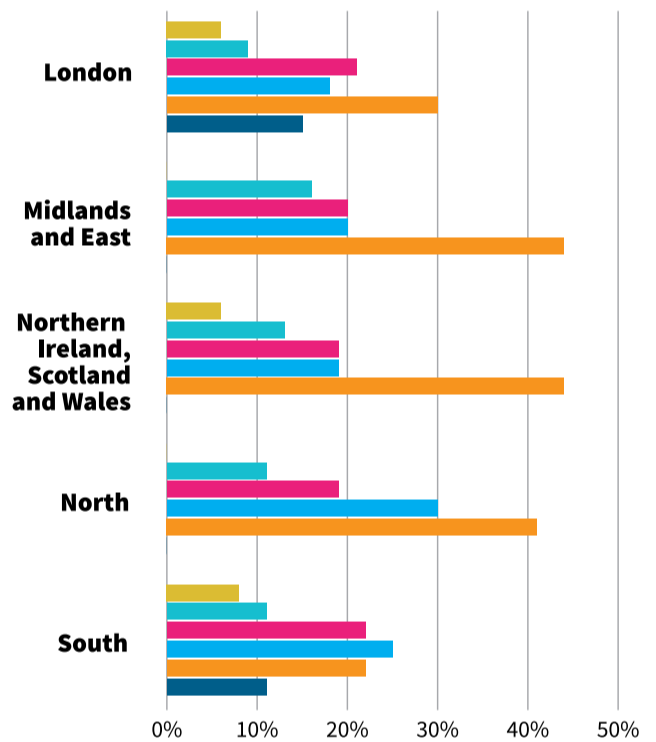
Yorkshire and the Humber based social enterprise with turnover under £100,000

Cashflow position (funds available)



In terms of location, cashflow positions are particularly strong in the Midlands and East of England, where none have less than a week's cashflow and 64% have at least 3 months' cashflow. Cashflow positions in London and the South are more precarious.

Cashflow position, July 2022

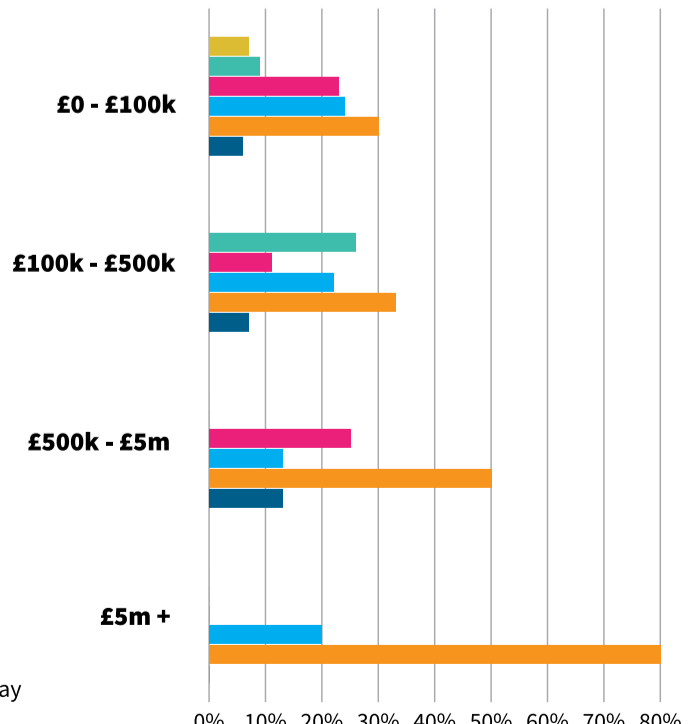
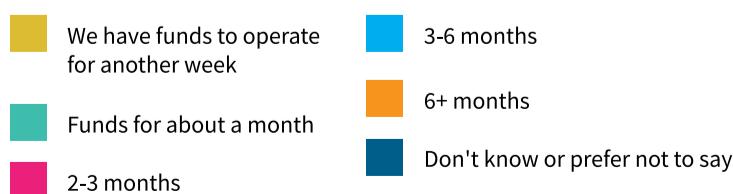


“We have always tended to have funds for about a month, apart from when initial loans were provided for start-up. However we are a cash-based business so do not worry too much about this as we have regular and predictable income. Social finance has now been paid off though and our only outstanding loan is a BBL (Bounce Back Loan), so we expect to now be able to build reserves to a more appropriate level.”

