



Social Enterprise Barometer

February 2023

The Social Enterprise Barometer provides a quarterly update on social enterprise performance. It uses data from Social Enterprise UK (SEUK)'s Social Enterprise Knowledge Centre quarterly survey to give a picture of the current operating circumstances for social enterprises.

www.socialenterprise.org.uk



Who are the respondents?

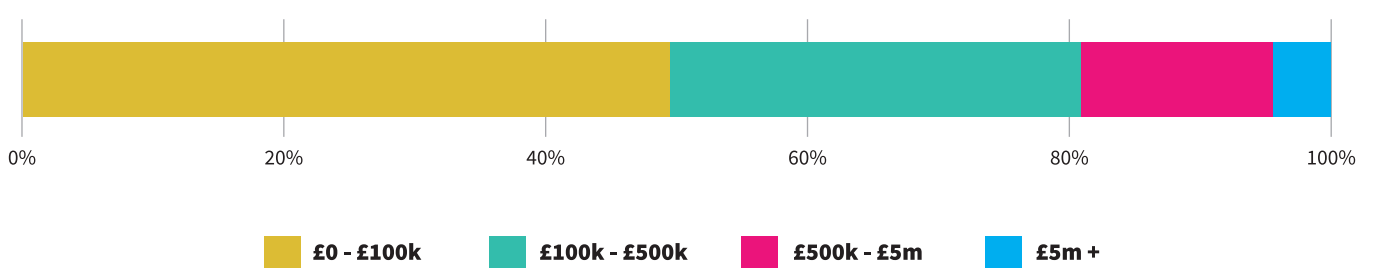
This survey ran between 5th and 26th January and received 101 valid responses.

Responses by location

North	26%
Midlands & East	20%
South	23%
London	17%
Devolved Nations	6%

East England	2%
East Midlands	4%
London	17%
North East	5%
North West	7%
Northern Ireland, Scotland & Wales	6%
South East	14%
South West	8%
West Midlands	11%
Yorkshire and the Humber	12%

Responses by turnover band



What is the Social Enterprise Knowledge Centre Quarterly Survey?

The Social Enterprise Knowledge Centre from Social Enterprise UK is the UK's leading repository of evidence on social enterprise.

The Social Enterprise Knowledge Centre Quarterly Survey collects snapshot data on social enterprise. We use the survey to help raise awareness and understanding of social enterprise, influence policymakers, to promote social enterprise, to drive more relevant investment and funding, and to inform useful product and service delivery, including by SEUK for our members.

Key Findings

Interest rates are up again, energy costs remain high, water bills are set to go up, and the UK is heading towards a recession. As such it is unsurprising that this quarter's results show social enterprises facing tight budgets, stretched capacity and concerns about meeting demand. We see an ongoing trend of struggling operating positions for social enterprise.

14% expect to reduce turnover and staff or to close – this indicates that as many as 18,000 social enterprises might be at risk of closure if prices increase further, we experience a recession and if there is no additional support to sustain otherwise viable businesses. SEUK continues to work closely with partners across the sector and in government to lobby for support to sustain social enterprises that would be viable were it not for recent prices shocks.

The proportion reporting decreased growth and turnover has gone up. We are seeing slight improvements in headline cashflow and reserves positions, but a high number of social enterprises are concerned about projected cashflow and income. Many expressed that high energy and operating costs combined with reduced client and consumer spend meant that the next quarter will be critical to their survival.

Energy costs remain a concern. Two-thirds of social enterprises reported that energy prices increased last quarter compared to the quarter before. We continue to lobby government to retain the current price cap to prevent viable businesses being forced to close due to unpredictable price spikes.

Staff numbers haven't declined as much as last quarter, but we have seen for the first time since the barometer survey began that no social enterprises reported significant growth in staff numbers. Many of those recruiting new staff are hiring part-time roles. We are also seeing a number of social enterprises being forced to reduce staff hours.

Demand for social enterprise products and services is strong, even if capacity to meet this demand is more limited. Several respondents to this survey told us that they are struggling to meet demand, that it is challenging to find revenue models that cover costs given that raising prices may also not be viable. Social enterprise leaders are also reporting significant strain on their mental health and wellbeing caused by the wide-ranging challenges faced across business operations and within the wider economy and society.

76% of social enterprises reported that the level of profit/surplus they invest into their social/environmental mission has remained the same or increased, showing the importance of the social enterprise business model to increasing investment and delivering more than narrow economic benefit.

Social enterprises in London seem to be particularly hard hit based on these results, with lower growth expectations and weaker cash flow positions, even when controlling for a higher presence of small and micro social enterprises in the capital.

