

Social Enterprise Knowledge Centre: Insight

February 2024

Social Enterprise Barometer

Expectations for 2024

This quarterly review uses survey data from Social Enterprise UK's Social Enterprise Knowledge Centre to give a picture of sector operating circumstances across the country.

www.socialenterprise.org.uk



About

This Insights Paper outlines the key themes from the latest Social Enterprise Advisory Panel, a quarterly survey by Social Enterprise UK (SEUK) to collect snapshot data on sector conditions and expectations. Survey findings are published in these reports on SEUK's Social Enterprise Knowledge Centre, the leading national repository of evidence on social

enterprise. This research is used to help raise awareness and understanding of social enterprise, to influence policymakers to better support the sector, to drive more relevant investment and funding, to promote social enterprise generally, and to inform SEUK product and service delivery for members.

Key themes

The UK entered recession in the last quarter of 2023 - a serious prospect for social enterprises after prolonged economic turbulence, through recovery from the 2008 financial crash to the impact of Covid-19 and current cost of living crisis. Meanwhile, British Gas reported a tenfold rise in profits, of which it intends to invest just 5% in supporting struggling customers. There is a jarring disconnect between the struggle faced by social enterprises and the behaviour of the richest corporations.

In this context, this paper uses new survey findings to explore social enterprise expectations for the year ahead and how ongoing economic uncertainty may impact the sector. It also considers the impact and effectiveness of recent central government programmes aimed at supporting social enterprises, as well as providing an overview of sector support at local authority level.

Key findings

Overall, social enterprise business expectations for the year ahead are positive:

64% expect turnover and staff numbers to either grow or remain the same - compared to just **50%** of small businesses as a whole expecting growth over the coming year

80% of social enterprises expect demand for their products or services to grow

A quarter are uncertain about growth, with **10%** expecting turnover to decline and 8% expecting to contract overall or close

Social enterprises are unaware of, and ineligible for, government support provisions:

52% have never heard of the Community Organisation Cost of Living Fund

43% have never heard of the VCSE Energy Efficiency Fund - and of those that have heard of it, **49%** are ineligible to apply for the funding

Local government could be empowered to better support social enterprises:

48% claim their local authority offers no support for their business model

Just **9%** said their local authority has or is developing a social enterprise strategy

Growth expectations this financial year

55% expect turnover growth in the coming year, with **42%** expecting to grow both turnover and staff, while a further **22%** expect to maintain current levels

This compares to just **50%** of small businesses as a whole expecting growth over the year

A quarter of social enterprises are uncertain about growth, with **10%** expecting turnover to decline and **8%** expecting to contract or close in the coming year

Growth expectations remain positive, although January 2024 saw an increase in social enterprises anticipating they might reduce turnover and staff or close. Nearly two-thirds of respondents expect staff and turnover levels to either grow or remain similar over the coming year. Among the wider small business community, 50% expect their business to grow in the next year.¹

Those anticipating growth say demand for products and services is a factor, along with post-Covid recovery. Respondents also cited fee increases, investment in facilities and expanding provision. Several respondents expecting growth noted that growth this year is set to be lower than last year.

“We’re increasing our fees after 5 years to compensate for the loss of members”

A social enterprise based in the South East

Various factors contribute to social enterprises experiencing uncertainty and expecting to contract or close. Local and central government income is highlighted by respondents as a significant factor affecting growth expectations, with contract incomes falling and uncertainty around renewals.