West Midlands based social enterprise with turnover of £100,000 - £500,000

Unsurprisingly, small and often newer businesses are the only social enterprises by turnover band that have funds for a week or less. Also unsurprising is that larger businesses have more secure cashflow positions. Perhaps less expected is that over a quarter of social enterprises with turnovers of £100-500,000 have funds for a month or less, making their cashflow position overall less secure than smaller social enterprises.

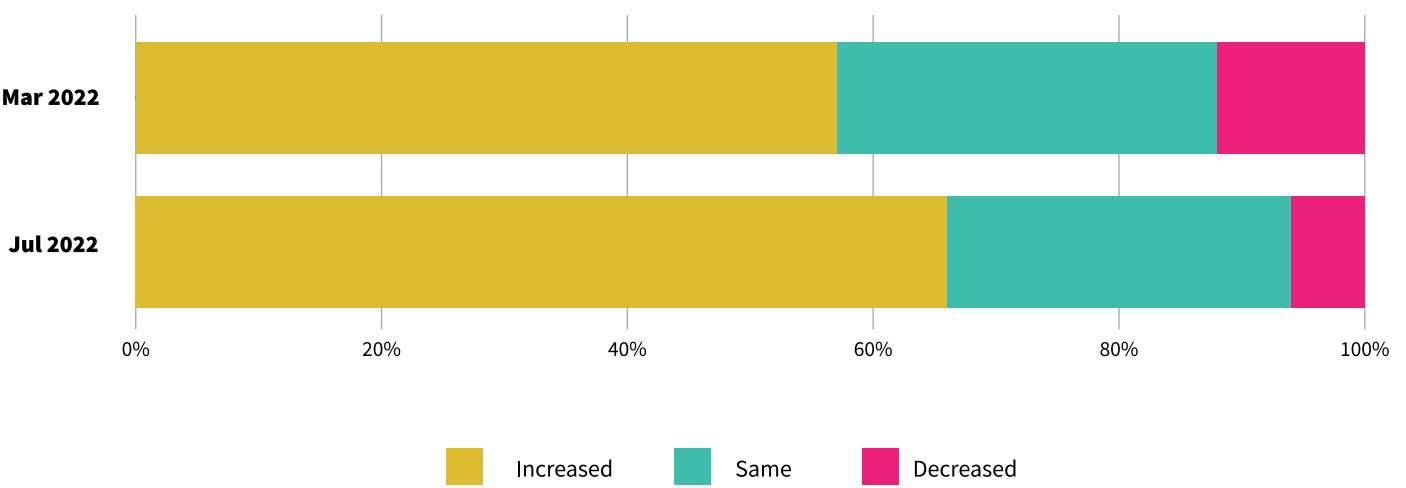
Cashflow position, July 2022, turnover size



Operating costs

Operating costs for social enterprises have increased. 66% said their operating costs had increased in July 2022, compared to 57% in March of this year. This is unsurprising given the sharp increase in consumer price inflation in the last few months, as well as rising energy costs. Operating costs increased significantly for a quarter of social enterprises in the last quarter.