Growth

This quarter showed more social enterprises contracting, with 14% expecting to reduce turnover and staff or to close. This is the highest proportion that have reported a growth decline in over two years. The proportion of social enterprises that reported that they expected to grow has modestly increased from the previous quarter. However, growth expectation levels remain significantly lower than in mid-COVID in 2021 and several are based on anticipated tenders or revenue from new products and services, rather than confirmed income.

Reviewing open-text responses, we see that energy price increases are a major factor in limiting growth, and alongside increased operating costs and reduced consumer demand, many social enterprises reporting uncertainty about growth have expressed that their financial position hangs in the balance at the moment.

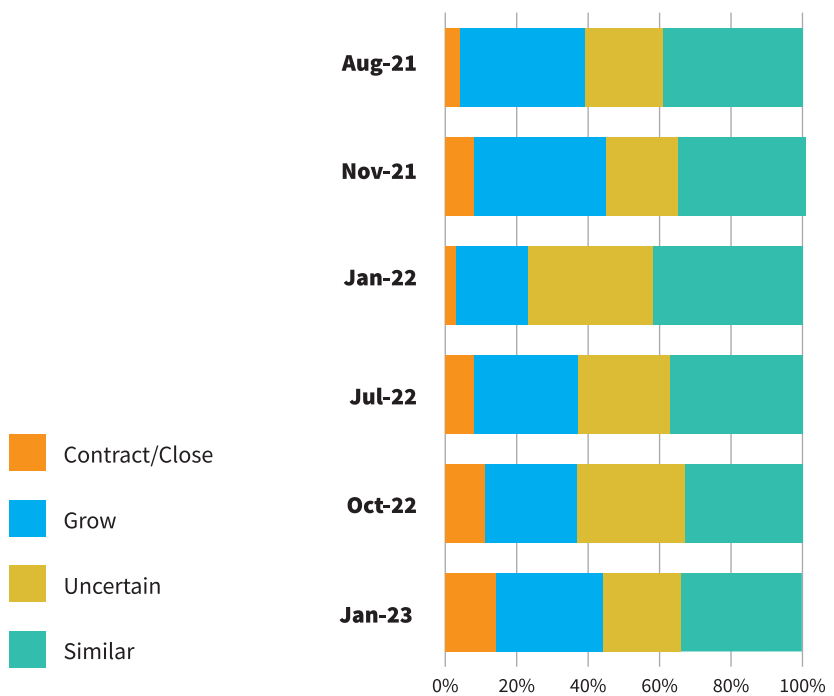
“The next 6 months are high risk with several contracts requiring re-bidding.”

London-based social enterprise, £500K - £5M turnover

“Having had to downsize and redesign our core offer we now feel we have stabilised - well hopefully!”

East Midlands social enterprise, £100K - £500K turnover

Growth position, since August 2021



Growth position breakdown, January 2023

Uncertain - depends on the outcome(s) of pending funding applications/ income/ contracts	22%
We expect income to reduce / or to lose staff	13%
We expect to close	1%
We expect to grow staff and turnover.	30%
We expect to maintain a similar position to now	33%

Pending funding decisions...

This quarter, more than previously, social enterprises have told us that they are awaiting funding decisions. Several have expressed concern about both a perceived reduction in the availability of grants, particularly as COVID support dissipates, and increased competition for available grants. But there are also a significant number of social enterprises for whom contract renewals, tenders and funding applications could be made or break over the next quarter. SEUK continues to highlight to government and local authorities the need for targeted investment in social enterprise. The Social Enterprise Boost Fund is a welcome start for regional resourcing but as with the UK Shared Prosperity Fund, concerns remain about an overall reduction in the availability of funds.

We expect that many social enterprises will feel further cost pressures over the next quarter. Government support for business energy bills is set to be reduced substantially in April. Interest rates have been repeatedly increased and now stand at their highest level in 14 years. The international economy remains volatile and further disruptions that impact supply chains are possible. This will mean that many social enterprises may face further cost pressures, and they will be expected to stretch any new or additional funds to cover the higher cost of delivery.

Regional growth disparities

We see quite stark differences between social enterprise performance in the North of England and devolved nations compared to London and the South of England in particular saying they expect less growth.

Regional growth expectations, January 2023

London	20%	80%
Midlands/East	30%	70%
NI, Scotland, Wales	50%	50%
North	55%	45%
South	10%	90%



Social enterprise closures

Many social enterprises have felt the brunt of economic challenges in the last quarter.

Case study: Birdsong¹

Fashion brand Birdsong created not-so-everyday staples and made-for-you pieces in the most ethical socially impactful way possible.

For over 8 years they have worked with expert women makers who face barriers to employment, with a focus on low-income women in London. From artists and printmakers to seamstresses and painters, they have paid them the London Living Wage.

However, unfortunately they announced at the end of December 2022 that due to increasing operating costs, caused by a variety of economic challenges, they have had to make a decision to shut their doors. Instead, they will move to making printed merchandise for other businesses with their existing outstanding supply chain. Therefore, in their own way, they hope to carry on promoting social value.