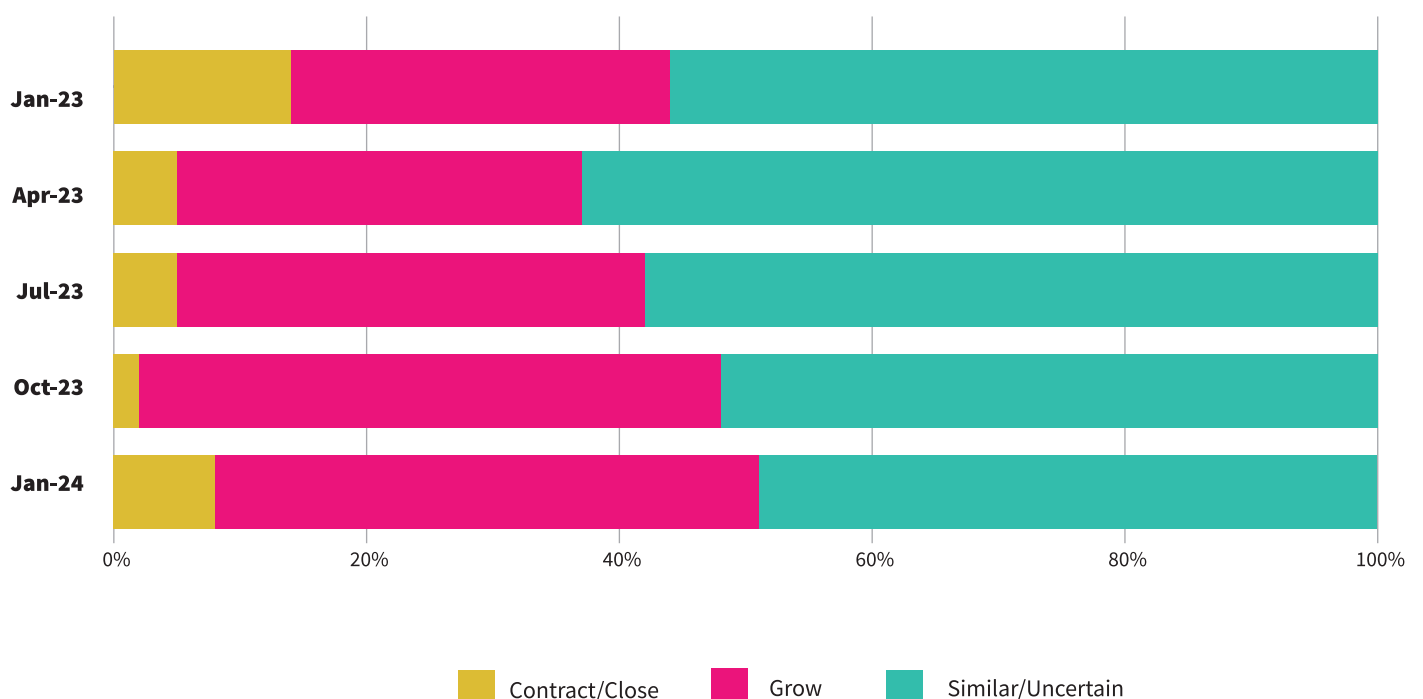
“Whilst we recognise the potential for growth across our business areas the current climate, increased competition, limitations, and narrow focus of some funding possibilities make it uncertain”

A London-based social enterprise with £5m+ turnover

“We have already had to make cuts to the number of staff and hours. We’re in the most difficult position we’ve been in for ten years and fighting for our survival. No more can we wait months and even years for commissioners to make up their minds”

A social enterprise based in the East of England

Growth expectations over the next 12 months



¹ [https://www.fsb.org.uk/resource-report/small-business-index-quarter-3-2023.html#:~:text=The%20Small%20Business%20Index%20\(SBI,falling%20Q2's%20fall%20to%20%2D14.2.](https://www.fsb.org.uk/resource-report/small-business-index-quarter-3-2023.html#:~:text=The%20Small%20Business%20Index%20(SBI,falling%20Q2's%20fall%20to%20%2D14.2.)

Turnover

A small but significant proportion (10%) reported they expect their turnover to decline in the coming year, with several citing ongoing inflationary pressures and the cost of living crisis. Others had been unsuccessful in grant funding applications

and flagged that, as with growth overall, declining income generated from public sector trading is impacting business performance.