Changes to operating costs in the last quarter



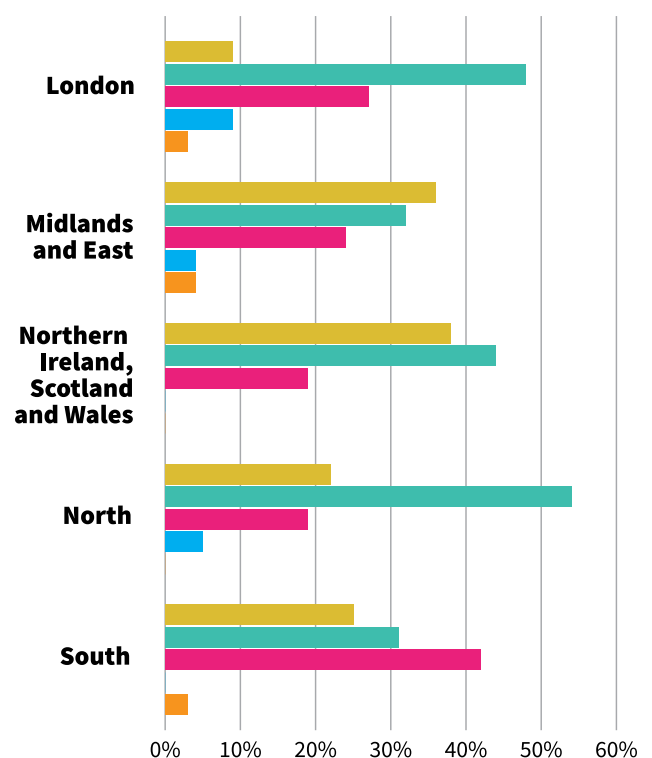
“The cost of living has now hit with our supply costs [...] and our salary bill increased. After our first quarter review [...] expenditure in percentage terms [...] has increased by just over 20%.”

West Midlands based social enterprise with turnover of £100,000 - £500,000

Social enterprises in the Midlands and East of England, and in the Devolved Nations, are more likely to have seen operating costs increase significantly. Those in the South of England are more likely to have reported costs staying the same.

Changes to operating costs in the last quarter, July 2022, by location

- Operating costs have significantly increased
- Slightly increased
- Stayed the same
- Slightly decreased
- Significantly decreased



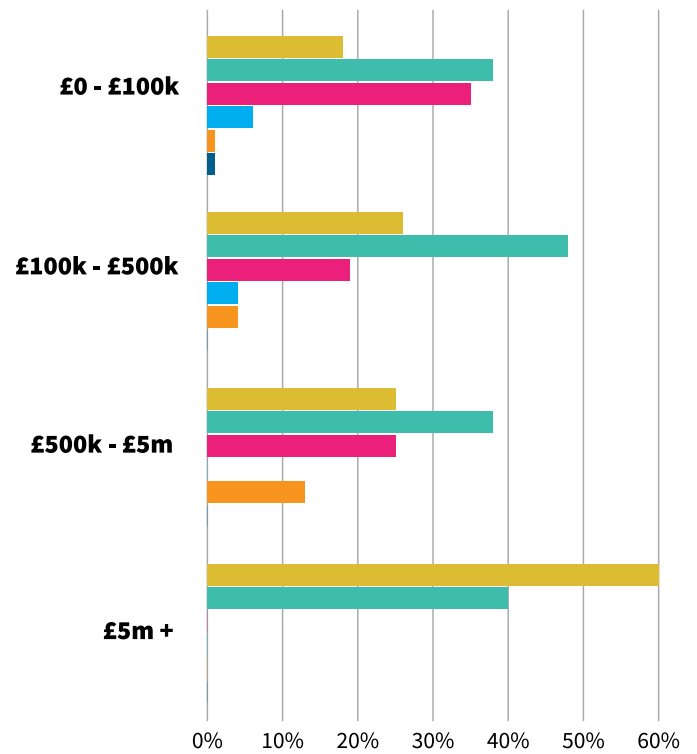
“[Operating costs increased] mainly due to salaries going up to support inflationary pressure - particularly on lower paid staff. Challenging situation as cost increases need to be passed on to clients. 8% increase in salary bill since April.”

Scotland based social enterprise with turnover of £500,000-£5M

Operating cost increases are most likely to be seen to have significantly grown by the largest social enterprises, and to have stayed similar for smaller businesses. This is likely to be a reflection of higher reliance on inputs and more expenditure for bigger businesses, but is also somewhat reassuring for smaller social enterprises if operating cost increases are more manageable.

Changes to operating costs in the last quarter, July 2022, by turnover size

- Operating costs have significantly increased
- Slightly increased
- Stayed the same
- Slightly decreased
- Significantly decreased
- Don't know or prefer not to say



From the open-text responses we get a fuller picture of the difficulties which higher operating costs are causing. Social enterprise margins are shrinking, which is reflected in worsening cashflow positions. And there is an impact on staff and leaders, as social enterprises are absorbing financial limitations by increasing workloads for founders and staff in a position to do so. And many are reluctant to pass on costs to customers and clients they know will struggle to pay.