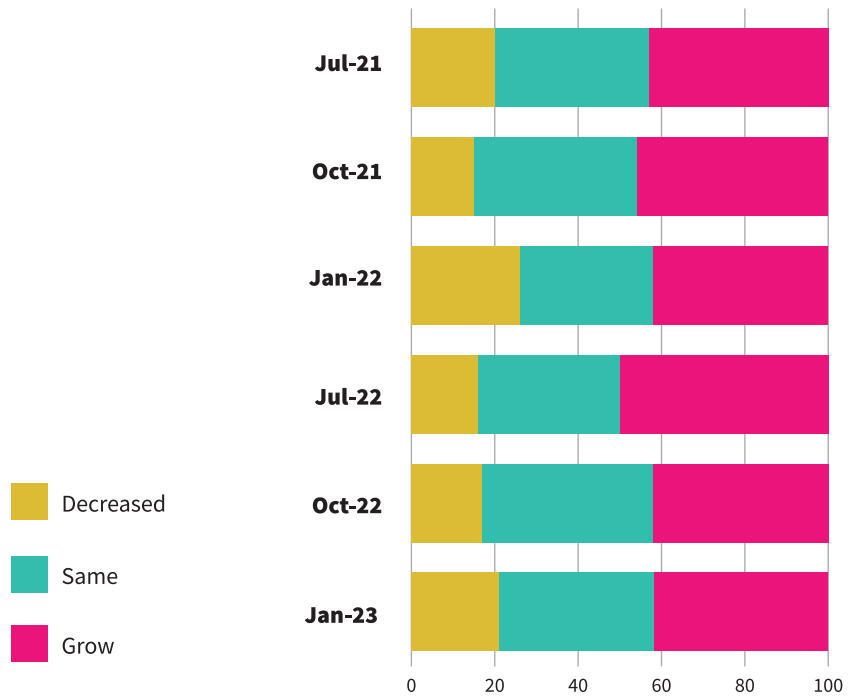
¹<https://birdsong.london/blogs/magazine/the-last-hurrah>

Turnover

We asked respondents about their turnover position in the last quarter, compared to the previous quarter. A higher proportion of respondents reported that their turnover had decreased last quarter, compared to October 2022. The proportion reporting turnover had remained the same or grown was lower than in October.

Social enterprise turnover positions remain more positive than for other forms of business. The Federation of Small Business’s Quarterly Business Index, in Q4 of 2022, showed that 43% of small businesses reported a drop in revenues compared to 21% of social enterprises and 33% reported a rise, compared to 41% of social enterprises².

Turnover position, since July 2021



Turnover position breakdown, January 2023

Decrease significantly	7%
Decrease slightly	15%
Grow significantly	1%
Grow slightly	40%
Stay the same	37%

A number of social enterprises spoke in this survey about a reduction in commissioning opportunities for public sector contracts and smaller contracts as local authority budgets struggle. Respondents flagged issues with contract details as well, including inflexibility around price increases.

² <https://www.fsb.org.uk/resources-page/small-business-confidence-collapses-fsb-calls-for-growth-plan-to-power-through.html>

