

Research Institute Report No. 1

The community business market in 2015

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Contents

About this report	1
Executive summary	2
1. Revisiting the concept of community business	4
2. Size and scope of the market in 2015	18
3. Supporting community businesses	35
Conclusion	52
Appendix A: Market overview and sector profiles	55
Appendix B: Interview list	71
Appendix C: Survey methodology and respondent profile	72

About this report

Power to Change commissioned Social Finance in September 2015 to provide an updated assessment of the state of the community business market. This followed Social Finance's original report on the community business market, *What If We Ran It Ourselves?*, published in January 2015, based on research conducted by Social Finance and the Young Foundation from April to June 2014.

The report has been researched and written as an independent assessment of the market. Although Power to Change has provided considerable input and support to the team, the views expressed here (and any errors that persist) remain entirely those of the authors. Our focus has been to take an analytical market-level approach to quantify the number of community businesses and understand their support needs, rather than advising Power to Change as an organisation to determine its overall strategy or grant-giving criteria.

The findings in this report are based on 55 interviews, an online survey of 289 community businesses, desk research, and publicly available data. We have attempted to publish as much of the source data as possible (see Appendix A) so that our understanding of the market can be improved as and when better information becomes available.



Social Finance is a not for profit organisation that partners with the government, the social sector and the financial community to find better ways of tackling social problems in the UK and beyond. Since it started in 2007, Social Finance has mobilised over £100 million of investment and designed a series of programmes to tackle social challenges. These include support for 2,000 short sentence offenders released from Peterborough Prison, 380 children on the edge of care in Essex, 2,500 young people at risk of becoming NEET and 800 rough sleepers in London. It is also alleviating fuel poverty for over 2,300 families in Sunderland, enabling 15,000 families to access nursery places and free children's services, and providing 7,500 affordable micro loans in Wales.

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Executive summary

Since we released our first report on the community business market last year, *What If We Ran It Ourselves?*, it has become ever clearer that this is a market of many sectors: from groups that take over their local library to those building multi-million pound local energy projects, the diversity of the market is a source of great strength and vitality.

As of late 2015, there were approximately 5,650 community businesses, generating £0.9 billion of income on £1.4 billion of assets.

However, this same diversity carries with it a number of challenges, not least in placing boundaries around the market in order to understand its size and support needs. As a first step, this report reviews the key ingredients that allow community businesses to deliver impact beyond traditional organisational forms, such as social enterprise, charity, or private business that would not otherwise qualify as community businesses. We then reflect on the ‘four tests’ we developed last year for defining community businesses. We find that these tests still suffice for market-level analysis, but we also recognise that different businesses may meet them in very different ways, depending on their state of development and market sector.

Based on this refined understanding of the market, we have derived a new estimate of its size. As last year, we took a bottom-up approach to 15 market sectors (adding two new sectors, finance and health and social care). We based our assessment on 55 interviews with market players, a survey of 289 community businesses, and comprehensive desk research.

We found that, as of late 2015, there were approximately 5,650 community businesses, generating £0.9 billion of income on £1.4 billion of assets. On a like-for-like basis, excluding the two new sectors and adjusting 2014 numbers where significant new information had come to light, this represents 9% growth on last year. Income and assets grew at an even faster rate because the sectors that expanded fastest are income- and asset-intensive. This positive view of the market’s development is tempered by wide disparities in the nature of the growth of different sectors.

Sectors typically fall into one of three categories, based on their past growth and future outlook:

- **Growing, but at risk:** These sectors have typically experienced strong growth up to now, but face important risks from the withdrawal of subsidies or grant schemes or other macro trends. Energy, bolstered up to now by the Feed-In Tariff scheme, is a clear example.
- **Steady progress:** These sectors have often seen small net growth since 2014 and have been less affected by policy decisions or economic trends: tourism and heritage for instance.
- **Growth potential:** These are sectors where we see significant growth opportunities ahead, given the right environment and support. The nascent health and social care sector is one example here, as is the much larger but rapidly expanding sport and leisure sector.

Finally, we review the support needs of the market and have developed a ‘heat map’ to highlight the areas that businesses currently identify as areas of high need, including business planning, revenue generation, and support from peers and hands-on advisers.

As the second report into the community business market, this is our first opportunity to review the dynamics of a market in motion. So far, we have found community businesses to be resilient and innovative, posting growth in one year that would make even China jealous. Yet looking forward, risks abound. Repeating last year’s performance in 2016 will be the market’s toughest challenge yet.

Chapter 1. Revisiting the concept of community business

Key insights

- Community businesses deliver a unique and special impact by virtue of their focus on the means, rather than just the ends, of production: they actively develop social capital, thrive where others cannot and strengthen community resilience – but by the nature of their diversity, community businesses deliver impact in a large number of different ways.
- We developed four tests last year to identify organisations that most effectively deliver this type of impact. We believe these tests (leadership, place, community value and local returns) remain the right ones.
- However, our findings highlight the importance of applying these tests flexibly, in the context of an organisation's ambitions, ethos and stage of development. Relatively few community businesses will excel in all four areas, particularly at an early stage. When examining individual businesses, judgement and an appreciation of circumstances is required.
- Community businesses can take a range of legal forms, and in many ways can be seen as a subset of the social enterprise market – but what makes a community business distinct within that sector is its local accountability and focus on a particular place.

The aim of this report, coming a full year after our initial review of the community business market, is to provide a view of how the market has evolved over the course of 2015. While a core part of our assessment is *quantitative*, in terms of the number and size of organisations across different sub-sectors, the *qualitative* dimensions of the market's development can be just as insightful. In particular, we aim to offer some clues as to the vitality of community businesses, the opportunities and risks they face, and the support they need to thrive.

But we cannot begin addressing these issues without first revisiting the very nature of community business. In part, this is a purely practical concern – it's impossible to size a market without creating some boundaries for where it begins and ends. Underlying these practical issues, however, is a need to remind ourselves *why* community business, as opposed to charity, social enterprise, or local business, is useful to promote and encourage. The answer lies in the special and differentiated form of impact that community businesses achieve for their local areas.

1.1 The special impact of community business

The critical differentiator for community businesses from other socially-motivated organisations is the impact they have on their localities by the *means* of their production, and not just the *ends*. While many organisations deliver valuable and socially beneficial services to a local population, such as healthcare or education, community businesses create a special kind of impact by engaging local people as creators, not just consumers, of their outputs.

As Power to Change puts it, community businesses can play a role in creating ‘better places’, with a strong sense of pride, possibility and positivity. Through their local focus, the best community businesses can help transform their local areas in a way that goes above and beyond their economic output. Figure 1 highlights the different types of impact that stem from the community business model.

Figure 1: Key benefits of the community business model

Develop social capital	Community businesses engage members of the community as producers, and not only consumers, of their output. They recognise, prioritise and pursue the development of the links between staff, volunteers and customers.
Thrive where others cannot	Community businesses help save or regenerate local businesses and community assets by developing innovative business models, operating at low cost with volunteer support, and raising revenues from loyal customers who buy in to their vision.
Strengthen community resilience	Community businesses prioritise transparency and inclusive decision making. They treat the community as owners, giving them a sense of control over their future. They often employ local people and favour local suppliers, strengthening the local community.

Critically, community business might be able to survive (or even thrive) in an environment where other organisational forms would shut up shop.

Developing social capital

Our research has suggested that community businesses can prioritise social capital in a way that other organisations might not. For instance, some community businesses actively seek to strengthen the bonds between members of the local community by making introductions between local people and participating in local networks. The concrete outcomes might be as simple as new friendships, joint childcare or car-pooling opportunities, or they might incorporate more complex community activities like better engagement in local government consultations, filling school governor vacancies or running community events and fairs.

Thriving where others cannot

Critically, community business might be able to survive (or even thrive) in an environment where other organisational forms would shut up shop; community-run pubs are often particularly strong examples of this. For instance, a pure commercial model may not succeed because it is unable to charge sufficiently high prices to continue operating, whereas loyal customers of a community business might be willing to pay the breakeven price to support a business they trust. Community businesses might also be able to supplement their income through donations and fundraising events. In some cases, a pure commercial model may not succeed because its costs are too high, whereas a community business might be able to leverage a volunteer workforce, receive in-kind benefits such as a peppercorn rent, or, depending on their structure, earn tax benefits that help them create a viable business.

Strengthening community resilience

A final benefit from the community business model is improved community governance and resilience. As locally-led organisations, they tend to set a high standard for transparency and inclusive decision making. This gives communities a much greater sense of control over their own future, instead of feeling perpetually subject to powerful economic and political forces.

It can also have knock-on benefits in terms of the local economy. As place-based organisations, community businesses may express a preference for locally-based staff and local suppliers, generating employment and trading opportunities for local people and businesses. Our survey provides some evidence for this. Only 9% of respondents said they did not pay attention to where their suppliers were based. 73% said they bought locally wherever they could and 34% were able to buy locally for most of their supplies. Only 6% had the same preference for buying from social enterprises in general, suggesting that it is the local, rather than social, nature of the suppliers that makes the difference. Nearly three quarters of community businesses reported working closely with other community businesses in their areas. Given that community businesses also reinvest their profits locally, the net impact on the local economy can be significant.

These three special types of impact of community businesses have been recognised elsewhere. For example, Big Society Capital articulated Sir John Egan's necessary characteristics of a sustainable community as being:

- The quantity and quality of social interactions
- Socio-economic situation
- Appropriate infrastructure

The differentiated impact of community businesses provides a strong rationale for focusing on them as a valuable group of organisations. The challenge is then to identify which organisations most effectively deliver that impact and should, therefore, be counted as community businesses.

1.2 The ‘four tests’ revisited

Last year, we laid out four tests to define community businesses. They need to be accountable to and led by the local community (Leadership); locally-rooted and place-based (Place); operate for the primary purpose of community benefit (Community Value); and structurally fund their own costs through trading activities (Local Returns) (see Figure 2). We also highlighted that there was a spectrum of good practice on each test, ranging from minimum conditions to ideal ones.

Over the past year, the concept of community business has moved from paper to purse as Power to Change engaged the market through its Initial Grants Programme. This process has confronted our four defining tests with the real life challenges of labelling a particular set of organisations as community businesses (and another set as ‘not’ community businesses).

In this context, and based on our updated research, we are now able to make a first attempt to reflect on our four tests and ask: Were they the right tests? And, if so, are we now able to better understand the different ways that community businesses meet them?

Figure 2. Four tests of community businesses proposed in 2015 report

	‘Floor’: minimum conditions	‘Aspiration’: ideal conditions
Leadership	Led and initiated by the local community to meet a local need.	With a democratic governance structure and processes that ensure active, ongoing engagement of the community.
Place	Defined by its link to a physical place.	With firmly established ties to the locality (e.g. trustees, employees and volunteers from local area).
Community value	Primary purpose is the generation of social value in the local community.	With asset locks in place and measures to avoid more than incidental private gain.
Local returns	Trading in goods or services as a means to being mainly independent of grants, and ultimately generating economic returns.	With demonstrated sustainability and revenues being generated and recycled locally.

Fundamentally, we believe these are still the right tests. An organisation that does not meet any of one of these tests, and is not well on its way to doing so, would not be delivering the kind of sustainable community impact that is the special domain of community business. Similarly, we have not identified any additional tests that should be imposed to ensure we are capturing the right kind of organisations.

Indeed, the tests provide some useful clear-cut boundaries. Online, dispersed communities would struggle to explain their local roots. Local branches with a national HQ that calls the shots are unlikely to be truly locally-led. Organisations that operate for the purpose of generating profit for the company's owners would not qualify, even if the owners are a small group of local people. Charities with a trading arm, but whose social purpose is mostly funded by donations, would fail on the fourth test.

An organisation that does not meet any of one of these tests, and is not well on its way to doing so, would not be delivering the kind of sustainable community impact that is the special domain of community business.

However, the tests also face a set of important and legitimate challenges, including:

- Whether the 'minimum' conditions are sufficient, or whether the community business label should be restricted to organisations that aim to achieve the 'aspirational' criteria.
- How the conditions should be applied in radically different contexts, ranging from a start-up local energy enterprise to a community-run library.
- How to treat organisations that do not meet one or more of the tests today, but aspire to do so in the future.

We will examine these challenges in the context of each test individually to shed some light on how they materialise in real-life examples and how they might be addressed.

Leadership

Some types of community business, particularly those formed to save a public or private amenity, lend themselves to clear demonstrations of community leadership. For instance, organisations run as co-operatives or funded through the community shares model are typically open to a broad membership base which gains formal voting rights over Board appointments and community direction. The best community businesses will have regular, continuous and transparent processes for hearing from, reporting to, and taking direction from key stakeholder groups, such as residents or service users.

Other organisations, particularly new, entrepreneur-led start-ups and some long-standing community groups with legacy assets, often struggle on this dimension. In some of these cases, alternative models of accountability may be appropriate, particularly during an organisation's early months and years. Examples include ensuring a majority of trustees/directors and the executive team live locally; using surveys, community meetings, or user groups to engage residents; and monitoring how involved local people feel in the running of the organisation.

Leadership test: Granby Four Streets

Granby Four Streets is a community regeneration project in Toxteth, Liverpool, working to breathe new life into a previously derelict area which was earmarked for demolition.

The organisation is set up as a Community Land Trust, a not-for-profit structure with a geographically defined membership, for organisations providing genuinely affordable housing for local people. This structure meant that residents could ensure the project was clearly owned and led by the community, accountable to the community, and genuinely place-based – one third of the Board are local residents, one third are from the local community and the remainder are from other stakeholder groups.

Place

Many community businesses have a catchment area that naturally defines the link to their local area. This is particularly true for businesses tied to a building, such as pubs, shops, libraries or other facilities. However, what makes a community business ‘place-based’ is as much about the feeling of local people towards the organisation as it is about its actual location – it is the sense in which the business is truly local, belonging to and founded in a specific community of people. That ‘community’ does not necessarily need to be one that is well-defined *a priori* – in some cases, the love of a local asset can forge a community’s identity where it did not exist before.

What makes a community business ‘place based’ is as much about the feeling of local people towards the organisation as it is about its actual location.

What matters is that the business is *aware* of the community it is intending to serve, *understands* the community’s needs, and that it is able to *deliver positive change* within it. In some sectors, where organisations can only be viable at a much larger scale, this test needs to be applied with some care – how do local people feel about the organisation? In what sense is it truly linked to a particular locale?

Implicitly, many organisations reflect ways that local people might meet each other and form connections, whether it is as staff, volunteers, customers, suppliers, owners or managers. Aspirational community businesses will explicitly recognise and cherish this networking effect, seeking to generate opportunities to foster local connections and proactively inviting other members of the community to participate. The best organisations recognise that a stronger local community benefits everyone and that their business operates as part of that. This might involve building links with the council, other community groups, and local businesses, or prioritising local suppliers to build up the area’s economy.

Place test: Can regional credit unions be community businesses?

The majority of credit unions are defined by geographic limits, giving themselves a natural link to a particular place. Such credit unions are open to anyone that lives in that area and are democratically run by their members. They typically support financial training activities in local schools and prioritise lending to financially-excluded individuals.

Some credit unions are small enough to be clearly linked with their communities. However, regulatory requirements and economies of scale typically require that credit unions cover a relatively wide area, naturally reducing their ability to stay locally-rooted in a meaningful way. In these cases, we need to apply the ‘Place’ test with some care, distinguishing between organisations that exert significant energies to maintain their local connections from others that have focused on achieving sustainability through geographic scale.

Community value

As identified in our previous report, one of the challenges around the ‘community value’ test is the need to define norms and best practices around profit, asset, and mission locks. These devices would help organisations that are structured as limited companies to prove that they exist for community, and not private, gain. A recent report on the use of ‘golden shares’ to guarantee social decision-making offers one answer to this long-standing challenge.¹

Without a mission or profit lock, legal status remains one of the few robust tools to distinguish for-profit from charitable organisations. Organisations that choose not to use a charitable or community interest legal structure have an added challenge to demonstrate how their business operates primarily for community value, and to explain how any surpluses from trading activities are recycled to support their local impact.

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Organisations that perform particularly strongly in terms of their community value will aim to track and monitor their social impact as a means to better understanding their community, how they interact with it and how they can ultimately deliver even greater benefit.

Community value test: Is job creation enough?

Some local businesses have indicated that they make little by way of profit and primarily exist in order to provide a service to local people and maintain the wages of locally-employed staff. Although commercial activity of all kinds brings benefits to local communities, not least through job creation, the aim of focusing on community businesses is to encourage organisations to deliver added social value.

For instance, Spacious Place is a call centre in Burnley in Lancashire that provides training, support and employment opportunities for ex-offenders and vulnerable adults from the Burnley area. The centre provides individuals with an opportunity for work-based training, while continuing to receive support to help them manage their new lifestyles. As well as the pride, self-worth and financial independence afforded by employment, the communication skills gained from their training are also likely to have a positive knock-on effect in their personal life and family interactions.

¹ <http://www.bigsocietycapital.com/research/going-gold-how-golden-shares-can-help-lock-mission-social-enterprises>

Local returns

A key feature of community business, as distinct from local charities, is their financial sustainability through trading activities, whether by selling to the public or operating services for public agencies. While some community businesses clearly pass this test by being entirely funded through market activities, there are two shades of grey that need further exploration.

A key feature of community business, as distinct from local charities, is their financial sustainability through trading activities, whether by selling to the public or operating services for public agencies.

In some cases, community businesses are not self-sufficient, but rather aspire to become so. In these cases, grant funding may be crucial in making that transition, whether it is used for support to get started or purchase an asset, get advice to improve a commercial offer, or to expand and add new services. The critical determinant of whether these organisations meet this test is essentially the viability of their future plans – does their current grant funding support the transition to sustainability, or does it pay for day-to-day operations that will never be independently viable?

For other organisations, their long-term operating plan might include the use of grants – but they use these to *extend* or *subsidise* their service offering. In effect, their core business could operate in a sustainable way, but they use grants to generate additional social impact that could not be achieved otherwise. A key test here is whether the organisation could genuinely survive (in some form) without grants, or whether it is intrinsically dependent on them.

The local returns test is not purely a matter of principle – a key advantage of the community business model is its ability to better survive the ebbs and flows of government support, the strategies of grant-making organisations, trends in individual philanthropy and corporate decision-making.

Local returns test: The business model of a community library

Local authority cuts have led to a surge in volunteer-supported libraries. Many of these are paying their way with transitional council funding, local donations and grant support. A typical business model might involve paying a peppercorn rent and using volunteer staff to keep costs low. Although most of these libraries are not currently self-sustaining, many have ambitions to diversify their revenue streams and achieve financial independence. Those with clear plans to do so would meet the local returns test.

Some interesting approaches are already being trialled. In November 2015, the Red Lion Pub in Weston took over the village library after the council closed mobile library services. By being co-located near the pub (with its own separate room), the pub hopes to maintain the service with longer opening hours and increased activity. Libraries in Bampton, Devon and Hallbankgate, Cumbria aim to become self-sustaining by hosting multiple other on-site services, such as pop-up Age UK advice shops, police stalls, shops and Post Office services. Little Chalfont Community Library in Buckinghamshire also raises income by hosting events such as film nights and computer classes, as well as by hiring out rooms for community groups and local businesses.