“The continuing absence of local and central government income is slowly strangling our business... Income that is ringfenced for the use of organisations like ours is being retained by local authorities”

A social enterprise based in Yorkshire and the Humber with turnover under £100k

55% of social enterprises reported they expected their turnover to grow, 73% of whom also anticipate staff growth. This suggests that these organisations expect turnover increases to boost their capacity to invest in expansion, rather than being absorbed to cover higher operating costs.

Plans for achieving growth

66% of those expecting their turnover to increase plan to achieve this partly through new product development, while 59% said they would look to diversify geographic and customer markets. In contrast, 41% of SME employers are expected to develop new goods and services to offer.²

Planned methods of achieving turnover growth

Diversify or expand into new geographic or different customer markets	59%
Develop new products and/or services	66%
Develop a new process	10%
Invest in new capital assets	10%
Invest in R&D (research and development)	12%
Invest in products/services/processes to green/decarbonise operations	9%
Seek investment to increase the rate of growth of your business	26%
Reduce costs/increase efficiency	24%
None of these	8%
Other	11%

26% plan to seek external finance to fund expansion of their social enterprises. Just under half of those seeking investment are based in London or the South of England, with most reporting turnovers below £500k per annum. A similar proportion and profile of social enterprises also reported that they would look to reduce costs through efficiency savings.

“Thinking positively, we are focused on cutting costs and improving our marketing strategies to raise awareness of [our] work and encourage funding with existing and new supporters”

A social enterprise based in the South East with £5m+ turnover

² https://assets.publishing.service.gov.uk/media/64e88c0d691aa3000da56df2/LSBS_2022_SME_Employers.pdf

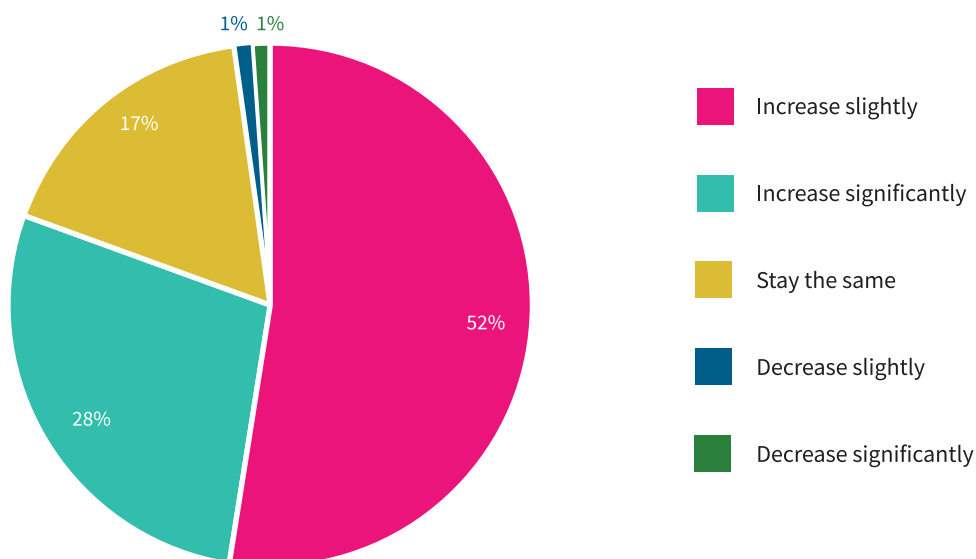
Growing demand

While positive expectations of turnover growth may indicate general optimism among social enterprises, it is also important to understand the extent to which they will need to increase production, which could impact their overall profit.

A significant majority believe demand for their social enterprise products and services will increase. 52% reported

they expect demand to increase slightly and 28% believe it will increase significantly, while 17% report demand will remain the same and less than 3% believe it will fall. For some, this is positive for growth; for others, it merely places pressure on the goods and services they provide.

Expectations of demand growth for social enterprise goods and services



The reasons for increased demand are varied. Several respondents expect demand to increase significantly because they provide services targeted at vulnerable groups, whose circumstances are set to worsen due to the cost of living crisis and other economic pressures. This can raise the cost of delivery for social enterprises and strain their resources to deliver critical support to communities.