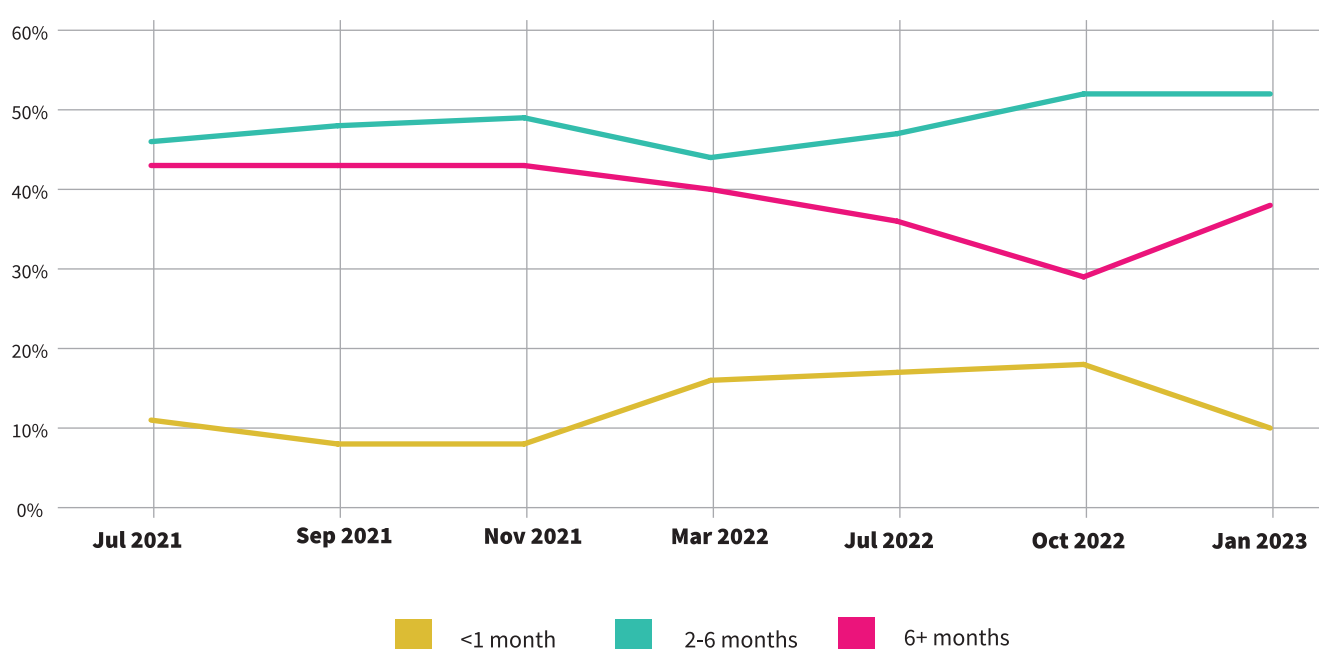
Cashflow and reserves

Compared to the previous quarter, cashflow positions have improved slightly amongst respondents to this quarter's survey. Overall trends still clearly point to declining cashflow over the last year, and open text responses indicate significant concern about the sustainability of current cashflow positions. This is particularly the case for small and micro social enterprises. A number of respondents also mentioned that they are focused on building up their cashflow and reserves as part of business resilience strategies.

“Prior to the energy price increases we were beginning to improve our cash position month on month with an aim to reach 3 months running costs and then begin profit distribution to local charities and groups. We are now breaking even and surviving rather than thriving.””

Birmingham social enterprise

Cashflow position, trends from July 2021



Cashflow position breakdown, January 2023

We have funds to operate for another week	1%
For about a month	8%
2-3 months	21%
3-6 months	29%
6+ months	35%
Not sure	6%

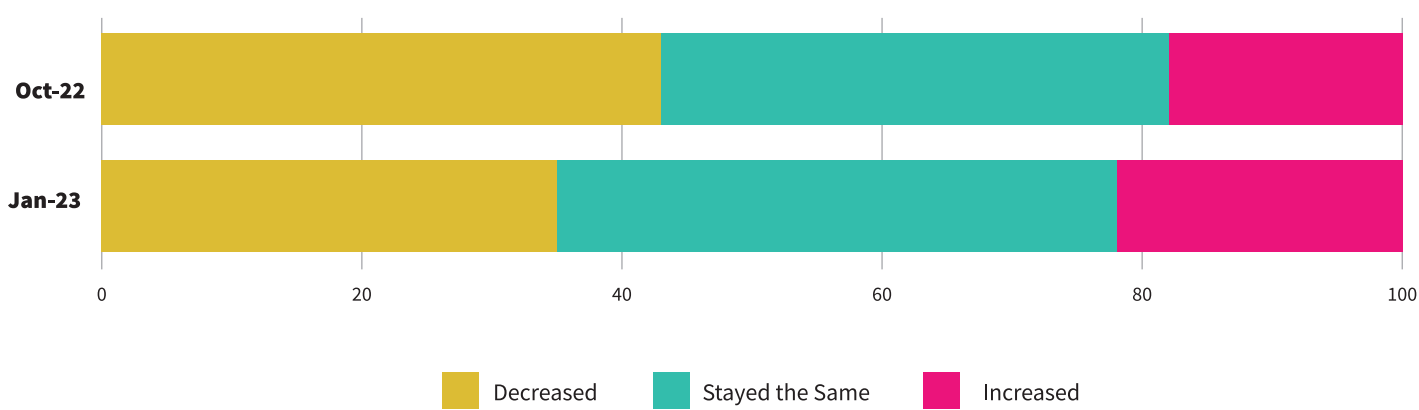
Asked what the biggest business pressures at the moment were, many respondents cited concerns about cashflow. For example, inadequate cashflow had prevented one social enterprise from extending a staff member's fixed contract, affected another's investment ability in new start-ups and was holding other social enterprises back from rapid growth.

“Our cash flow challenges are holding us back from more rapid growth.”

South East, £500K - £5M turnover.

Reserves positions were slightly stronger this quarter than last. This is mainly because a greater percentage of social enterprises reported that their 'cash in the bank' had remained the same than was the case in October 2022.