Interpreting the four tests

The four tests need to be seen in their context – as a way of creating some tangible limits to bound the market and focus attention on organisations with the greatest potential of achieving a particular type of community impact. There will continue to be exceptions across all the four tests. Some organisations will have weaknesses in some areas but show exceptional potential in others, and showing flexibility and judgement based on ambitions is vital. This is particularly the case when considering newer organisations. For example, the entrepreneurship and leadership of a few committed individuals is often required to successfully get a project off the ground, and fully engaging the community in the decision-making process may not be immediately practical. However, providing there is a genuine longer-term plan in place to ensure community control, this should not prevent an organisation from being seen as a community business.

Many community businesses will be in a transitional phase for the next few years. In those cases, we might lend weight (as with libraries) to organisations with credible aspirations and some evidence of progress towards meeting the tests they have not yet passed. For instance, a start-up may not be able to afford to organise extensive community engagement events early on, but might have clear and visible ambitions to move towards this once the initial business model has been proven.

Community businesses are often vibrant, innovative organisations. As such, they are likely to find new and imaginative ways of operating that deliver excellent community impact without fitting neatly into the four tests. Where the four tests leave a grey area for some organisations, we suggest that the ultimate test should be whether the organisation is generating and prioritising the differentiated impact that we believe the community business model is well placed to offer.

The key element that marks out some social enterprises as *community businesses* is their local accountability and focus on a particular place.

1.3 Community business and other organisational forms

It is deliberate that none of the four tests comment explicitly on an organisation's corporate structure. Such an approach recognises that different corporate structures will suit different types of community business. For instance, organisations hoping to work closely with grant funders in their early years may benefit from incorporating as a charity, potentially with a subsidiary trading company. In other cases, the flexibility of a Community Interest Company (CIC) or a Company Limited by Guarantee (CLG) structure will be more important. Meanwhile, organisations looking to issue community shares, a form of withdrawable share capital well-suited to democratic governance, will need to incorporate themselves as co-operative societies or community benefit organisations.

Figure 3 (opposite) highlights how community business maps to other classic organisational types.² In many ways community businesses can be seen as a subset of social enterprises. However, the key element that marks out some social enterprises as *community businesses* is their local accountability and focus on a particular place.

2 In terms of legal forms, private companies tend to be Companies Limited by Shares (CLS), whereas social enterprises could be a mixture of Companies Limited by Guarantee (CLG), Community Interest Companies (CIC), Community Benefit Societies (Bencomm). Charities can be Charitable Incorporated Organisations (CIO), Charitable Companies, unincorporated associations, or Trusts.

Figure 3. Community business in comparison to other organisational forms



Chapter 2. Size and scope of the market in 2015

Key insights

- We estimate that the number of community businesses in England grew by around 9% in 2015, taking the total number of organisations to around 5,650.
- The market is highly concentrated, with three sectors (transport, food and farming and sport and leisure) accounting for some 3,000 community businesses.
- After careful consideration we have added two new sectors to our market sizing estimates this year: Community finance (around 150 organisations) and community health and social care (around 25 organisations). We also adjusted certain 2014 numbers retrospectively where significant new information had become available.
- Average growth of 9% masks considerable variation between sectors
 - while sport and leisure, energy, housing and multi-use facilities have grown strongly, transport and food and farming (two of the three largest sectors) have remained static. Appendix A provides full detail of our quantitative and qualitative findings by sector.
- We see strong potential for growth in emerging areas such as health and social care and digital. Local authority asset transfers present a valuable opportunity in several sectors, but a number of sectors face important threats, including energy, transport and community libraries.
- Sector-wide, many trends represent both threat and opportunity, such as public sector cutbacks and the decline of the high street. Many community businesses form not just in the face of adversity but because of it.

We have maintained the same overall approach as last year, only updating historic data where significant new information has come to light.

In this chapter, we explore how the community business market has changed over the past year in scale and scope. As the second estimate of the size of the community business market, it is also the first opportunity to assess whether, and to what extent, the market has grown over the past twelve months. It should be noted that there is essentially no link between market growth in 2015 and the launch of Power to Change, since Power to Change's first grants programme was only launched in the course of the year and to date has supported a relatively small proportion of the market.

In order to allow for more robust year-on-year comparisons, we have maintained the same overall approach as last year, only updating historic data where significant new information has come to light. However, we have refocused our estimates to encompass England only, and have added two additional sectors: community finance and health and social care.

2.1 Updates to our methodology

As in last year's report, we subdivided the community business market based on sectors of activity, and used a triangulation strategy to devise a bottom-up estimate of the numbers of organisations in each sector.³ This process has been informed by 289 survey responses, 55 interviews and thorough desk research of approximately 100 different published reports and sources. The interview list is given in Appendix B.

Some of the sectors we define comprise a number of distinct groups. For instance, within 'food and farming', there are food co-operatives, farmers' markets, city farms, community supported agriculture, country market societies and community-owned grocers. In these cases, we attempt to estimate the size of each group to get a view of the size of the sector as a whole, taking into account where possible the effect of any likely overlap.

In some cases, we apply a discount factor to the estimates provided through interviews or research reports because some of the organisations counted would not meet our four tests for community businesses.

3 To determine the assets and income by sector, we have used our 2014 estimates of the average assets/income by sector, and adjusted these where new information has come to light (through interviews, the survey, or desk research).

In terms of average assets, income, and staff, we found from survey evidence and interviews that our estimates from 2014 remained broadly stable over the past year. While there is considerable variation between businesses in the same sector, the average assets, income, and staff of – for example – a community pub have not shifted significantly.

It is important to highlight the wide variance in the availability and quality of data in different sectors. By way of example, credit unions are required to submit annual returns to the Prudential Regulation Authority. For community pubs and community shops, the Plunkett Foundation provides a comprehensive annual report. By contrast, no such organisation plays a similar role for crafts, production and industry or food and farming. In the spirit of transparency, we share our view of the data quality for individual sectors in Appendix A.

In some sectors, we have updated our 2014 numbers as better information has emerged, such as in community energy, where we have accessed new estimates from Community Energy England and Scene Consulting. In other sectors data quality has worsened, such as food and farming, where major grant programmes have drawn to a close, reducing the availability of market reports.

New sectors

This year, we have considered three additional sectors for this report: community finance, health and social care, and education and training. After careful consideration, we decided to include community finance and health and social care within our analysis, but to omit education and training. As highlighted before, the community business market is a diverse one and it will continue to be valuable to examine other sectors and categorisations in the future.

i) Community finance

Interviews with sector experts identified three potential categories of community finance: Credit unions, mutual banks and Community Development Financial Institutions (CDFIs).

Examinations of individual mutual banks and CDFIs reveal that, although highly valuable organisations in their own right and able to support the broader community business movement, many would fail on one or more of our four tests, such as degree of community accountability or number of different communities encompassed within large geographic regions (such as ‘the North West’). Nonetheless, we expect that some individual organisations would still pass our four tests and be able to have the kind of distinctive local impact that we refer to in Chapter 1.

A similar review of credit unions revealed that many had membership voting rights, subsidised local community advice functions and an overall social purpose that would qualify under the tests, provided the requirements of the finance sector to operate at scale allows some flexibility under the place-based test. Through examining regulatory data and interviews with sector bodies, it was possible to estimate a proportion of credit unions and other community finance organisations that would qualify under the criteria applied here.

ii) Health and social care

Health and social care and education and training proved more challenging. We found that for many community businesses, these ‘sectors’ represent areas of impact rather than core activities. For instance, 89% of all community businesses we surveyed felt that they had an impact on health and well-being. 76% said the same for employability, which we believe is, in many cases, a reflection of the education and training support they provide to members of the community, as opposed to direct job creation outside of their own activities.

Within health and social care, the trend in the NHS towards social prescribing (essentially non-clinical interventions to improve wellbeing) has created new opportunities for community businesses to develop services and win contracts. While many community businesses will provide potential social prescribing services within their existing activities (and therefore would already be counted within other sectors), we also identified a small number of businesses that are purely focused on health and social care, and consequently decided to include this as a small sector within our market sizing estimate.

For instance, NED Care, being set up in North East Dartmoor is a non-profit, community-led organisation that seeks to deliver care at home services. New Wortley Community Centre, an existing community business, is being transformed into a health and wellbeing centre focused on mental health with the ability to deliver NHS contracts.

The majority of NHS spin-outs we reviewed would not be counted as community businesses, since they are typically neither locally led nor accountable to their communities.

iii) Education and training

We faced a similar challenge in deciding whether education and training should be a separate sector for our purposes. It is feasible to imagine a number of education and training community business models: pure play community-led education and training providers; local Education Business Partnership Organisations (EBPOs), no longer part of their local councils, which exist to strengthen links between businesses and schools and are often paid to facilitate work experience placements; local voluntary action membership organisations that are members of NAVCA and meet our ‘four tests’; and community groups that take over assets from schools and colleges. Nonetheless, within the scope of this report, it was not possible to define a sufficiently distinct and quantified set of organisations that passed the four tests that would not better fit under another sector. We have, therefore, omitted this sector from this year’s market sizing exercise, but will continue to monitor developments in the future.

Hill Holt Wood: Public land management or education and training?

Hill Holt Wood is a community business that performs a range of activities around a small woodland. As with many community businesses, the need to diversify revenue streams has led it to engage in a broad set of functions, making it hard to place in one particular sector.

In discussion with the Chief Executive, it became clear that their organising principle is focused on forestry and land production. By being creative around this, they are able to offer education and training, which can account for the majority of revenues. They think of themselves as a ‘community woodland’ based organisation first, with education provision one of their many activities, along with sustainable energy, eco design architecture and facilities hire. For our purposes, we classify them as Public Land Management. Where other community businesses similarly operate across multiple sectors, we have sought to identify the primary, or best-fit sector, so as to avoid double-counting.

On a like-for-like basis, we estimate that the community business market overall has expanded by 9% from around 5,050 businesses in 2014 to approximately 5,500 in 2015.

2.2 Market size and sector evolution over the year

In total, we estimate there are around 5,650 community businesses operating in England in 2015 across the 15 sectors analysed. These businesses generated approximately £0.9 billion of income on £1.4 billion of assets. About half of these organisations fall into just three sectors: community transport, food and farming and sport and leisure (see Figure 4). The distribution by assets, volunteers and income is similarly concentrated, though in slightly different, asset- and income-intensive sectors, such as sport and leisure and community housing.

On a like-for-like basis, we estimate that the community business market overall has expanded by 9% from around 5,050 businesses in 2014⁴ to approximately 5,500 in 2015. In addition to this, we have included in our analysis this year around 150 businesses in two sectors which we have added (community finance and health and social care), taking our total estimate of the market in 2015 to 5,650 organisations.⁵ Income has grown by 10% and assets by 15% on a comparable basis, driven by strong growth in relatively asset-intensive sectors such as multi-use facilities, housing and community energy.

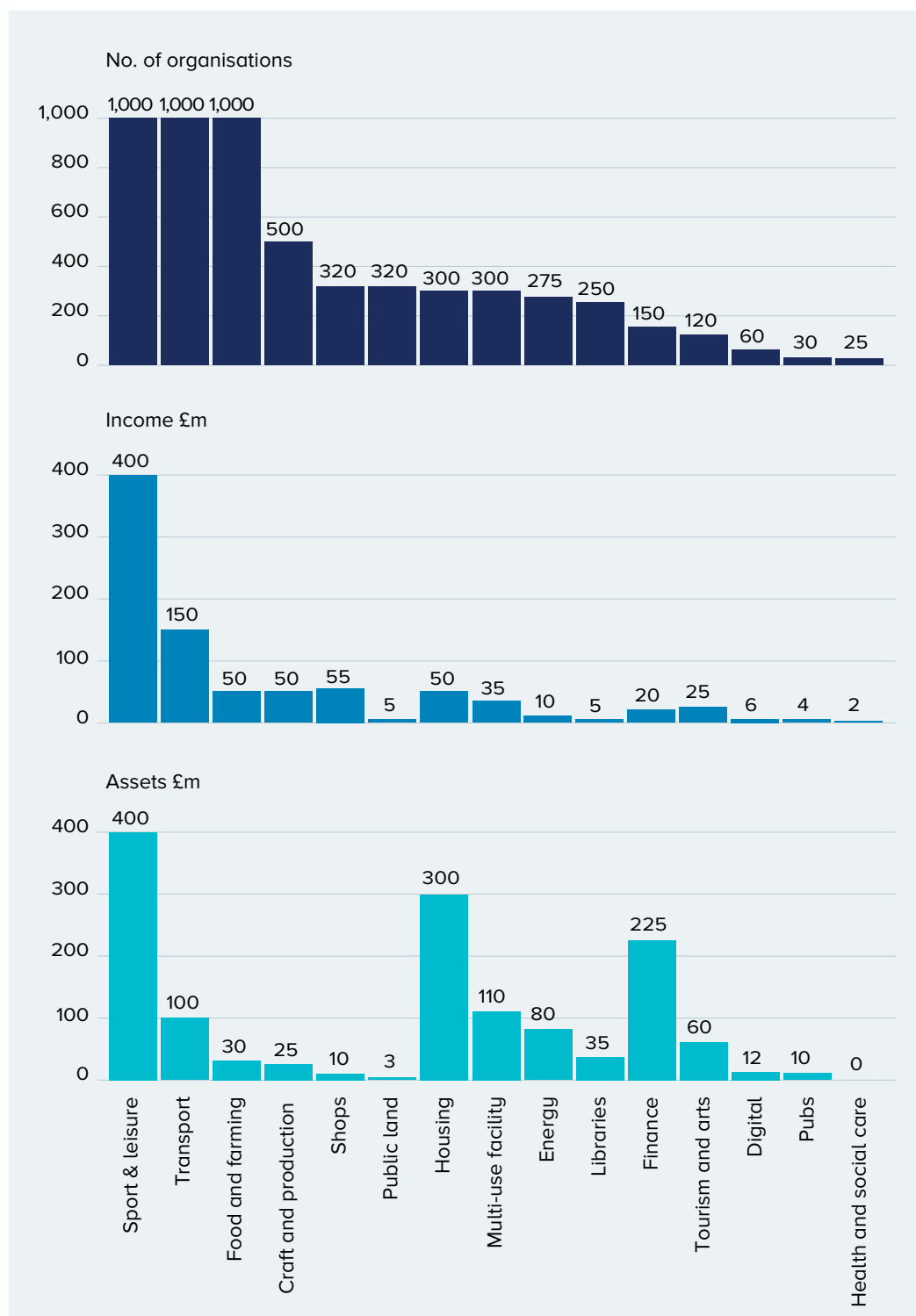
Significant sector variations

Two of the three largest sectors, food and farming and community transport, have shown no net growth over the year. However, even within these sectors, we see interesting variations. In food and farming, interviews suggest that some rural food co-operatives have been closing down, more or less counterbalanced by growth in a variety of urban food production organisations. In community transport, perhaps to be expected in a large sector, we have seen some organisations close, struggling in part under new local authority procurement regulations and reducing local authority budgets, while new ones have been set up.

4 This is an increase from 4,500 stated in last year's report. We have updated our 2014 market size by removing organisations based in Wales and revising figures in a few sectors where data quality has improved through new information coming to light. Only sectors analysed in 2014 are included in the year-on-year growth estimate to 2015.

5 For detail of how this estimate is constructed by sector, please see Appendix A.

Figure 4. Estimated number of community businesses, income, and assets by sector



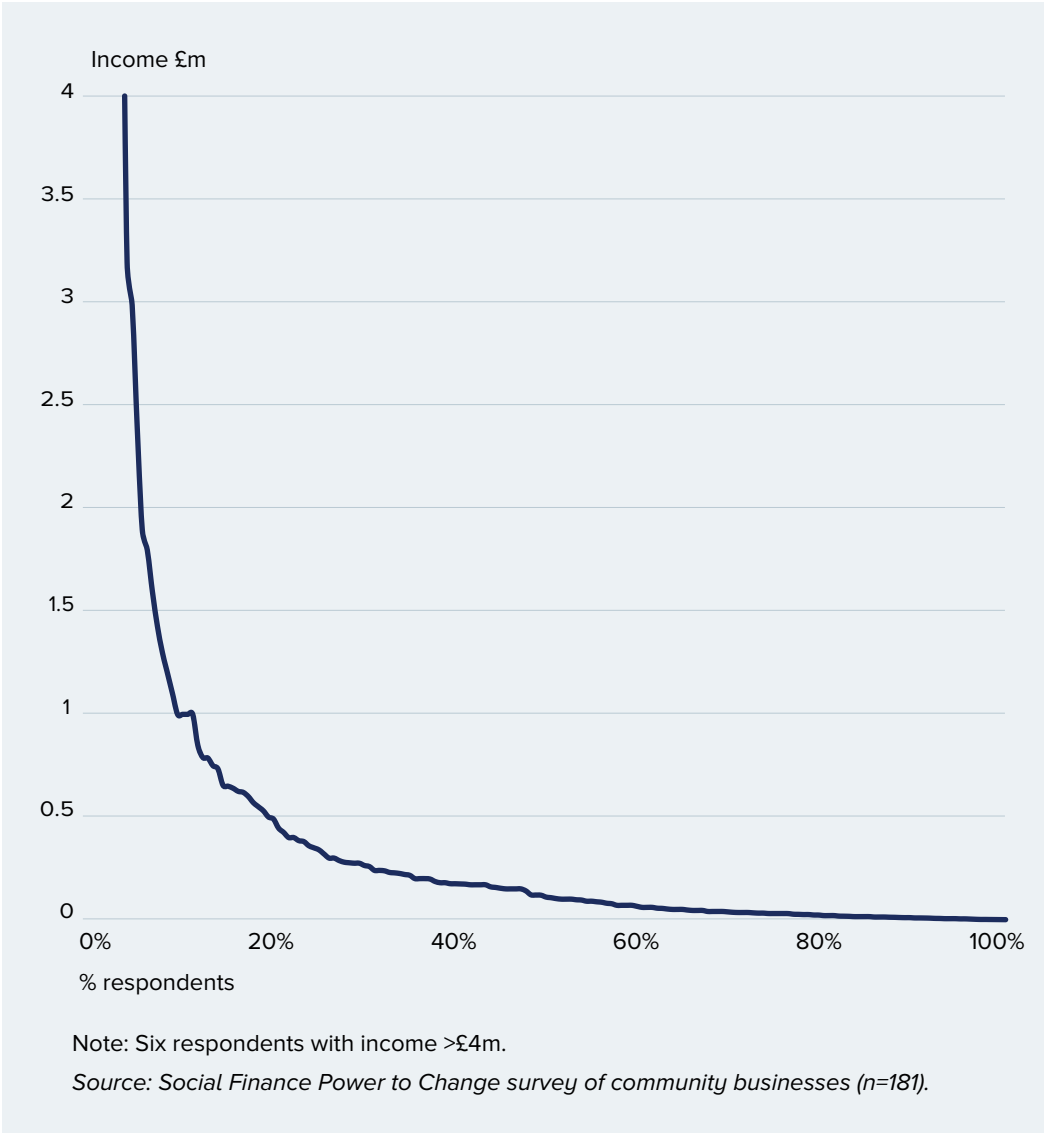
Community energy has increased by nearly 40% as organisations took advantage of the feed-in-tariff scheme and other tax benefits. Libraries have also increased by at least a quarter as local authorities continue to shed staff and assets.