“Members need more support therefore our demand for support goes up, but no financial income with it”

A social enterprise based in Yorkshire and the Humber

“We hope to replace lost contracts with diversification of our client base...but our clients’ budgets are squeezed”

A social enterprise based in the North West

The ability of social enterprises to achieve their missions, while continuing to operate sustainable businesses, has been tested by current economic conditions. It is important that government provides support where possible to ensure

viable social enterprises can thrive. The next section explores the extent to which recent high-profile support packages have benefited social enterprises.

“There is a difference between an increase in demand and the availability of beneficiary, contracted or funded income to finance the increase in demand”

A social enterprise based in the East of England

“There is a demand for products and services, but the difficulty is the low pay and rates being offered, slow payment of invoices and competition”

A social enterprise based in the East Midlands

Government support packages

43% have never heard of the VCSE Energy Efficiency Fund – and of those who have, **49%** are ineligible to apply

52% have never heard of the Community Organisation Cost of Living Fund

48% claim their local authority offers no support for social enterprise

We asked respondents about two government support packages aimed specifically at social enterprise, as well as the full expensing regime intended to support the wider business community.

Energy Efficiency Fund

The Voluntary, Community, and Social Enterprise (VCSE) Energy Efficiency Fund opened in November 2023 as part of a £100m+ government funding package to help frontline delivery organisations with the cost of living crisis. It committed £25.5 million to support VCSE organisations improve their energy efficiency.

Unfortunately, survey findings show that nearly half of social enterprises are unaware of the fund, while many more are not eligible; 44% had never heard of it and almost 50% of those who had were ineligible. 12% suggested they planned on making an application. Across the sample, only a single social enterprise reported successfully applying for support from the fund.

While the fund is aimed at VCSE organisations in England and restricted to specific legal entities, a wider eligibility criterion is in place. It is accessible to social enterprises delivering

frontline services, that can evidence their needs for energy efficiency support and demonstrate financial sustainability. They must also not be suitable for other loans that could fund energy assessments. Capital grants have further requirements, including an independent energy assessment and a demonstration that grant-funded measures will improve both financial resilience and service delivery. More evidence is needed to determine the extent to which eligibility criterion is a barrier for social enterprises.

The vast majority of social enterprises are committed to ecologically sustainable practices, with 83% saying they believe environmental considerations are at least as important as costs in supply chain decisions, and 65% reporting they have a plan in place to reduce their carbon emission.³

Community Organisation Cost of Living Fund

The Government launched the Community Organisations Cost of Living Fund in July 2023, to be delivered by the National Lottery Community Fund. The £76m package was aimed at distributing grants to frontline services that had seen demand and delivery costs increase as a consequence of the cost of living crisis.

