power to change | business in community hands

Research Institute Report No. 17

Community business in England: Learning from the Power to Change Research Institute 2016-17

June 2018

NATIONAL LOTTERY FUNDED

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About this report

Power to Change is an endowed charitable trust, whose funding is used to strengthen community businesses across England. The Research Institute supports Power to Change by commissioning independent research into the state of the community business marketplace and the challenges facing it. The Institute exists to answer two fundamental questions:

– do community businesses make places better?

– is Power to Change helping them to do this?

This report is a summary of the evidence generated in the first two years of the Research Institute, drawing together the findings of 23 publications in an accessible format. For further information on any of the research referenced in this report, visit powertochange.org.uk/research or contact the Research Institute on institute@powertochange.org.uk

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Foreword: The Power to Change Research Institute

Power to Change was established in January 2015 with a £150 million endowment from the Big Lottery Fund. Its vision is "better places through community business". This is based on the belief that when local people come together to tackle problems, through a commercial model built around trading, the results are both more powerful and more sustainable than traditional approaches taken by the public, private or third sector. Community businesses not only breathe life back into isolated and deprived neighbourhoods, they also enable local people to have a new sense of power and purpose.

Yet, while there are good *a priori* reasons to think this ought to be the case, there is remarkably little evidence to substantiate the claim. As a result, the decision was taken that at least 5% of the endowment should be set aside for research. The Research Institute was set up in January 2016 to build an evidence base that would help guide the work of Power to Change and leave behind a legacy of independent research as an ongoing resource for the community sector. It does this by commissioning high quality research, promoting rigorous analysis and stimulating critical scrutiny and debate.

The work of the Research Institute is guided by an independent Advisory Panel. Membership is drawn from academia, local and national government, think tanks and research institutes, and community business leaders. The panel meets three times a year to advise and provide critical input around the activities and direction of the Research Institute, with panel members frequently acting as peer reviewers for its programme of commissioned research.

Alongside commissioned research, the Institute also:

– collects and analyses data that helps Power to Change programme managers to determine the impact their funding programmes are having on grantees and investees and the impact those community businesses are having on local communities;

– runs regular open research calls, to stimulate the research community and enable those working with and in the community business sector to access funding that meets their research priorities;

– supports the growth of academic research, through funding for post-graduate study in this field and through a partnership with the Arts and Humanities Research Council that seeks to build links between academic researchers and community businesses;

– uses its growing evidence base to engage with policymakers and make the case for community business.

This report summarises the findings from the first two years of the Research Institute. Much of the work done over that time was of a ground-clearing nature, laying foundations for future research. Given the breadth of its remit, the Institute began with a process of prioritisation, resulting in three core research questions to guide its early work:

– What economic models best describe how community businesses work?

– What governance and organisational structures are most effective for different types of community business?

– How can "better places" be defined in an intellectually coherent way that can be used to explain the contribution made by community business?

At its current rate of spend, Power to Change expects to have exhausted its endowment by 2022. In line with this, the Research Institute intends to publish two further research compendiums – one in 2020 and one in 2022 – that will capture the state of knowledge at those points. These reports will form a key part of the legacy of Power to Change and will (hopefully) demonstrate both the positive difference community businesses can make to local areas and the benefit of investing in independent research.

1. The community business model

Community business as a concept and business model has a long history, explored by Wyler (2017) in his *In Our Hands: A History of Community Business*. While there is a long history of researchers in the community studies field (see Stott *et al.*'s forth coming report for example), the academic exploration of community business as a distinct phenomenon is still in relatively early stages. In the first two years, the work of the Power to Change Research Institute focused on addressing the first research question: *What economic models best describe how community businesses work?*

The community business model is challenging to define, not least because these businesses are so diverse. This section looks at common attributes which build a picture of the 'essence' of community business.

1.1 Defining community business

There is huge variation in the type, stage, age and scope of community businesses but they all share some key, central characteristics. The first study within Power to Change's early research programme developed a definition of community business (Percy *et al.* 2016).

1. **Locally rooted:** They are rooted in a particular geographical place and respond to its needs. For example, that could be high levels of urban deprivation or rural isolation.
2. **Trading for the benefit of the local community:** They are businesses. Their income comes from activities such as renting out space in their buildings, trading as cafés, selling produce they grow or generating energy.
3. **Accountable to the local community:** They are accountable to local people. This can mean very different things depending on the community business. For example, a community share offer can create members who have a voice in the business's direction, or a membership-based organisation may have local people who are active in decision-making.
4. **Broad community impact:** They benefit and impact their local community as a whole. They often morph into the hub of a neighbourhood, where all types of local groups gather.

These four criteria guide Power to Change's understanding and support of the community business sector and should be taken with a degree of flexibility. Ultimately, community businesses are defined by an ethos and set of values. As Bailey *et al.* (2018) explains, community businesses are 'hybrid' organisations with a constant tension, to balance a need for financial sustainability with the fulfilment of their locally-focused social purpose. This tension, or hybrid nature, is one of the key defining characteristics of the community businesses model.

1.2 Estimating market and sector size

Power to Change's annual study of community business in England estimates the size and shape of the market, and from 2015 onwards the method has been refined and developed to give the following estimates for 2017:

6,600 community-run businesses operating in England, approximately	**70%** situated in urban areas	**£1.2bn** total income	**£0.7bn** of asset value

Source: Diamond *et al*. 2017:47

These estimates are based, where possible, on data that can be verified by an existing source. Along with other figures in their report, these are also based on new data that has become available such as, in 2017, a combined online and Computer Assisted Telephone Interviewing (CATI) survey of 259 community businesses, interviews with 43 individuals from across the sector and a desk-based review of existing evidence, secondary databases and literature. Where only secondary data is used, there is likely to be underrepresentation and Diamond *et al.* emphasised this in their 2017 report.

The largest sector, **community hubs** (see Table 1), offers a good example of the challenges in categorising community businesses. Community hubs tend to offer a diverse range of services and are likely to operate across two or more economic sectors (Diamond *et al*. 2017). In a study of Power to Change's initial grantees, 33% (n=13) worked within the 'multi-use community facility' sector with 85% delivering services across more than one sub-sector (Dunn *et al*. 2016).

The third largest sub-sector, with an estimated 880 community businesses in total, is **training and education, information, advice and guidance and business centre/support** (Diamond *et al*. 2017). The challenge of definition and parameters of a sub-sector is identified again here. Education and training as a sub-sector in itself was excluded from the *Community business market in 2015* and *Community business market in 2016* reports due to estimated low numbers (Percy *et al*. 2016, Hull *et al*. 2016) while other research has shown employment, business and/or education support to be a prominent category, comprising 50% of Power to Change's initial grantees (Dunn *et al*. 2016).

Table 1: Market size by individual sector

Sector	Number of organisations	Income (£m)	Assets (£m)[16]	Income (£m median)	Assets (£m median)	Staff	Volunteers	Data quality
Community Hubs	1,650	£230	£110	£0.14	£0.07	6,600	41,300	Good
Employment, IAG*; Training and Education; Business Support	880	£73	£40	£0.08	£0.04	4,400	5,300	OK
Housing	400	£70	£170	£0.18	£0.42	2,200	3,800	Good
Health, social care and wellbeing	300	£90	£15	£0.31	£0.04	5,700	4,500	OK
Transport	1,200	£400	£230	£0.34	£0.19	9,600	9,600	Good
Sports and Leisure	350	£40	£30	£0.12	£0.08	2,800	7,700	OK
Arts Centre/ Facility	200	£10	£5	£0.05	£0.02	500	4,000	Poor
Libraries	440	n/a	n/a	n/a	n/a	450	18,500	OK
Pubs	46	£6	£16	£0.12	£0.35	160	1,400	Good
Shops (and cafés)	348	£55	n/a	£0.16	n/a	1,100	9,600	Good
Food, catering and production	200	£50	£25	£0.25	£0.12	1,200	7,500	OK
Energy	192	£123	n/a	£0.64	n/a	110	2,270	Good
Craft, industry and production	150	£20	n/a	£0.14	n/a	150	2,500	Poor
Finance	50	n/a	n/a	n/a	n/a	n/a	n/a	Poor
Environment/ Nature Conservation	150	£15	£5	£0.09	£0.03	450	1,500	Poor
Total	**6,600**	**£1,200**	**£650**	**£0.20**	**£0.12**	**35,500**	**119,500**	

Good OK Poor

Source: Diamond *et al.* 2017:49
*Information Advice and Guidance (IAG)

1.3 Funding and finance

Community business income, as outlined in Table 1, comes from many sources and varies a great deal depending on the sector. Reliance on **grant funding** is very common across all sectors with four out of five (79%) community businesses surveyed in 2017, in particular newer ones, benefiting from some grant funding and many expecting this to increase in 2018 (Diamond *et al.* 2017).

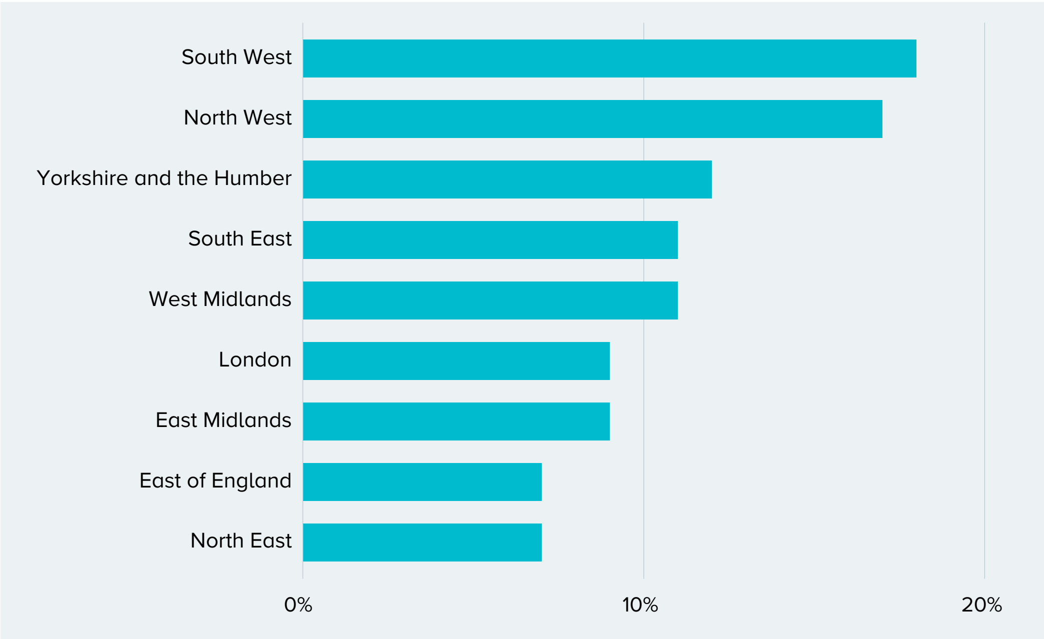
Also very common is the desire to be **financially sustainable** (Buckley *et al.* 2017, Diamond *et al.* 2017, Kotecha *et al.* 2017, Bailey *et al.* 2018). Working towards this comes in many different guises e.g. delivering paid-for services, selling goods, renting spaces and so on.

For more information on community business finance, see Section 5: Finance.

1.4 Geography and deprivation

There is evidence to suggest that community businesses are spread throughout England but more precise data about the geographical spread of the sector is lacking. Some indicative data exists:

Figure 1: Regional location of survey respondents (n=257)



Source: Diamond *et al.* 2017:17

Diamond *et al.* (2017) estimate that around 70% of community businesses are in urban areas. This high proportion is reflected in Dunn *et al.*'s (2016) analysis of Power to Change's Initial Grants Programme, for which 82% of applicants came from urban areas. The data (May 2015 to March 2016) showed notable clusters around key cities: Liverpool, Leeds, Manchester, Sheffield and London. However, without a better understanding of the geographical distribution of community business it is not possible to draw firm conclusions at this stage.