Some smaller sectors have increased significantly in percentage terms, if not in absolute numbers. Community pubs, encouraged by some well-publicised case studies and support from the Plunkett Foundation, have increased significantly (as a proportion) from around 25 in 2014 to around 30 in 2015. The digital sector has increased from around 50 to an estimated 60 organisations in 2015, driven by a few new hackspaces, makerspaces and fablabs being set up. While there is considerable potential for community activity in improving broadband in rural and deprived urban areas, our interviews suggest that relatively little community-owned activity is taking place, due to a combination of government funding streams that are more targeted towards BT and an emerging SME private sector. Many of these organisations might work closely with the community but cannot be described as community businesses, primarily because they seek to set up infrastructure in one area and then move onto the next.

Some mid-size sectors have experienced rapid growth driven by national policy. Community energy has increased by nearly 40% as organisations took advantage of the feed-in-tariff scheme and other tax benefits. Libraries have also increased by at least a quarter as local authorities continue to shed staff and assets. In several areas, communities were effectively given a choice of ‘take it or lose it’, in which they would either find ways to run a library themselves or see it close down.

As we saw last year, there is a vast discrepancy between community businesses in terms of their income and asset ownership. Among our survey respondents, six businesses had income greater than £4 million per year, while the vast majority earned well under £0.5 million (see Figure 5). This reflects both stage of lifecycle, but also business type. While the sport and leisure sector includes a number of relatively large swimming pools and leisure centres, community libraries rarely earn more than a few tens of thousands of pounds.

Figure 5. Distribution of income across community businesses



A core part of the story of community business is how so many of them form not just in the face of adversity, but because of it.

2.3 Opportunities and barriers to growth

While many community businesses are formed by identifying opportunities and making a success of them, many also emerge in response to a loss or a failure in provision, such as those which take over and save a pub, a shop, a library or a building from closing down or being converted into a use incompatible with its original ethos. Yet others form through frustration at the failures of national infrastructure companies and set up their own fibre broadband networks or renewable energy systems.

A core part of the story of community business is how so many of them form not just in the face of adversity, but because of it. Shrinking local authority budgets lead to asset transfers and outsourcing of services to new community businesses. The decline in the high street in some areas creates space for communities to take over pubs and shops. Growing social isolation and interest in reducing the use of pharmaceutical drugs where social prescribing could work better creates opportunities for relationship-based, community-centred organisations to step in and offer a different solution.

Other market trends supporting the development of community business are more positive: ongoing devolution to local areas and communities; the growing number of ambitious graduates who forge their careers in social enterprise; and the gradual emergence of more diverse funding sources, such as crowdfunding, community shares, and blended grant-loan finance.

At the same time, there are a number of barriers and risks. Local authority cuts may sometimes force councils to come up with new ways of working, but more often they reduce their ability not only to grant-fund third sector activities but also to provide infrastructure services, networking events and training opportunities for them. While councils express a great deal of interest in engaging communities in running services, the pace of cuts leaves little time for long-term strategic thinking and favours rapid outsourcing to the cheapest bidder.

In the broader funding and support environment, there are also concerns. These include the closure of several important grant schemes, such as the Community Assets and Services fund and the Empty Homes Programme; the reduction in subsidies for community energy schemes; and challenges around pre-venture financing (see Chapter 3).

2.4 Sectoral growth and outlook

As described earlier, although the overall market has grown by around 9% in the past year, the performance by sector has been much more variable, and the future outlook even more so. For this reason, we have attempted to segment the sectors at a high level into three overarching categories that reflect both past growth and future prospects, primarily considering the number of organisations in each sector. Not only do these categories help us to better understand the underlying picture of how community businesses have fared in different parts of the economy, but they may also provide some insights for how different sectors can and should be supported to continue growing in future.

The three categories we have defined are:

- **Growing, but at risk:** Sectors that have grown rapidly, but now face some major external challenges.
- **Steady progress:** Sectors with no or limited growth, or where the underlying variation in different sub-sector performance has been positive and negative in equal measure.
- **Growth potential:** Sectors where there are substantial future prospects for an increase in the number of community businesses.

Figure 6. Allocation of sectors to each category

Growing, but at risk	Community transport Community finance Community energy	Food and farming Community libraries
Steady progress	Tourism, heritage, arts and culture Community housing Community shops	Crafts, industry and production
Growth potential	Digital Community pubs Health and social care	Public land management Multi-use facilities/managed workspaces Sport and leisure

‘Growing, but at risk’

We consider a ‘growing, but at risk’ landscape to be one which has seen strong growth in the recent past, but has significant risks on the horizon of organisations closing or changing in ways that mean they lose part of what makes them effective as community businesses. Typically this is the case for sectors that have benefited from major social or economic trends, or recent policy and financial support, but face risks from the withdrawal of this support. Often, the government’s stated rationale for removing the support is that organisations in these sectors are now mature (for example, solar energy schemes). The challenge for community businesses operating in these industries will be to demonstrate their maturity by becoming financially sustainable or even achieving further growth in an open, unsubsidised and competitive environment.

A combination of mooted and confirmed policy changes in community energy make it significantly harder for new organisations to be set up.

Sectors that currently sit in this category include energy, transport, food and farming, finance and libraries. A combination of mooted and confirmed policy changes in community energy make it significantly harder for new organisations to be set up: changes in tax relief, reductions in feed-in-tariffs and the removal of pre-accreditation all make it harder to establish a business case and reduce certainty for investors or funders. While existing organisations are unlikely to close down, as tariffs are locked in contractually, there are many ventures in the pipeline that might not get through. With food and farming, large-scale grant funding until a few years ago has driven considerable growth – but with the end of the Making Local Food Work grant programme in 2014, high land prices, and highly competitive food prices, it is harder than ever for new and existing organisations to establish and sustain themselves. However, we still see strong demand from community groups looking to establish these kinds of models.

Two other sectors face considerable risks, threatening the survival of existing organisations. As described in Chapter 1, many community libraries are at present reliant on volunteers and have relatively little trading income. Some have a one to three year period to wean themselves off council support or grant funding, but not all will succeed in doing so. Some community libraries believe the council will be able to restore full funding in a few years' time, or that local philanthropy will take its place, rather than new income streams. Where they go down this path, they are unlikely to remain community businesses by our definition. Community transport businesses also face significant challenges. Many have, to date, relied to some extent on local authority grants or subsidies to run unprofitable services. With significant budget cuts underway in many councils, these vital funding sources are under threat and some organisations may also face concerns from EU regulatory changes. This can leave organisations facing the need to raise fares to levels which, for the customers they wish to service, may be unaffordable.

Finally, community finance faces a different type of challenge. After rapid growth in the early 2000s, for the last five years, there has been gradual consolidation among credit unions. This reflects the removal of local authority support which subsidised smaller organisations, and the natural economies of scale in an industry with significant overhead costs and regulatory requirements. With this scale, some community-focused credit unions are likely to find it challenging to avoid weakening their values of local transparency, community accountability and social mission. Some credit unions may, in the end, choose to become pure social enterprises, veering away from the community business model. Others will keep their community links by building scale through a broader client base locally rather than geographic expansion.

‘Steady progress’

These sectors face neither imminent threats nor the prospect of significant new opportunities. There are reasons to believe they will continue to develop, as a result of the macro trends we have discussed, such as growing awareness of the community business model combined with reforms driven by local authority budget cuts. However, there are typically few sector-specific factors that are causing them to grow or shrink. Sectors that currently sit in this category include shops; tourism, heritage, arts and culture; craft, industry and production; and housing.

In community shops the pipeline of new organisations appears to be slowing, with around 10 new shops in 2015 compared to around 15 in 2014 and around 20 in 2013. Nonetheless, existing shops appear to be performing well, with 99% still operating and 5% year-on-year revenue growth.⁶ For the tourism, heritage, arts and culture sector, opportunities are growing with the steady flow of asset transfers from local authorities; but with huge diversity in the sector, relatively few well-known examples, and often large and highly-valued assets at play, the process can be lengthy and complex.

Craft, industry and production is a disparate sector and it is hard to draw firm conclusions. Mounting pressure on local authorities to reduce spending on waste is resulting in new opportunities for some reuse and recycling organisations, and across the sector technology is boosting opportunities to sell locally-produced products to a wider market. However, large scale private sector providers continue to offer healthy competition, and the majority of local authorities struggle to incorporate social value into their commissioning processes.

The community housing sector has experienced rapid growth in recent years, particularly in the self-help housing sector (renovation of existing properties), and evidence suggests that with renewed government support there could be strong potential for further growth.

The community housing sector has experienced rapid growth in recent years, particularly in the self-help-housing sector (renovation of existing properties), and evidence suggests that with renewed government support there could be strong potential for further growth. However, in the absence of this, rising land prices and changes to housing and welfare policies are putting pressure on what has always been a marginal (albeit relatively reliable) business model, and the pipeline of budding new organisations appears to be slowing.

6 Plunkett Foundation, *Community Shops: a better form of business*, 2014.

In public land management, we see potential for local authorities to relinquish more green spaces, following the existing trend in building assets.

‘Growth potential’

The growth potential sectors are those that appear to be well-placed to benefit from social or economic trends. In some cases, they are still very small, but with high expectations for their future trajectory (e.g. health and social care); in others, they consist of a large number of organisations that do not act entirely as community businesses by our definition, but could potentially do so in future (e.g. sport and leisure).

Sectors that currently sit in this category include digital, public land management, sport and leisure, multi-use facilities, pubs and health and social care. In many cases, we can point to a current and immediate sector-specific trend that drives each one. In health and social care, it is outsourcing from the NHS and the growth of social prescribing. In sport and leisure and multi-use facilities, it is local authorities retreating from running core facilities and the growing use of DCLG’s Community Rights. In pubs, it is a combination of rapid growth (albeit from a small base); the support provided by the Plunkett Foundation, creating a positive spiral of news stories and case studies; and football challenges for commercial pubs in many areas.

For the other sectors in this landscape, we see potential for rapid growth, but only if certain stars align. In digital, the strongly-perceived need for faster, more reliable broadband creates great demand for fibre-to-the-premises (FTTP) in currently under-served areas. However, there are very few community-led initiatives in this sector, with Broadband for the Rural North (B4RN) and Cybermoor welcome exceptions. Interviews suggest this relates to three factors: the dominance of BT, a lack of awareness that this is something communities can do themselves, and the need for technical support to get projects off the ground. It remains uncertain whether the community business model will take off in this area – one scenario is that BT and the private SME sector meet the broadband need, crowding out potential community-based solutions.

In public land management, we see potential for local authorities to relinquish more green spaces, following the existing trend in building assets. Parks and woodlands have potential to thrive under community management or ownership, whether for direct social uses like guided walks, or production uses like developing firewood and timber. There is also a ready-made infrastructure in the form of large numbers of conservation volunteers who are already organised around mostly uncharged-for activities.

Key drivers of success for individual community businesses

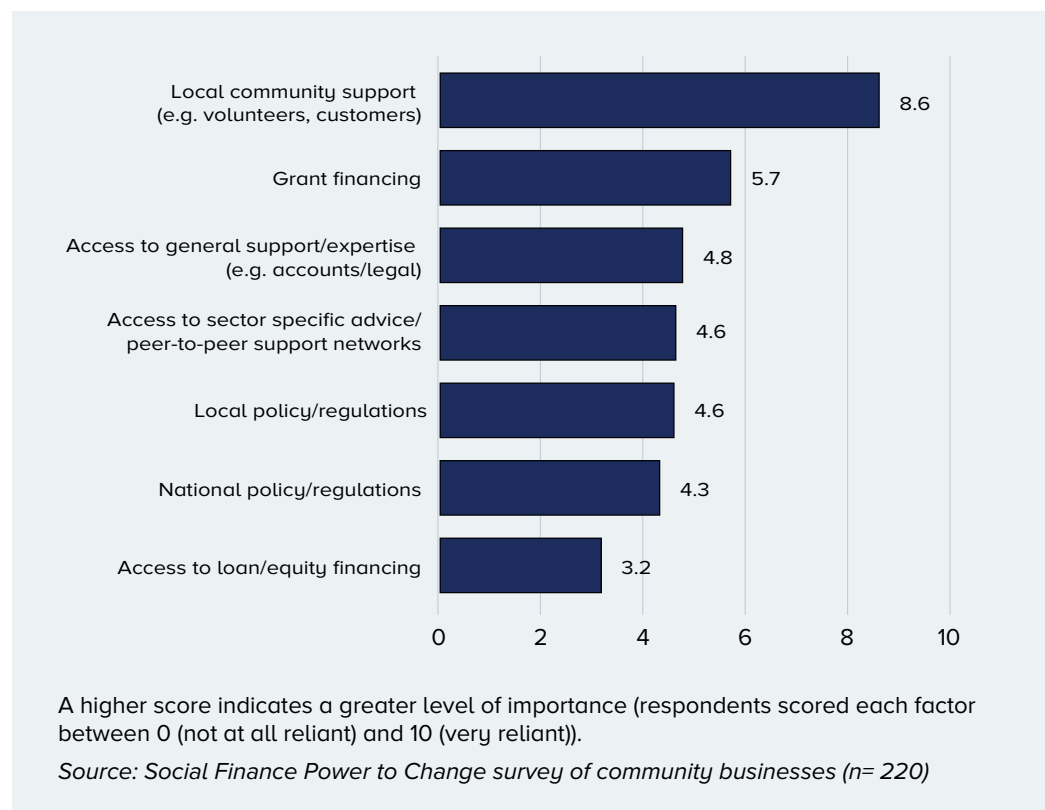
While significant from a national policy perspective, it is fair to ask how much the sector landscape drives the success of individual community businesses. In some cases, the link is direct, such as the collective struggle of community libraries to develop a viable business model, a story that can be told at a national or individual business level. Other community businesses might be insulated from the national picture. By their very nature, they are often highly localised, idiosyncratic, relationship-based and personal organisations.

To better understand the drivers of growth across sectors, we asked organisations to rate their reliance on different success factors (see Figure 7). On average, organisations rated local support as more important than anything else, above national policy trends or funding. Without a committed community, you cannot have a viable community business. Beyond this, however, funding does play an important role, with survey respondents placing much greater emphasis on grant financing than loans or equity capital. This is perhaps to be expected, given the relative immaturity of much of the market in terms of engagement with social investment and, in some cases, the need for products better suited to the community business model.

For libraries these two factors (local community support and grant financing) are almost the only success factors that matter. This resonates with the view, described earlier, that these organisations often struggle to generate trading income. Other than libraries, grant financing was also a particularly high priority for transport, public land management, and tourism, heritage, arts and culture. Energy was the only sector which ranked any factor more important than local community support, where national policy was understandably of paramount importance.

Because we asked respondents to score each factor individually, rather than rank them, we can also draw some conclusions around the sectors that place more weight overall on external factors to drive their success (as opposed to their own leadership, capacities, or local support). By this measure, the most externally-driven sectors are energy, health and social care, housing, digital and pubs. The most self-reliant sectors were shops and sport and leisure.

Figure 7. Key success factors, as reported by survey respondents



Chapter 3. Supporting community businesses

Key insights

- In addition to the ‘missing middle’ identified in our previous report, the closure of several key support programmes over the past year (e.g. Community Assets and Services Grants) has left a vital gap in the availability of small grants for community businesses.
- Our research has suggested that there is a wide range of operational support available for community businesses – from self-help websites to specialised support organisations – but there remain organisations who struggle to identify and access it, with particular gaps for those who need one-to-one or bespoke support and those who lack the confidence or skills for self-led learning from online resources.
- While community businesses are typically satisfied with individual aspects of support that they do access, the majority of businesses identify at least one support gap in an area important to their business.
- Areas of concern vary widely from business to business, perhaps reflecting the diversity of the sector and the idiosyncrasies of individual organisations, but many highlighted the interlinked areas of business planning and revenue generation as key areas of need.
- Organisations in several sectors could benefit from support engaging with the public sector, particularly in negotiating procurement and asset transfer processes – both of these could offer significant growth opportunities for community businesses over the coming years. Our research also suggested that support to bolster, formalise and grow peer-to-peer networks would be highly worthwhile.

Overall, we find that there is a wide range of operational support available for community businesses.

In this chapter we combine survey data with desk research and interview insights to review the support needs of community businesses.

In last year's report, we described support needs through the prism of a business lifecycle, as organisations move from pre-venture, to start-up, to establishment and on to expansion. Although we believe this approach remains valid, our aim this year is to establish a more detailed understanding of the support available and gaps, both in terms of operational help (e.g. marketing, business strategy) and funding needs. We have also looked specifically at two topics that are of current interest for many community businesses: engaging the public sector, and working with 'hands-on' support, whether from peers or dedicated support providers.

Overall, we find that there is a wide range of operational support available for community businesses. In almost every category of need, there is some combination of self-serve tools (e.g. through websites), peer networks, and specialised support organisations. Despite this, not all of the support meets the needs of community businesses. The majority of organisations responding to our survey experienced a significant support gap in at least one high priority area – often in the inter-related areas of business strategy and revenue generation. Follow-up discussions revealed particular shortfalls in one-to-one support and bespoke advice, a situation that appears to be worsening as support providers respond to funding restrictions by focusing on lower cost forms of provision.

At the same time, some of the financial support that we identified last year has fallen away, whether from the closure of government grant schemes or reduced local authority funding. Yet while grant financing is declining, even the better-established, better-networked organisations who responded to our survey remain more focused on grants than repayable investments. Our focus last year on the 'missing middle' of financial support, in the £75,000-£200,000 range, could now understate the gap in funding available at the lower end of the spectrum.

3.1 Financial support

Over the past year, there have been some concerning developments in the financial support environment. These include spending cuts across government at all levels, alongside the closure of several important grant schemes, such as the DCLG Community Assets and Services fund and the Empty Homes Programme, as well as a reduction in grant funding from local authorities across the board (hitting, for example, community transport businesses).

Widening of the ‘missing middle’

One of the challenges for businesses relying on grant support is the relatively short-term focus of different grant-based funding schemes. For example, although some grant programmes have closed, other new funds coming on stream could benefit community businesses, such as the Just Growth fund, the Pocket Parks programme and the First Steps Enterprise Fund – yet these in turn are expected to be time-limited.

Despite pockets of new opportunities, the market-wide picture shows a decline in the number of cross-sector grant funding schemes. The Community Assets and Services fund alone supported over 750 organisations from 2012–2015 with grants between £3,000 and nearly £500,000.⁷

Even where specialised grants remain available, our interviews with support providers and community businesses have highlighted that quick-to-access, small-scale start-up grants are no longer widely accessible. Small-grant distributors like the Awards for All programme from Big Lottery Fund continue to play a vital role, but are unable to cover many of the needs of community business start-ups. This suggests that our previously identified ‘missing middle’ grant funding gap has now widened to early stage funding, although we note that Co-operatives UK and the Co-operative Bank have plans to launch subsidised start-up and growth support specifically for co-operatives in 2016 with a £1m fund. From the point of view of growing the total number of community businesses, this shortage of start-up, pre-feasibility funding represents an important gap.

