

Social Enterprise Knowledge Centre: Insight

May 2024

Social Enterprise Barometer

Financial performance spotlight

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 a snapshot of 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's product and service delivery for members.

Key themes

The UK has been exposed to various shocks, which have had a profound and damaging impact on the economy. The recent cost of living crisis, prompted by surging energy prices, not only raised production costs for social enterprises but dampened consumer demand and intensified many of the social challenges that they are committed to addressing.

This paper draws on April 2024 Social Enterprise Advisory Panel survey findings to explore how the sector has performed financially over the past year, with a specific focus on its ability to increase turnover and generate profit during a time of ongoing economic turmoil.

For the first time, this survey has collected data on tenancy status - in part to better understand accessibility for schemes such as the Government's Voluntary, Community and Social Enterprise (VCSE) Energy Efficiency Fund, but also to help recognise the impact of property costs on social enterprises and to track how these costs have changed in recent years.

Against a backdrop of financial crisis among a growing number of local authorities, this research collected data on the extent to which social enterprises are generating income through local government. With many social enterprises focused on tackling local issues, partnerships with local government are often essential.

Finally, this research looks at new data on the adoption of artificial intelligence (AI) technologies among social enterprises. As new technologies proliferate across the world of business, it is important to recognise the scale at which they are currently being used and any potential barriers or threats that would leave social enterprises unable to harness such technologies for the social good.

Key findings

Challenging economic conditions are beginning to impact the financial performance of social enterprises, but they are still making significant contributions to the UK economy

50% of social enterprises increased their turnover in the past year, compared to **65% in 2023**

30% of social enterprises made a loss in the past year - an increase from **26% in 2023**

36% of social enterprises reported paying corporation tax; an estimated **£250 million** in corporation tax is paid by social enterprises

The cost of property is going up for social enterprises that rely on commercial premises

51% of social enterprises are leasing commercial properties, with **10%** owning commercial properties

62% of those leasing or owning commercial properties reported an increase in property costs over the past year

Many social enterprises rely on income from local government, but this is set to be squeezed in the next year

52% of social enterprises are generating at least some of their income through local government

27% of this group expect income from local government to fall in the next year

Social enterprises are embracing new AI technologies faster than the wider business community, but barriers to uptake remain

48% of social enterprises reported using some form of AI technology in their business, compared to **9%** of the wider business community

19% of social enterprises not currently using AI technologies plan on adopting them in the next year

24% of social enterprises report lack of technical knowledge and expertise as a barrier to further uptake of AI technologies

Financial performance

Turnover growth

50% of social enterprises increased their turnover in the past year

25% saw turnover remain roughly the same

23% saw turnover decline

Social enterprises are outperforming other forms of business on turnover growth

There has been a marked downward shift in the proportion of social enterprises reporting turnover growth. 50% of social enterprises saw their turnover increase during the past year. This is substantially lower than the 65% of social enterprises that reported increasing turnover during the last State of Social Enterprise survey conducted in 2023.¹

Despite the reduction in social enterprises reporting turnover growth, they still compare favourably to the wider small business community. An estimated 34% of small and medium-

sized enterprises (SMEs) reported increasing revenues during 2023, while 40% reported a decrease in revenue during the same period.²

There was also a small but significant increase in social enterprises reporting their turnover had declined in the past year. 23% saw their turnovers decline in the past year - an increase from 17% in the last State of Social Enterprise survey.³ This is in line with the 23% of small business employers that reported a fall in turnover during 2022.⁴

Changes in turnover during the last financial year

Increased	50%
Decreased	23%
Stayed roughly the same	25%
Don't know/Prefer not to answer	2%

¹ <https://www.socialenterprise.org.uk/app/uploads/2023/12/Mission-Critical-State-of-Social-Enterprise-2023.pdf>

² Estimates calculated using the Federation for Small Business (FSB) quarterly Small Business Index estimates. The figures are the average of each of the quarters of 2023.