“Energy costs, fuel costs, and administration of almost everything is increasingly complex and expensive, hence we work very hard to stay as lean as possible. Pressures also impact on our time. Time is our creative and entrepreneurial fuel. We need to sleep and have a balance in life too :) ”

Wales based social enterprise with turnover of under £100,000

“All purchases, cost of sales and indirect cost have increased significantly. In some case 25%. We have put up sales costs but have had to absorb a significant amount of the price increases and the VAT addition. Our margins have shrunk to a point where they are almost unsustainable.”

South West based social enterprise with turnover of under £100,000

Response to the cost-of-living crisis

We asked social enterprises how their businesses are responding to the cost-of-living crisis. Almost a third told us that they have increased staff pay and just under a fifth have taken other measures to support staff. Over a quarter have increased prices and over one in ten have made other changes to their operating models.

How is your social enterprise responding to the cost of living crisis?

We've increased staff pay	31%
We've taken other measures to support staff	17%
We've increased our prices	27%
We've paused plans to expand or seek investment	9%
We've changed our operating model in other ways	13%
Other responses	11%
No change	32%
Don't know/prefer not to say	3%

“Being a charitable social enterprise we had to increase our trading and non-grant funding, because it is difficult to get accepted by main funders due to the crisis.”

South West based social enterprise with turnover of under £100,000 who has increased staff pay, taken other measures to support staff and changed operating model

“Staff have been offered a one-off cost of living bonus based on how many days they work for the organisation.”

South East based social enterprise with turnover of £100,000-£500,000 who has taken other measures to support staff

“Have asked council for an uplift in our fees, but the response has been disappointing”

South West based social enterprise that has made no changes in response to the cost of living crisis

“We have been offering a ‘Pay what you can afford’ payment scheme. We did not want the cost-of-living crisis to be a reason for potential customers not signing up. We have always kept our overheads low so we are in a position to do this.”

South East based social enterprise with turnover of under £100,000

“I have allowed staff to do more hours than I know we can realistically afford in the long term. I let them take more food home and feed them more at work. I have reworked shifts patterns to support more lift sharing to save petrol. I push the tip pot more for staff. I haven't paid myself to ensure I can cover the wages bill. ”

South West based social enterprise with turnover of under £100,000 who has taken other measures to support staff and increased prices

“Management restructure and focus. We expect winning new work to become more difficult.”

North West based social enterprise who has increased staff pay, paused expansion/investment plans and changed operating model

Impact of the cost-of-living crisis on individuals and groups supported by social enterprises

We also asked about the ways in which the cost-of-living crisis is impacting the individuals and groups that social enterprises work with and seek to support. A third have seen increased demand for products/services. And over a fifth say that there is reduced demand as people can't afford products/services. This is top-level data, we are yet to undertake more detailed analysis in terms of types of product/service and target customer/clients.

A fifth have seen an increase in the need to refer people to external support services.

How is the cost of living crisis affecting the people and communities you work with and support?

“As we are a community cafe we have agreed not to increase our prices even though our costs are increasing. We are also looking to increase the amount of surplus produce e.g. vegetables available for a donation”

London based social enterprise who has taken other measures

Increased demand for our products/services	33%
Reduced demand as people can't afford our products/services	23%
Increased need for us to refer people to external support services	19%
Other ways – please explain below	10%
Not relevant – we don't engage directly with the people/communities our social enterprise benefits	7%
No change	24%
Don't know/prefer not to say	8%

“Some of [our] services have increased in demand [...], but those needing access to them often can't afford them, so it has to be paid for through personal budgets or funding, which can take time to set up. Our evening classes and holiday clubs are lower in numbers due to parents not being able to afford extra activities.”

Yorkshire based social enterprise with turnover of under £100,000

“We work mainly with disabled people and post-covid several similar organisations have ceased delivery leading to greater demand for our services and this continues to grow.”

East Midlands based social enterprise

“For a couple of customers we have suspended their need to pay until they are in a better financial position. As we are picking up new customers we can afford to do this.”