Reserves position, trends from October 2022



Cashflow position by region, January 2023

	<1 month	2-6 months	6+ months
London	13%	60%	27%
Midlands/East	12%	47%	41%
NI, Scotland, Wales	0%	40%	60%
North	14%	52%	33%
South	13%	56%	31%
Grand Total	12%	53%	35%

Regional data reveals that cashflow positions were significantly weaker in London than elsewhere in the UK, with social enterprises in the South also more likely to report weaker cashflow. This could be related to relative price differences in London and the South East compared to the rest of the country. Reserves positions were also weakest in London.

Staff

The survey responses regarding paid staff this quarter are similar to responses the previous quarter, with a slight overall increase in staffing. For the first time since this question was asked in August 2021, no respondents this quarter expected significant growth in staff numbers.

Results from open-text responses revealed that when social enterprises did grow their paid staff numbers, several had hired staff on a part-time basis. Additionally, despite some organisations keeping the number of paid staff the same, some reduced staff hours instead.

Compared to the rest of small business, social enterprises were more likely to be growing staff numbers. 27% of social enterprises grew their staff teams last quarter compared to 10% of small businesses, according to FSB data. A similar proportion reported reduction in staff numbers³.

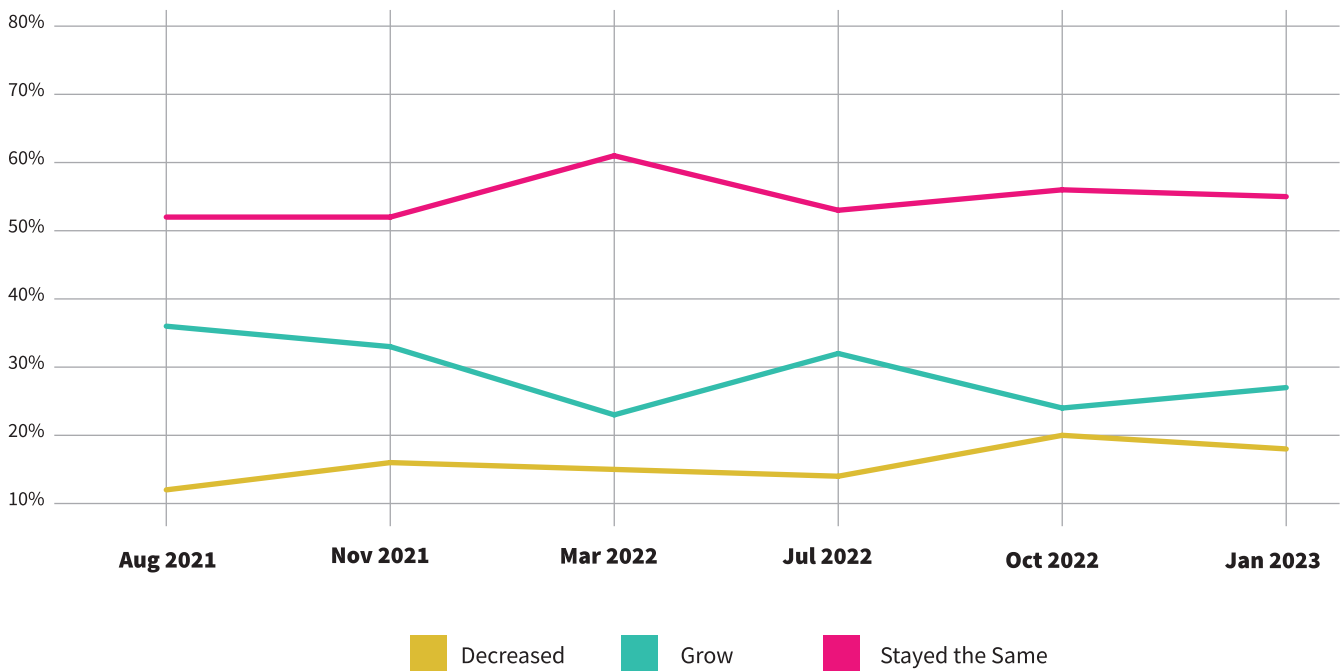
“We have had to reduce staff hours across the week, but we currently have the same number of staff.”

South East, £100K - £500K turnover.

“Biggest business pressure is increase in staff costs/wages compared to prices we can charge. Margin is very tight.”

Yorkshire based social enterprise, £100K- £500K turnover

Change in staff numbers over the last quarter



Staff numbers over the last quarter

Grow significantly	0%
Grow slightly	27%
Stay the same	54%
Decrease slightly	12%
Decrease significantly	6%

³<https://www.fsb.org.uk/resources-page/small-business-confidence-collapses-fsb-calls-for-growth-plan-to-power-through.html>

Profit and loss

A fifth of social enterprises are loss-making according to January figures, with 80% of those that responded being in a break-even or profit position. This is impressive given the acute constraints we know social enterprises to be operating under. Some noted that current profit position was due to seasonal fluctuation in revenue.

London-based social enterprises were far more likely to report having made a loss in the last quarter, with those in the Midlands and South of England and the Devolved Nations reporting overall strongest profit positions.