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

⁴ Data collected from the Longitudinal Small Business Survey - https://assets.publishing.service.gov.uk/media/64e88c0d691aa3000da56df2/LSBS_2022_SME_Employers.pdf

Profit

64% of social enterprises made a profit or broke even in the last financial year, compared to 70% in the 2023 State of Social Enterprise survey

Just under **30%** of social enterprises reported making a loss

On average, social enterprises re-invest **91%** of profit into their social and environmental missions

The trend in reported profits is similar to turnover. 43% reported making a profit during the last financial year, with a further 21% breaking even. Again, this marks a decline from the 2023 State of Social Enterprise survey, where 48% of respondents reported making a profit and 22% broke even.⁵

Just under 30% made a loss in the last financial year, compared to 26% in the State of Social Enterprise survey.

Profitability is significantly lower among social enterprises compared to the wider SME community. In 2022, 79% of SME employers reported making a profit or surplus, in line with pre-Covid-19 rates. The impact of the cost of living crisis on

wider business is not yet clear, but it remains apparent that social enterprises are not matching other businesses when it comes to generating profits.

The decline in profitability among social enterprises will likely impede their ability to tackle social and environmental challenges. On average, social enterprises re-invest 91% of their profits into achieving their core missions. Two thirds (67%) of social enterprises re-invest the entirety of the profits they generate. Supporting social enterprises to make a profit or surplus has the potential to significantly increase business investment into improving social and economic conditions across the country.

Changes in profit during the last financial year

Taking into account all sources of income in the last financial year, did your organisation make a profit/surplus, did it make a loss, or did it break even?

We made a profit/surplus	43%
We made a loss	29%
We broke even	21%
Don't know/Prefer not to say	7%

⁵<https://www.socialenterprise.org.uk/app/uploads/2023/12/Mission-Critical-State-of-Social-Enterprise-2023.pdf>)

Corporation tax

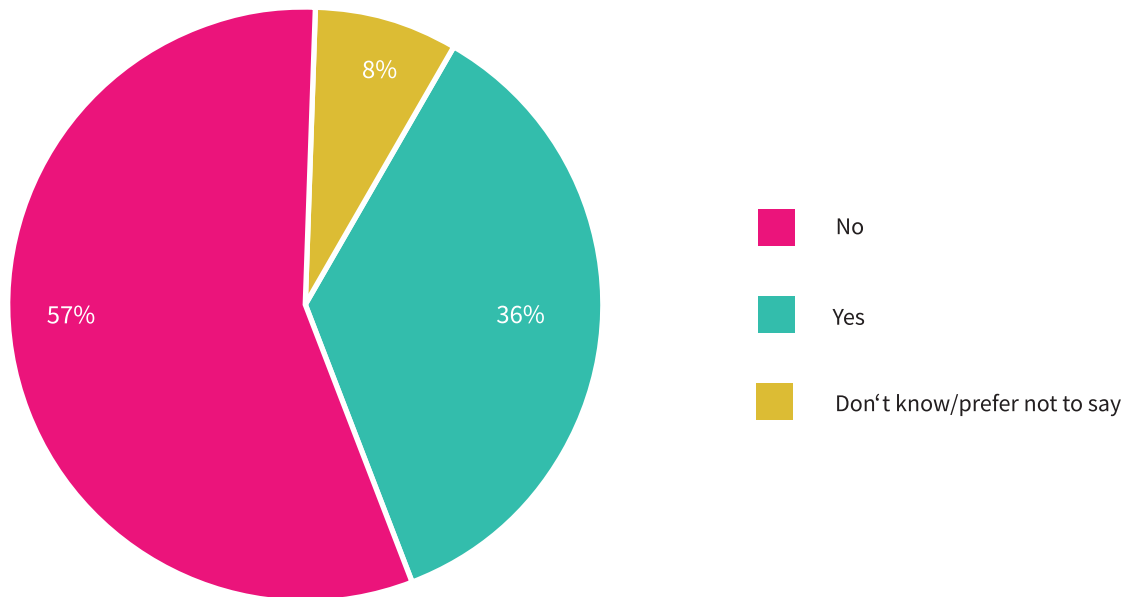
36% of social enterprises paid corporation tax in the last financial year, compared to **24%** of UK businesses in 2021/22