South East based social enterprise with turnover of under £100,000

“We have had increased demand for our services, but not increased demand for our products. We have lost customers but have more demand for people to be supported, most of whom do not come with payments (direct payments or personalised budgets, or school placements). We have to find funding to cover those without payments, and have been turned down by several funders recently to cover those who cannot pay for support.”

East Midlands based social enterprise

“More calls for service, less time available - risk to business and reputation”

London based social enterprise with turnover of under £100,000

“[Families we support] are sharing just how desperately broke they are... [...] We've signposted the families and schools to (existing) support. We're looking to how we can support them and others through additional support and resources.”

South East based social enterprise with turnover of under £100,000

Staff

The survey results show that whereas there has been a noticeable impact from the cost-of-living crisis on operating costs and cashflow, like turnover and growth, staff numbers have rebounded since earlier in the year.

In July 2022, 33% of social enterprises had grown staff numbers compared to the previous quarter (compared to 23% back in March). The proportion that have seen staff numbers decrease remains consistent over time – indicative that social enterprises tend not to offload staff as a solution to financial difficulties or uncertainty.

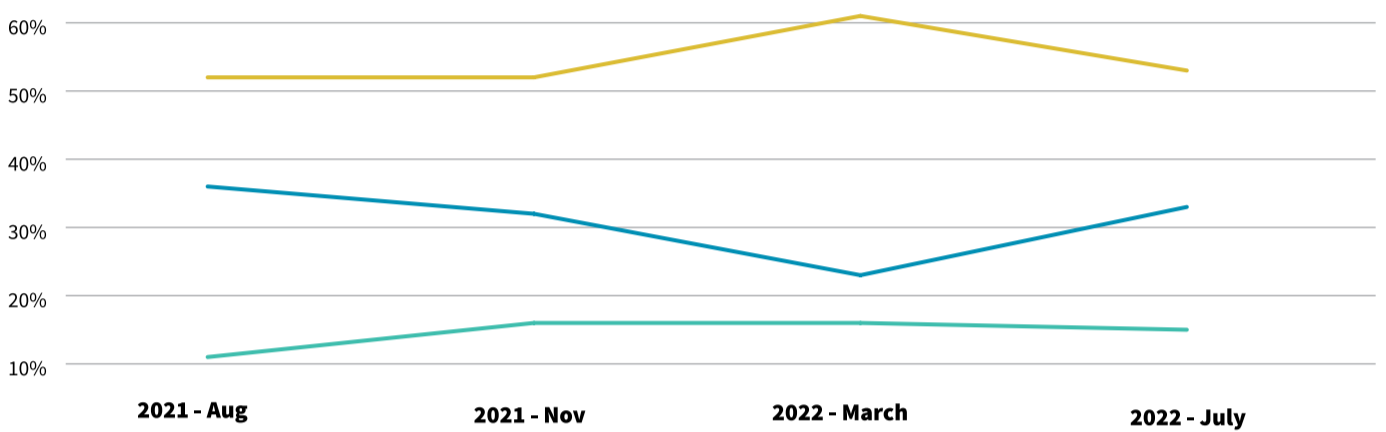
Looking at FSB data for Q2 of 2022 we see that the net change in staff numbers at traditional small businesses for the previous quarter was -4%. Social enterprises net staff change in the last quarter was 38%. Despite the challenges faced by all businesses at the moment, social enterprises are far more likely to be retaining and growing their staff teams.

“We have recruited a sessional support worker, to increase our capacity. The CEO is also now being paid full time for the first time this month.”