⁷ Full details available on <http://www.sibgroup.org.uk/community-assets-and-services-grants/>

Repayable finance remains challenging

At the higher end, specifically grants and loans above £250,000, there remains a reasonable supply of asset-backed loans available on commercial or marginally preferential rates. However, lenders operating such loans reportedly find that relatively few community businesses are in a position to utilise this type of funding, as it requires an appetite for risk, robust plans for growth and a reasonably profitable business model. Even for asset backed projects, the relatively low margins in many community business models mean that a significant proportion of total capital need must be met through grants, alongside investment (highlighting a potentially important role for blended finance – this has been recognised in part by the launch of the Access Foundation). For community businesses to expand through investment, they will require support not only to develop viable business models, but also to increase their level of comfort with the financial analysis and planning required to take on substantial debts.

For community businesses to expand through investment, they will require support not only to develop viable business models, but also to increase their level of comfort with the financial analysis and planning required to take on substantial debts.

It is worth noting that there are a number of potential new suppliers of loan finance to community businesses. Following a change in regulations in 2012, credit unions have the potential to extend lending to these types of organisations, though most continue to focus on individual customers for now. Similarly, Community Development Finance Institutions (CDFIs) and a potential wave of new mutual banks, based on the Airdrie Savings Bank model, could also open opportunities for borrowers.

Small and large grants vital for many

In terms of the types of funding community businesses are looking for, our survey highlighted that grants remain the most important source of income, both in terms of past use and expected future need (see Figure 8). Our survey respondents were typically expecting to use larger grants in future than they had used previously, perhaps reflecting both a desire for continued growth and a business model which remains unsuitable for loan financing.

Despite the focus on grants as a source of funding, it is worth noting that nearly 40% of respondents marked either loans or equity investments as potential options for the future.

Breaking the figures down, it appears that early stage organisations were more likely to have used crowdfunding in the past, but are looking to community shares to fund future growth, perhaps reflecting a greater openness to alternative sources of funding among newer businesses. As expected, early stage organisations were also less likely to have used large grants.

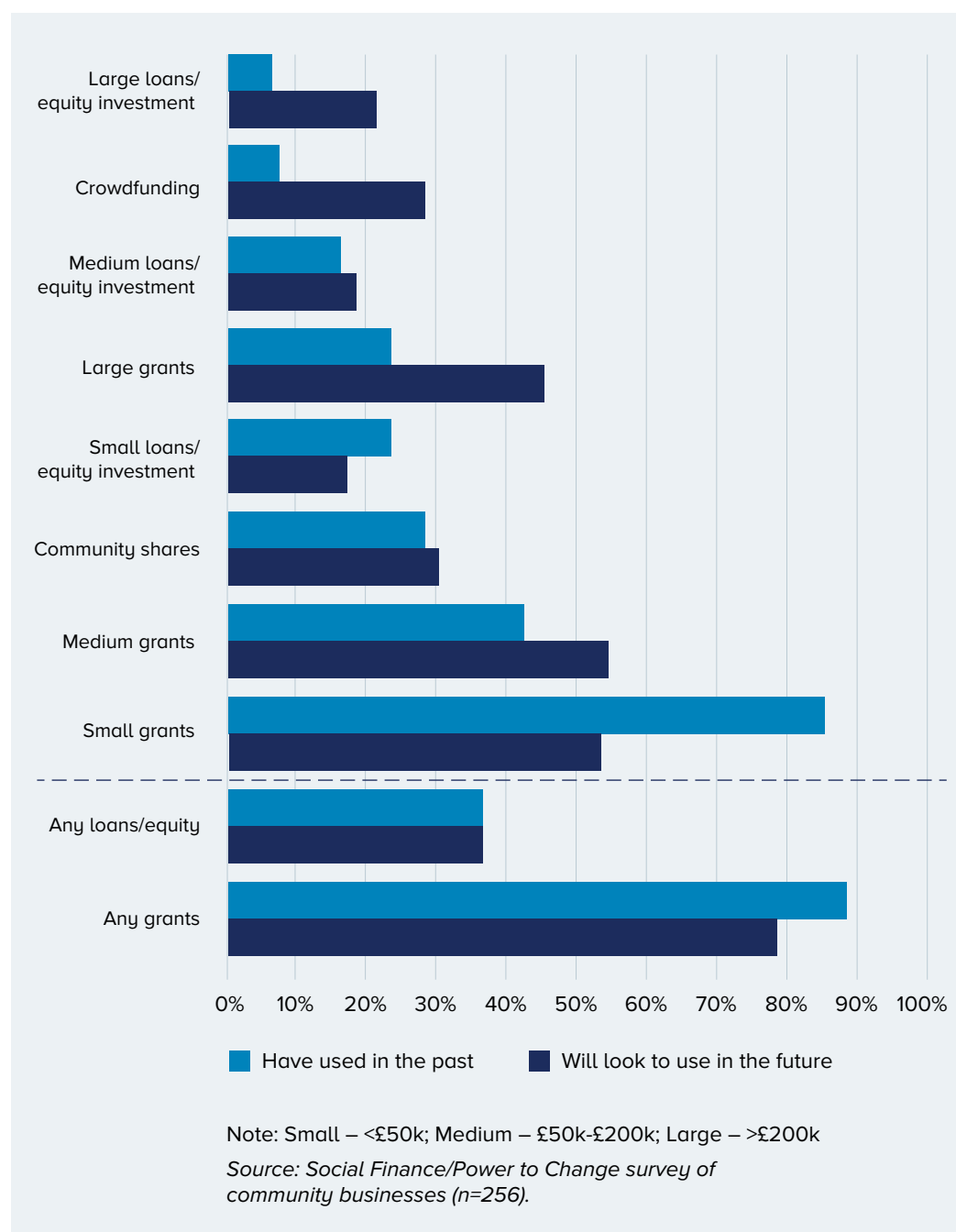
In terms of their top two sources of funding, results were strikingly similar across different sectors. Every sector highlighted that ‘small grants’ were their most commonly accessed funding category in the past, used by 85% of all respondents, ranging from 70% to 100% across the different sectors.

The second most commonly accessed type of funding was typically medium-sized grants, although a few sectors highlighted community shares (energy, food and farming, shops, finance, pubs). In terms of plans for the future, grant funding dominates, but energy, digital, shops and pubs also highlighted community shares as a priority for future funding, and energy organisations additionally picked out crowdfunding as the second most common target for the future.

Given the importance of community shares, we acknowledge the risk posed by the Community Shares Unit’s reliance on DCLG and DECC funding, which is currently due to close after March 2016, although the Unit may be able to sustain itself from other sources. Although there are other community share platforms, the Community Shares Unit has played an important role in providing a low-cost service alongside case studies and general guidance.

Despite the focus on grants as a source of funding, it is worth noting that nearly 40% of respondents marked either loans or equity investments as potential options for the future. It will be critical for community businesses to be supported to make the most of these sources of capital, and for providers to develop their understanding of how their funds may be most effectively deployed in this sector.

Figure 8. Demand for different types of funding



Despite the relative consensus on the existence of support gaps, there was much weaker agreement on where these gaps lay.

3.2 Operational support and sector variation

There are major challenges for start-up community businesses, whether in awareness of community business models and how they function, understanding what support is available or where to access support and funding. 61% of respondents to our survey who are just starting up or still have only limited trading income feel there is a significant gap in support (n=69). This view was shared by 54% of *established community businesses* (of which 147 responded to this survey question), suggesting it is not only an issue for organisations that are finding their feet.

When we asked survey respondents about their own experience, rather than their overall view on support for the sector, a similar picture emerges. Over half (56% of 248) had been unable to find support in at least one business area or had been dissatisfied with the support they did access. Of these, almost all also had a gap in at least one area that they had reported as high priority, whether past or present. When you add in those who reported a 'significant gap in support' in non-operational areas, principally financial, 73% of respondents expressed concerns.

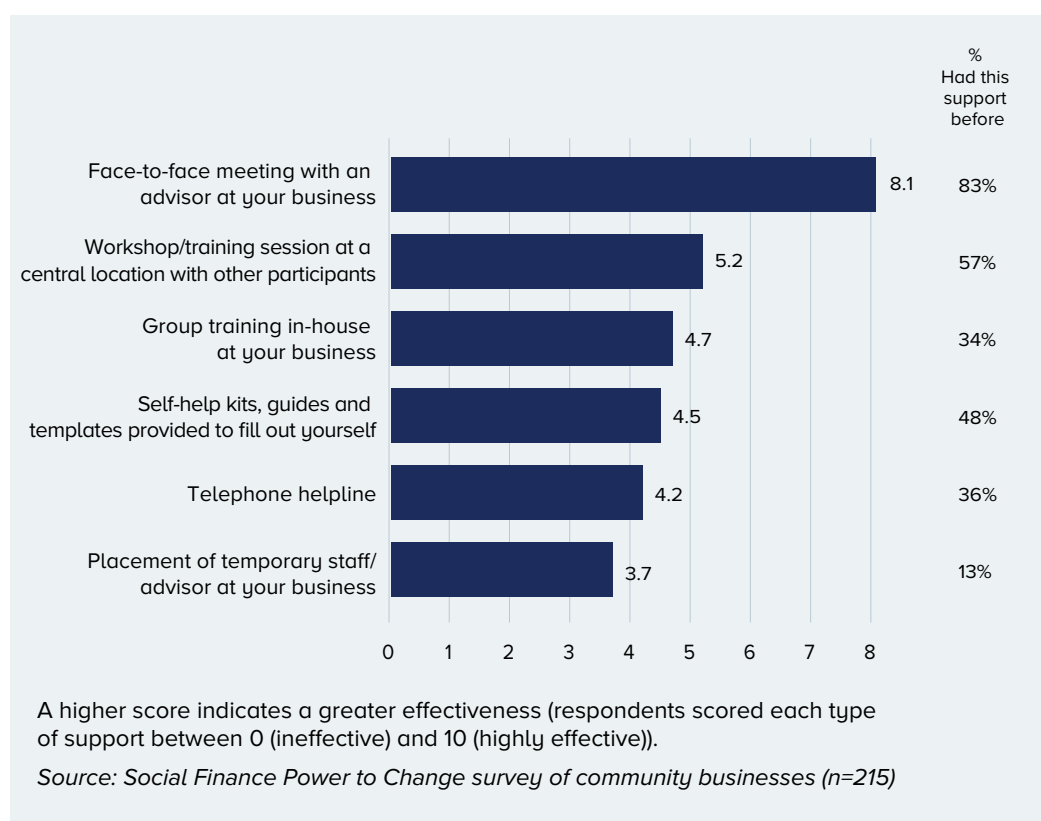
Despite the relative consensus on the existence of support gaps, there was much weaker agreement on where these gaps lay. This variation is perhaps partly to be expected given that most respondents found their support providers via networks and relationships. 81% found support via word of mouth and 80% from prior experience. 64% found support providers online.

Highly variable support needs

Slicing the responses by business sector highlighted few common themes. In almost every combination of sector and support type, some respondents were satisfied with their support and others were not, while some struggled to find help at all. There could be multiple explanations for this diversity of response: an information gap, in that some organisations do not know where or how to access support; patchy geographical availability of support; and, perhaps most importantly, the significant variation between community businesses themselves.

As the RSA has pointed out in its five-year study with UCLan and the LSE, *Connected Communities*,⁸ community businesses, even in the same sector and region, have different accessible skills depending on who is involved locally. They are highly relationship-driven and context-based organisations, making it hard for generic, centralised support programmes to consistently add value, at least not without significant local outreach. This effect can partly be seen in the preference for face-to-face support, which enables stronger relationship building (see Figure 9).

Figure 9. Preferences for how support should be delivered



8 <https://www.thersa.org/discover/publications-and-articles/reports/community-capital-the-value-of-connected-communities/>

Identifying gaps in provision

Overall, community businesses have a high level of satisfaction with support providers. 92% of the time they can find support when they look for it and are satisfied with what they get (87%). In this section, we focus on the gaps, since it is intervening in the areas of unmet need that can make the difference for a community business to survive and thrive.

We draw on our survey data to produce a heat map that shows the experience of individual sectors across different support types, specifically considering the proportion of respondents in each sector who either looked for or accessed a range of different forms of support. It is important to interpret the heat map in a qualitative, directional sense, considering themes by sector and by support type, rather than focusing too much on individual intersections of sector and support type. For any individual sector, the sample size of respondents is relatively small and drawing hard and fast conclusions could be misleading. For a detailed view by sector that incorporates a broader range of evidence, please see Appendix A.⁹

The ability of support networks to offer intensive help, as well as specialist expertise on operations and business development, remains an important driver of market growth.

One final challenge is the difficulty that some support providers are facing in securing funding for their own programmes. This is limiting their ability to provide active or intensive support to community organisations beyond sign-posting and some initial advice. The ability of support networks to offer intensive help, as well as specialist expertise on operations and business development, remains an important driver of market growth.

The heat map (see Figure 10) suggests that across the community business market as a whole, key support needs lie in business/strategy and legal requirements, with the linked areas of governance and policy/procedures also important for many organisations. Looking at individual sectors there is broad similarity in many areas, with particular combinations of sector and support type highlighted in certain cases. For example, many community transport organisations highlighted the importance of publicity/PR and online presence, and a high proportion of public land management organisations had sought support with finance/accounting and sales/marketing.

9 Heat map data are presented for all sectors except finance, where only one qualifying respondent answered the survey

Although some libraries are working hard to become financially independent, others see the long-term solution as returning to a taxpayer-funded service rather than as an independently-funded community business.

Our survey analysis showed that, while respondents mostly agreed that support is available and satisfactory, pockets of concern about support availability and quality exist at both a sector and thematic level. The four sectors expressing the greatest concern about the sufficiency of support were public land management, energy, health and social care, and craft, industry and production.

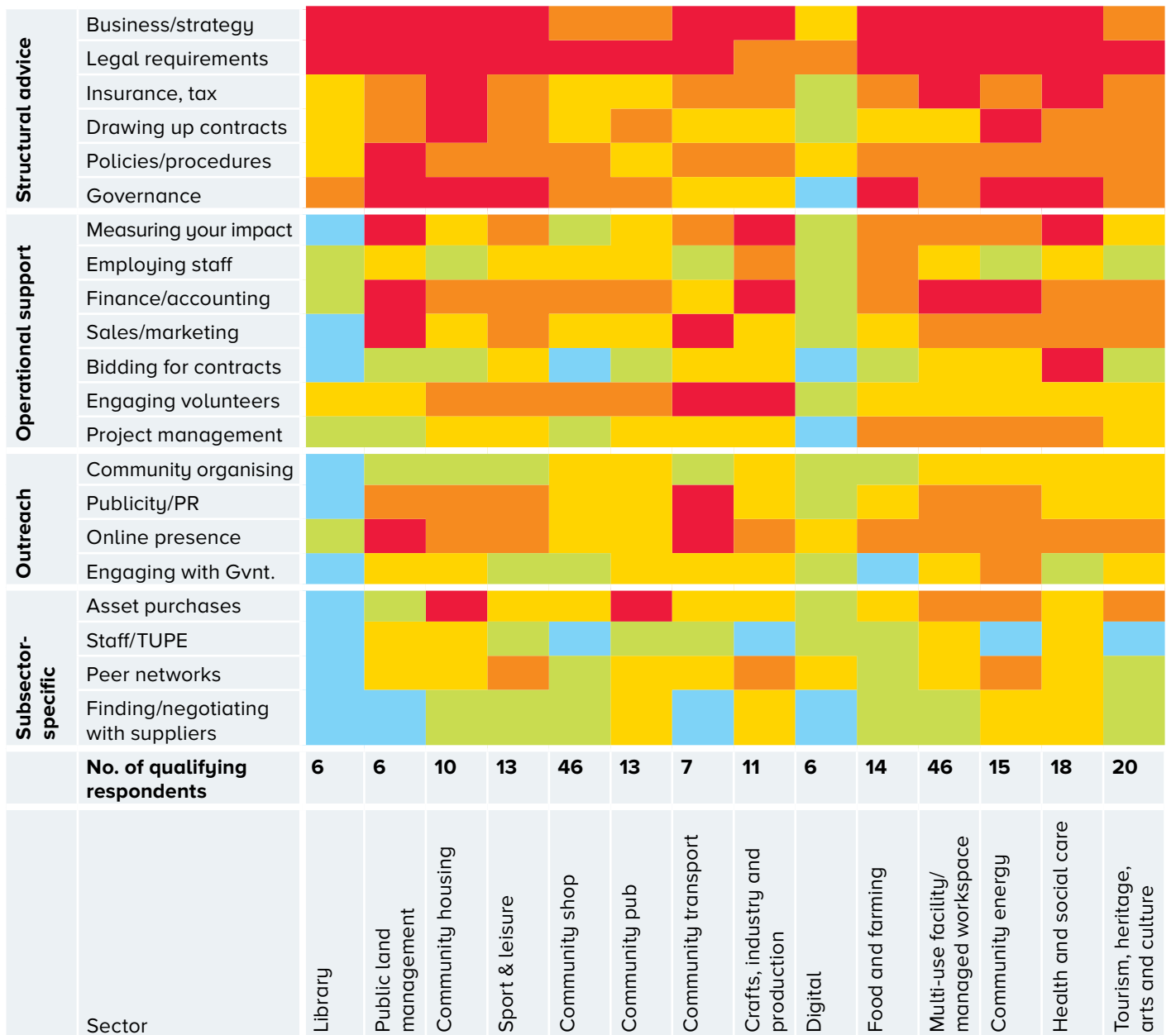
The least well served support types are primarily those relating to generating revenue and winning work: publicity/PR, bidding for contracts, engaging with government, measuring impact, as well as attracting volunteers. This is closely followed by business/strategy support. With most of these higher priority areas of concern, the primary issue is satisfaction with available support, rather than not being able to find it. In terms of areas of greatest need, the hot spots lie in structural advice: developing strategy, fulfilling legal requirements and getting governance right.

It should be noted that these responses (along with the heat map), reflect *perceptions* of gaps in support and support need rather than the assessment of a neutral observer. There remains a need to carefully consider organisations' support needs even in areas shown as relatively low priority.

For instance, in the library sector there is limited interest in support other than getting the structure right and perhaps engaging with government. Revenue-generating activities, such as bidding for contracts, measuring impact or sales/marketing are not seen as important (according to survey responses). Although some libraries are working hard to become financially independent, this particular result, albeit based on a small sample, points towards concerns that some libraries see the long-term solution as returning to a taxpayer-funded service rather than as an independently-funded community business. While this might be a perfectly reasonable end goal, it also constitutes a risk, both in terms of the reliance on government to change its mind at an ambiguous future date, and also in terms of the future prospects of these organisations as community businesses. If these risks materialise, some community-run libraries will have missed the opportunity to transition to a more sustainable business model.