Social enterprises contribute roughly **£250 million** in corporation tax

36% of social enterprises reported that they paid corporation tax in the last financial year. This compares to the 24% of UK-wide companies that had an amount to pay in the financial year 2021 to 2022.⁶

The 2023 State of Social Enterprise report found that social enterprises paid £5,430 on average in corporation tax. If this was matched on to wider estimates on the size of the sector, it would mean social enterprises were contributing just over £250 million in corporation tax in 2023. This would amount to 0.3% of the total corporation tax receipt in 2022/23⁷

Proportion of social enterprises that paid corporation tax in the last financial year



⁶ Author's calculations based on figures provided by HM Revenue and Customs: <https://www.gov.uk/government/statistics/corporation-tax-statistics-2023/corporation-tax-statistics-commentary-2023>

⁷ Ibid

Tenancy status

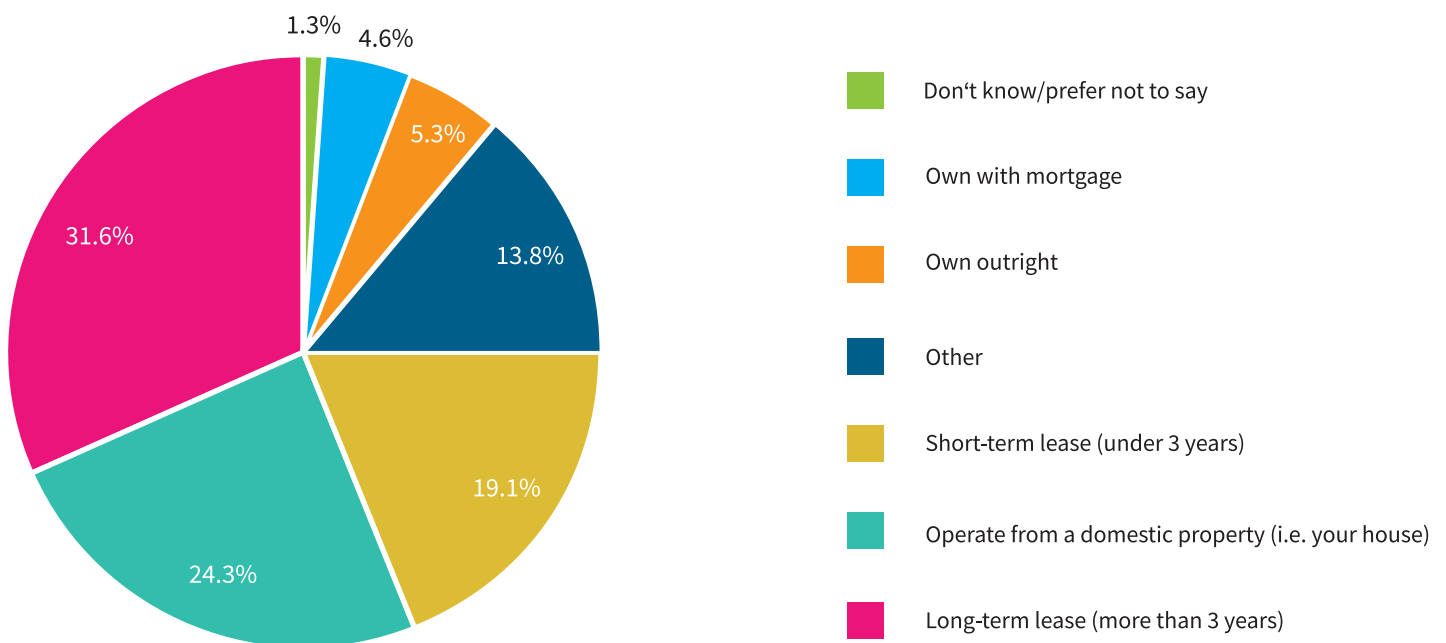
This section explores tenancy status among social enterprises and how property costs have impacted their business.