South West based social enterprise with turnover of under £100,000

Changes to staff numbers in last quarter

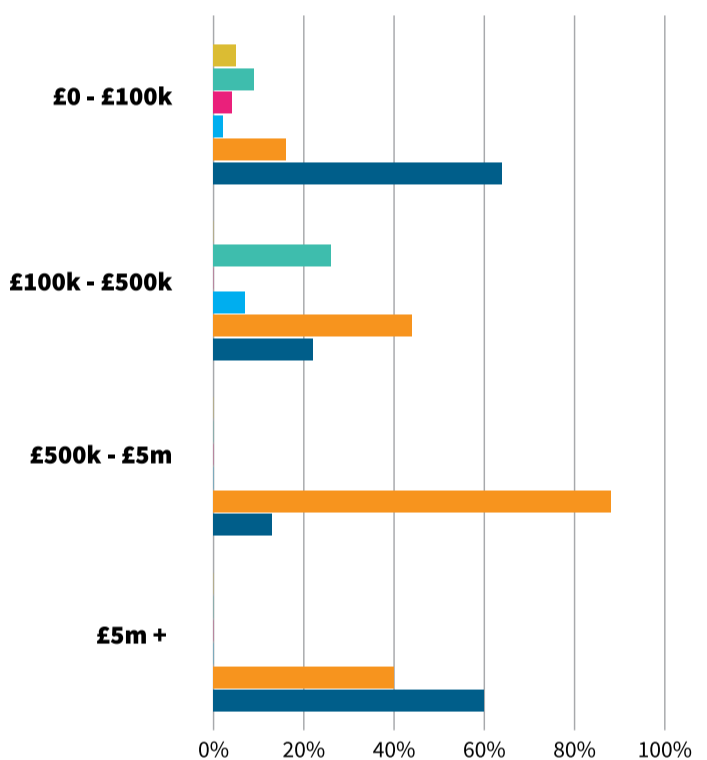
Same Decrease Increase



The majority of staff loss is at smaller social enterprises that are established and have a turnover above £100,000. It is likely that decreases feel particularly significant at the smallest social enterprises who have the least staff in the first place. Staff increases are particularly high at medium sized social enterprises.

Staff changes in last quarter, July 2022, by turnover size

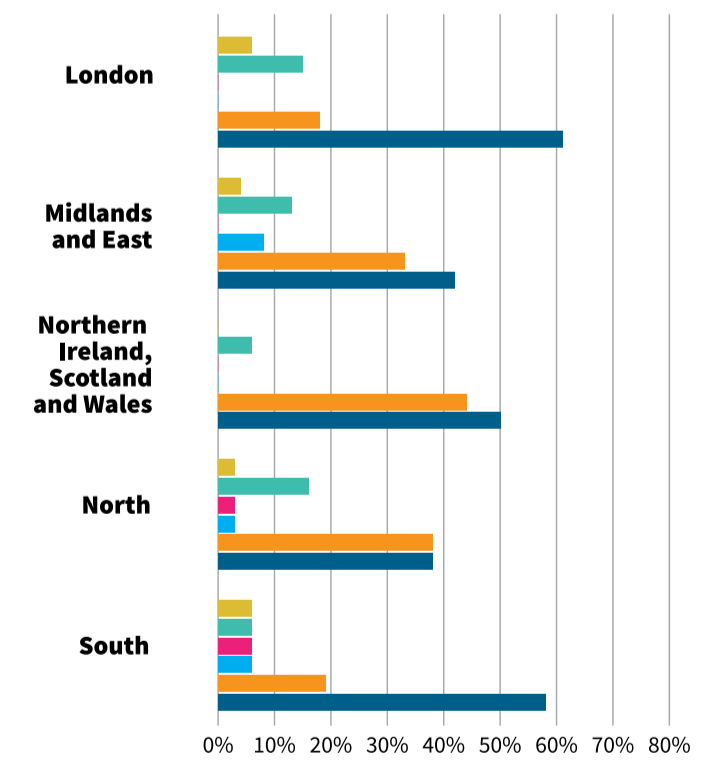
Decrease significantly Increase significantly
Decrease slightly Increase slightly
Don't know or prefer not to say Stay the same



Social enterprises in London and in the North were most likely to have reported decreases in staff in the last quarter. Although social enterprises in the North were the least static – they were also more likely than elsewhere to have seen staff numbers grow. Staff growth was highest in the Midlands and East of England (56% in the West Midlands) and in the Devolved Nations, and lowest in the south of England.

Staff changes in last quarter, July 2022, by location

Decrease significantly Increase significantly
Decrease slightly Increase slightly
Don't know or prefer not to say Stay the same



From the open text, we see that many smaller social enterprises are heavily or entirely reliant on volunteers. Several social enterprises talked about their use of the KickStart scheme and the financial implications of the end of the scheme in terms of either costs to retain or replace these staff members, or capacity impacts where these staff aren't replaced.