Power to Change's 2017 grantee survey reported that 32% of grantees were in the 10% most deprived areas on the Indices of Multiple Deprivation. Analysis of relative levels of deprivation amongst all grantee organisations in 2017 (n=331) shows that 59% are located in the 30% most deprived areas nationally (Power to Change Research Institute 2017a). There was a similar picture in the analysis of Power to Change's Initial Grants Programme, where 50% of applicants ranked in the 30% most deprived areas (Dunn *et al.* 2016).

1.5 Legal structure

There is no single legal form used by, or most suited to, community business. The most popular legal form identified by the analysis of Power to Change's Initial Grants Programme was Company Limited by Guarantee, three quarters of which were also **charities**. Second most popular was **Community Interest Company** (CIC) limited by guarantee (Dunn *et al.* 2016). According to the literature, **CICs** are well suited to the asset-owning sectors such as housing, as they include an asset lock (Davies *et al.* 2017b).

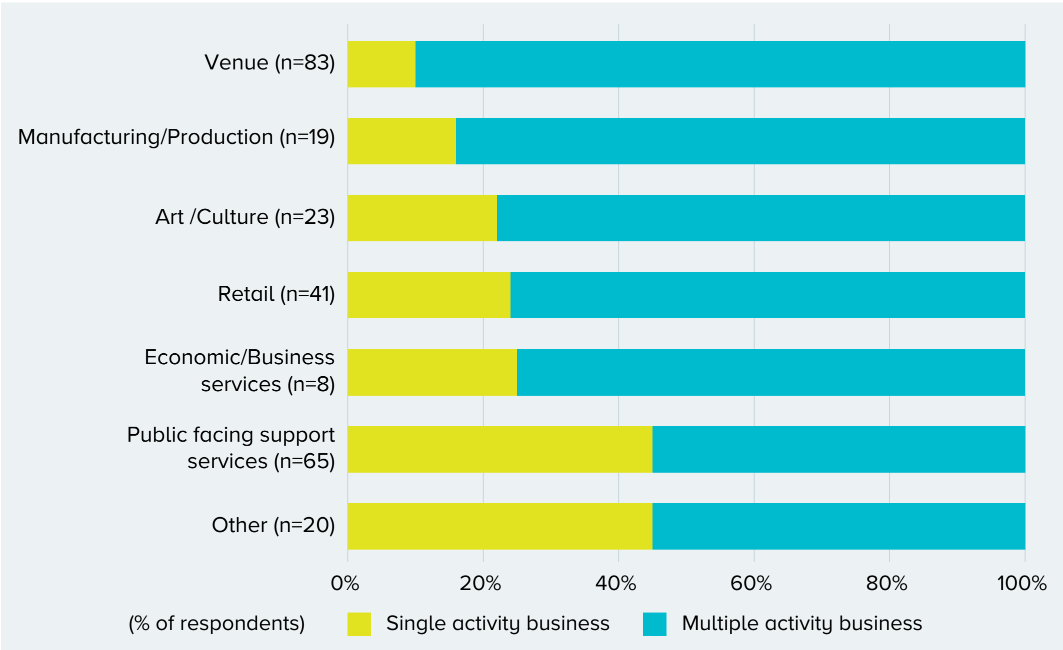
Community Benefit Societies (CBS) are also common and this legal form is often used by community-run pubs, shops and housing (Davies *et al.* 2017a, Davies *et al.* 2017b, Plunkett Foundation 2017a). The majority (61%) of community pubs surveyed by the Plunkett Foundation are registered as CBS (Plunkett Foundation 2017b). It is assumed that CBS is chosen because it suits organisations with a large (and often active) membership: co-operative pubs have an average of 207 members compared to 171 for those registered as other legal structures (Davies *et al.* 2017a). Plus, like **Co-operative Societies**, CBS can have community shareholders (Davies *et al.* 2017a, Davies *et al.* 2017b, Plunkett Foundation 2017a).

1.6 Scope of community business activity

Community businesses respond to local needs that are often varied and changing. This is reflected in the 44% of community businesses operating across multiple sectors – community hubs in particular (Diamond *et al.* 2017:14). Community business interviewees noted an increasing demand for services provided by community businesses (Diamond *et al.* 2017), whilst Jones and Yeo (2017) indicate in their research around the Social Value Act that there is more scope for place-based approaches in local commissioning.

Community business activities depend on many factors including their sector and the geographic location of their community. Such activities may include installing a defibrillator or running fitness classes in pubs (Plunkett Foundation 2017b), offering transport to people with disabilities (Kotecha *et al*. 2017), providing affordable food sources (Plunkett Foundation 2017a) and much more. Diamond *et al.* (2017) grouped such **activities** and identified some key patterns;

Figure 2: Grouped primary business activity categories by single vs multiple business activities



Source: Diamond *et al*. 2017:17

1.7 Community involvement and accountability

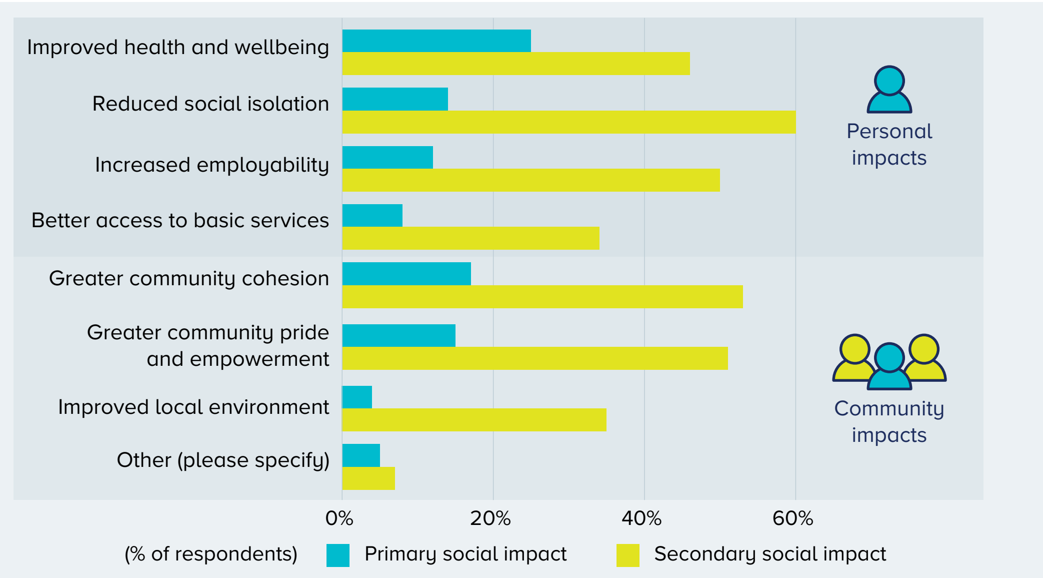
The involvement of the community in community business is paramount. Research to date shows a mixed picture of accountability in practice. For example, although community accountability is a key attribute of community business, Bailey *et al.*'s (2018:46) research shows that accountability in practice is *'very much embedded in systems … [and depends on] how the organisation perceives its role, its governance systems, users and beneficiaries'*. For some, accountability is about having members who vote on key decisions, for others it is about obtaining feedback and input from community members at events and for other community businesses, this may mean something else entirely.

Buckley *et al.*'s (2017) study goes further to identify how accountability is perceived by community businesses and why it is important to them. For some, it was an expression of core values that helped guide most business decisions, for others a way to help make the business sustainable by harnessing community assets (e.g. volunteers) and to remain relevant and/or needed locally. Other community businesses found accountability was a means to build the credibility of the business in the local community (and sometimes more widely), some businesses saw accountability as central to fulfilling a mission of helping empower local people through work or the acquisition of skills. Others saw accountability as aligned with a vision of financial independence, driving the direction of the business in a way that best suits the community rather than funders.

1.8 Impact

To be a community business, as defined by Power to Change, businesses must have 'broad social impact'. *The community business market in 2017* (Diamond *et al.* 2017) asked community businesses about their areas of primary and secondary social impact:

Figure 3: Primary and secondary social impacts (base=259)



Source: Diamond *et al.* 2017:18

A similar picture emerged amongst Power to Change grantees surveyed in 2017 with the additions of job creation, economic regeneration and environmental sustainability (Power to Change Research Institute 2017a).

As Reeder (2017) notes in his working paper on Neighbourhood Economic Models, it is important that community businesses consider the pro-social aims of **job creation**. Simply creating employment is not a sufficient social impact, one must consider the type of employment, who benefits, and how the area and environment are affected. This sentiment is in line with charity law which dictates that job creation cannot be a charitable purpose in and of itself – it needs to do more than this.

Community businesses often aim to have a positive impact on job creation e.g. 50% of Power to Change grantees surveyed in 2017 felt they had impacted upon job creation and increased employability (Power to Change Research Institute 2017a). Even the process of community asset transfer has been identified as increasing training and employment opportunities, by making volunteers more confident and therefore more employable (Bruni *et al.* 2017). Depending on the community business, this happens through investment in volunteers' skillls development and by employing members of the community as well as by working with 'service users' or customers around employability. The research base does not yet provide much data about the **groups who are benefitting** from these impacts. Analysis of Power to Change's Initial Grants Programme found that 40% of applicants and 43% of successful grantees reported that they served young people in their community, while 23% served those with disabilities and/or learning difficulties (Dunn *et al.* 2016).

Community businesses report that **recording and monitoring their impact** is a challenge as many do not have the resource to set up and administer formalised systems for doing so. Rather, they often embed evaluation in their day-to-day practice (Bailey *et al.* 2018).

Willis *et al.* (2017) aimed to find new ways of measuring the social impact of community business by using a hyperlocal version of the government's annual Community Life Survey. The findings themselves were inconclusive, showing no clear patterns in the types of social impact in six areas where there were established community businesses in comparison to the control sample (see Table 2). Interesting differences were observed and the real value in this approach will be in building up a longitudinal dataset in order to track changes over time.

Table 2: Findings from the 'Hyperlocal' Community Life Survey 2017: Impacts measured in areas surrounding community businesses compared to comparator samples

Factor	Homebaked	B Inspired	Bramley Baths	Burton Street	Ivy House	YES Brixham
Rating of life satisfaction						
Rating of happiness yesterday						
Rating of anxiety yesterday		worse			better	
Rating of how worthwhile the things they do are	better					
Community cohesion			worse		better	
Strength of belonging to immediate neighbourhood			worse		better	
Satisfaction with local area as a place to live	worse		worse		better	
Satisfaction with local services and amenities	worse		better	better	better	
How area has changed over the past two years	better			worse	better	better
Civic activism	better					
Influence on decisions affecting area				worse	better	
Whether people getting involved in the local community can change the way an area is run				worse	better	

worse than comparator sample (yellow) | better than comparator sample (blue)

Summarised from source: Willis *et al.* 2017:14-34

2. Assets

"A key area of growth for the community business market has been in sectors where valued local assets or services come under threat" (Hull *et al.* 2016:5).