The costs of commercial properties can vary widely, depending on the type of property a business needs and its location. Corporate real estate has been found to be the second highest cost, after salaries, for businesses. Changes in commercial property costs have fluctuated significantly in recent years - partly in response to the impact of Covid-19 lockdowns and the shift to remote working, but more recently due to surging interest rates aimed at reducing inflation.⁸

For social enterprises, stable and affordable property costs can have great benefits for their business. Excessive costs can eat into profits and compromise their ability to achieve their social missions. It can prompt them to pass on costs to customers or search for cheaper properties, which may have fewer benefits for their organisation.

There are also many that have alternative arrangements. 19% of respondents have a short-term lease of less than three years. Almost one in four (24%) respondents reported that they worked from a domestic property such as their home.

Tenancy status of social enterprises



Among those that either leased or owned commercial premises, 62% reported that their costs (including rent, mortgage repayments, insurance and other property-related expenses) had increased in the last year. A further 28% reported costs had remained the same. Notably, only 50% of those that owned their properties either outright or with a mortgage reported increasing costs - well below the average - suggesting potential financial benefits of commercial property ownership.

Several respondents flagged that increasing property costs were beginning to impact the feasibility of their business. Restrictions on how properties are used under leasehold agreements limit the opportunities for social enterprises to offer additional services that could offset costs, with some respondents beginning to explore the prospect of purchasing their own premises.

“We are now paying a quarter of our income on rent, which isn’t financially viable for us, as we cannot sublet any rooms when they are not in use”

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

Others pointed to various other costs that had risen. From business rates to insurance and service charge fees, social enterprises have to deal with sometimes arbitrary cost increases, which can negatively impact their business model. In addition, several pointed out that while their rents had not increased, their agreements contained clauses that would leave them subject to review.

“Insurance for everything has increased quite a lot”

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

“Rent has remained the same, although there is an upward only review clause, but this has not happened over the previous five years”

a social enterprise based in the West Midlands with a turnover between £100k and £500k

It is critical that social enterprises have access to appropriate and affordable commercial premises, which do not over burden their business with hidden fees and unreasonable price surges. Every business must factor the cost of commercial premises into their business plan - but when social enterprises are hit with sudden and excessive cost increases, it can diminish profits and investment, ultimately reducing their capacity to achieve their core social missions.

⁸ [https://www.carterjonas.co.uk/commercial-market-outlook#:~:text=Average%20annual%20industrial%20rental%20value,March%202024\)%20at%206.9%25.](https://www.carterjonas.co.uk/commercial-market-outlook#:~:text=Average%20annual%20industrial%20rental%20value,March%202024)%20at%206.9%25.)

⁹ <https://www.socialenterprise.org.uk/app/uploads/2024/02/SEUK-Social-Enterprise-Barometer-Feb-24.pdf>