“We have not yet broken even and continue to run at a loss.”

London social enterprise, turnover of under £100K

“We still have some grant funding which supports our community work. Concerns regarding energy costs are high.”

North East social enterprise - £100K - £500K turnover

“Current budget projections are for a modest loss, but I hope to achieve breakeven as a worst-case next year and it is possible we will make modest profit if growth / bid activity is successful”

North West social enterprise, turnover of under £100K

“We are currently running at a loss and using loans to stay afloat.”

West Midlands, turnover of under £100K

Profit/loss last quarter, January 2023

Make a profit/ surplus	36%
Break even	44%
Make a loss	20%

Impacts of inflation, price hikes and recession

This survey, we asked social enterprises about the impacts of the current economic climate on various aspects of business operations and where their businesses are facing most pressure.

The general strain of operating costs was mentioned repeatedly, ranging from the cost of salaries, marketing costs, energy costs and general input costs such as fuel, emphasising a range of cost of production stresses.

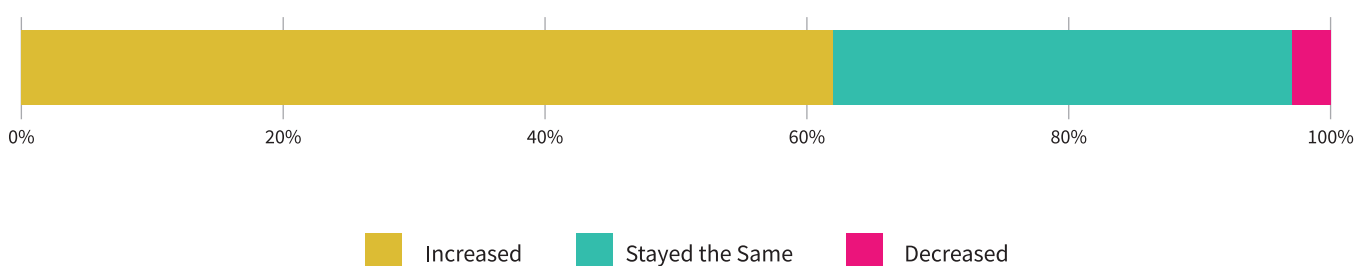
“We have seen an increased cost of supplies and staff (but willingly so as we ensure all staff are paid the LLW).”

West Midlands, £0 - 100K turnover.

Energy costs

Whilst energy prices are far from the only concern for social enterprises at the moment, high prices remain a major concern. When comparing the last quarter to the quarter before, almost two-thirds of respondents stated that energy prices had increased.

Energy price status this quarter compared to last, January 2023



“Prior to the energy crisis, as a one shop enterprise, we were projecting a reasonable profit having now cleared our social finance start up loans. The energy crisis and higher raw food costs have completely consumed the projected profit and we are now breaking even.”

South East, 100k – £500K turnover.

“We have seen less funding and increased costs.”

South East, £0 - £100K turnover.

“After considerable increases in raw material costs, our energy costs have now increased from c.£20k a year to c.£48k a year. This sort of increase cannot be fully passed on to our customers and is not easy to cover. We are now operating on a break-even basis. If the cost of living crisis reduces customer spend we will be in a very difficult position. There is no more wiggle room”

Birmingham-based social enterprise.

Case study: Greenwich Leisure Limited (GLL): acute risks of energy price spikes

GLL is 30 years old this year, and this large social enterprise is under financial pressure. Rising prices have had a serious impact on business operations, hitting at a time when the company was just beginning to recover from the acute pressures COVID restrictions placed on the leisure industry.

GLL cites overall price rises as well as the recession as pressure points. However, energy price rises in particular are of concern – and GLL has said that not only will energy costs force prices up, but they are putting the ongoing viability of certain facilities – particularly swimming pools – in jeopardy⁴.

GLL-run leisure facilities receive nearly 50 million customer visits every year. Leisure and sport play a vital role at the heart of our communities. GLL manages more than 270 public sport and leisure centres as well as 133 libraries across the UK, in partnership with 50 local councils, public agencies, and sporting organisations. As a charitable social enterprise, they reinvest surpluses back into their services and in 2022 they generated over £350 million in social value across libraries and leisure. (£301m in leisure and £49m in libraries)

According to GLL CEO Peter Bunday,

prices will go up further and public swimming which is currently an essential and universal service will become less inclusive. The impact will be on physical and mental health, public safety and community cohesion. It is also likely to hit poorer and rural areas disproportionately.

⁴ Swimming pools have not been classified by government as 'intensive energy users' in the recent revisions to the energy price cap. SEUK is lobbying government to revise the price cap increase from April 2023 so that viable social enterprises are not forced to close.