Figure 10. Operational support heat map – support need

% who looked for or accessed support as a share of all respondents who answered the applicable question



None or very few had looked for or accessed support  4 in 5 or more had looked for or accessed support

Source: Social Finance Power to Change survey of community businesses. N values shown individually for each sector

3.3 Focus on: working with the public sector

One of the significant ongoing opportunities for community businesses is finding the best way of working with a public sector in financial retreat. Whether taking ownership of local assets, getting support from council staff, or winning contracts with Local Authorities (LAs), Clinical Commissioning Groups, or Local Enterprise Partnerships, many community businesses are likely to find their path to success runs close to, if not through, a government agency.

Community businesses and other stakeholders highlighted two key barriers to success in this area: asset transfers and public sector procurement.

With limited time to save an asset, community groups might pour their efforts into fundraising and community engagement to secure the asset and negotiate peppercorn-rents, with little capacity to identify long-term sustainable solutions that generate revenue.

Asset transfers

With asset transfers, there is a lack of support on both sides of the equation. LAs are not all equally aware of opportunities for engaging in more personalised, direct ways with the community to create more socially productive, and cost effective uses for their assets. Where they are open to opportunities, they may lack capacity to develop them internally, expecting the community to come to them with solutions. Meanwhile, existing or emerging community businesses are often unsure how to spot opportunities and engage early enough to feed into scoping decisions, and then lack experience at framing and developing their ideas. Community groups or existing community businesses are often busy enough with day-to-day operations to spend time on early-stage influencing activities with government decision-makers.

A further challenge is that transferred assets have often been loss-making for some time. With limited time to save an asset, community groups might pour their efforts into fundraising and community engagement to secure the asset and negotiate peppercorn-rents, with little capacity to identify long-term sustainable solutions that generate revenue. Where this has happened, there may be a need for immediate support post-asset transfer to generate new business plan ideas and fund pilots for projects with potential to create income. Further research into the specific type of support required in these situations would be worthwhile.

Public sector procurement

In public sector procurement, some community businesses have fared better than others. One successful example is Kimberworth Park Community Partnerships, which was able to secure a social prescription contract in Rotherham CCG's NHS pilot, along with other local voluntary organisations.

Other community businesses are well-connected with their local council but are unable or unwilling to turn this into a contract. A major logistics facility we interviewed stated that it already worked with the local Jobcentre Plus to provide training and employment services pro bono. However, despite the significant value in terms of public sector savings and the welfare-to-work contract opportunities, they were unsure how to engage with the council in other ways and were also concerned that the bureaucracy of public sector engagement would overwhelm other parts of their operations.

In another example, a local council decided to fund a major new co-working hub for the community and voluntary sector, inspired by a community business that had set up something similar nearby. They were keen for the community business to support the work and potentially bid for the contract, but the business found the tender complex and frustrating. Instead of delivering to a contract, they wanted the flexibility to provide what they felt local organisations wanted.

Taking over an asset creates a strong sense of empowerment and responsibility in local communities, and groups are often able to mobilise a highly committed management team and volunteer workforce.

Asset transfers: an opportunity with some obstacles

With local authorities facing significant budget cuts, many are reviewing their asset portfolio. Assets under council control range from cricket pavilions to leisure centres, and from libraries to town halls. Given the community value of these facilities, many councils would prefer to transfer custodianship to a community group where possible, a view supported by national policy (e.g. 2007 Quirk review, 2011 Localism Act). This trend presents community businesses with a significant opportunity, especially in sport and leisure; libraries; tourism, heritage, arts and culture; public land management; and multi-use community facilities.

Why transfer an asset into community ownership or management?

Taking over an asset creates a strong sense of empowerment and responsibility in local communities, and groups are often able to mobilise a highly committed management team and volunteer workforce. They are also in a strong position to adapt the asset's uses to meet local needs and identify opportunities for growth – intensifying the use of the asset and improving both local impact and financial sustainability.

From a community business perspective, taking over an asset can allow for a wider range of business opportunities than start-ups based on service delivery alone. It can also open up the possibility of asset-backed finance, and can improve financial resilience in difficult times.

What are the challenges and how best to overcome them?

Asset transfers can be difficult to achieve, both for councils and community groups. A good starting point for councils is having a Community Asset Transfer Policy in place. Authorities such as Brent, Bristol and Portsmouth are good examples.

In some cases, a local authority may need to actively look for a suitable community group, while at other times there may be an obvious choice (e.g. a local sports club already using the facility). From time to time there may be a community organisation sufficiently well-established to make a proactive approach to set the ball rolling.

In all cases, it is vital for the community group to have a viable business plan; not least because often assets have been loss-making up to the point of transfer. In some cases there may be a clear opportunity to continue and improve on a pre-existing service (e.g. a sports club), while in other situations (e.g. libraries, town halls) more imagination is required to cover ongoing staffing and maintenance costs. Development of a business plan requires considerable time and commitment, as well as a very different set of skills to that needed for the likely preceding phase of community organising and engagement.

Light touch support can be valuable at the outset to test ideas; as the idea moves towards a full proposal, more intensive help is often needed to build capacity and develop the concept. Support is also often necessary to manage the transfer process itself – working through inevitable hurdles around legal forms, insurance and tax, for example, as well as ensuring that local engagement and community benefit are at the forefront of discussions throughout.

There can often be a culture clash between top-down, prescriptive, high-cost procurement processes and the desire of an enterprising, innovative community business to have ownership and creative input into the procured service. Reduced capacity in local authorities also typically leads to fewer and larger contracting opportunities, which tend to work against small community businesses. One promising route to addressing this challenge being explored in several regions is the ‘social prime’ model. In this model, an umbrella body builds a consortium of small community businesses to successfully bid for LA contracts. Given their focus on contracting, they may also have the scale and capabilities to feed into the contract design process at an earlier stage.

Such ‘social primes’ appear to be growing in number, with longer established examples including Sheffield Cubed, the Your Consortium, and Desta. Sheffield Cubed has some 100 members today and wins about £1m in contracts per year. It was founded in 2013 out of the merger of Sheffield Well-being Consortium, Sheffield Youth Consortium and Prosper, which had already been separately operating in a social prime function for at least five years. The Your Consortium in Yorkshire (free for local members to join) has raised £19m since its predecessor organisation NYLC was established in 2007. Desta is a social enterprise that covers eight West London boroughs and focuses on coordinating local charities to bid for health sector contracts. It was set up initially with a £500,000 investment from the Hammersmith and Fulham voluntary sector.

ACEVO and NCVO are now taking leading roles in publicising and providing resources to develop such organisations.¹⁰ Changes in public sector procurement regulations, most notably the introduction of innovation partners¹¹ in the 2015 Public Contracts Regulations, may also make it easier and cheaper for willing LAs to engage with social primes.

10 ACEVO Solutions – in partnership with Neil Coulson Associates – has recently made a Consortium Development Toolkit available to members, which provides support on deciding the structure, developing organisational goals, defining criteria for membership, and formally constituting and incorporating the consortium. Similarly, NCVO provides online advice building on its 2012 roundtable discussions and paper: ‘Voluntary Sector Consortia: Where are we now’.

11 The idea of the ‘Innovation partner’ concept is that the organisation enters into a partnership (often long-term) with the authority to develop a new product or service. This legally-sanctioned method provides a way to make better use of the creativity and ownership preferences of the third sector, as well as potentially mitigating against the negative consequences of an overly-prescriptive approach to procurement. Previous R&D type contracts remain available but have been found complex to work with and can require the authority to purchase any newly-developed services from a different provider to the R&D partner, limiting the business model for participation. Further guidance and advice from the EU is expected on this topic in 2016.

One final cultural difficulty with peer support is that community businesses are often unwilling to pay directly for peer support and those who offer such support often feel uncomfortable charging for it.

3.4 Focus on: peer to peer support

Although it did not emerge strongly from the survey analysis, interviews with both community businesses and support providers emphasised the value of being part of a peer network. This could be for providing or receiving advice, learning about new ideas, or simply having a sympathetic ear to share your troubles with. Connecting organisations might also generate opportunities for joint contract bids, create ideas for revenue diversification and strengthen the ability of individual sectors to influence government. The survey also revealed that 72% of community businesses work closely with other community businesses in their area, while 69% actively support the development of other community businesses.

While organisations were swift to emphasise their willingness to help others, few have the capacity to proactively organise peer networking. A lack of internal resources makes this activity a reactive, occasional offer rather than a systematic function for driving market growth. One highly successful organisation we spoke to often receives two to three requests for support every week. While they do the best they can to respond to each one, there are very few that they can meet with individually and explore in what ways their experience could help.

This constraint creates an important role for infrastructure organisations, umbrella/membership bodies and local authorities, who have historically been crucial in facilitating peer-to-peer activity. However, several such organisations that we spoke to are seeing reduced funding and are now less able to support these activities.

Some sectors have either no umbrella body or feature one with almost no resources, such as the UK Hackspace Federation. In principle it is possible for diverse, multi-sector organisations like Locality to provide such benefits to many organisations, particularly where they set up specific sections on their website, send targeted newsletters or organise sector-specific networking events. The challenge even in these cases is identifying groups that need help, but may not have identified themselves as being part of the broader community of organisations served by that group.

One final cultural difficulty with peer support is that community businesses are often unwilling to pay directly for peer support and those who offer such support often feel uncomfortable charging for it. Yet community businesses are willing to pay for other professional support and some are willing to receive paid-for peer support, provided it has been funded with philanthropic or public money. This speaks to one of the core tensions of community business – the desire to act in the interests of society, while managing the need to make the economics stack up.

Conclusion

In the past year, the community business market has experienced strong growth across many sectors. As the second attempt to get a handle on the community business market, our best estimate in the time available shows that there are 9% more community businesses than there were last year, bringing the total up to 5,650 once our two additional sectors are included.

At the same time, the picture across different market sectors is much more mixed. Some sectors ('Growing, but at risk') have up to now benefited considerably from large-scale government subsidies or grant programmes, but these are now being withdrawn. Others have made steady gains and are less affected by national policy changes ('Steady Progress'), but equally are less likely to experience rapid progress. By contrast, some sectors have substantial growth opportunities ('Growth Potential'), whether because of underlying drivers that create room for new community businesses, such as increased outsourcing in the health service, or because existing organisations could be converted to the community business model, such as in sport and leisure.

The picture that emerges from our sector analysis is the fast and furious efforts of dedicated community entrepreneurs and volunteers around the country to turn their ideas into reality and then make that reality self-sustaining after early financial support has been used up.

The question then becomes what can be done to support businesses, given their different contexts. We know from our survey of 289 community businesses that while much support is available and accessible, and that community businesses are typically satisfied with what they get, the majority of businesses can identify at least one support gap in an area important to their business. What they cannot agree on is where those gaps lie, a testament to the diversity of organisations that make up the sector.

Despite this diversity, however, some common themes emerge: A need to raise awareness among community groups of the opportunities that the community business model offers; the need for many established businesses to refine their business models, identify new revenue streams, and make the transition from grant funding to trading income and repayable finance; better support for community businesses and public agencies to work together on asset transfers and local contracting; and improved peer networking to connect successful businesses with those that could benefit from their advice and help.

With strong growth in the market and the launch of a significant new funder in Power to Change, 2015 was an excellent year for community businesses. 2016 may be a tougher nut to crack.

Acknowledgements

This report presents the findings of research carried out between September and December 2015 by Social Finance. The work has been supported throughout by Power to Change and we are particularly grateful to Vidhya Alakeson, Fergus Arkley, Mark Gordon, Bonnie Hewson, Richard Harries, Jenny Sansom, Rose Seagrief and Dot Zacharias.

We would like to thank the 55 organisations who took the time to be interviewed as part of our research; these organisations' generosity in sharing their insight, experiences and opinions deeply enriched our research. We are particularly indebted to those who allowed us to make use of their extensive networks in order to distribute our survey to community businesses across a range of sectors.

We are grateful to Power to Change's Community Business Panel, who offered valuable insight and challenge on our emerging findings, and to Ekos, with whom we developed our survey.

Finally, we would like to thank the 289 community businesses who completed our survey. As this report has shown, surviving and thriving as a community business in 2015 is a challenging and time-consuming task, especially in a sector so reliant on its committed volunteers. We are very grateful to all who took the time to participate in our survey.

We hope that our findings ring true to those who participated in our research; nonetheless, the views expressed and any remaining errors are our own.

We welcome any comments or feedback on the report. You can contact the authors by email at:

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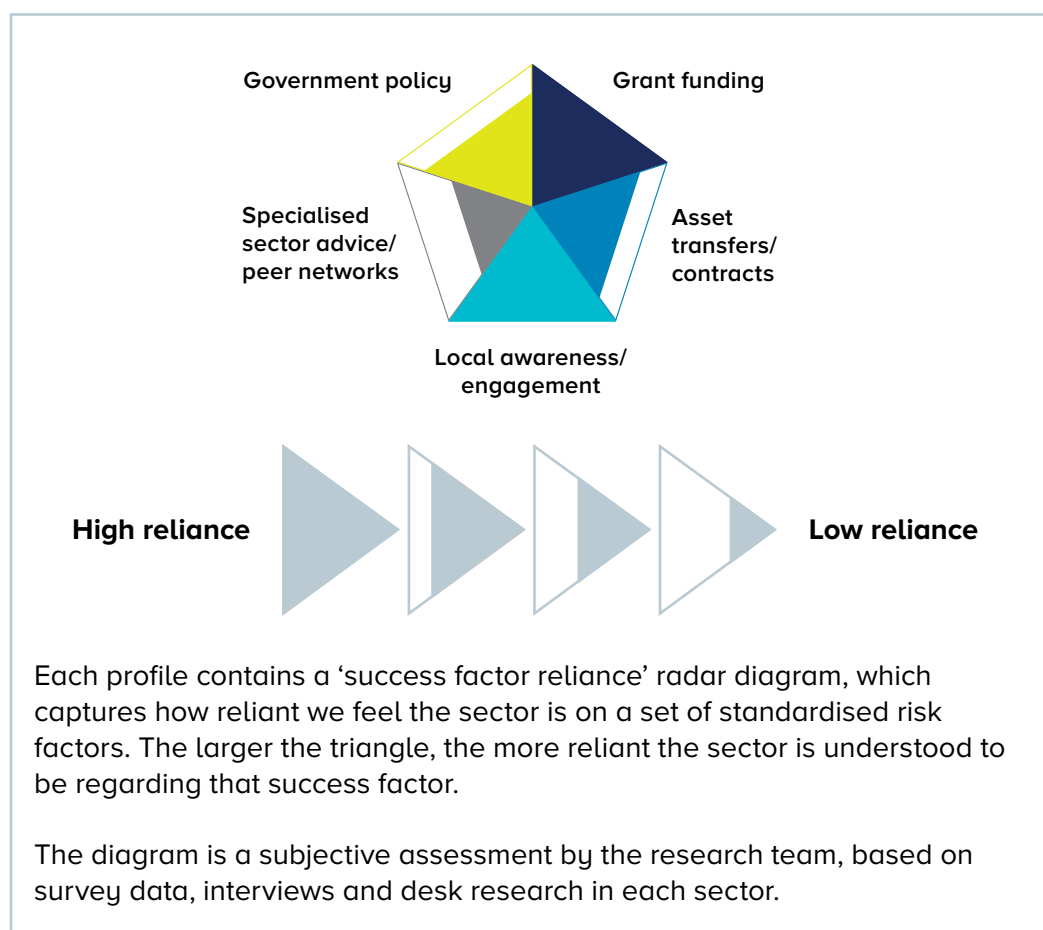
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Introduction to the appendices

Appendix A: Market overview and sector profiles

This section includes a table summarising our estimate of the size of the community business market, split by sector. It includes information on number of organisations, income, assets, staff and volunteers. Details of our market sizing methodology can be seen in section 2.1.

We then provide a one-page profile for each of the sectors of the community business market:



Appendix B: Interview list

This appendix contains details of the 55 organisations interviewed as part of this research.

Appendix C: Survey details

Here we provide details of our survey of community businesses. We include an overview of our survey methodology, and a series of charts outlining the profile of respondents.

Appendix A. Market overview and sector profiles

	Sector	No. orgs 2014 ^a	No. orgs 2015	Income (£m)	Assets (£m)	Average income (£m)	Average Assets (£m)	Staff	Volunteers	
Growing, but at risk	Community transport	1,000	1,000	150	100	0.15	0.10	11,500	60,000	●
	Food and farming	1,000	1,000	50	30	0.05	0.03	2,000	17,000	●
	Community energy	200 ^b	275	10	80	0.04	0.30	400	4,000	●
	Library	200	250	5	35	0.02	0.15	400	7,500	●
	Community finance	n.a.	150	20	225	0.15	1.50	600	Unknown ^d	●
Steady progress	Craft, industry and production	450 ^b	500	50	25+ ^e	0.09	n.a.	1,500	2,500	●
	Community shops	310	320	55	10	0.17	0.03	1,000	8,000	●
	Community housing	250	300	50	300	0.16	1.00	500	6,000	●
	Tourism, heritage, arts and culture	100	120	25	60	0.20	0.50	600	1,200	●
Growth potential	Sports and leisure	900 ^b	1,000	400	400	0.40	0.40	11,000	60,000	●
	Public land management	300	320	5	3	0.02	0.01	300	4,500	●
	Multi-use facility/ managed workspace	250 ^b	300	35	110	0.11	0.37	1,250	1,250	●
	Digital	50	60	6	12	0.10	0.20	120	600	●
	Community Pubs	25	30	4	10	0.14	0.32	400	400	●
	Health & Social Care ^d	n.a.	25	2.0	Unknown ^d	0.08	Unknown ^d	Unknown ^d	Unknown ^d	●
Total^c		5,035	5,650	867	1,400	n.a.	n.a.	31,570	172,950	

Relative data quality

● Very good
 ● Good
 ● Reasonable
 ● Limited

Some organisations operate in multiple sectors, such as a community pub which might provide a local library service alongside a low-cost multi-use space which community organisations can use. Such diversity of services is something to celebrate in community entrepreneurship and care has been taken to minimise double-counting. The focus of our market sizing research this year has been to identify changes and trends in the number of organisations in existence. Unless we have evidence to the contrary, we have assumed that average income, assets and staffing figures for each sector have not changed from the previous report, and aggregate estimates for these metrics have been calculated accordingly and rounded to reflect data quality.

- a) We have restated and rounded the original 2014 numbers to reflect England only.
- b) For a few sub-sectors, we have restated our estimates for 2014 based on updated information gained during our research for this report. The most significant update has been for the sport and leisure sector, where additional interview insight led us to include a slightly greater proportion of sports clubs within our market sizing estimate; the sports clubs sector as a whole is very large, but typically these organisations do not qualify as community businesses.
- c) Totals are presented as direct figures, but, as with other numbers, we advise readers to consider ranges and rounding appropriate to the data quality and their own needs, e.g. ~5,000 total for 2014.
- d) Health & Social Care is an emerging sector with insufficient information to provide estimates for assets and staff/volunteers. However, we understand that the asset base would be relatively low as they typically operate out of a building leased by an LA or the NHS, and the ratio of volunteers to staff would be relatively high.
- e) As highlighted last year, the diversity within crafts from highly-localised groups to small warehouses/factories makes it hard to comment on the total asset base. £25m is based on a Furniture Reuse Network estimate for a subset of this sector, which should represent a floor estimate for the total assets.