Public sector trading

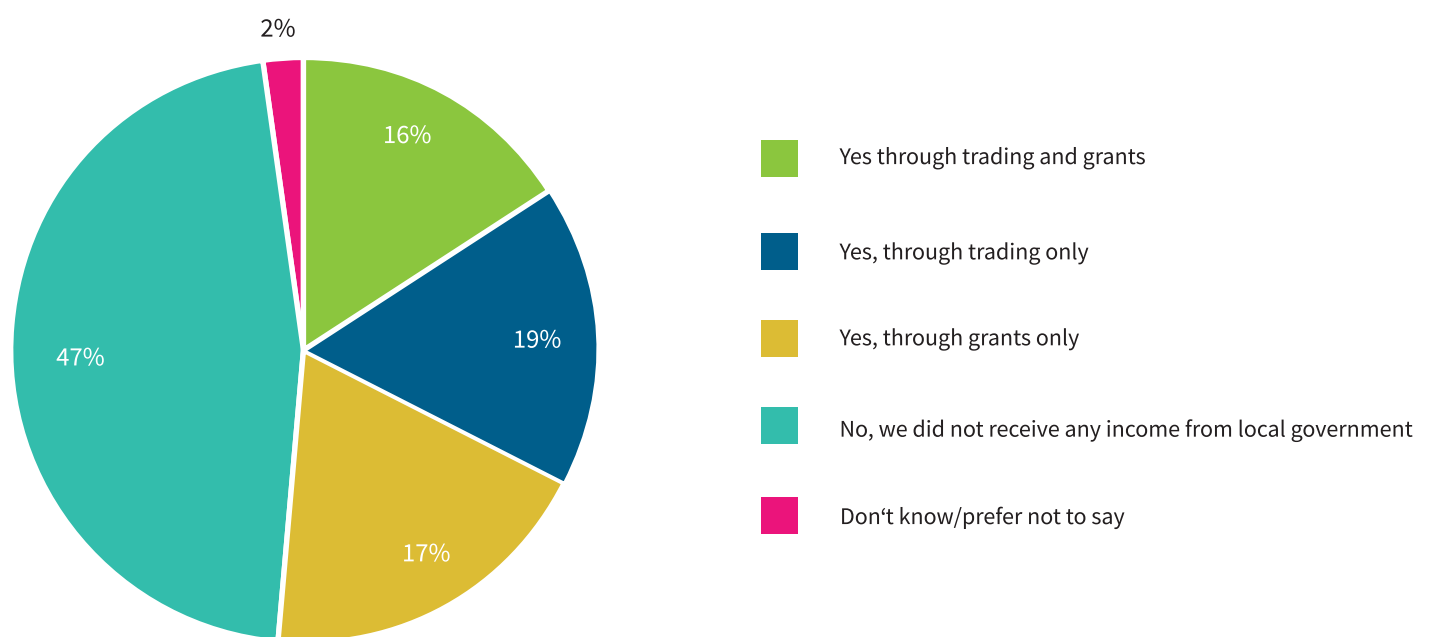
The public sector is a major trading partner for social enterprises. In 2022/23, £393 billion was spent on public procurement across the UK.¹⁰ Legislation such as the Social Value Act encourages those responsible for procuring goods and services to consider the social and environmental impact of this expenditure. In recent years, efforts to devolve power have expanded the purchasing power of local government within the UK.

Over 60% of social enterprises are estimated to generate at least some income through trading with the public sector,

with this being the main source of income for almost 20%.¹¹ This represents a significant business opportunity for social enterprises able to embed themselves in public sector supply chains.

19% of social enterprises reported that they had received income through trading with local government, while 17% reported receiving grant funding. A further 16% reported that they had received income from local government, through a mixture of both trading and grants.

Proportion of social enterprises generating income through local government



While this potentially signifies a healthy relationship between social enterprises and increasingly powerful local authorities, there are signs of financial stress that may diminish the spending power of local government. The impact of inflation and rising demand for the services that local authorities are expected to provide has seen a rising number of local authorities issuing notices of severe financial distress.¹²

Social enterprises are broadly optimistic that they will be able to continue increasing the amount of income they receive through local government in the next year. Two in five (40%)

of the social enterprises that received income from local government expect it to increase next year, while a further 24% expect it to remain the same.

However, a substantial proportion of 27% of social enterprises in this group expect their income from local government to fall in the next year. Several cited the lack of inflationary budget increases as a cause of concern, with the ongoing financial challenges facing local authorities mentioned as a source of both uncertainty and anxiety for their business.

“If they issue a Section 114¹³ then all contracts could be cancelled leading to a lot of anxiety to providers on a contract”

a social enterprise based in the South East with a turnover between £100k - £500k

Others have noted the financial stress facing local government, which has deterred their interest in pursuing contracts. Social enterprises often have social missions aligned with the ambitions and interests of local governments. If they are left feeling unable or unwilling to pursue local government contracts that they could deliver, it may deprive the local community of partnerships that have the potential to generate many localised social benefits.

“We understand the budgets are tight for local government organisations so don't really actively chase business with them”

a social enterprise based in London with a turnover between £100k - £500k.

Local government is an important source of income for many social enterprises, but they are not going to be able to provide regular demand if more local authorities are subjected to intense financial pressures. Recognition of the dire state of local government finance - and additional support to ensure that they can continue to meet not only their statutory obligations, but also invest in improving their local community - would help expand commercial opportunities for social enterprises who provide local goods and services.