<https://www.ft.com/content/7760087e-d4fd-43e5-a07d-c4afbc42e16f>

Staffing costs and capacity

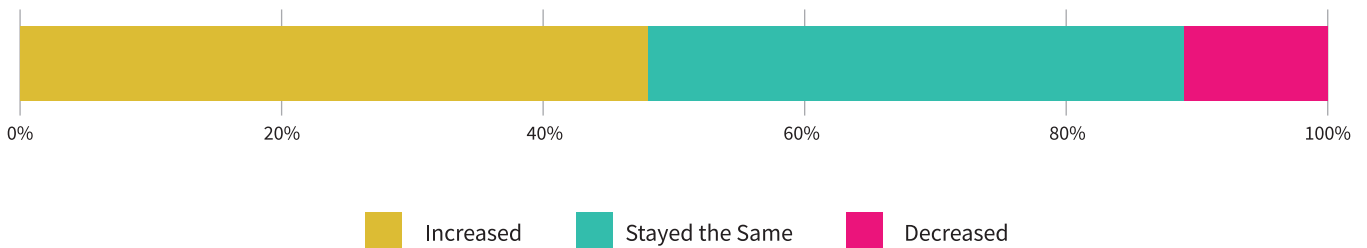
Almost half of social enterprises have seen staffing costs increase in the last quarter, and of these, over half had seen total staff numbers remain the same or decline.

Social enterprises reported concern about staff costs, emphasising the challenge of ensuring staff are fairly paid given inflation impacts.

“Staffing costs are the highest business cost.”

South East, 100k-£500k turnover.

Staffing costs this quarter compared to last, January 2023



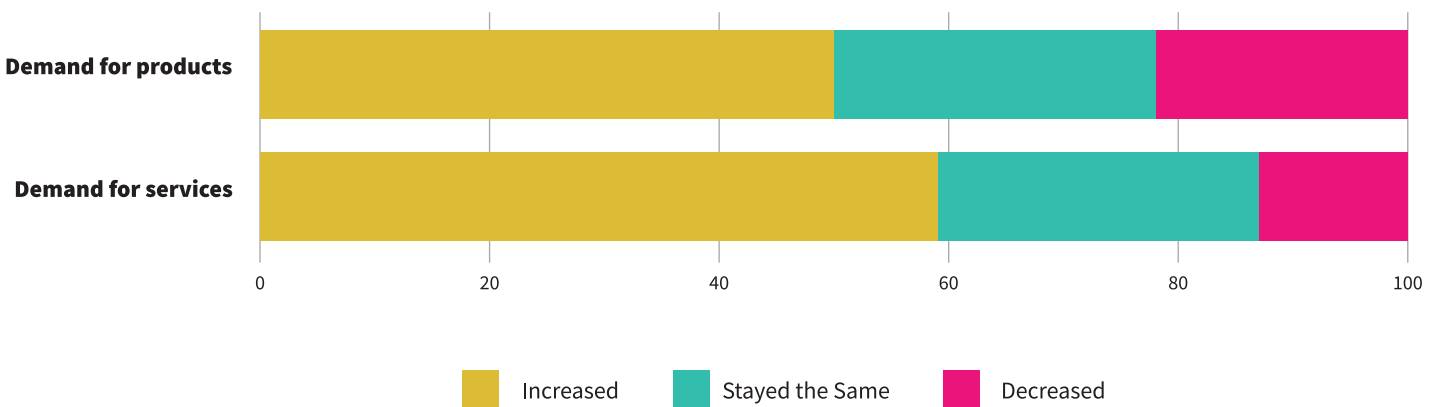
In addition to concerns about staffing costs, there were wider concerns about staff capacity and skills. One social enterprise revealed that their limited capacity mixed with an excess demand of their services has meant that there is pressure on current staff. Whilst the recruitment and retention of staff was also recurrently mentioned as a business pressure, with staff leaving due to wages and burn out.

“We have seen an Increase in staff costs/wages compared to the prices we can charge. Therefore, the margin is very tight”

Yorkshire & Humber, £100K - £500K turnover.

Demand for products and services

The picture of demand is complicated, given the varied nature of products and services and the differences in terms of whether their primary purpose is impact or revenue generation. Overall, demand for products and – even more so – for services has increased for the majority of social enterprises. Only 14% of social enterprises reported that demand for their services had decreased last quarter, compared to just over a fifth of those selling products.



“A main business pressure is the capacity to meet the requests for our services and therefore there is an increased pressure on current staff”

North West, 100K-£500K turnover .

“We are in demand and have the ability to maintain rapid growth but are held back by cash flow challenges”

South East social enterprise, turnover £500K - £5M

“We have some increase demand of the services, but income has not increased relevantly. Due to price increase in other areas, we are not making any surplus.”