1 Community transport

Definition/scope

- This is a relatively large and quite well-defined and well-established sector, with c.1,000 organisations. This includes 4-5 very large providers (e.g. Hackney Community Transport), with most of the remainder being relatively small.
- Primarily a rural sector, but c. 30% of organisations are mainly urban.
- Most organisations typically offer door-to-door accessible transport to vulnerable people, using a membership-based model. Most also hire out their minibus with a driver. Most common customers are older people and those with restricted mobility.

Challenges and trends

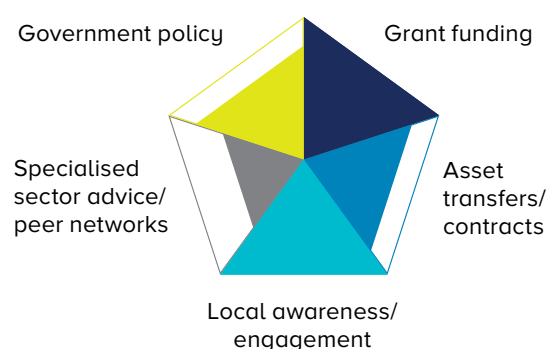
- Margins tend to be tight, making it difficult to build up reserves for investment, e.g. a new accessible minibus costs £40k. Many organisations rely on grants to cover a substantial part of these costs.
- Many organisations still partially dependent on LA subsidies, as some services are not commercially viable even with volunteer drivers. With subsidies now under threat, there is pressure to boost revenue, but this is difficult while maintaining an affordable service.
- Potential EU regulation changes are also a current threat.
- However, some new opportunities are emerging:
 - Health Transport: Providing appropriate local patient transport is a growing priority for health services.
 - Total Transport initiative: Pilot schemes to better integrate transport services across a range of providers and areas.
 - Devolution: Bill being planned to give LAs greater control of local bus routes and facilitate greater franchising and partnerships.

Finance and support needs

- The sector has a well-established umbrella body – Community Transport Association – which most organisations are members of.
- Many organisations require capital grant funding to purchase new vehicles.
- In the absence of this, there is a gap in support for organisations to develop strategies to build up reserves to facilitate investment.
- Sector could also benefit from support to make use of new technologies to enable them to reach out to more customers.

Success factor reliance*

*Scores based on subjective assessment by research team.



Estimated outlook

Slow growth overall, with some organisations ceasing operations but new ones starting up.

- For several years sector has benefited from Government support and this is largely still the case, but potential threat from possible EU policy changes.
- Grant funding often required to purchase vehicles as well as to subsidise running of uncommercial routes.

Key desk research and interviews

Community Transport Association (incl. *State of the Sector 2014*)

2 Food and farming

Definition/scope

- Sector is complex and diverse, consisting of several different sub-sectors:
 - Food co-operatives: c.350
 - Farmers markets: c.250
 - City farms: c.200
 - Community supported agriculture: c.100
 - Country market societies and community grocers: c.100
 - Care farming: c.20

Challenges and trends

Sector grew rapidly in recent years following two major grant programmes: Making Local Food Work (2007-2012) and Local Food Programme (2009-2014).

However, margins are very tight, especially in rural areas, and some new businesses failed to achieve sustainability. Large food suppliers benefit greatly from economies of scale, and community businesses are often unable to compete on price.

However, there has been growth in urban organisations, where margins can sometimes be better for certain crops. In some areas new technologies are also enabling several producers to pool their produce for sale online, improving market accessibility.

Diversification often now seen as best route to sustainability – many long-standing shops/cafes etc, but increasingly also education (e.g. school groups) and health (therapeutic horticulture – care farms).

Existing Farmers' Markets are doing well, but growth is now relatively slow as model typically only viable in more affluent areas.

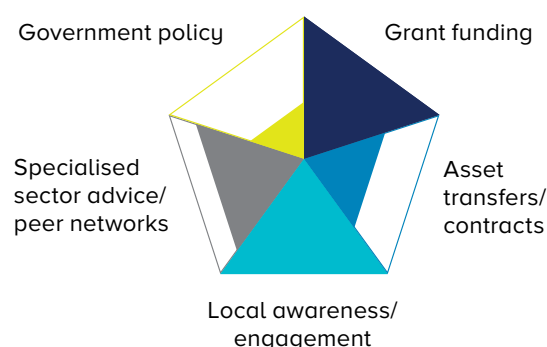
Finance and support needs

- Capital finance needed for land, equipment, marketing – margins make taking investment difficult, so sector has traditionally relied heavily on grants, especially for starting up (e.g. BLF).
- Support also needed to develop business models, particularly around diversification, though marginal core profitability remains a challenge.
- Very strong interest from more community groups – but key challenge in starting up is finding land.
- New *Just Growth** fund offers blended grant/investment finance – had more than 40 applicants for c.8 places.

* From Esmée Fairbairn Foundation, Co-operative and Community Finance and local sources.

Success factor reliance*

*Scores based on subjective assessment by research team.



Estimated outlook

Slow but steady growth, particularly in urban and more innovative models.

- Sector benefited greatly from two major grant programmes but some new organisations struggling due to tight margins – engagement of local community (as consumers) is vital.
- Policy environment not currently favourable – potential for improvement.
- Land prices are a significant barrier to new entrants – currently the best availability appears to be disused land in peri-urban areas.

Key desk research and interviews

Real Farming Trust
Co-op Culture
Federation of City Farms and Farm Gardens
Community Supported Agriculture Network

Soil Association
Biodynamic Land Trust
Local Food – *Final Evaluation Report 2014*

3 Community energy

Definition/scope

- Primarily composed of community-controlled solar, wind and hydro energy generation projects, often supported with outside investment.
- Any profit from schemes is typically used to fund local initiatives, such as energy advice for people in fuel poverty, improvements to community buildings, providing computers for local schools.
- As well as genuine community business CICs, there are a number of projects which are owned by commercial interests, which are often also registered as CICs. Community Benefit and Cooperative Society structures are more reliably community vehicles at present.

Challenges and trends

- Sector had grown rapidly in recent years following several government initiatives, particularly introduction of Feed In Tariffs (FITs) which subsidised the cost of renewable energy generation.
- However, government has recently announced plans to dramatically reduce FITs, without exemption for community-based projects. Uncertainty surrounding this has caused many pipeline projects to be put on hold (with the exception of a small number which were accelerated in order to become operational prior to changes coming into effect), and assuming the changes go ahead, the future pipeline is likely to be greatly diminished (potentially close to zero, at least in short-term). The change is seen as particularly disappointing in the sector, as view was that it was on a path towards sustainability but required a few more years of support.
- Government has also recently exempted community energy projects from both EIS and SISR tax reliefs, further worsening the situation, as these could otherwise have partially compensated for the FIT change.

Key desk research and interviews

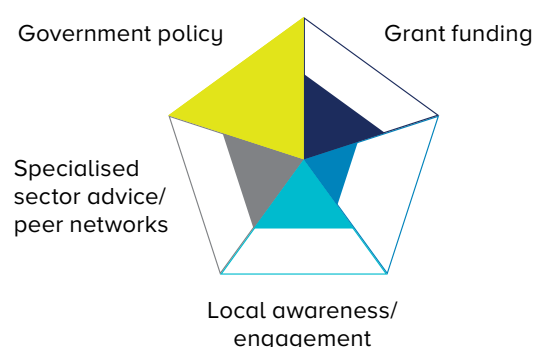
Community Energy England
Abundance Generation
Community Shares Unit
(Including *Inside the Market Report 2015*)

Finance and support needs

- Without changes to FITs, the number of new generation organisations is likely to be reduced in the short term until the market for renewable energy installation stabilises and prices fall.
- Typically there is a need for significant up-front investment to set up new generation schemes and specialised technical support – organisations typically accept this and buy it in, but policy uncertainty or change during the planning period creates additional problems.
- Business planning and project management support also often needed – generation projects can be highly complex to get off the ground.

Success factor reliance*

*Scores based on subjective assessment by research team.



Estimated outlook

Minimal/negative growth in short-term while new models are explored.

- FITs and grant funding has supported the sector to date, but planned changes would severely curtail growth unless new business models can be developed.
- Short term support to innovate such models may be particularly valuable, considering direct supply, storage and demand reduction as well as generation.
- Technical support necessary given the complexity of projects.

Community Energy England
Abundance Generation
Community Shares Unit
(Including *Inside the Market Report 2015*)

Big Society Capital
FSE Group
Trillion Fund
DECC (*Community Energy Strategy Update 2015* and others)

4 Libraries

Definition/scope

- This sector is a significant component of a wider collection of volunteer-run libraries. The key distinguishing feature of a community business in that sector is having some non-grant income – although very few which are currently in existence would be genuinely sustainable at this stage without any grant income.
- There are a variety of models among the c.250 organisations:
 - Independent community library/ community-managed library
 - Community supported library
 - Commissioned community library.

Challenges and trends

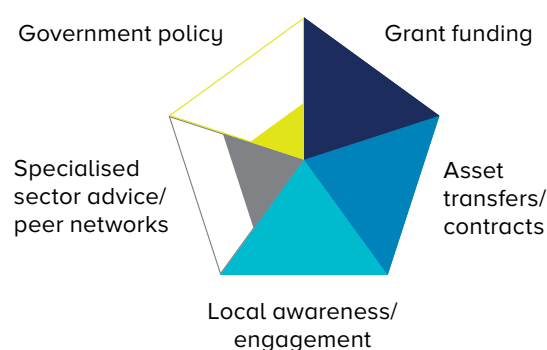
- Growing numbers of community libraries are almost entirely due to local authority budget cuts – community libraries tend to be formed in response to a threat to closure of the service rather than the community's ambition to take over the asset. Asset transfer process can be lengthy, and dependent on range of highly variable factors.
- Some LAs provide much more support than others to new community-run libraries, but virtually none are currently financially sustainable – this is a key challenge and there is an opportunity for awareness raising and replication as/ when successful models emerge from the variety currently being trialled (e.g. membership schemes, small but sustained contracts from LAs, new business lines).
- Many are heavily reliant on the commitment and skills of their volunteer workforce, which can be difficult to maintain at times. A further complication is that individuals with more time available and more relevant skills tend to come from relatively prosperous areas, which have a lower level of need than less affluent areas.

Finance and support needs

- Level of finance needed is highly variable – even where LA transfers management of asset for free, work may still be required to develop/convert it for wider purposes, and maintenance costs can be high.
- Support from local councils is highly variable (from nothing, to all costs except staffing covered). Where support has been provided it usually tends to be over short-term (1 to 3 years), leading to a need to identify and develop financially sustainable business models. If/when these emerge, will be an opportunity for sharing best-practice.
- Peer support highly valued, but funding needed to accelerate this.

Success factor reliance*

*Scores based on subjective assessment by research team.



Estimated outlook

Hard sector in which to create a viable business model – focus and support needed to enable this.

- No dedicated, significant peer networks currently exist nationally and promotion of such channels for knowledge sharing would be beneficial.
- Government policy not currently very relevant, but a positive shift to reflect the opportunity for libraries to act as community hubs (similar to community pubs) could have a transformational effect on the sector.

Key desk research and interviews

Ian Anstice, Public Libraries News
Locality – *Income Generation for Public Libraries 2014/15*
CIPFA – *Library Survey 2014*
Locality – *Rural Library services in England 2014*

Locality Community Libraries Knowledge Hub
Voluntary Action Sheffield

5 Community finance

Definition/scope

- Sector is composed primarily of credit unions. After excluding those whose remit is based around a company rather than a geographical area, and those with a geographical coverage where it is very challenging to retain a genuinely local focus, this leaves c.150 organisations for the community business analytical definition.
- Within this estimate we have allowed for a larger geographical area than other sectors, to reflect that fact that city-wide or broad rural coverage is typically required to achieve a sustainable scale in this sector.

Challenges and trends

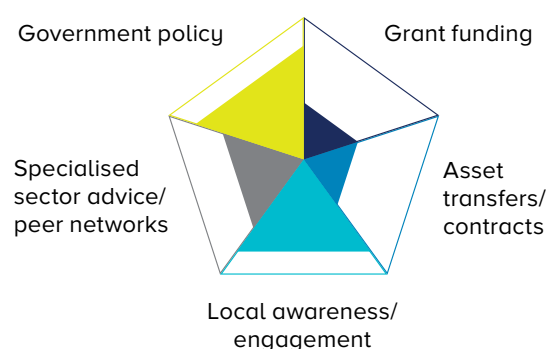
- Credit Union (CU) sector benefited from various government grants in early 2000s and grew rapidly – now trying to adapt to more self-sufficient models and some are struggling, but overall membership and income rising steadily.
- Some credit unions looking to increase scale to improve sustainability, but pressures resulting from this can sometimes run counter to community business ethos, e.g. mergers across areas or partnerships with particular employers or housing associations.
- Many looking to offer wider range of products to boost revenue – e.g. current accounts, cash ISAs and innovative budgeting accounts.
- Credit Union Expansion Scheme (CUEP) has been running since 2013 and recently extended to 2016 – £38m investment from government to support the sector to become more sustainable.
- Since 2012 credit unions permitted to lend to organisations as well as individuals – should mean opportunity to lend to community businesses, but culture change is slow and not a priority in sector.

Finance and support needs

- Little opportunity for new organisations, as scale is key to sustainability and most of the country is already covered by a CU.
- Sector has previously benefited from various grant funding opportunities, and in order to achieve long-term sustainability many organisations now need support to professionalise their services and improve financial planning.
- Support would also be beneficial to help organisations articulate and improve their local impact, and to retain a focus around this within the context of pressures to survive.

Success factor reliance*

*Scores based on subjective assessment by research team.



Estimated outlook

Steady – assisted by CUEP and positive policy stance.

- Local awareness/engagement important for scale – customer numbers is vital for sustainability, as is the related point of attracting capital investment to leverage sustainable balance sheet growth.
- Government policy is currently relatively favourable, as evidenced by the Credit Union Expansion Scheme – if this were to change growth in the sector may be slowed.

Key desk research and interviews

Association of British Credit Unions
Mutual Banking Sector
ABCUL (*Community Finance for London*)

6 Crafts, industry and production

Definition/scope

- This sector is comprised of organisations that produce/ reproduce goods that can be sold either by themselves or by a third party. It consists of several different sub-sectors:
- Furniture re-use c.240
- Paint recycling c.75
- Logistics c.50
- Crafts/other c.135

Finance and support needs

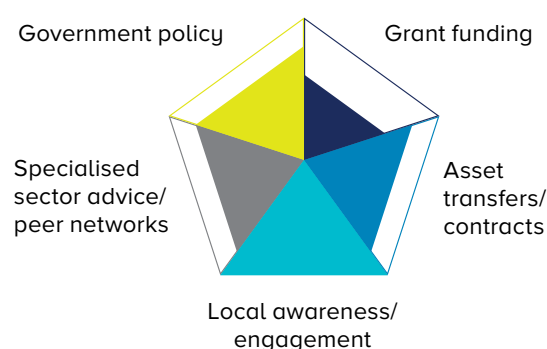
- Require capital finance for buildings, warehouses and studio spaces in order to grow operations from small to medium size.
- Support in bid writing and local authority engagement.
- Support in partnering with commercial companies to exploit the logistical and technological advantages in the private sector.
- Support needs are highly varied and reflect the diversity of the sector. Support for craft organisations is typically relatively disparate, while the Furniture Re-use Network provides valuable assistance to furniture reuse and paint recycling businesses.

Challenges and trends

- Healthy growth based on growing pressure on local authorities to reduce spending on waste, providing opportunity for locally based re-use companies who undercut commercial competitors.
- Increasing welfare cuts has driven the demand for low-cost products, fitting well with non-profit community business. This has increased the challenge for organisations to boost supply of donated goods.
- Technology has also made it easier to sell products, but businesses in this sector still have highly variable marketing and business skills.
- Local authorities typically do not incorporate wider social benefits in commissioning process, which would otherwise be an area of strength for community businesses.
- Increasing competition from small private sector companies who, in some cases, have access to potential customers across a wider area.
- Land price increases, and the resulting effect on rental price, has reduced the accessibility of studio space for craft businesses.

Success factor reliance*

*Scores based on subjective assessment by research team.



Estimated outlook

Support needed to develop into more commercially competitive sector.

- Businesses are often dependent on demand for their products by families (primarily those on low incomes) and sometimes local authority contracts.
- There is an opportunity for grant financing, although currently under-utilised, to help grow businesses with healthy revenue streams.

Key desk research and interviews

Social Firms England
Crafts Council
Furniture Re-use Network (FRN)

Community Repaint
Goodwill Solutions
Craft Council – *Measuring the Craft Economy 2014*
FRN – *Commercial Impact Report 2015*

7 Community shops

Definition/scope

- Sector is relatively well established and clearly defined, consisting of c.320 organisations.
- Typically use BenCom structure, though others forms also common. Average of c.170 members, with 5-10 on management committee.
- New organisations tend to result from local shops being threatened with closure and a group of local residents coming together to save it, although most end up operating out of a different building to the original shop.

Challenges and trends

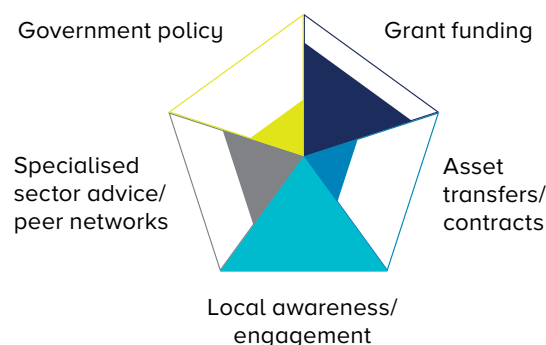
- Existing organisations generally doing well – 99% of those that started are still going and Plunkett Foundation survey indicates c.5% year-on-year revenue growth.
- However, pipeline of new organisations has slowed over past 12 months – 11 new shops in 2015 compared to c.17 in 2014 and c.18 in 2013. Currently c.80 in pipeline.
- Reasons for slowdown unclear but may include:
 - Ongoing reduction in grant availability, especially from LAs.
 - Continuing reservations about taking on investment.
 - Potentially a slowdown in shop closures.
- Remains a predominantly rural model, but there are an increasing number of urban shops as well, especially following a support scheme from Plunkett Foundation, Locality and Esmée Fairbairn Foundation.
- Gradual trend towards diversification in the sector, but this is still relatively early-stage, although c.45% offer some form of café facility.

Finance and support needs

- Support currently lacking (especially in joined-up form) at various stages:
 - **Excite:** making communities aware that this is an option.
 - **Explore:** carrying out feasibility studies.
 - **Enable:** making it happen – financials, legal duties, business planning, sector-specific advice. Start up costs have risen in recent years (now average c.£100k) due to more ambitious projects – e.g. new builds, converting buildings and combining multiple activities.
 - **Ensure Success:** support once doors are open to ensure business succeeds and becomes sustainable.

Success factor reliance*

*Scores based on subjective assessment by research team.