¹⁰ <https://commonslibrary.parliament.uk/research-briefings/cbp-9317/#:~:text=According%20to%20Public%20Spending%20Statistics,22%2C%20not%20adjusted%20for%20inflation.>

¹¹ <https://www.socialenterprise.org.uk/app/uploads/2023/12/Mission-Critical-State-of-Social-Enterprise-2023.pdf>

¹² <https://publications.parliament.uk/pa/cm5804/cmselect/cmcomloc/56/summary.html#:~:text=It%20is%20no%20surprise%20that,inflationary%20pressures%20driving%20up%20costs.>

¹³ Section 114 is a notice issued by local government when expenditure is likely to exceed available funds

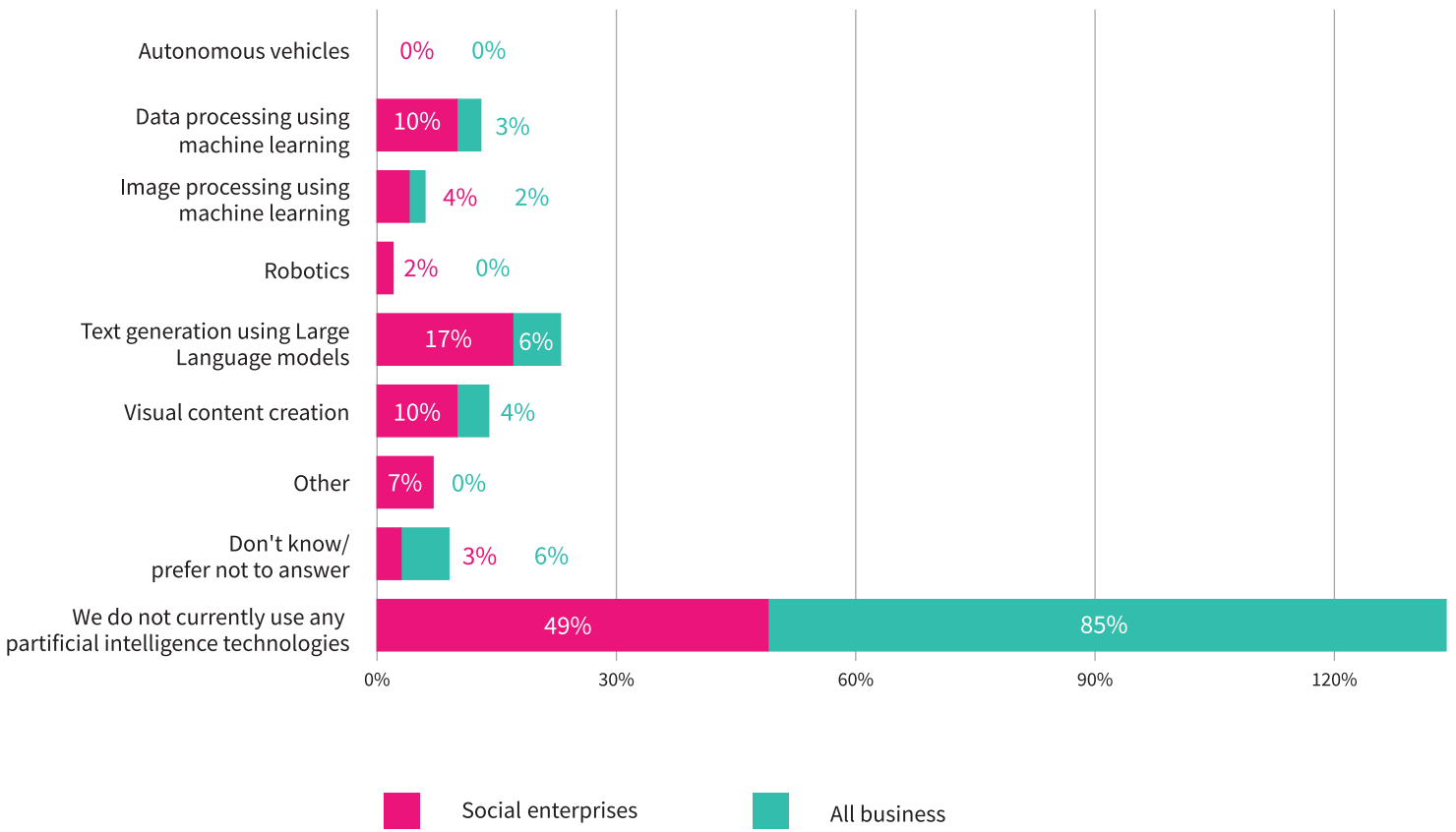
Artificial intelligence

The advent and development of generative AI and other new technologies such as robotics have raised questions over how this will impact the global economy. The scope for AI to augment the capabilities of workers and automate existing roles has the potential to generate significant productivity gains across multiple industries¹⁴, while also provoking concern that it could have a negative social impact through exacerbating unemployment and worsening the skills gap.¹⁵

The recent rapid advances in new technologies have raised questions over the effectiveness of regulation. The prospect of AI being monopolised by a small group of businesses, that may not be transparent in how they are using such technology, could create an imbalance of power that benefits the very largest companies at the expense of wider society.¹⁶