“We have had to add one FTE to the staff to cover retail/ plants sales. This was covered by a Kickstart last year so that has meant a significant increase in expenditure”

South West based social enterprise with turnover of under £100,000

Growth predictions

Closure rates are the highest since we began asking this question in August 2021. There has been a modest increase in the proportion of social enterprises anticipating growth compared to expectations in January 2022, and there is a lower level of uncertainty about growth. But fewer in July 2022 expect to maintain the same position as was the case back in January.

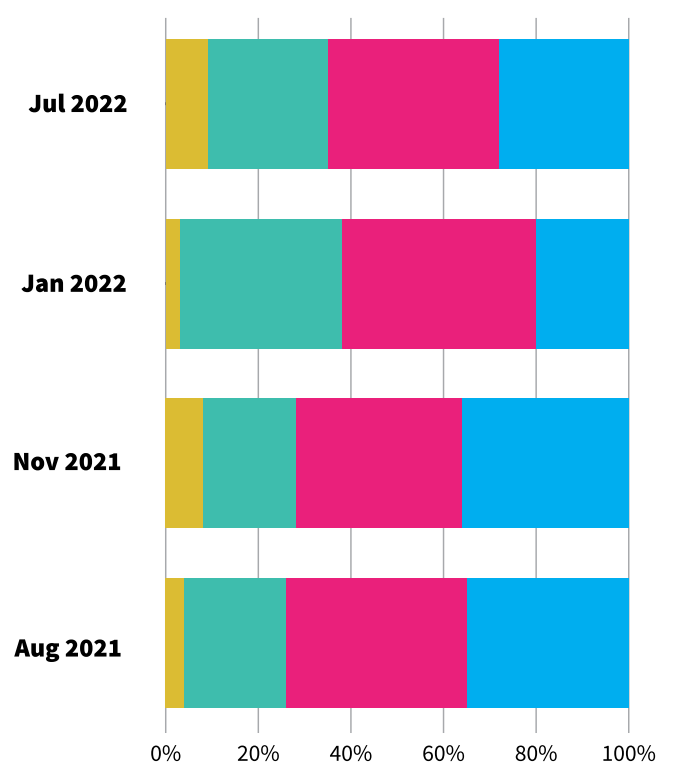
FSB Small Business Index Data for Quarter 2 of 2022 shows that net predicted revenue increase for the next quarter for small businesses is -3%. Net predicted growth by social enterprises is 56%. As above, not fully comparable data but such a significant difference as to indicate clearly that there is greater optimism about growth amongst social enterprises. This may in part be explained by the fact that SEAP questioning asks if growth/turnover positions remain static – and a significant proportion do. Equivalent data isn’t available for the FSB sample.

Growth expectations for next 3-6 months

Reduce/close Uncertain Similar Grow

“We have various funding applications in and are hopeful that we can increase our income from September [...]. There may be some opportunities locally from the Shared Prosperity Fund [...]. But none of this is guaranteed.”

Yorkshire based social enterprise with turnover of under £100,000. Growth position: uncertain



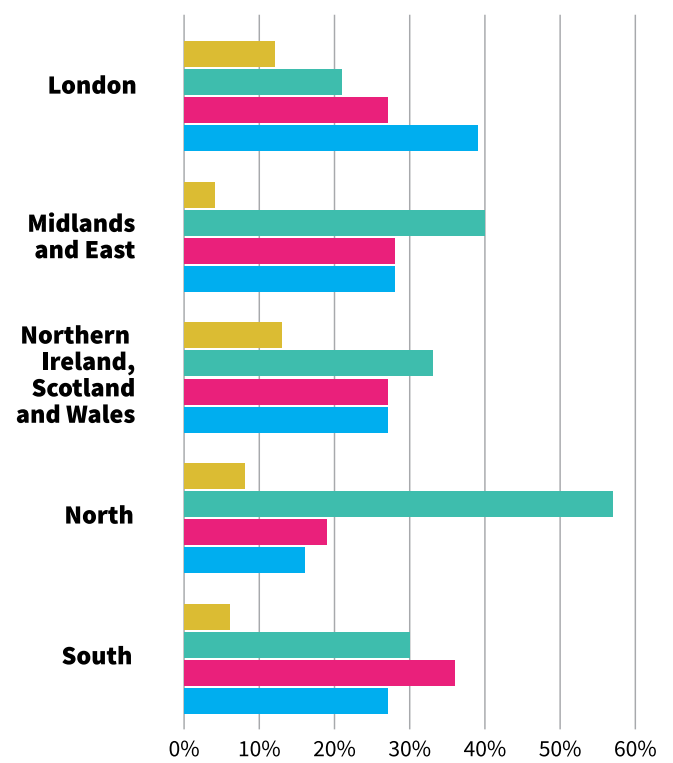
“The current premises has its customer base and sales are steady and we see no reason for this to change in the immediate future. Longer term we are still aiming to have other shops and therefore still expect to grow, but this is as and when premises are built in our catchment neighbourhoods.”