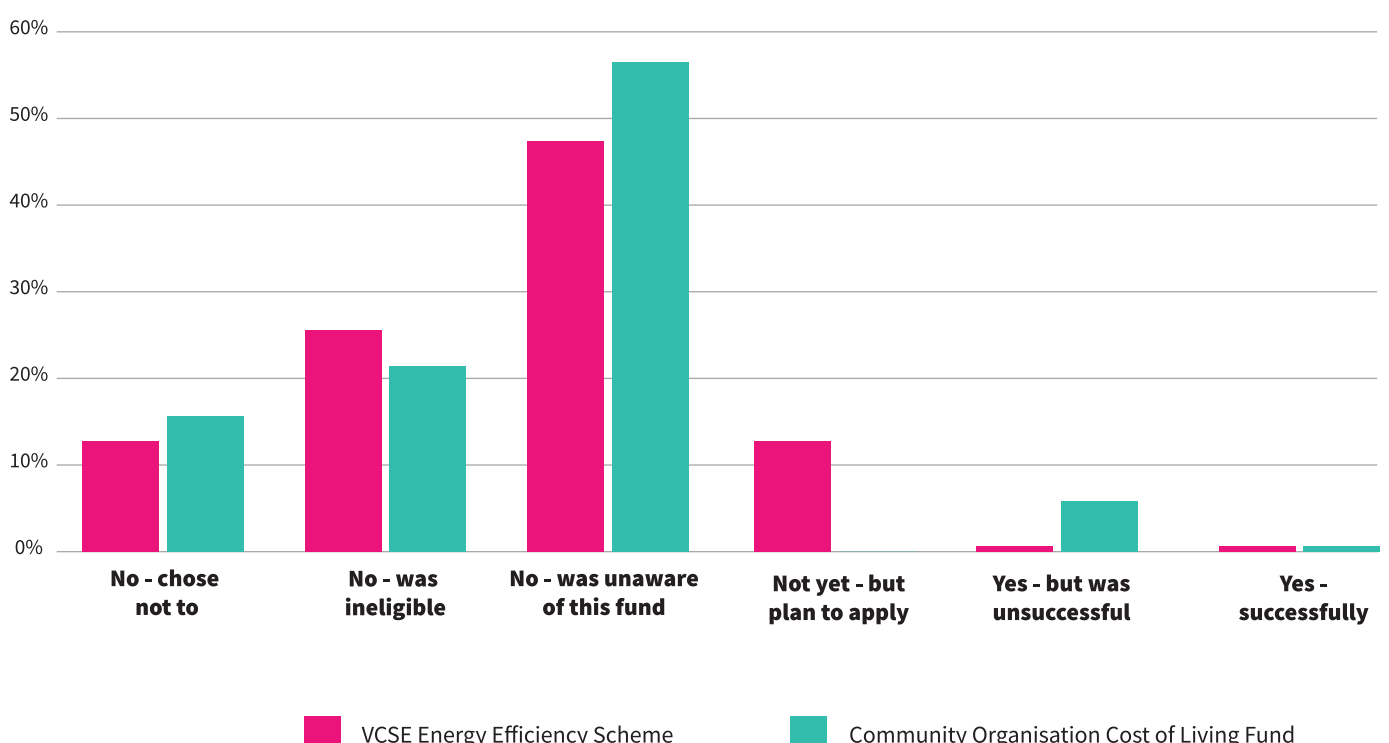
Similarly to the Energy Efficiency Fund, awareness is limited. 52% of respondents had not heard of the fund, while an additional 20% said they were ineligible. Again, only a single respondent had successfully applied for the fund, while 6% applied unsuccessfully.

The community fund was open for organisations running critical services. Such services were centred around the

provision of emergency amenities including food and shelter, as well as services aimed at providing vulnerable groups with a safe space. Again, more needs to be done to determine which social enterprises were ineligible, and whether additional resourcing is needed to broaden support for community-focused businesses.

The cost of living crisis has directly impacted social enterprises through raising their operational costs. However, it has also impacted on the many communities those social enterprises support. As noted earlier, for many, this has meant an increase in demand for their services. Additional support is critical to ensuring these social enterprises can continue to deliver key services and support the economic well-being of local residents.

Applications to government schemes from social enterprise



³ <https://www.socialenterprise.org.uk/app/uploads/2023/12/Mission-Critical-State-of-Social-Enterprise-2023.pdf>

Full expensing regime

Full expensing is a tax relief that allows companies to deduct whatever they spend on capital equipment from their profits to lower their tax bill. Introduced in the 2023 Spring Budget and set to last until March 2026, the scheme was then made permanent in the 2023 Autumn Statement.

Full expensing was announced as building on the super-deduction scheme, introduced in 2021, which allowed companies to reduce their tax by investing in qualifying plants and machinery assets. At the time, super-deduction was hailed as the biggest two-year business tax cut in modern British history, with the expressed aim of incentivising greater private sector investment.