A number of sources in Power to Change's early research programme indicate the importance of access to assets for community business (Gilbert 2016, Hull *et al.* 2016, Diamond *et al.* 2017, Bailey *et al.* 2018). These 'assets' are often land or buildings, from which the business operates, but other assets are important to community businesses too – such as vehicles for a community transport organisation. The research highlights challenges such as the cost of maintaining assets and the patchy support from local authorities. However, the evidence overall suggests that having assets is beneficial to community business sustainability as well as being a contributing factor to the growth of the community business sector as a whole. Asset ownership can be more central to community business than to other types of business. If the community business was established to save a valued local asset, such as an historic building, green space or sports facility, then the asset is linked to the mission of the business. The following examples illustrate a range of asset-based community businesses:

Table 3: Case studies of asset ownership amongst community businesses

Community business	Type(s) of asset	Type(s) of transfer	Business model and type	Authority and region
Bristol Community Land Trust	Land and former school	Freehold	Community Land Trust — Unclassified	Bristol City Council, Unitary, South West
South Tynedale Railway Preservation Society	Land and former railway lines	Freehold and leasehold	Company Ltd by Guarantee — Public Asset Manager/ Cross Subsidiser	Various councils and the HCA, North West
Brighton Open Market	Market	999-year lease	Community Interest Company — Business Saver	Brighton and Hove City Council
Croydon Saffron Central	Brownfield site	Not yet agreed	Not yet registered — Community Start-Up	Croydon Council, London Borough
Alt Valley Community	Leisure centre, Care Home, books, computers	Leasehold, and ownership	Company Ltd by Guarantee — Public Asset Manager	Liverpool City Council, North West

Source: Gilbert 2016:38

Detailed case studies of these asset transfers can be found on www.powertochange.org.uk/research

In 2017, the total asset base of the community business market was conservatively estimated at £0.7bn of assets across 6,600 businesses (Diamond *et al.*, 2017: 47). The market comprises a number of asset-heavy sub-sectors as can be seen in Table 1 above.

Other research indicates that the level of assets held by community businesses is growing. In the 2017 survey of Power to Change grantees, 61% of respondents reported an increase in the assets held by their organisations over the past year, and only 4% reported a decrease (Power to Change Research Institute 2017a:16).

2.1 Relevant policy and legislation

Gilbert (2016:13) provides an overview of the key policy and legislation pertinent to community asset ownership in England.

The **Local Government Act** (1972) first allowed for the disposal of assets at less than best consideration, meaning less than the highest estimated market value.

The **General Disposal Consent** (2003) removed the requirement for authorities to seek specific consent from the Secretary of State for such transfers when the purpose to which the land will be disposed is likely to contribute to improved economic, social or environmental wellbeing, and the undervalue – the discount given – is less than £2 million.

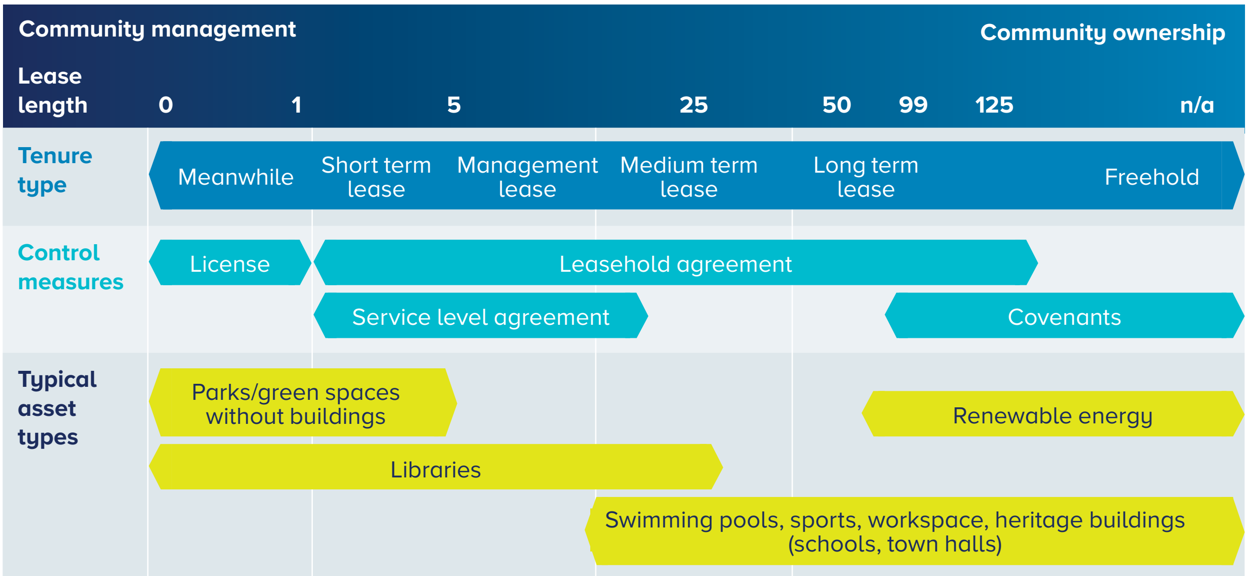
The **Localism Act** (2011) created a range of levers to support 'community rights' and enable civil society to pursue their own entrepreneurial development.

- **The Community Right to Bid**: gives community groups the chance to protect assets that are important to them by listing them as 'Assets of Community Value'. This allows the group to trigger a six-month moratorium on any proposed sale of a community asset, allowing them the opportunity to submit their own bid to buy the asset.
- **The Community Right to Challenge**: allows voluntary and community groups, charities, social enterprises, parish councils, local and fire and rescue authority staff to bid to run authority services where they believe they can do so differently and better.
- **The Community Right to Build:** allows local communities to propose small-scale, site-specific, community-led developments without having to go through normal planning processes.

2.2 Asset ownership and management

Community business access to assets ranges from ownership to management (see Figure 4). Power to Change's research to date has focused on the transfer of assets from local authority to community ownership (Gilbert 2016). Additional evidence on the role and importance of assets, whether owned or managed by the community business, has come from other research projects that did not specifically focus on assets (Percy *et al.* 2016, Davies *et al.* 2017a, Davies *et al.* 2017b, Diamond *et al.* 2017).

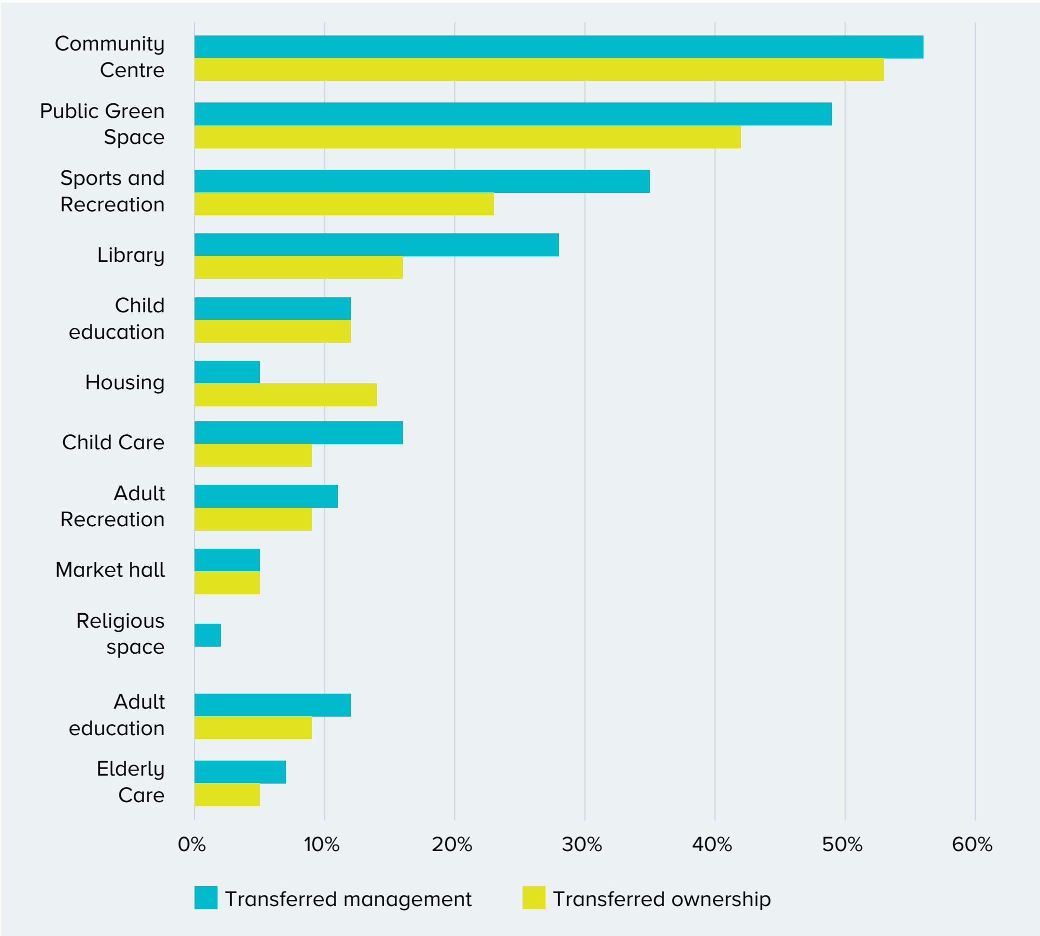
Figure 4: Asset management and ownership



Source: Berry (2017)

Due to lack of secondary data and low survey response rates, Power to Change's research to date has been unable to deliver a comprehensive picture of asset ownership by community business. A 2016 survey of local authorities however gives some indicative data on the types of assets most commonly transferred from public to community ownership (see Figure 5).

Figure 5: Types of assets transferred from local authority to community ownership



Source: Gilbert 2016:22

2.3 Asset ownership and business sustainability

Asset ownership comes with the risk and responsibility associated with building maintenance, as was shown to be particularly pertinent for community arts spaces and hubs by Thelwall (2017). In general, however, research to date shows that asset ownership supports the economic and social sustainability of businesses that hold them.

> *"Organisations with a physical asset are typically better placed [to diversify] than those without, and indeed the lack of a strong asset base in areas such as finance may contribute to the relatively low growth seen here."* (Hull *et al.* 2016:7)

In addition to their own findings, Hull *et al.* (2016) draw on research conducted in 2015 which found that "the organisations which have best adapted to the impact of the recession have owned assets" (NCVO et al. 2015).

> *"The presence of a physical asset as a focal point and an ability to rely on a core group of committed volunteers adds greatly to many organisations' resilience. It can also allow businesses to ride out short term challenges and ensure the organisation's long-term survival."* (Hull *et al.* 2016:8)

Having an asset may enable community businesses to obtain commercial loans and other forms of finance (Bailey *et al.* 2018).

2.4 Asset ownership and market growth

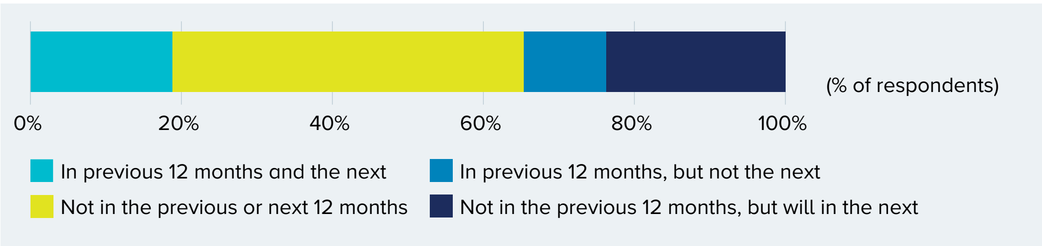
Power to Change's early research programme indicates that asset ownership plays a significant role in the growth of the community business market as a whole, with Community Asset Transfer (CAT) driving growth in particular sectors.

In 2017, Hull *et al.* reported a continuing momentum behind the transfer of assets from local authorities to community groups. This was believed to be a key driver of growth for community business – transfers of parks, hub buildings, sports facilities, brownfield sites, arts centres, libraries and heritage buildings to community ownership were found to be driving growth in these sectors.

There is also evidence of appetite amongst community businesses for taking on new assets.