Many social enterprises, however, seem to have been enthusiastic in the take up of new AI technologies. Text generation was used by 17% of social enterprises compared to just 6% among the wider business community, while data processing via machine learning was used by almost 10% of social enterprises but just under 3% among the wider business community. While around half of social enterprises did not report using any AI technologies, over 90% of the wider business community reported the same. This suggests social enterprises may be more actively leading the way when it comes to adopting new technologies.

Business adoption of specific AI technologies¹⁷



Among those that had not adopted AI technologies, 19% said they planned on adopting them in the next year, while 52% ruled it out. Several suggested that this was mostly a consequence of not fully understanding how AI technologies would be used in their business model. This could potentially be resolved through greater efforts to build awareness of what AI technologies can do, and how the wider social enterprise sector is already making use of such advancements.

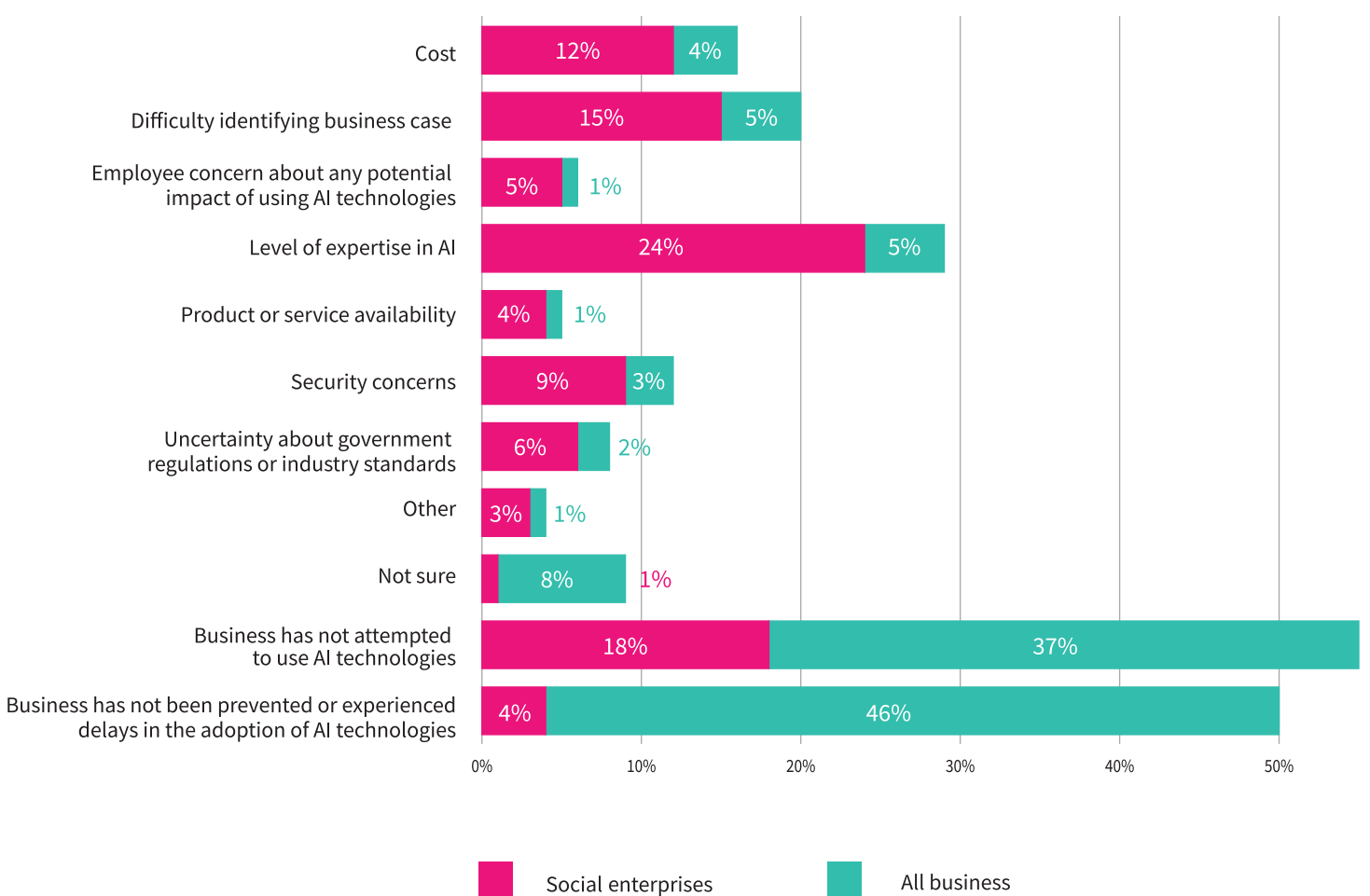
“We are not currently sure what this would look like for us as a service driven organisation delivering services that have to people led”