Estimated outlook

Slow but steady growth in new businesses, robust performance from existing shops.

- Local awareness and engagement vital for both getting new organisation off ground and sustaining once open.
- Grant funding often needed to cover start-up costs, e.g. renovation/conversion of building.
- Government policy not currently important, but sector is lobbying for potentially beneficial tax changes.

Key desk research and interviews

Plunkett Foundation
(incl. *Community Shops: A better form of business, 2014*)

8 Community housing

Definition/scope

- Although there is some overlap within sub-sectors, the community housing sector is broadly composed of:
 - Community land trusts (c.150) – typically where a community purchases land and builds new properties.
 - Self-help housing (c.140) – renovation of empty homes.
 - Co-housing projects (c.20) – communities with shared services.
- In each of the above the end housing is either sold at genuinely affordable prices or rented out at genuinely affordable rates.

Challenges and trends

- Self-help housing sector benefited greatly from DCLG £50m Empty Homes Community Grant programme, which ended in March 2015 – supported more than 100 organisations (though not all qualified as community businesses). Mostly in urban areas, this model is much quicker to implement (weeks/months) than new-build (several years).
- Existing organisations generally viable, and high proportion keen for subsequent projects (estimated £50m of latent demand among recipients of Empty Homes Grants).
- Margins often very tight due to desire to offer genuinely affordable housing – can be greatly affected by trends in local housing market.
- Some evidence that pipeline of new organisations has slowed in recent months. This thought to be primarily due to uncertainty regarding upcoming policy changes – e.g. many CLTs and Co-housing projects receive grant funding from Homes and Communities Agency and consequently have to register as Registered Providers, making them subject to possible reductions in social rents and Right to Buy.

Key desk research and interviews

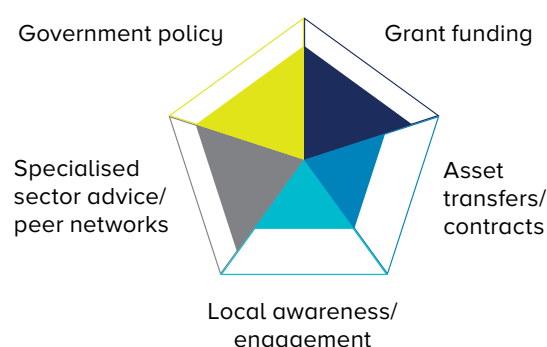
CAF Venturesome
Self Help Housing
Community Land Trust Network
Empty Homes – *Empty Homes in England, Autumn 2015*

Finance and support needs

- Partial shortage of funding for developing planning applications (particularly new build – CLTs), and then developing full business plan.
- Asset backed finance to c.60–70% available from commercial lenders for land/development, and some social investors (e.g. Venturesome) provide top-up funding, though some shortage. Grant often needed to enable housing to be offered at genuinely affordable rates.
- Sector is highly reliant on a few key Trusts and Foundations (e.g. Esmée Fairbairn, Tudor Trust, Nationwide BS) for grant funding, social investment and funding for support providers.

Success factor reliance*

*Scores based on subjective assessment by research team.



Estimated outlook

At least slow growth expected, potential for acceleration if government funding renewed.

- Many organisations still rely on HCA grants in order to ensure housing remains affordable.
- Self help housing sector was accelerated greatly by the DCLG Empty Homes programme, and latent demand for further growth remains – opportunity for further growth if this funding renewed.

Homes and Communities Agency
HACT – Community Asset Transfer Toolkit
Community Shares et al – *Community Share Issues and Community Land Trusts*

9 Tourism, heritage, arts and culture

Definition/scope

- Sector is highly diverse and complex, with relatively little centralised tracking and support.
- High proportion based around assets that have been transferred out of LA ownership/management – everything from museums and theatres to town halls and toilet blocks. Needs to be clear community benefit (often beyond core purpose) in order to meet our definition.
- Also some start-up community businesses, especially in tourism, and some pre-existing groups (e.g. amateur dramatics) transitioning into community businesses in order to improve sustainability.

Challenges and trends

- Currently slow but steady growth driven primarily by LAs selling off or transferring out management of assets – as in some other sectors, this is expected to accelerate over coming years. Asset transfer process is highly variable between LAs.
- Business models often very fragile/volatile, especially museums where visitor numbers are in decline in some areas, amid much competition.
- Many organisations looking to diversify and develop new income streams. Ability to do this is greatly increased where the asset can more easily be used for multiple purposes (e.g. piers, town halls; whereas heritage assets often have restricted uses).
- This process is also highly dependent on the skills present on the organisation's Board, and its interest in widening their team's remit.
- Many organisations in this sector find it hard to develop and articulate their broader social impact beyond their core purpose (e.g. preservation of heritage asset, putting on theatre productions), making it difficult to expand and grow over time.

Key desk research and interviews

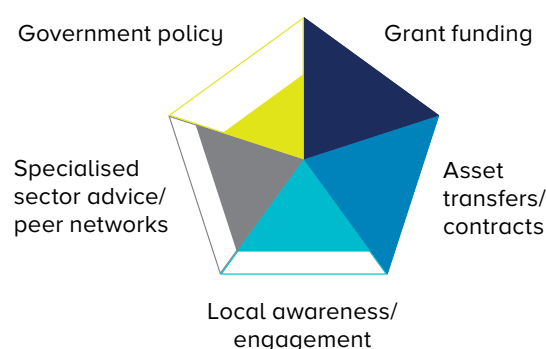
Architectural Heritage Fund
New Arts Exchange
Historic England (incl. *Pillars of the Community 2015*)

Finance and support needs

- As with other sectors, support lacking in facilitating asset transfer process, especially how heritage assets can be used for social impact.
- Good availability of asset backed finance, but projects often require grant funding rather than, or as well as, debt, at least to cover initial development costs. Shortage of capital grants/blended finance is limiting emergence of new businesses, and a risk to some existing ones.
- Many new organisations lack skills to maintain large/complex assets and manage business sustainably; can be high maintenance costs. Governance support often valuable, including Board diversification.

Success factor reliance*

*Scores based on subjective assessment by research team.



Estimated outlook

Opportunities for growth from LA asset transfers, but some sub-sectors quite reliant on grant funding.

- Grant funding often needed to maintain/refurbish assets, and to convert them for other/wider uses.
- Having broad local awareness/engagement is important, but perhaps less-so than some other sectors, as many organisations in this sector rely on income from tourists who may come from other areas.

10 Sport and leisure

Definition/scope

- Sector is made up primarily of sports clubs with both assets and a broader community remit beyond core sporting activities (c.900, mainly CASCs), community managed swimming pools (c.40), leisure centres (c.25), and multi-facility organisations (c.10–20).
- There are also a very large number of local sports clubs lacking either an asset and/or remit beyond core sports function – these may be highly beneficial, but fall outside our community business definition.
- Some leisure facilities are based in old buildings and the sector has some overlap with the heritage sector.

Finance and support needs

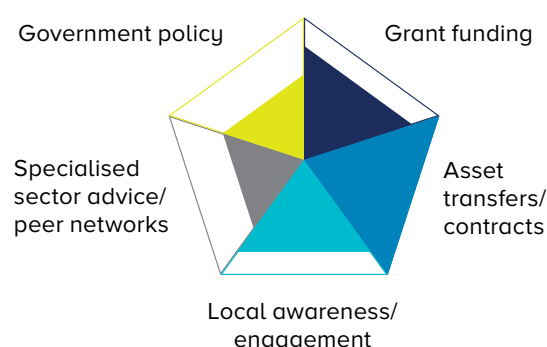
- Partial shortage of funding for developing planning applications (particularly new build – CLTs), and then developing full business plan.
- Asset backed finance to c.60-70% available from commercial lenders for land/development, and some social investors (e.g. Venturesome) provide top-up funding, though some shortage. Grant often needed to enable housing to be offered at genuinely affordable rates.
- Sector is highly reliant on a few key Trusts and Foundations (e.g. Esmée Fairbairn, Tudor Trust, Nationwide BS) for grant funding, social investment and funding for support providers.

Challenges and trends

- Relatively strong and accelerating growth due to combination of:
 - LAs selling off, or transferring out management of, assets (everything from cricket pavilions to leisure centres) – often to large companies but also lots of interest in transferring to community groups/sports clubs.
 - Reduction in grant funding from LAs and National Governing Bodies (FA, LTA, RFA etc), pushing more organisations to seek ways to become more financially self-supporting.
 - Growing emphasis from central government (DCMS) on how sport can be used to generate positive social impact.
 - Local groups often well-placed to make fuller use of asset than LA or company – better able to identify local demands/opportunities.
- Traditional model to boost revenue has been venue hire, and organisations exploring increasingly diverse options to deliver community benefits here, but growing number of organisations also developing links with schools/colleges and health services.

Success factor reliance*

*Scores based on subjective assessment by research team.



Estimated outlook

Support needed to capitalise on opportunity resulting from accelerating LA asset transfers.

- Type and scale of asset transfer support needed is variable depending on scale of project and LA's level of prior experience in this, which is highly variable.
- Grant funding often required to renovate, convert or expand an asset, even if not to purchase it.

Key desk research and interviews

Sporting Assets
The Sport Business
Withington Baths

Sport England
Yateley Sports CIC
Young Foundation – *Keeping up and Running 2015*
DCMS – *Government policy: sports participation 2015*

11 Public land management

Definition/scope*

- Sector is primarily composed of community woodland projects (c.150) and community parks/open spaces (c.170).
- Many community managed parks have been in existence for long time (several decades), whereas community managed woodlands are a more recent concept, which is now being accelerated by LA asset transfers.
- High success rate – very few organisations have ceased operating, and there tends to be very high level of commitment from people involved – strong sense of responsibility from managing land.

Challenges and trends

- Slow but steady growth in the sector (c.5–10% p.a.), as LAs look to sell off land or transfer management to third party. There is high demand from communities to take over woodlands, slightly less-so for parks, where the push is driven more from LAs.
- Land requires maintenance and is not normally self-sufficient when managed by LA, so new organisations have to identify and commence revenue generating business lines from early stage – e.g. community activity days, selling firewood (prices have recently risen which has helped), and occasionally forest schools in some areas.
- Growing number of organisations keen to construct a building on their land to open up more income-generating opportunities, but this requires robust business plan to secure funding – can be challenging, and very dependent on skills and time availability of those involved.
- DCLG's £1.5m Pocket Parks programme may establish up to 100 small new organisations, though significant concerns exist regarding these organisations' ability to achieve financial sustainability.

Key desk research and interviews

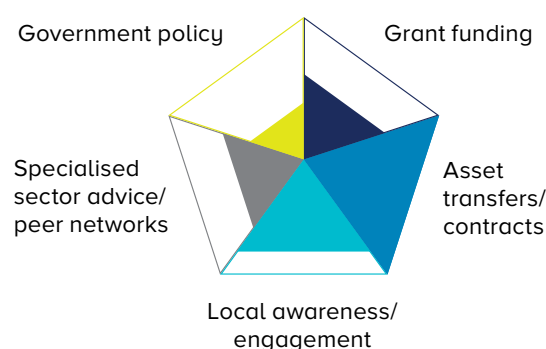
Shared Assets
Co-op Culture
Whistlewood Common
Woodland Trust

Finance and support needs

- Brokering asset transfer negotiations between LAs and community groups (with support reflecting that these processes tend to progress sporadically and slowly in this sector), as well as to up-skill the community group. Finance occasionally needed for asset purchase.
- Business planning support needed, particularly in how to create robust business case for development of building on land.
- Community Ownership and Management of Assets (COMA) programme funded 7-8 land projects this year, and Plunkett's Making Local Woods Work will bolster a further 50 projects.

Success factor reliance*

*Scores based on subjective assessment by research team.



Estimated outlook

Opportunities from LA asset transfers, but less common than some other sectors so growth is slow.

- Support needed in many LAs to facilitate successful transfer of public land to community management.
- Specialised advice necessary for initiation (e.g. legal advice to negotiate leases), core business activities (e.g. producing firewood) and secondary diversification activities. Peer advice is highly valued in this sector.

*Our analysis has focused on community businesses which manage or own land which was previously under public custodianship. We understand that there may also be some community businesses managing land owned by charities or the private sector, but we have very limited information on these, so have not included them in our analysis.

12 Multi-use facilities/managed workspaces

Definition/scope

- Sector is highly diverse, and care has been taken in market sizing estimates to avoid double-counting with other potentially overlapping sectors, e.g. public land management, tourism/heritage, sports.
- Indeed, across a range of sectors diversification is seen as a key route towards improved financial sustainability, and consequently an increasing number of organisations may class themselves as primarily multi-use facilities – however, in our estimates we have sought to show organisations in their original/founding category.

Challenges and trends

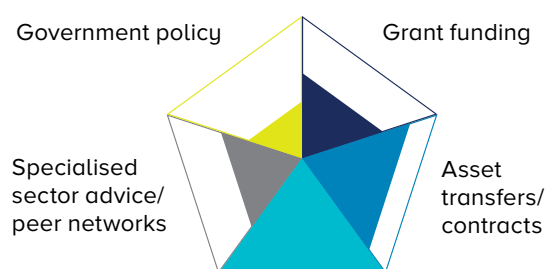
- Community groups are often well placed to make better use of a local building than either an LA or private sector provider – better able to identify opportunities and local needs, and therefore more likely to achieve financial sustainability.
- Across the community business sector, having an asset can greatly help boost sustainability – provides more potential business lines, opens up possibility of asset-backed finance, and enables organisation to go dormant during a difficult period without ceasing to exist.
- Buildings can have high maintenance costs, and profit margin must be built into business models to cover these when they arise. This can run counter to a local group which prioritises non-profit principles.
- This sector includes a growing number of managed workspaces – these are affordable office spaces made available to other community businesses or social enterprises (or SMEs) to support their growth and provide opportunities for collaboration.

Finance and support needs

- Significant finance gap for purchasing or developing assets.
- Large scale sell-off/transfer of assets from LAs is accelerating, and provides significant opportunity for sector – support needed to help existing community groups to engage with this process (or on occasion, help new groups to come together) and for LAs to help them see potential benefits of community management.
- Specific gaps in awareness-raising/pre-feasibility/feasibility work, business planning, capacity building, managing asset transfer process.
- Also for some organisations, support needed to bid for contracts.

Success factor reliance*

*Scores based on subjective assessment by research team.



Estimated outlook

Opportunity for growth from LA asset transfers, but support needed to capitalise on this.

- Regardless of the activities undertaken, broad community engagement and awareness is generally of paramount importance to the success of a multi-use community facility.
- Some organisations originate from an LA asset transfer process – greater support here would help boost the pipeline of new organisations.

Key desk research and interviews

Locality

Variety of other interviews highly relevant due to diversity of sector

13 Digital

Definition/scope

- Sector is made up of community broadband projects (c.20–30) and hackspaces (or makerspaces/fablabs) (c.30–40) – the latter being community operated workspaces used collaboratively by people with a common interest in technology, science or innovation.
- Community broadband projects are typically in rural areas, though some are in urban areas. Hackspaces more common in urban areas.
- There are an increasing number of SME operators in digital sector which, while often highly beneficial for the consumers they serve, fall outside our community business definition.

Challenges and trends

- Significant untapped potential for growth (cf. earlier waves of wifi-based community broadband), driven by demand for quality internet, esp. in rural areas, where a community approach can provide a lower-cost, higher take-up solution (e.g. B4RN, Cybermoor).
- Key challenge for broadband groups is from large scale commercial providers, e.g. BT, who might offer a seemingly better, but temporary deal in an area already served by community provision – some community broadband organisations say they have failed due to such trends. The majority of Government subsidies have tended not to focus on bottom-up community groups.
- Competition from a growing number of for-profit SMEs, although this can be complementary in some cases, e.g. in the context of digital exchanges which support local businesses, and there may be greater potential for co-investment, SME-enabled models.
- Hackspaces and Internet of Things collaborations are growing in popularity, but require up-front investment in infrastructure.

Key desk research and interviews

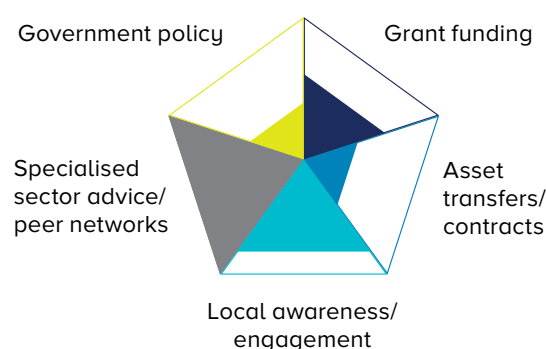
Community Broadband Network
Creative Co-op
INCA

Finance and support needs

- Lack of awareness of community broadband as a possibility is a key barrier to growth, as is perception that it is more complex than it actually is. Also a need to engage LAs in these discussions.
- Often a need for technical support – e.g. how to build a system, how to charge for it etc – face to face support is much more highly valued than online resources, and significant impact can be achieved relatively quickly (e.g. a few days of consultancy/peer-to-peer support).
- Both broadband and hackspace projects do tend to be profitable in longer-term, but need significant amount of patient capital up-front.

Success factor reliance*

*Scores based on subjective assessment by research team.



Estimated outlook

Prospects highly dependent on future relationship with commercial sector.

- Success of sector is highly dependent on competition from, and perhaps development of collaborative relationships with, commercial providers.
- Technical support is vital, given the complexity of projects, and there may be opportunities for more to be delivered on a peer-to-peer basis.

Community Broadband Network
Creative Co-op
INCA

CBN and Carnegie UK Trust- Going the last mile
X-Innovate
B4RN

14 Community pubs

Definition/scope*

- Sector remains relatively small, but rapidly growing in relative terms, and well documented due to key support providers – Plunkett Foundation and Pub is the Hub.
- Typically a ‘business saver’ model – community group steps in to purchase pub facing closure.
- In general, meet all four CB criteria very well, particularly if have high degree of local accountability, e.g. through shares – community share issues are increasingly common in this sector, often topped up from other forms of finance.

Challenges and trends

- Continuing strong pipeline (currently c.100) fuelled by ongoing high rate of pub closures (c. 30 per week), though fewer new community business pubs in 2015 (c.5) than 2014 (10). Slowdown may be partly due to reduced government funding for support providers in sector.
- Those in existence doing well – none have yet closed. Are also now several examples of pubs succeeding in deprived areas, and an increasing number in urban areas.
- Growing number of pubs being registered as Assets of Community Value, although empirical evidence suggests 10 months are required for community buy-out rather than 6 allowed (as in ACV legislation).
- Diversification increasingly common; is much more feasible than in community shops as pubs generally have more space and flexibility around how to use their space – e.g. growing number of pubs also incorporate libraries, post offices, multitude of clubs/classes.
- Government policy to date has been generally relatively supportive – several minor improvements have been implemented.