> *"Approximately a quarter of community businesses [surveyed] that had not taken on new assets or embarked on new trading activities in 2017 plan to do so in the next 12 months."* (Diamond *et al.* 2017:30)

Figure 6: Asset and capital purchases for 2017 and and expected in 2018 (n=258)



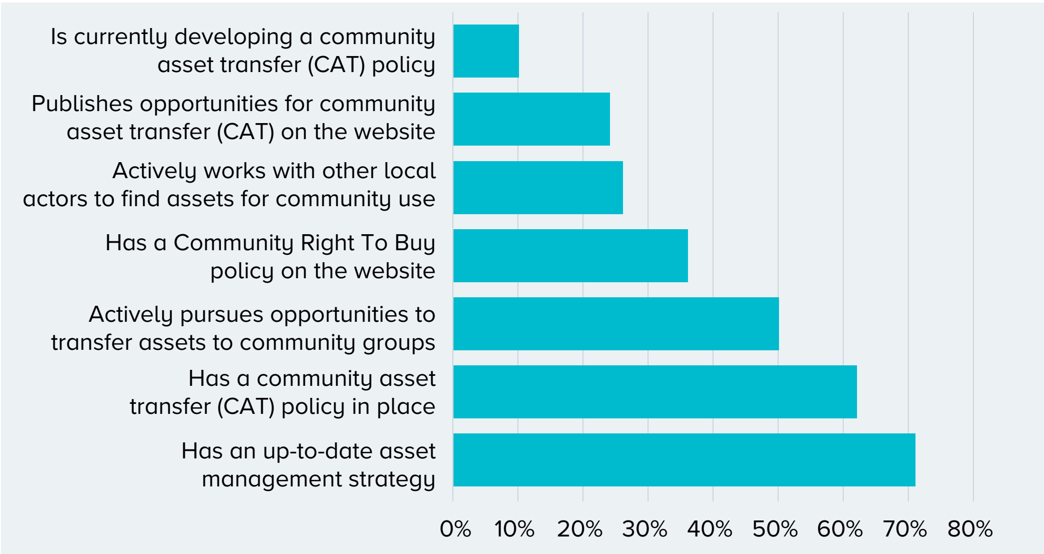
Source: Diamond *et al.* 2017:35

Gilbert (2016) sought to map all **community asset transfers** since 2010 using a survey of all local authorities in England. The relatively low response rate (14% of 353 local authorities responded) is indicative of the low priority afforded to CAT by many local authorities. Gilbert links this to a lack of resource and skill, and to concerns around justifying losses to the public purse.

> *"There are rarely designated staff dealing with community asset transfer in local authorities. Often responsibility is shared, reflecting the fact that for many authorities CAT is not a leading priority."* (Gilbert 2016:4)

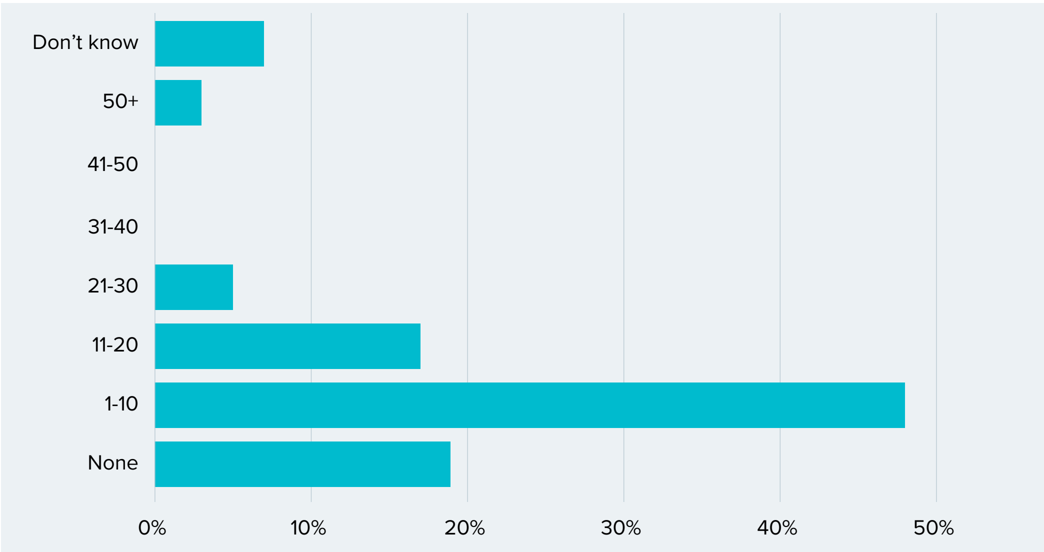
Gilbert found that most local authorities have a CAT policy in place, but that reported numbers of completed transfers are low. (See Figures 7 and 8.)

Figure 7. Local authority approaches to CAT



Source: Gilbert 2016:16

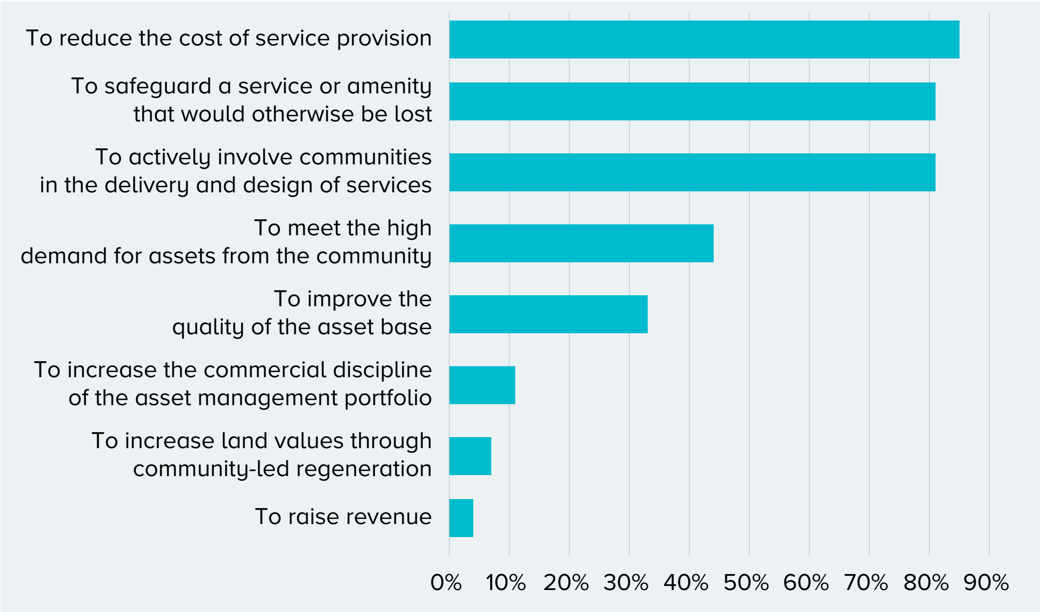
Figure 8. Completed asset transfers since 2010



Source: Gilbert 2016:18

Many local authorities recognise that CAT has the potential to help them achieve their objectives – such as reducing the cost of service provision (85%), protecting a service that would otherwise be lost (81%) or improving service user engagement (81%) (Gilbert 2016:4).

Figure 9. Local authority motivations for CAT

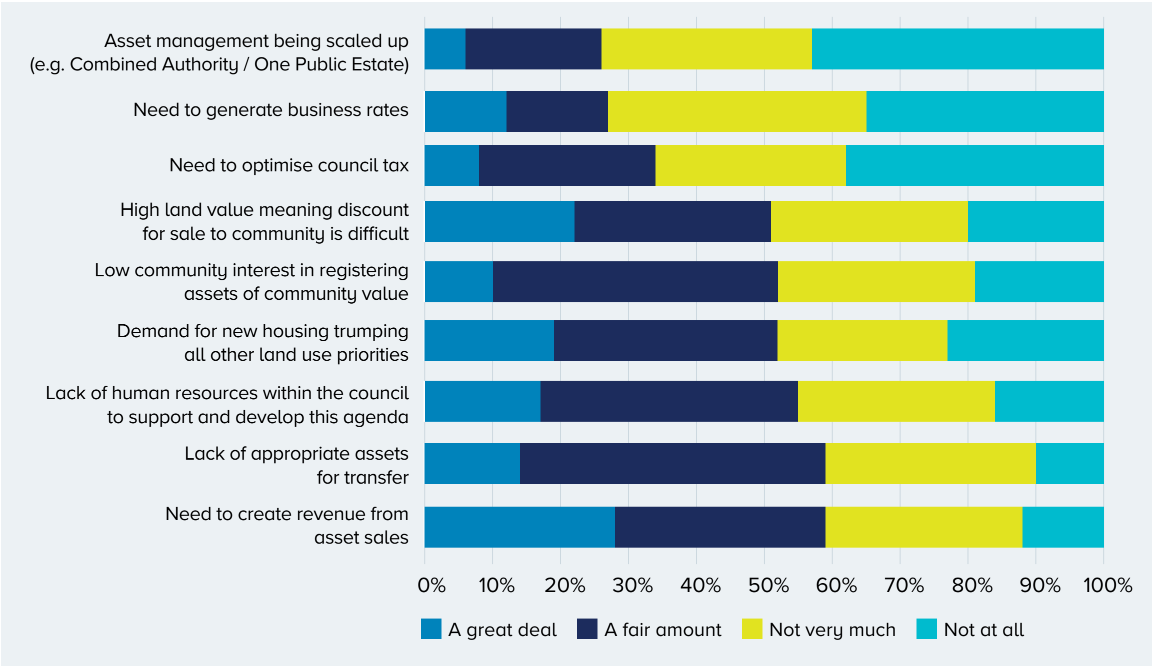


Source: Gilbert 2016:17

Yet, CAT remains largely reactive. Only half of officers surveyed reported that their local authority was actively pushing CAT opportunities. Gilbert reports that it is "rare for CAT opportunities to be advertised or for standard measures and procedures to judge applications to be in place" (Gilbert 2016:34).

Gilbert's (2016) study identified a number of barriers to CAT. Financial constraints featured, with 88% of local authority respondents identifying the need to generate capital sales receipts as a barrier to CAT.

Figure 10: Barriers to CAT for local authorities



Source: Gilbert 2016:27

Gilbert (2016:4) identified **factors that support and enable** communities to be successful in achieving a CAT:

– Consultation of the local authority's strategic objectives and alignment with its overarching plan for place.

– Building partnerships with local councillors. As representatives and custodians of the public interest at the community level, they can be much-needed champions.

– Engaging their community of interest (those who work or volunteer for the enterprise) and community of place (those who live near to and use the services of a community business) to leverage resources in the form of people's time, resources and money on the lead up to and during a CAT.

3. Workforce

High-quality staff and volunteers are often cited as essential to the success and sustainability of community businesses (Davies *et al.* 2017b, Kotecha *et al.* 2017, Plunkett Foundation 2017b). Whether they employ more staff or rely more heavily on volunteers depends on the stage, size and sector of the community business. Most community businesses use a combination of staff and volunteers (Diamond *et al.* 2017, Kotecha *et al.* 2017, Plunkett Foundation 2017a, Plunkett Foundation 2017b, Power to Change Research Institute 2017a). And the numbers are growing: the Power to Change 2017 grantee survey showed that over 75% of grantees had increased the numbers of staff and volunteers compared to the previous year (Power to Change Research Institute 2017a).

Table 4: Numbers of staff and volunteers by sector

Sector	Number of paid staff	Number of volunteers
Community hubs	6,600	41,300
Employment, IAG; Training and Education; Business Support	4,400	5,300
Housing	2,000	3,800
Health, social care and wellbeing	5,700	4,500
Transport	9,600	9,600
Sports and Leisure	2,800	7,700
Arts Centre/Facility	500	4,000
Libraries	450	18,500
Pubs	160	1,400
Shops (and cafés)	1,000	9,600
Food, catering and production	1,200	7,500
Energy	110	2,270
Craft, industry and production	150	2,500
Finance	n/a	n/a
Environment/Nature/Conservation	450	1,500
Total	**35,500**	**119,500**

Source: Diamond *et al.* 2017:49

Although knowledge of the demographics of the community business workforce is somewhat limited, the 2017 grantee survey indicated:

– the majority (85%) were aged over 45

– there was an equal gender split within leadership teams

– 13% identified as having a disability

– 85% identified as white, 3% identified as 'other ethnic group' 2% identified as 'Asian or Asian British' and 5% selected 'Prefer not to say'. No respondent identified as 'Black, African, Caribbean or Black British'.