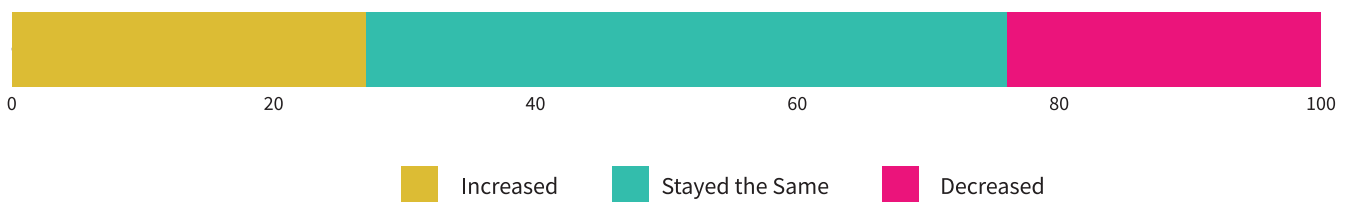
London social enterprise, turnover under £100,000

Impact on social/ environmental mission

Social enterprises exist to deliver a social and/or environmental mission. Their overall business viability is intrinsically linked to their impact, but we sought to understand this quarter how their mission is currently being affected.

We asked social enterprises how the amount of profit/surplus they invested back into their social/environmental mission changed this quarter compared to last quarter. For almost half, there was no change. For just under a quarter, investment in mission decreased last quarter.

Profit/surplus reinvested into social/environmental mission, January 2023

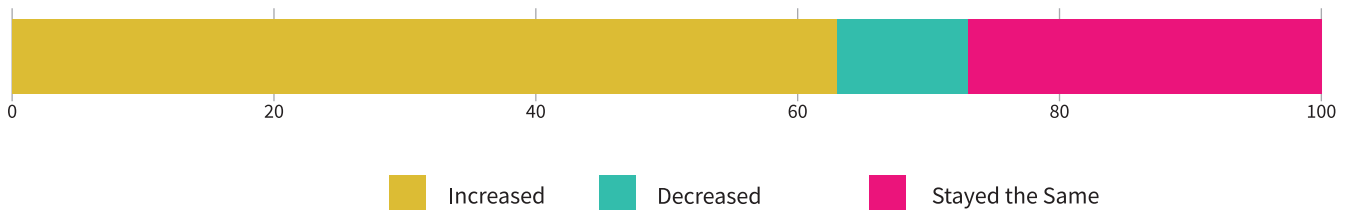


Almost two-thirds of respondents reported that the number of people their social enterprise has supported increased over the last quarter, with just 10% saying that this number had decreased.

“More people are needing help.”

North East, £100K - £500K turnover

Number of people supported through social mission this quarter compared to last, January 2023



Some social enterprises said that their social mission was relatively unaffected by the current economic situation. Some even stated that their commitment to their mission has been more important than ever as people struggle with costs and public service pressures.

“Too much time spent has been spent making ends meet rather than driving growth. Less growth equals less impact.”

North East, £0 – £100K turnover.

Other social enterprises emphasized that the lack of funds was making it hard to fulfil their mission. Issues such as needing to build up reserves to pay salaries, fuel and operating costs have meant their social mission has suffered.

Some social enterprises admitted that maintaining their ability to deliver their social mission has come at a cost. One social enterprise introduced a ‘pay what you can scheme’ which has impacted their revenue.

Case study: Acorn Early Years: cross-subsiding model under pressure

Acorn Early Years is a social enterprise that provides early years care and education. Their cross-subsidy model enables them to support nurseries in areas of social deprivation using the profits generated by nurseries in more affluent areas.

It began as a single nursery in 1989, became a charitable social enterprise in 2012, and now has 17 nurseries in Milton Keynes, Northants and Bedfordshire as well as several out-of-school clubs, extensive forest school provision, a catering service, and a training centre.

From October 2022, Acorn Early Years reported increasing operating costs, in particular energy prices and staffing costs. The organisation has had to increase their prices and reduce their profit margin, and may have to scale back some of their operations. The organisation reported

that their operations in affluent areas remained relatively unaffected, but operations in low-income areas are badly hit. Places that rely on government funding have to be subsidised by the fees paid by parents for additional hours, and the shortfall between the funding and cost of delivery has continued to grow. This means that the provision of fully funded places may have to be limited in the future.

Despite increasing costs, Acorn's number of paid staff and the demand for their services has increased slightly, due to expansion earlier in the year. However, the current economic situation is making affordability a real concern for many parents, and although the cross-subsidy model is helping to sustain the nurseries in areas of deprivation, there is a concern about the level of financial support that can be given, when middle income families are also facing a squeeze on their incomes, and some parents are having to reduce their nursery sessions because of affordability issues.

This report was written by Sabrina Doshi and Emily Darko with support from Shehan Perera and Dean Hochlaf. Front cover photo credit: Acorn Early Years

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