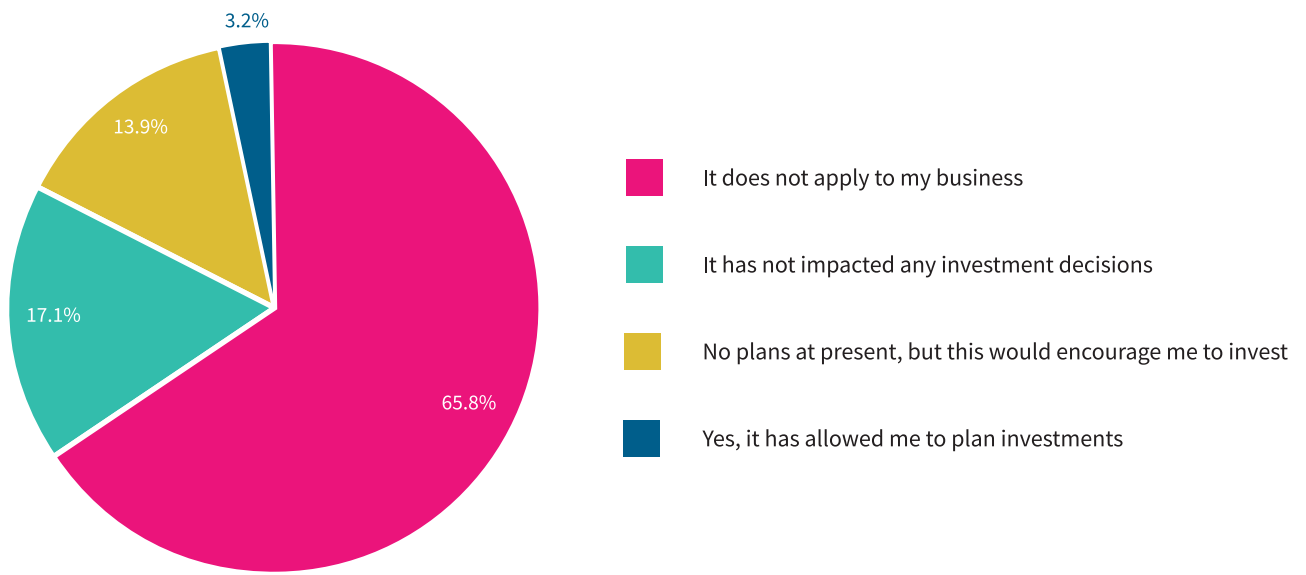
It appears that social enterprises have not benefitted from these tax reforms aimed at business. 66% said full expensing would not apply to their business, while a further 17% reported it would have no impact on investment decisions. Only 3% said full expensing had allowed them to plan investments, with 14% saying it could potentially encourage them in the future.

Until recently, the full expensing scheme was a temporary measure. The Institute for Fiscal Studies suggested that the temporary nature of the scheme would not have any long-

term impact on capital stocks, because it would just shift the timings of when investments were made.⁴ While the impact of the transition to a permanent tax relief scheme is yet to be seen, the cost for government was estimated at £1-3bn per year during the period of the temporary policy.⁵

Social enterprises should not be neglected from government efforts to stimulate and encourage investment. On average, social enterprises that make a profit re-invest 88% to drive progress in their business and its mission. Several respondents highlighted that alternative methods are needed to encourage and support social enterprises to increase production and investment.

When the super-deduction was first introduced, the Social Enterprise Advisory Panel collected evidence on its expected impact. 83% reported they would not use the scheme or were unsure – but many said expanding the scheme would benefit their social enterprise. 58% believed it would be beneficial for the deduction to cover investment in business models that generate higher levels of social impact, and 66% felt it would help if the scheme covered investment into collaboration and partnerships with other businesses. This raises questions for how we develop business tax policy to encourage the better business behaviours exemplified by social enterprises.



Social enterprise and local government

The role of local authorities in supporting local economic development has grown over the past decade, with devolution recognised as a means of supporting efforts to reduce regional inequalities. Local government has several roles to play supporting social enterprises: as a provider of business services, from licensing and permit approval to general support – and as a customer, making use of local social enterprises to deliver key services and supporting local public sector supply chains.