(Power to Change Research Institute 2017a:5)

3.1 Paid staff

Community businesses are estimated to employ 35,000 staff (Diamond *et al.* 2017). Of Power to Change grantees surveyed in 2017, 61% stated they employed people on a full-time equivalent basis and 64% of these increased their number of employees over the past year (Power to Change Research Institute 2017a).

Most (88%) grantees from the Power to Change Initial Grants Programme who had employees had one full or part-time member of staff. Only one applicant had 250+ employees. Organisations with between zero and ten employees were most likely to receive one or more 'high' risk ratings against organisation risk factors. This is pertinent when considering that 84% of initial grantees requested revenue to pay new and/or existing staff (Dunn *et al.* 2016). For Community Land Trusts (CLTs) in particular, start-up costs for housing projects often include funding for a paid member of staff (Davies *et al.* 2017b).

Research highlights that the community businesses with more paid members of staff often closely resemble public service organisations e.g. those in employment, IAG, training, support, housing and health and social care sectors (Diamond *et al.* 2017). This is illustrated in the example of mental health-related community businesses where having paid and qualified staff can make a crucial difference to effectiveness (Power to Change Research Institute 2017b).

Sector-specific findings

For CLTs in the **housing sector**, research shows that paid staff are not necessarily easy to come by but are essential. For example, a paid member of staff to establish or continue to develop new housing projects is critical at start-up phase. After which a project manager during construction or renovation and a coordinator to increase the membership base of the Land Trust are important. Further, having a dedicated member of staff responsible for generating awareness and support of the Trust was found to be crucial as it required significant periods of time and effort to develop communications plans and set up membership meetings and fundraising events. Further, employment and skills development are part the broad community benefit which is one of the key principles of community-led housing (Davies *et al.* 2017b).

Community pubs create regular paid employment opportunities for local people. For example, 42 of the 46 co-operative pubs trading in 2016/17 employed staff. Such pubs can often be the largest single employer in a rural community (Plunkett Foundation 2017b). Strong working relationships are found to be key to the success of community pubs but there must be clearly defined roles between the board and staff. Staff are likely to be a small team of one or two full-time and some part-time individuals dedicated to customer service which in turn encourages patronage (Davies *et al.* 2017a).

In 2016 the Plunkett Foundation (2017a) identified 1,114 paid jobs created by more than 300 **community shops**. The majority of these shops (57%) were run by a combination of staff and volunteers, with 8% being run entirely by paid staff.

3.2 Volunteers

There are an estimated 119,500 volunteers working for community businesses in England (Diamond *et al.* 2017). 94% of Power to Change grantees surveyed in 2017 reported using volunteers as part of their workforce, and 75% reported an increase in the number of hours they worked between 2016 and 2017 (Power to Change Research Institute 2017a).

Utilising volunteers is a key part of engaging with the local community: 83% of Power to Change's Initial Grants Programme applicants reported that their volunteers were local residents. This is inclusive of board members of which 78% were volunteers (Dunn *et al.* 2016). Local volunteers can be especially important for businesses who wish to gain a community asset; there is an incentive to increase local involvement and attract volunteers who represent the community when an asset of social value is at stake. Local volunteers can pull in diverse and wide-ranging resources, skills, time, money or physical items leading up to and/or during an asset transfer (Gilbert 2016, Bruni *et al.* 2017). This adds to the argument that by harnessing volunteers (and other tangible and intangible community assets), businesses are more likely to be sustainable (Buckley *et al.* 2017).

In addition to the benefits for community businesses, volunteers themselves can gain great skills and confidence from their experience and can in turn increase their employability (Bruni *et al.* 2017).

Sector-specific findings

As detailed in *The community business market in 2017* (Diamond *et al.* 2017); **community hubs, transport, retail and energy** sectors have a higher ratio of volunteers to staff. A study of the transport sector found that all community transport organisations relied on volunteers – from supporting fundraising activities through to the crucial driving roles. This reliance on volunteers is linked to the fact that community transport organisations find recruiting for paid staff a challenge due to low wages in the sector (Kotecha *et al.* 2017).

Research on the **community pub** sector shows that dedicated volunteers help refurbish and get things running but can be difficult to retain, especially when pubs have been running for a long time (Davies *et al.* 2017a). Despite this, 28% of all co-operative pubs surveyed by Plunkett Foundation (2017b) benefit from volunteers in the day-to-day running of the business, in roles such as cleaning, gardening or ordering stock. Four pubs were 100% volunteer managed. However, qualitative research by Davies *et al.* (2017a) found that volunteers in this sector are more likely to be board members than involved in the day-to-day operations of the pub. These clearly defined roles were found to be an important part of the strong working relationships needed for community pub success.

In a synthesis of studies into community-based initiatives to improve individual **mental health**, interventions which used volunteers or peers reported positive findings across seven outcomes (depression, anxiety, physical functioning, self-esteem, social/life skills, wellbeing and quality of life and work functioning) (Power to Change Research Institute 2017b).

In 2016 there were 9,605 volunteers across over 300 **community shops**. Although the majority of these shops were run jointly by paid staff and volunteers, 23% were run by volunteers alone. The role of volunteers in such businesses is to spread workload and keep costs down. The Plunkett Foundation's survey identified that community shops engaged an average of 30 regular volunteers amounting to 965,603 volunteer hours in 2016. This saved £7m across the sector or £22,631 per shop (based on the National Living Wage of £7.50) (Plunkett Foundation 2017a).

3.3 Skills

The importance of a skilled workforce for the community business sector cannot be underestimated. The Power to Change annual grantee surveys in both 2016 and 2017 identified the operational capacity of staff and systems as one of the top three challenges for community business (Power to Change Research Institute 2016 and 2017a). This is a particular challenge where money is an issue – such as in the community transport sector where low wages make it challenging to employ staff (Kotecha *et al.* 2017). Further, a workforce skilled in the systematic and regular monitoring and evaluation of outcomes (a relatively new requirement of the VCSE sector) can be hard to come by (Bailey *et al.* 2018).

Despite these challenges, the skills brought to community businesses by staff and volunteers are key to the success of the sector (Bailey *et al.* 2018). Nowhere is this as important as in the transport sector where staff and volunteer drivers are pivotal to providing a safe and high-quality passenger service. They are encouraged to stay through investment in training, promoting team identity and bringing drivers into the organisation's decision-making processes (Kotecha *et al.* 2017).

The importance of the **leadership team** was identified within a number of studies (Davies *et al.* 2017b, Kotecha *et al.* 2017, Bailey *et al.* 2018). Of course, leadership means different things to different community businesses (for some, such as workers co-operatives like OrganicLea, the board members are also employees) but in many cases it was the board who were responsible for setting out the strategy, monitoring performance and making major decisions about financial investment, borrowing and auditing. Meanwhile the Chief Executive Officer often bridges the gap between the board and workforce, builds relationships with stakeholders in the area and communicates externally on behalf of the organisation (Bailey *et al.* 2018). A financially-savvy or well-connected board and management team can be very helpful when looking for grants and other sources of funding. Additionally, such skills are needed for developing a good business plan, especially as many community businesses may have previously relied on grant funding which is becoming less readily available (see Section 5: Finance for more around this) (Davies *et al.* 2017b, Floyd and Gregory 2017, Bailey *et al.* 2018).

Power to Change's commissioned research has also found that obtaining a quality workforce is inextricably linked to **community engagement and buy-in** (Bruni *et al.* 2016, Dunn *et al.* 2016). For example, "Community transport organisations ... rely on local communities as a source of volunteers and staff. This requires the community to value the services and the social objectives underpinning their work." (Kotecha et al. 2017:27).

4. Growth

Power to Change's research to date indicates that the community business sector as a whole is growing, but there is still insufficient data to measure sector growth year-on-year with precision. Reports published annually which track the size and shape of the community business market, estimated 9% growth in 2015 and a further 5% in 2016 (Percy *et al.* 2016, Hull *et al.* 2016). The 2017 iteration of this study developed the methodology further, giving a more robust set of estimates but making comparisons to previous years inadvisable (Diamond *et al.* 2017).

Whilst estimates of overall sector growth remain problematic, there is some evidence of growth from across the Power to Change research portfolio. Primary research with community businesses found an increasing demand for the services that they provide (Diamond *et al.* 2017:37) and community businesses report positively on their trading and income generation. The 2017 Power to Change Grantee survey found a positive impact on the reported level of trading income amongst respondents, with 66% reporting an increase (and only 6% reporting a decrease) over the past year (Power to Change Research Institute 2017a:15). The same survey also showed an increase in the workforce within community businesses. See Section 3 on Workforce for details.

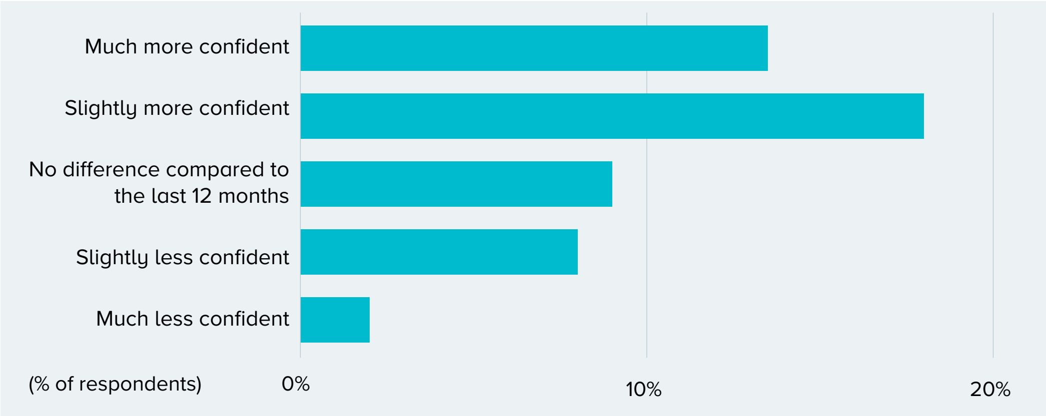
In specific sectors, there is some good data on growth. For example, ten new **community shops** opened in 2016, bringing to 348 the total number of community shops trading at the close of that year. This increase represented a growth rate of nearly 3% on the previous year (Plunkett Foundation 2017a). Six new **co-operative pubs opened** in 2016, taking the total number to 46, a 15% increase on 2015. This recent rapid growth stands in contrast to the early years of the cooperative pub movement: in 1998, there was only one co-operative pub registered and by 2004 there were three (Plunkett Foundation 2017b:6).

Some of the key variables influencing growth prospects are: the availability of different forms of capital and revenue funding; the extent of support from government agencies and the local authority; and the ability to access new contracts or to acquire assets which contribute towards the organisation's social and economic objectives (Bailey *et al.* 2018). See sections on Finance, Relationships and Assets for more information.

4.1 Business confidence

Evidence suggests that confidence amongst community businesses is high, and rising. When surveyed in 2017, 63% of community businesses were confident about their financial prospects for the year ahead compared to the current year, and only 20% were less confident. These figures were 47% and 28% respectively in 2016. This is in stark contrast to smaller businesses in general, where confidence has fallen strongly over the course of 2017 (Diamond *et al.* 2017:31).