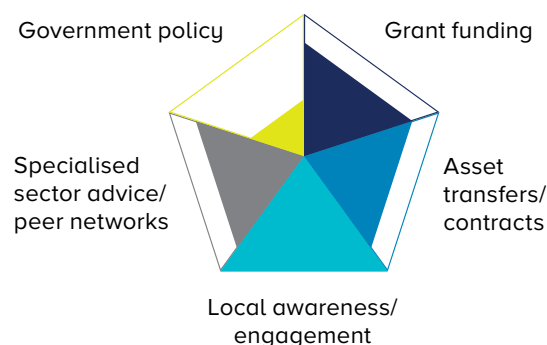
Finance and support needs

Support needs are relatively similar to community shops:

- **Excite:** as with other ‘business saver’ models, making more communities aware that this is an option is a key need.
- **Explore:** carrying out feasibility studies.
- **Enable:** make it happen – financials, legal, business planning, sector-specific advice. Loan finance (c.£25–50k) often needed to top-up local fundraising (e.g. community share issue).
- **Ensure:** support once doors are open to ensure sustainability.

Success factor reliance*

*Scores based on subjective assessment by research team.



Estimated outlook

Continuing rapid growth from low base.

- In contrast to some other sectors, asset transfer for pubs is from the private sector, resulting in need to purchase the asset at market value.
- Land prices are also an important success factor – when these increase, pressure to convert closing pubs to residential properties rises.

Key desk research and interviews

Plunkett Foundation (incl. *Co-operative Pubs: A better form of business, 2014*)
Ivy House, Nunhead

*Note: Analysis is based on co-operative pubs, primarily through Plunkett Foundation members. It is possible that in addition to co-operative pubs there are a number of other community-run pubs which would meet our community business criteria. However, we have no source of information on these and no reason to think there are a significant number, so have not attempted to include any of these organisations in our market sizing estimates and analysis.

15 Health and social care

Definition/scope

- This is an emerging sector which is currently very small in scale, but may have potential for significant growth potential over the coming years.
- Sector is composed of:
 - Frontline service delivery organisations (c.10–15).
 - Organisations supporting individuals to manage personalised budgets and broker their engagement with local support services and care opportunities (c.10–15).
- There are a large and growing number of NHS spin-outs (typically CICs) – these typically do not meet our definition of a community business primarily due to being run and managed by employees rather than the community – however, it would in theory be possible for a spin-out to evolve over time to become a community business.

Challenges and trends

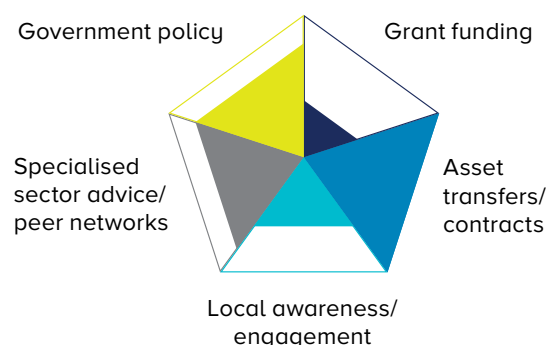
- Opportunities for growth are highly dependent on local context, and in particular the willingness of local commissioners (LAs and CCGs) to see the benefits of, and engage with, community-run services – this is highly variable from area to area.
- Frontline organisations typically contract with a LA/CCG to deliver a range of interventions, with opportunities for growth resulting from personalised budgets and trends to integrate health and social care.
- Brokering organisations typically involve small core of highly skilled staff, working to co-ordinate large team of local volunteers who co-ordinate care packages for vulnerable people – their local knowledge gives them valuable insight into local services/opportunities. Again, contract with LA/CCG is typically required.

Finance and support needs

- Potentially good availability of repayable finance – but to grow the sector the key need is to develop pipeline of investible opportunities.
- This requires:
 - Increasing awareness within community groups of options and requirements to run health/social care services, and how best to engage with local commissioners.
 - Increasing awareness of the value of local provision within LAs, to shift existing culture of grants/commissioning and refocus around partnership working.

Success factor reliance*

*Scores based on subjective assessment by research team.



Estimated outlook

Steady growth over next year, potentially then quicker as models become more established.

- Growth potential of the sector is highly reliant on organisations developing appropriate contract arrangements and partnerships with commissioners.
- Sector currently benefits from relatively positive Government stance on community based health and social care, but growth would be at risk if this were to change.

Key desk research and interviews

Developing and Empowering Resources in Communities (DERiC)

Appendix B. Interview list

Please note that some individuals that spoke to us in a personal capacity have not been included.

ABCUL	Neil Coulson Associates
Abundance Generation	New Arts Exchange
Access Foundation	Place Partnership (Worcester)
Architectural Heritage Fund	Plunkett Foundation
Arts Council	Public Libraries News
Big Local	Real Farming Trust
Big Lottery Fund	Self Help Housing
Big Society Capital	Shared Assets
Biodynamic Land Trust	Social Firms England
Bristol Together	Social Investment Business
CAF Venturesome	Social Spider
Community Broadband Network	Soil Association
Community Energy England	Sport England
Community Repaint	Sporting Assets
Community Savings Bank Association	The Sport Business
Community Shares Unit	The Woodland Trust
Community Transport Association	Trillion Fund & Buzzbnk
Co-op UK	Unseen Tours
Crafts Council	Voluntary Action Sheffield
Creative Coop	West Lexham Retreat
Developing and Empowering Resources in Communities	Whistlewood Common
Ethex	X-Innovate
Federation of City Farms and Community Gardens	Yateley Sports CIC
FSE Group	
Furniture Reuse Network	
Goodwill Solutions	
Historic England	
Homes and Communities Agency	
INCA	
Ivy House Pub	
Key Fund	
Locality	

Appendix C. Survey methodology and respondent profile

Methodology overview

We conducted an online survey of community businesses via Survey Monkey. The survey was live from 27th October 2015 until 6th December 2015. The survey was distributed via a range of free partner channels and infrastructure networks, with direct approaches to organisations in sectors with low response rates from late November onwards. This methodology was the most practicable way to reach out to community businesses, but does generate an inherent bias towards respondents which already exist as organisations and which are reasonably well-connected.

The survey was answered by 350 valid respondents. An algorithmic screen was used to check for obvious duplicates; 16 such duplicates were removed. From those remaining, we excluded respondents based outside England (n = 15, all from Wales and Scotland). The survey also asked respondents whether they felt that they met each of the four community business tests, with a simple yes/no answer. 30 respondents failed to meet at least three of these tests and were also excluded. Of the remaining 289 respondents who were included in our analysis, 237 met all four community business tests; the remaining 52 failed one test.¹²

Approximately 30% of these 289 respondents did not reach the end of the survey, and/or did not respond to all questions, so the sample size for individual questions varies to reflect this.

One question in the survey asked respondents which of our 15 sectors would best describe their activities. Minor adjustments were applied to a small number of survey responses for this question where respondents failed to assign themselves to a sector but provided clear description of themselves or where the name of their organisation similarly enabled a straightforward sector allocation.

¹² Of these 52, the most common test to fail on was generating trading income, indicating organisations that are on a path to financial self-sustainability but are not there yet. The support profile of these near community businesses, potentially operating in the grey area of the definition, was similar to those who met all criteria.

Respondent profile

Chart 1: Survey respondent profile by area

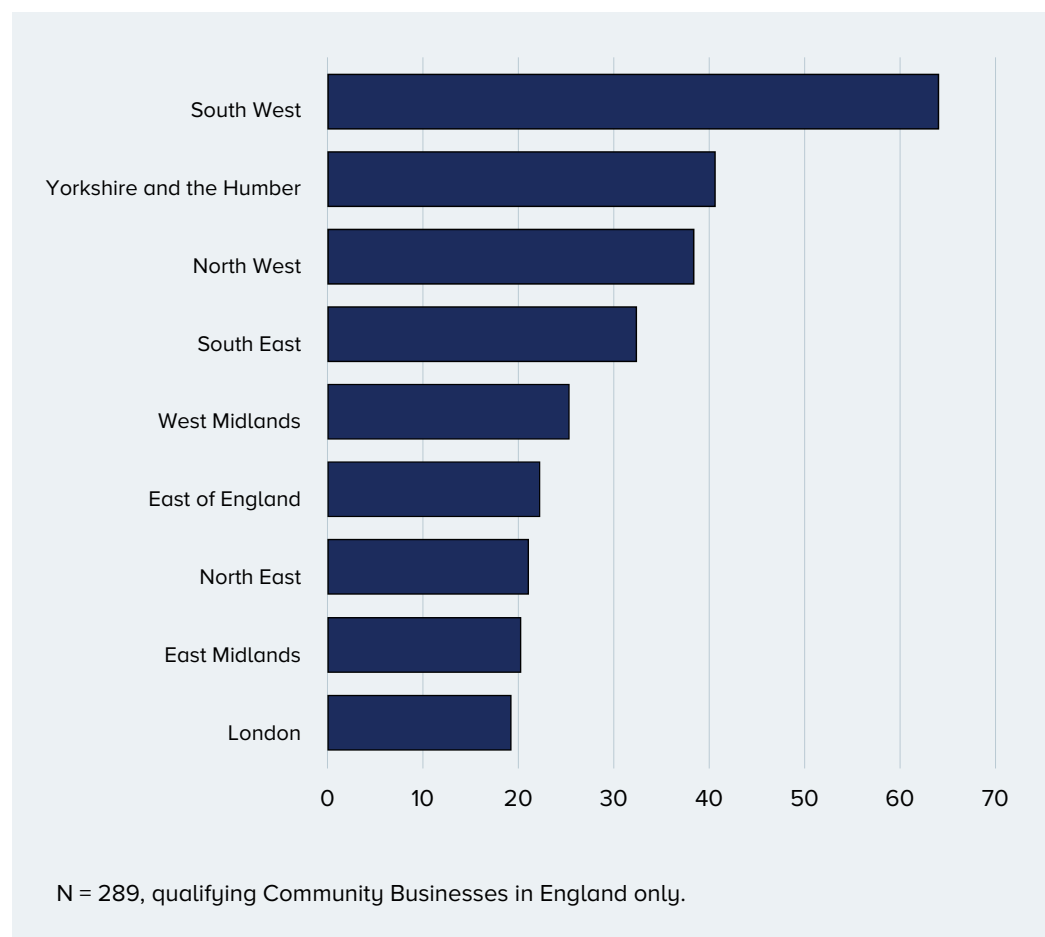


Chart 2: Survey respondent profile by lifecycle stage

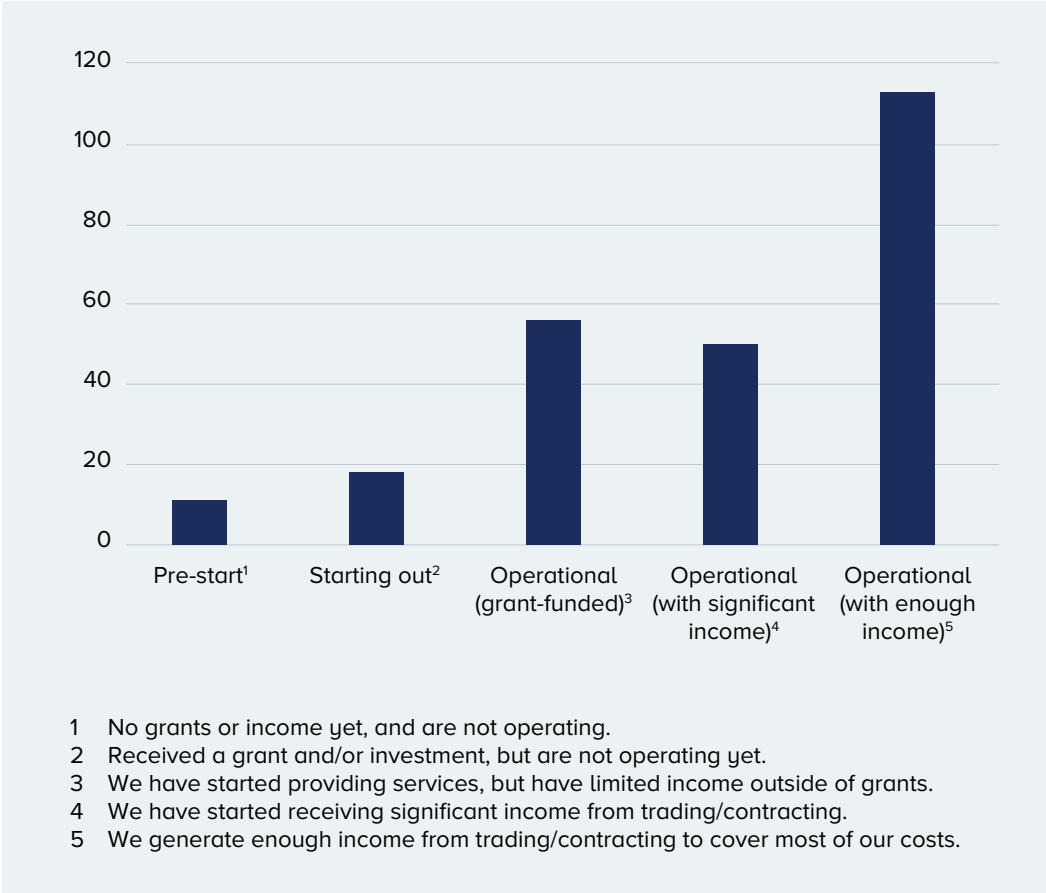


Chart 3: Survey respondent profile by sector

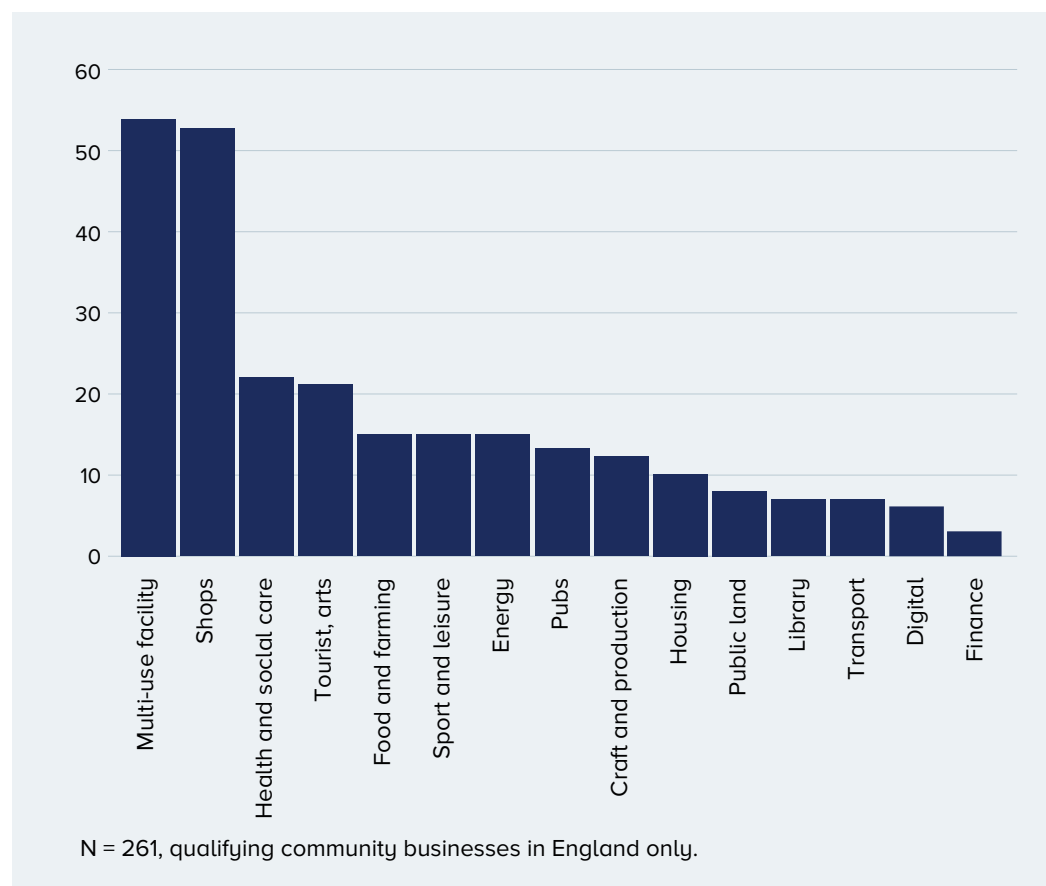
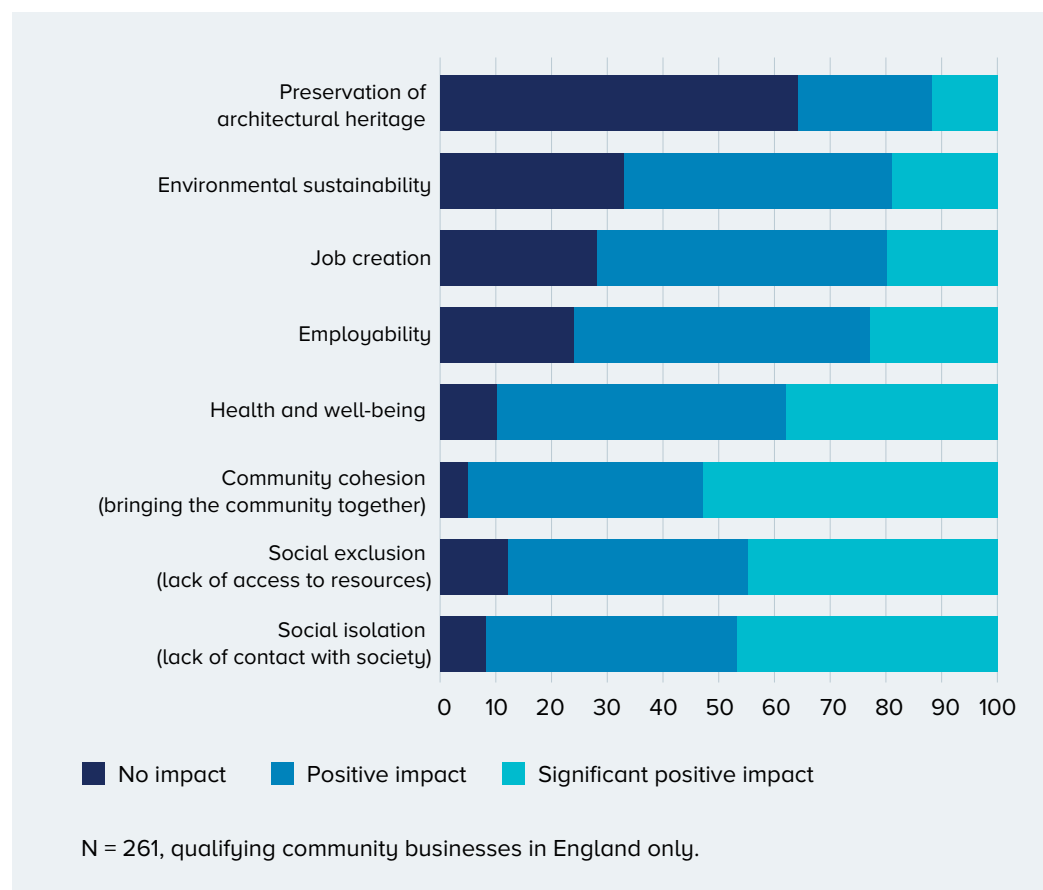


Chart 4: Survey respondent profile by area of impact





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