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

Generally, social enterprises are more likely to report barriers to the uptake of AI technologies compared to the wider business community. Lack of expertise was an issue among 24% of social enterprises, compared to just 5% of the wider business community in the last year. Difficulty identifying the

business case was reported by 15% of social enterprises, and costs by 12%. While this may reflect the fact social enterprises are more likely to adopt new AI technologies, it does raise questions over the extent to which barriers may be preventing them going further.

Factors that have prevented or delayed adoption of AI technologies in the last year¹⁸



While social enterprises seem to have embraced new AI technologies, we will need to continue to monitor developments on the extent to which this is improving their business capacity and ability to achieve social missions. It is

critical that new technologies are harnessed for the benefit of as many social enterprises as possible, and that support is in place to overcome barriers and prevent the threat of AI being monopolised or used against the public interest.

¹⁴ <https://www.mckinsey.com/capabilities/mckinsey-digital/our-insights/the-economic-potential-of-generative-ai-the-next-productivity-frontier#key-insights>

¹⁵ <https://www.ippr.org/media-office/up-to-8-million-uk-jobs-at-risk-from-ai-unless-government-acts-finds-ippr>

¹⁶ <https://cepr.org/voxeu/columns/dangers-unregulated-artificial-intelligence>

¹⁷ Data on the wider business community sourced from Wave 98 of the Business Insights and Conditions Survey conducted in December 2023 - <https://www.ons.gov.uk/economy/economicoutputandproductivity/output/datasets/businessinsightsandimpactontheeconomy>

¹⁸ Ibid

Next steps

Economic instability is beginning to impact the social enterprise sector. The proportion of social enterprises reporting that their turnover has increased has fallen, and a larger proportion are reporting that they have made a loss. While social enterprises have proven resilient over several years of intense economic shocks, their experiences are now more closely aligned with the wider business community. This is the clearest demonstration yet that while many social enterprises survive, they are failing to thrive.

Over the next year, we need to see more recognition from government over the challenges facing social enterprises. The upcoming General Election is an opportunity for political leaders to offer comprehensive and strategic support, to not only broaden awareness of social enterprise models but also implement more effective packages that can allow these businesses to continue tackling the most pressing societal challenges while supporting wider economic recovery.

Methodology

The latest Social Enterprise Advisory Panel survey was conducted online between 4-30 April 2024 and received 136 valid responses.

written by Dean Hochlaf with support from Emily Darko and Lindsey Frodsham

Please contact Emily with any feedback or questions:
Emily.darko@socialenterprise.org.uk