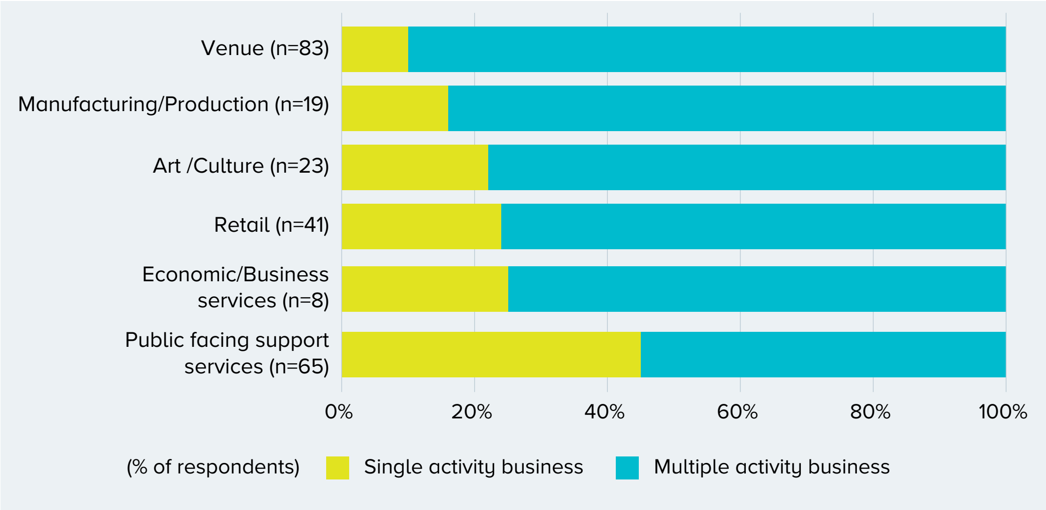
Figure 11: Community businesses confidence in the financial prospects of their business over the next 12 months (n=241)



Source: Diamond *et al*. 2017:31

The research provides insights into where the businesses expect growth to come from.

Figure 12: Changes to business operations over 2017 and 2018 (n=258)



Source: Diamond *et al*. 2017:35

There is some evidence of good **business survival rates** that suggests community business confidence is not ill-advised. The Plunkett Foundation (2017a:4) reports that no community shop has closed since 2014, and only 17 have closed in total since their records began in 1992 – a long-term survival rate of 95%. They also report that no co-operative pub has yet closed, a sector survival rate of 100% (Plunkett Foundation 2017b). In 2017 the Power to Change annual grantee survey similarly identified good signs of growth: over 85% of respondents had attracted new customers or clients and recruited more staff or volunteers (Power to Change Research Institute 2017a). The same survey in 2016 showed that

76% of respondents reported that they had attracted investment to expand and around 70% had secured new contracts and diversified into new markets (Power to Change Research Institute 2016). In 2017, these figures stood at 52% and 49% respectively (Power to Change Research Institute 2017a).

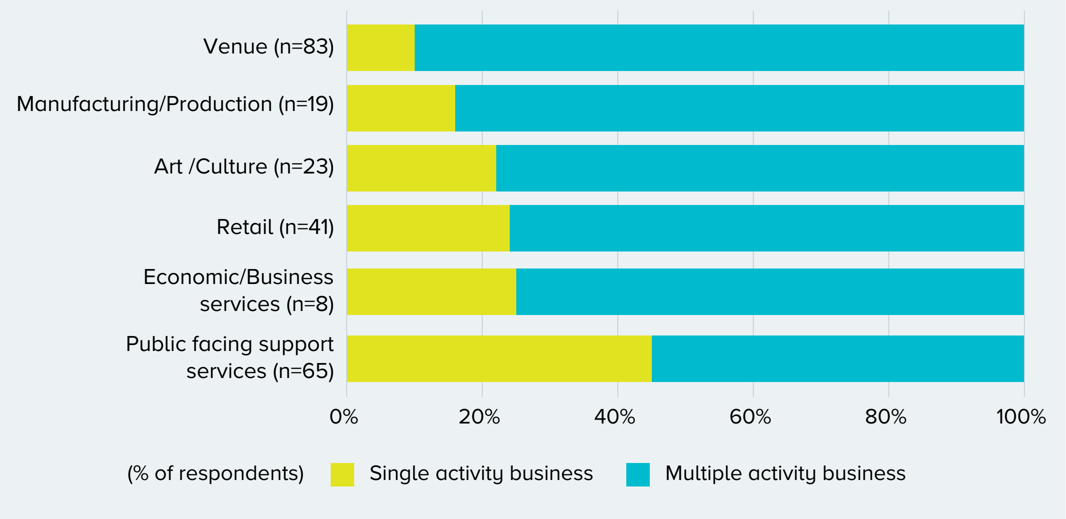
4.2 Drivers of growth

Qualitative research identified a common trajectory for community business growth, from their beginnings as community projects, to eventually developing a diversified range of services – a "hybrid business model … pioneering new approaches to service delivery as part of a larger strategy of inclusive growth" (Bailey *et al.* 2018:50).

A number of drivers of growth emerge from the research to date:

Income diversification is important to community business growth. The 2017 survey of community business estimated that 44% of these operate multiple businesses (Diamond *et al.* 2017:14-17).

Figure 13: Grouped primary business activity categories by single vs multiple business activities



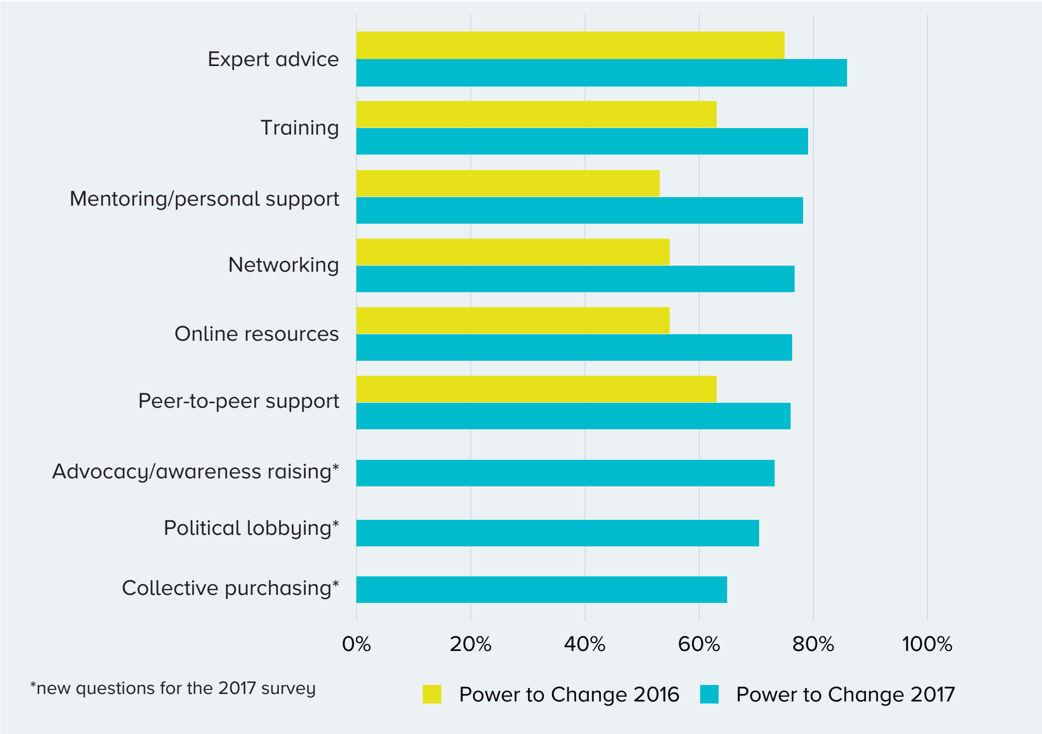
Source: Diamond *et al.* 2017:17

Innovation is a driver of growth and is measured in the Power to Change Annual Grantee Survey. In 2017, 88% of respondents reported having introduced new services or products, up from 78% the previous year. Of the 88% of respondents in 2017 who had introduced new services or products to the market, 41% stated that what they were offering was new to the market. This is similar both to the 2016 survey (43.8%) and to the UnLtD Award Winners survey (47%) against which this group were benchmarked (Power to Change Research Institute 2016, Power to Change Research Institute 2017a:13).

The acquisition or transfer of **assets** is also a driver of growth in the community business sector. See the section on Assets above.

Business support is valued by community businesses. The Power to Change Annual Grantee Survey gathers data on support needs.

Figure 14: Most useful types of support (n=79)



Source: Power to Change Research Institute 2017a:20

Support for growth also featured in Diamond *et al.*'s (2017:39-40) study of the community business market. The primary data indicates that community businesses desire support past the point of start-up and that this may take the shape of non-financial, peer support enabling them to build skills, capacity and sustainability. Specifically, the majority of the community businesses surveyed want support with marketing/communications, legal/technical and operational support.

Public sector contracts are identified as a potential source of growth in the community business sector, but the evidence does not indicate the extent to which this is yet actually driving growth in the market. The provisions of the Public Services (Social Value) Act 2012 open a window of opportunity for community businesses to access public sector contracts.

The Public Services (Social Value) Act 2012

- The Act, commonly referred to as the Social Value Act, became law on 31 January 2013. It requires people who commission public services in England and Wales to think about how they can also secure wider social, economic and environmental benefits.
- The Act asks commissioners to consider social value. To comply with the letter of the Act, commissioners therefore only need to show that they have thought about these issues and have thought about whether they should consult on them.
- The Act only applies to the commissioning of services above the Official Journal of the European Union procurement threshold. This is currently £106,047 for central government bodies and £164,176 for other bodies (including local authorities).
- Although the Act only currently applies to services commissioned above the threshold, commissioners are allowed and encouraged to apply the Act more widely, to goods and works and to contracts below the threshold.

4.3 Obstacles to growth

Despite the Social Value Act generally being viewed positively by community businesses, research undertaken in 2017 found that its impact to date has been limited. The Act was found to be “more relevant to larger businesses and those operating in a space previously inhabited by the public sector, as these types of business are more likely to bid for public sector contracts” (Jones and Yeo 2017:2). Jones and Yeo (2017:3) also identified four key barriers preventing the Act from being more effective:

1. **Commissioning pressures**: budget and resource cuts can mean that councils have less time to consider how best to implement the Act.
2. **Risk-averse councils**: in a context of increasing pressure councils are often minded to go with a larger, known contractor than a smaller unknown.
3. **Procurement practices**: the division between forward-thinking commissioning teams and pressured procurement teams can be a real barrier.
4. **Insufficient mechanisms for supporting or monitoring the Act**: guidance accompanying the Act isn’t clear enough and there is no central data to monitor its progress.

Three barriers to voluntary and community sector organisations bidding for public sector contracts were also identified: increase in larger contracts and rigid procurement processes, lack of expertise, and austerity.