Anecdotally, we have seen an increase in local and combined authority engagement on social enterprise and the social economy. We asked this initial question to respondents as the start of work to better understand activity and best practice across local government.

However, many social enterprises do not feel as if local

“We have benefited recently from a local authority fund, but it wasn’t specifically for social enterprises. It may be that I am just not aware of what is on offer”

Welsh social enterprise

government is a source of support. 48% said there was no social enterprise support available from their local authority, while a further 9% said it was in ongoing development. This suggests a majority of local authorities either not providing tailored support or failing to raise awareness of it among local social enterprises.

When local government does have social enterprise support available, this is typically developmental support and financing. 17% reported their local authority had targeted schemes in place to support social enterprise, with the same proportion reporting available funding and grants. 14% said their local authority had a social enterprise strategy in place. It is vital that local government and social enterprises work together to address the systemic social and economic challenges that face their communities, so the Social Enterprise Knowledge Centre will continue to explore this.

“[Our local] council provides support for charities but very little for social enterprises. There is a Hub which is run by ex-council workers. Organisations need to be part of the clique in order to get any kind of support.”

South West based social enterprise

Social enterprise perceptions on local government support

Targeted business development support for social enterprises	16.7%
Funds/grants specific to social enterprise	16.7%
There is a local social enterprise strategy	13.7%
Social enterprise support is currently being developed	8.9%
There is no support to social enterprise, that I am aware of	47.6%
Total	100.0%

⁴ <https://ifs.org.uk/publications/full-expensing-and-corporation-tax-base>

⁵ <https://ifs.org.uk/news/long-term-costs-full-expensing-much-lower-official-estimates-suggest>

Next steps

Economic instability and the prospect of further public spending cuts threaten social enterprise performance for the year ahead. Amid overall sector optimism, many are struggling. We know that social enterprise is more resilient than other forms of business, as demonstrated in recent economic crises – but they also contribute more to society, so they need to thrive, not just survive.

Targeted government support could help social enterprises to develop and expand, generating economic growth and shared prosperity. Over the next year, the general election campaign must facilitate our next government to provide more comprehensive and strategic support for social enterprise growth. This is not about spending money; it's about better allocation of resources.

Broadening business policy

Creating an environment in which social enterprise can thrive requires appropriate policy development. However, there remain significant gaps in the relationships with and understanding of social enterprise throughout government. This often results in social enterprises being overlooked in the policy-making process.

As a starting point, a new Ministerial role should be created with a specific and singular focus on social enterprise. A minister in the heart of government would help to broaden awareness of social enterprises and join up policy. SEUK is campaigning for this as part of the Future Economy Alliance, a cross-sector partnership established to push for bold national economic reform.

Central government engagement

Following the above results related to the Energy Efficiency Fund and Cost of Living Fund, SEUK is in conversation with the Department for Culture, Media and Sport (DCMS) about the effectiveness of these schemes and the potential to enhance support to vital social enterprise survey delivery.

It is also important that we consider how tax incentives are designed for business, to ensure these are encouraging investment into better business behaviour and supporting the development of a more diverse business community.

Local development

Many social enterprises have a specific mission to support their local community. Their business model may serve particular needs of local residents, or they may hire people from the local area who have struggled in the labour market. Social enterprises are also disproportionately present in the most deprived parts of the country, helping to stimulate economic activity and deliver growth and prosperity in areas that have been left behind.

However, there remains a lack of engagement with local government. The absence of local strategies to help nurture social enterprises is a missed opportunity to support the creation of businesses that will actively invest in the local community. SEUK is developing a work programme to better understand the status quo, in order to improve best practice on social enterprise support across local and combined authorities.

Methodology

The latest Social Enterprise Advisory Panel survey was conducted online between 15-30 January 2024 and received 168 valid responses during this period. The survey comprises a short set of questions, half addressing the quarterly topic while the remainder look at topical issues and areas for deeper research. For more information, please contact research@socialenterprise.org.uk.

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