West Midlands based social enterprise with turnover of between £100,000 and £500,000. Growth position: maintain similar position

Looking at the data for July 2022 in more detail, in terms of location we see that social enterprises in London and in the Devolved Nations feel most at risk, with London also reporting the highest proportion expecting growth – and comparatively low growth expectations in the North of England. Uncertainty about growth is highest in the South of England.

Growth expectations for next 3-6 months, July 2022, by location

Contract or close Similar position Uncertain Growth



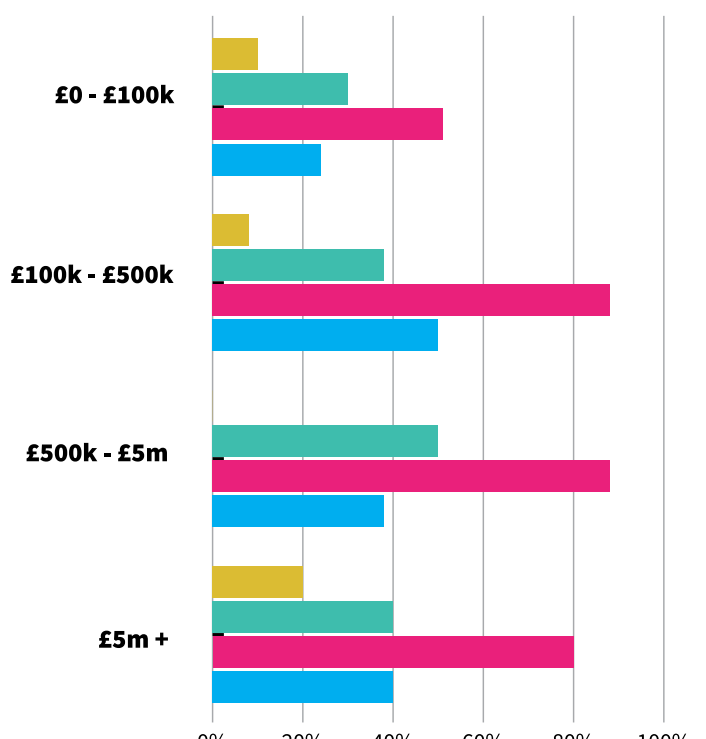
“The demand is higher than we can meet at the moment. We’re hoping to expand, but also need to cover additional basics ourselves - if we gain more funding and voluntary staff, we will hopefully expand.”

South East based social enterprise with turnover of under £100,000. Growth position: uncertain

By turnover size, we see that growth reduction and closure risk is present regardless of size, albeit that medium sized businesses appear more resilient, even though their growth expectations are modest.

Growth expectations for next 3-6 months, July 2022, by turnover size

Contract or close Similar position Uncertain Growth



“I am pitching for growth and have developed a whole new business plan for another sited outdoor community cafe. There will be so much need and I feel we should be fighting to support people but realistically I don’t know if I am putting the whole organisation at risk by doing that.”

South West based social enterprise with turnover of under £100,000. Growth position: don’t know

“We do seasonal packing which has just started for Christmas [...] but (supply chain delays and shortages mean some inputs won’t be ready) in time to hit the Xmas schedule.”

Yorkshire based social enterprise. Growth position: maintain similar position

“Very volatile contracting market. Anticipating new contracts and working collaboratively.”

London based social enterprise with turnover of between £500,000 and £5 million. Growth position: uncertain