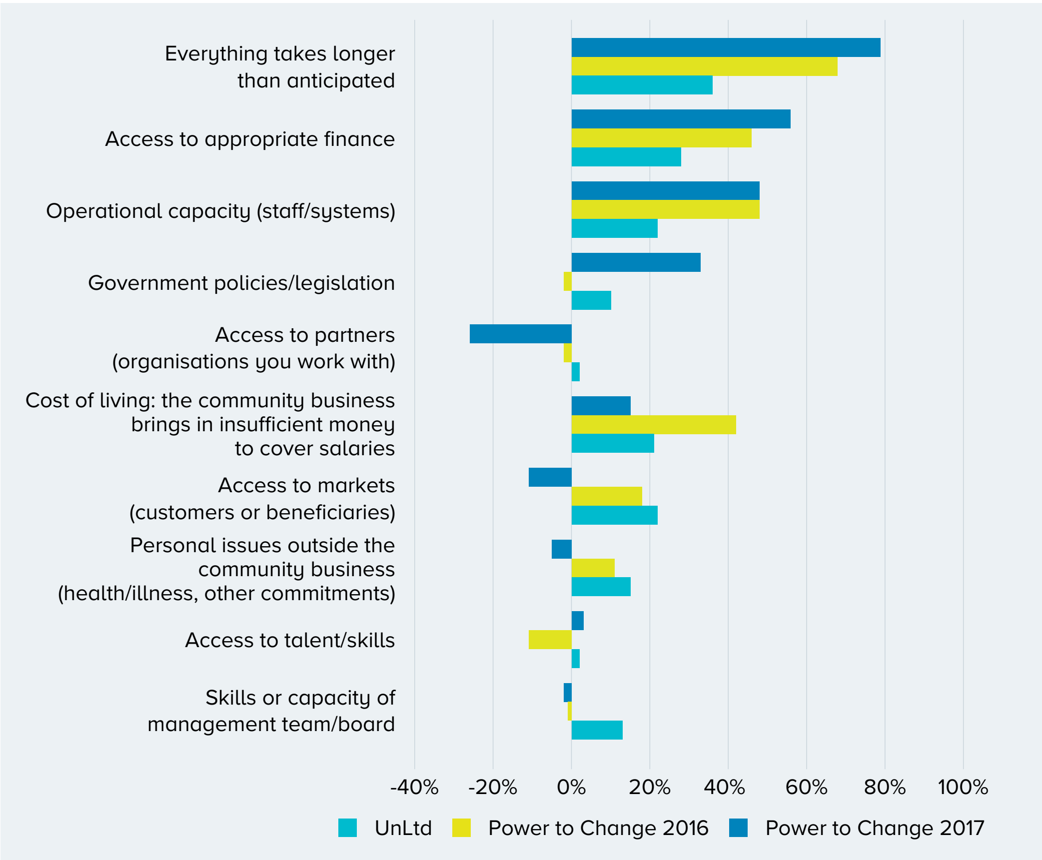
Further obstacles to community business growth were captured as part of the Power to Change Annual Grantee Survey, and in 2017 these included:

– the fact that everything takes longer than anticipated c. 80%

– the ability to access appropriate finance c. 55%

– the operational capacity of their staff and systems c. 50%

Figure 15: Agreement and disagreement with whether these factors posed an obstacle to community businesses (n=79)



Source: Power to Change Research Institute 2017a:18

There are valid concerns about community business finance as grant funding is in decline in light of political uncertainty around austerity and Brexit. Despite this, 55% of community business still expect their grant funding to increase. Logically, this may increase competition amongst community businesses (Diamond *et al.* 2017:18). This is discussed in detail in the section on Finance below.

5. Finance

Research from Bailey *et al.* (2018:26-27) offers an overview of how the community business model in England is financed: in the early years, businesses depend heavily on a variety of subsidies and public sector grants and loans. Local authorities often provide relatively short leases on below-market rents on land and buildings. As the businesses prove their viability, leases are extended and additional assets transferred. In addition, businesses also make good use of other public sector funding sources: European Regional Development Fund, Local Enterprise Partnerships and third sector sources such as the Heritage Lottery Fund and Power to Change. Where necessary, commercial loans are negotiated but only on the basis of well-constructed business plans and backed by property (or other assets) offered as collateral. Trading projects often also enable other services to be provided. The researchers describe "a complex but balanced business model". Trading opportunities tend to be exploited where they fit with the core objectives and where they generate a surplus which enables the non-trading activities to be undertaken or expanded.

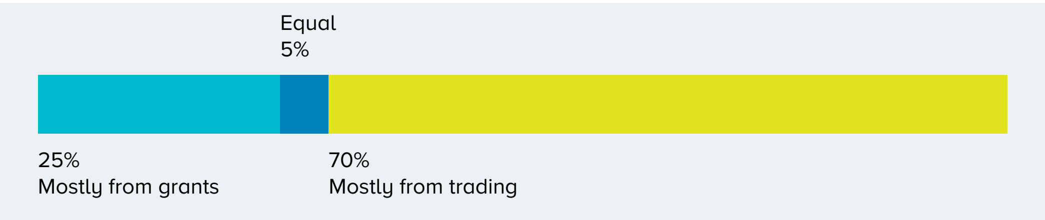
Whilst the above offers a clear insight into many community businesses' financial journey, there is much diversity, with businesses sourcing finance from many different places; people in their local community, friends, family, local authorities, public bodies, organisations with similar ethos', lease finance providers and trading projects. This varies depending on the sector, changes in the market, funding cycles and the stage that the businesses is at in its lifecycle. This section explores in more detail the modes for, and challenges to, financing community business.

5.1 Sources of finance

Trading

For most community businesses, financial sustainability is optimum (Davies *et al.* 2017a, Davies *et al* 2017.b, Diamond *et al.* 2017, Kotecha *et al.* 2017, Bailey *et al.* 2018). Many see trading as a route to achieve this.

Figure 16: Percentage of community businesses obtaining money from trading and grants



Source: Diamond *et al.* 2017:21

This mode of income generation is easier for community businesses who have tangible assets (a building and related spaces such as a café or shop, a collection of physical objects e.g. sports equipment). Thelwall (2017:35) estimates trading income from tangible assets to be 40%. For example, 35% of co-operative pubs are tenanted, and so the majority of income comes from rent paid (Plunkett Foundation 2017b). Venue-based income was also noted as the second most important source of income (after grant funding) for arts centres, hubs, education support and employment support sectors. However these findings must be treated with caution due to the amount of missing data relating to sectors in the dataset used in this research (Thelwall 2017).

For the transport sector, trading income based on vehicle assets is key as is the resilience and adaptability of the businesses to changing local markets and funding streams e.g. making use of vehicles in other ways, route and service diversification (Kotecha *et al*. 2017).

Social investment

The term 'social investment' has been used by many as a 'catch-all' term for finance for projects and organisations with a social mission. According to Floyd and Gregory (2017), focusing on 'social investment' in this way has led to its under-estimation at £1.5bn when their estimation is at around £4bn. Nearly £100m is invested in public facing services and activities in the 'social sector' with £71m of this coming from Big Society Capital (Floyd and Gregory 2017:14). They argue that shifting the focus from a narrowly defined 'social investment' model (investors and investees have explicit social intent) to one that explores the various ways community businesses get, spend and re-pay money will produce a much broader picture that takes into account far more sources of income.

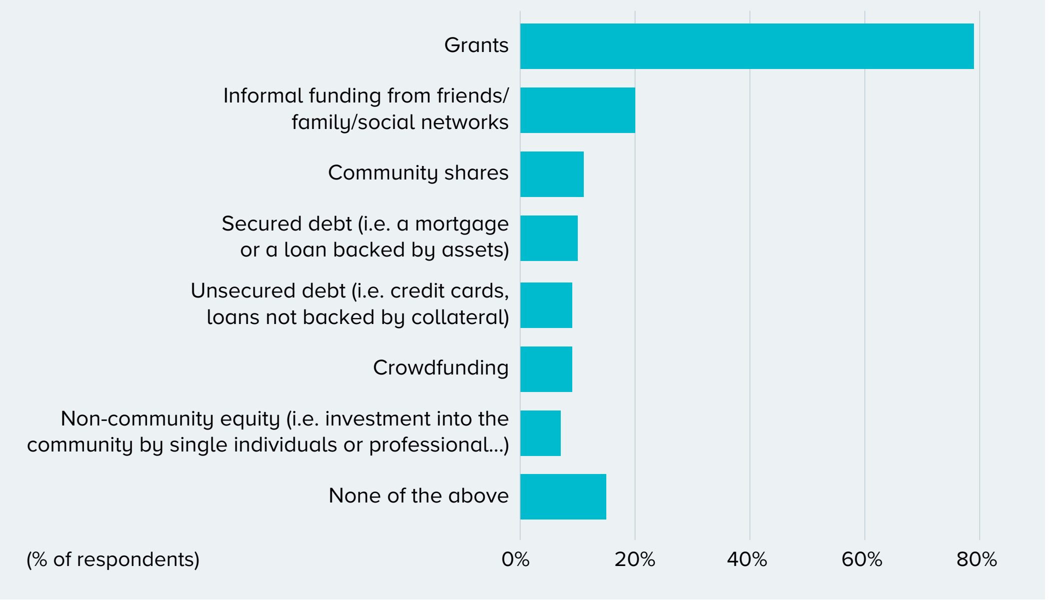
Grants and subsidies

Many community businesses in their early years depend on a variety of subsidies and grants from the public sector (European Regional Development Fund, Local Enterprise Partnerships), third sector (Heritage Lottery Fund and Power to Change) and regeneration programmes and elsewhere (Davies *et al*. 2017b, Bailey *et al*. 2018). *The community business market in 2017* reports that 79% of community businesses surveyed still benefit from some grant funding, with 55% expecting their grant income to increase in the coming year. These grant dependent community businesses are more likely to be small, with a turnover of less than £100,000 per year) (Diamond *et al*. 2017).

There is variation across sectors and community business lifecycles in the uptake of grants. For example, while Thelwall (2017) makes lower estimates for community businesses as a whole (approximately 45-50% of total turnover from grants) the **environment sector** stands out as an exception as it derives 82% from grant funding. In the largest sectors (**hubs, education support and physical health**), the largest source of grant funding was from Trusts and Foundations.

However, these findings must be treated with much caution due to the large amount of missing data for individual sectors (Thelwall 2017:46).

Figure 17: Investments/loans accessed over the last 12 months (n=259)



Source: Diamond *et al.* 2017:22

Many successful **CLTs** have accessed seed funding to set up their business; after initial seed funding and despite their desire to be financially sustainable, there is usually the need for further grant as well as loans to build properties (Davies *et al.* 2017b).

For community **pubs**, grants are becoming a smaller part of their financial profile but where they are accessed, research has found grant income ranged from £2,000 upwards, usually going towards capital costs (Davies *et al.* 2017a, Plunkett Foundation 2017b).

Local government

Research estimates that investment in community business from local authorities is in the tens of millions (Floyd and Gregory 2017). Furthermore, it is very common for community businesses to obtain contracts from local government and other public bodies such as the NHS to deliver services in a community-focused and cost effective way (Bailey *et al.* 2018). Further, transport businesses can obtain contracts from the local authority to deliver transport services for people with disabilities (Kotecha *et al.* 2017). For some community businesses these contracts are counted as part of their trading income.

Commercial loans, credit and mortgages

Research shows that many community businesses are interested in taking on repayable finance. This type of finance is likely to exist alongside other forms of funding (Floyd and Gregory 2017), should be negotiated only on the basis of well-constructed business plans and is usually backed by property offered as collateral (Bailey *et al.* 2018).

45% of **co-operative pubs**' funding costs come from a mix of mortgages, loans (the average loans and/or mortgage taken was £144,375) and fundraising (Plunkett 2017:8). Similarly for **CLTs** there is usually the need for loans (as well as grant funding) to build properties as they incur such a large cost (Davies *et al.* 2017b).

Community shares and fundraising

Floyd and Gregory (2017:34) estimated in September 2016 that £123.5m may have been invested in social sector organisations via community shares with £36.4m of this having been invested in 2015 (the last complete year of available data). For example, 5% of **co-operative pubs** have made use of community shares to fund their start-up costs. The most common amount purchased by individual shareholders was £500, and the average was £917. The average value of share capital raised by each pub was £172,922 (Plunkett Foundation 2017b:8). For **community shops**, despite there being a move towards loan finance within the sector, it is unaffordable to take on loans for the full start-up costs. Instead, a larger proportion of the such costs come from the community via shares and fundraising (Plunkett Foundation 2017b).

In addition to shares, **alternative fundraising** platforms such as crowdfunding may have raised £42.7m for community business since 2015. The research also notes that 'pretailing models' which blend cashflow finance and income are also viable (Floyd and Gregory 2017:34).

Bonds

Floyd and Gregory (2017) estimate that tens or hundreds of millions in bonds have been issued to community businesses. They arrive at this estimate by looking at the bonds issued by charities and housing associations and Big Society Capital's estimate that £86m worth of bonds has been issued to the social sector.

Friends and family

Floyd and Gregory estimate that there are potentially hundreds of millions being invested in community businesses through friends and family, based on the fact that 0.4% of small to medium enterprises compared to 3.9% social enterprises sought finance from family, business partners and/or directors (Floyd and Gregory 2017:38).

Large to small

Research estimates that the investment of larger to smaller social sector businesses with similar ethos has been under reported with the potential for £3.3m having been invested in smaller social sector organisations in 2015 (Floyd and Gregory 2017:46).

5.2 Access to appropriate finance

In both the 2016 and 2017 Power to Change grantee surveys the second most referenced obstacle facing community businesses (as well as comparative UnLtd Award Winners survey respondents) was the ability to access 'appropriate finance' (Power to Change Research Institute 2016, 2017a).

It is apparent from the research that what is meant by 'appropriate finance' is usually grant funding, which is in decline in light of political uncertainty in England. The lack of available grant funding is a particular concern for community businesses with high start-up costs, such as CLTs developing housing (Davies *et al.* 2017b). Community shops face similar challenges, as they are unable to take out loans at start-up stage and cannot rely on grants. Instead, as outlined above, a larger proportion of their start-up costs are coming from within the community via share offers and fundraising. This is problematic when communities do not have the ability to raise large sums quickly. Symptomatic of these challenges is Plunkett Foundation's estimate that just 5% (8 out of 58) of potential community shops that sent enquiries to them in 2016 will reach trading stage (Plunkett Foundation 2017a:4). Similarly for community pubs grants are becoming a smaller part of start-up and ongoing finance costs owing to fewer sources existing, and application processes taking longer than the short window of opportunity that community groups often have to make an offer on the freehold (Davies *et al.* 2017a, Plunkett Foundation 2017b). *The community business market in 2017* concludes that "an environment of opposition rather than collaboration" may arise as competition for grant funding increases (Diamond *et al.* 2017:36).

Public sector contracts can generate an income but rapid changes in funding policy in the public sector can be a serious risk factor which requires community businesses to be highly flexible and responsive to changing circumstances. Jones and Yeo (2017) note that this is very problematic for small social sector organisations who simply do not have the experience or resource to respond to tenders, having previously relied on grants for funding. As outlined in the section on Workforce, having a financially-savvy or well-connected board can be very helpful not least for developing a good business plan (Bailey *et al.* 2018, Davies *et al.* 2017b, Floyd and Gregory 2017).

6. Relationships

Community businesses benefit from key partnerships, that are situated within dynamic, connected, complex and evolving wider networks of a variety of organisations (Bailey *et al.* 2018). Such partnerships or relationships may enable community businesses to diversify their services (Kotecha *et al.* 2017), fund part of their work (Bruni *et al.* 2017, Thelwall 2017), glean and give advice, collaborate with other organisations (Bailey *et al.* 2018) and much more besides.

This section will focus on trust-based relationships with external organisations and individuals that are proactively forged by community businesses. These types of interactions are distinct from more one-sided support-based relationships (with communities, peer and sector networks and public bodies) needed for community businesses to succeed (Bailey *et al.* 2018).

6.1 Relationships with other businesses

There is very limited evidence on community business 'ecosystems' (networks of mutually-supportive relationships between community businesses), or on community business relationships with the private sector. Where there is evidence, it is not possible to distinguish between social enterprises (community-based or otherwise) and those in the private sector. Having said that, relationships between businesses are important: in the transport sector for example, a range of partnerships with other delivery organisations must be nurtured. This process is usually gradual and enables transport-based community businesses to diversify their services (Kotecha *et al.* 2017).

6.2 Relationships with local authorities and public bodies

Relationships with local authorities are important to community businesses of all kinds and in some cases, the strength of such relationships is a key determinant of their success (Bailey *et al.* 2017). For the community **pub sector**, for example, support from local leaders and public bodies help prevent assets from being sold to private developers e.g. by registering a pub as an asset of community value (Davies *et al.* 2017a).

As Bailey *et al.* (2018) emphasise, the lack of a strategic national policy around community business means that relationships and partnerships with local political and public bodies are all the more important – not least because community businesses often rely on local authority funding, through contracts and grants. Grant funding from local authorities is more likely to be needed in community businesses' earlier years (Bailey *et al.* 2017) but reliance on funding from local authorities exists regardless of the turnover level of the businesses (Thelwall 2017).

While public sector contracts can generate an income, rapid changes in funding policy and legislation around assets in the public sector can be risky and may need mitigation (Davies *et al.* 2017a, Davies *et al.* 2017b, Bailey *et al.* 2018). This illustrates how good relationships with local authorities are important for more than just finances. Community businesses commonly rely on local government for guidance, rather than other paid-for forms of support (Diamond *et al.* 2017). It is therefore essential for community businesses to consult local authorities about their strategic objectives and align with their overarching plan for place. Engaging partners early in a constructive, open and transparent way ensures community business and local authority priorities are aligned around a common vision (Gilbert 2016).

These relationships with the public sector are often symbiotic. In some cases, partnerships are made with local councillors for whom community business involvement bolsters their representation and champion role for the community (Gilbert 2016). Further, in the context of reducing budgets and increasing demand for services, communities and local authorities can renegotiate their relationships to work in a pragmatic way to preserve services and foster innovative ways of delivering them as well as improving outcomes and reducing costs (Gilbert 2016, Bruni *et al.* 2017). These partnerships can be seen as "new forms of urban governance under austerity" (Pill and Guarneros-Meza in Bailey *et al.* 20187:28).

In the case of asset transfer, relationships with the local authority are paramount. Often, the growth prospects of community businesses are dictated by the extent of support from the local authority, and the ability to acquire assets which contribute towards the organisation's social and economic objectives (Gilbert 2016). A symbiotic relationship can emerge where asset transfer is seen by local authorities as "as a tool to preserve services, while negotiating a change in their relationship with communities" (Gilbert 2016:36). Trust and support between community business and local authorities are therefore both a prerequisite and an ongoing benefit of asset transfers (Bruni *et al.* 2017).

6.3 Relationships with the community

It goes without saying that communities and community businesses are inextricably linked, but it is worth noting the nuanced forms of these relationships. For example, an arrangement of co-dependence may occur when community shops work in partnership with food banks in order to deliver on their organisational mission (Plunkett Foundation 2017a). For others, community networks can play important roles such as providing as-and-when technical support or fostering other links between people which serve a mutually beneficial purpose (Reeder 2017). In many cases the relationship between communities and businesses embodies what is usually referred to as 'engagement'. This is particularly the case in rural areas where community businesses exist primarily to save a local service, engendering widespread community support to do this (Percy *et al.* 2016).

For community **transport** organisations to create demand and encourage volunteers and staff, the local community must value the services and the social objectives of their work. This is only achieved by way of real engagement from the community (Kotecha *et al.* 2017). For **pubs**, community support is central to success. At inception stage it is the community that stops a pub being bought by developers for example. And, later in a pub's lifecycle, its business models are dependent on the assumption that local people would use them and contribute to their income (Davies *et al.* 2017a).

In the **housing** sector, a strong relationship with the community is essential; from the effective collection of evidence around local housing demand and supply (including information about preference of tenure obtained via events and surveys) through to gaining local support of the project. This evidence is used to access funding and secure political support. Community buy-in is often initiated and maintained by CLTs through public meetings, leaflets, and board members themselves proactively meeting with the local community to discuss their issues or concerns about the housing development. For long-term plans such as for housing developments, long-term community engagement is essential. When looking at success factors in housing programmes, researchers found that local people who disliked an initial development were convinced of the project's benefits once an initial build had been made (Davies *et al.* 2017b).

7. Conclusion and next steps

The headline conclusion from the Research Institute's 2016-17 research programme is that it is the very diversity of community businesses that typifies the community business model. The way community businesses are defined, the many economic sectors they fall in to, their sources of funding and finance, their geographical location, their legal forms, the scope and impact of what they deliver and the ways in which the community is involved with them; all are essential to a proper understanding of the community business marketplace.

Commonalities do exist however. For example, many community businesses rely on and seek to acquire tangible assets. The evidence shows that this is not without its challenges; there are maintenance costs to consider as well as patchy support around asset transfer from local authorities. However, the research also shows that having tangible assets is beneficial to community business sustainability as well as being a contributing factor to the growth of the community business sector as a whole.

The section on community business workforce outlined how crucial quality staff and volunteers are for success; from key members of staff bringing stability and credibility, diverse groups of volunteers managing day-to-day operations and activity, through to experienced leadership teams with solid skill sets. Further, there is a mutually beneficial relationship between community businesses and their workforce; community businesses need the engagement of their local community for their workforce and in turn people in local community are developing skills and experience by working within the community business.

With regards to growth in the market, there remains insufficient evidence to support the widely-held presumption of year-on-year increases. However, there is evidence of growth in key sectors, with high levels of confidence amongst community businesses and national policies and initiatives such as the Social Value Act which ought to stimulate growth across the market as a whole.

Finding appropriate sources of finance is a complex and dynamic process. From declining grant funding, to competition for contracts with local authorities, increasing community share offers and the common use of commercial loans and credit, there is a lot to consider. All this takes place in a politically uncertain climate where the daily time and resource pressures still apply. In light of this a financially savvy workforce with business acumen are key to success.

Such a workforce is likely to need to form meaningful relationships with key individuals in local authorities, to glean assets and/or secure grant or contract income. In addition, community businesses must also maintain crucial relationships with the community and establish their place within a dynamic, connected, complex and evolving local network of organisations.

Table 5: Power to Change Register of Hypotheses

Strategic Objective: Transforming places			
Core assumption: Community businesses transform places by reducing contextual inequality, through corrections to market and government failures.			
Community business hypotheses	**Knowledge**	Community businesses deliver the products and services best suited to their area because they are locally rooted and closely connected to the communities they serve.	For example, a community-led health clinic that offers more than 10-minute appointments with a GP and is open at hours that suit local people.
	Employment	Community businesses increase net employment by hiring people who would otherwise struggle to access the labour market, in jobs that allow them to develop the skills they need to progress.	For example, a community bakery that recruits NEET young people through an apprenticeship scheme, supports them to gain recognised qualifications and connects them to entry-level jobs.
	Agency	Community businesses increase involvement in local decision-making and levels of social capital because meaningful membership develops skills, voice and access to information.	For example, a community sports centre nominates local young people to become trustees and creates opportunities for them to gain experience of participatory decision making with the local authority.
	Sustainability	Community businesses are less likely to close because local people have a strong sense of ownership and a stake in their success.	For example, a community centre weathers fluctuations in commissioning through a stable customer base and a strong network of local support.
Place-level hypotheses	**Collaboration**	Community businesses that collaborate with others in the local area are more successful because they can drive down costs through collective bargaining, mutual support and the ability to negotiate up and down their supply chains.	For example, a community business works with others to negotiate the transfer of multiple assets from the local authority.
	Resilience	Community businesses that share a common vision with others in the local area are less reliant on local and central government support because surpluses can be used to cross-subsidise otherwise non-viable activities.	For example, a community energy business that generates a consistent surplus and commits a proportion of this to a community benefit fund which in turn supports a community library and café.
Core assumption: Power to Change grows the sector by stimulating the creation of new community businesses and supporting the sustainability of existing operators.			
Sector-level hypotheses	**Infrastructure**	Second-tier support makes community businesses more successful because it increases their capacity, promotes higher standards and provides a voice to influence others.	For example, through quality assurance, networking opportunities and access to low cost, high quality technical and strategic development support.
	Assets	The transfer of local assets stimulates community business growth because they increase financial resilience, provide a physical base for operations and generate goodwill.	For example, through loyal customers, available voluntary support and strong local networks.
	Public services	The opportunity to deliver local public services stimulates community business growth because they can do so at lower cost and with greater levels of community engagement than traditional public and private sector providers.	For example, a community-run swimming pool is able to generate surpluses through leveraging community goodwill and taking a more entrepreneurial approach.

Looking ahead, the intention is that many of the evidence gaps identified in this compendium (e.g. on the size and growth of the community business market, and on understanding the wider ecosystems within which community businesses operate) will be addressed over the next two years. An additional focus for future research will be the Register of Hypotheses published by the Research Institute in January 2018 (see Table 5). Alongside the results of externally commissioned research projects, internally collected data from Power to Change's grants and investment programmes will be used to test, refine and elaborate these hypotheses. Taken together, the hope is that this will increase the confidence that can be attributed to Power to Change's ambition of seeing "better places through community business".

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