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WHAT DOES IT TAKE TO **STRENGTHEN** THE **FINANCIAL CAPABILITIES** OF COMMUNITY BUSINESSES?

INSIGHTS AND LEARNINGS FROM TWO PILOTS

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Benjamin Andrews, Joyce Chan, Rachel Blake



What does it take to strengthen the financial capabilities of community businesses?

ABOUT **POWER TO CHANGE**



Power to Change is the independent trust that strengthens communities through community business. We use our experience to bring partners together to fund, grow and back community business to make places thrive. We are curious and rigorous; we do, test and learn. And we are here to support community business, whatever the challenge.

ABOUT **RENAISI**

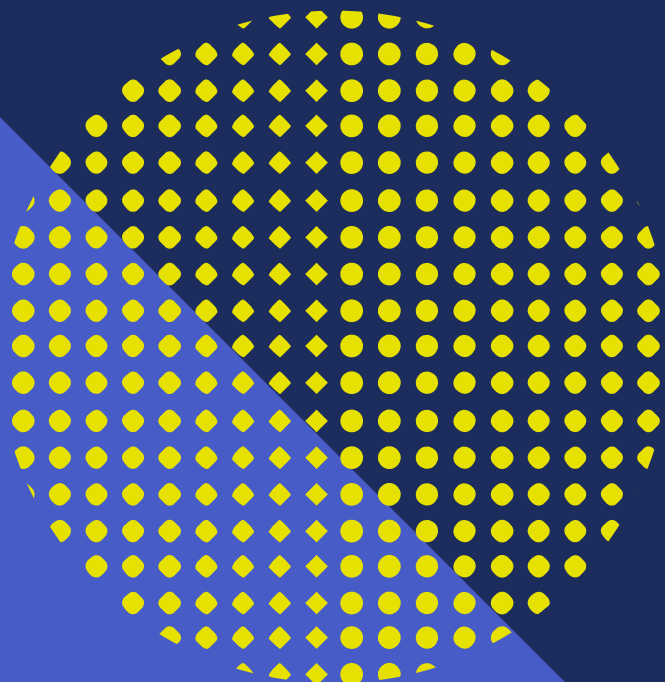


Renaissi is a social enterprise that helps people and places thrive by challenging the root causes of economic and social exclusion across the UK. They do this by empowering people to overcome barriers to employment, enabling social and private sector organisations to tackle socio-economic exclusion, challenging systems that perpetuate exclusion, and embodying approaches that lead to sustainable change.



CONTENTS

1.	Introduction	4
2.	Impact of the programme	6
3.	Enablers of impact	13
4.	Barriers to impact	17
5.	Learning	21
6.	Conclusion and recommendations	25



1. INTRODUCTION

Community businesses ('CBs') play a vital role in strengthening the resilience of communities, having people and place at its heart. Evidence from Power to Change's past few years of research and work suggests that CBs require more support with the technical and cultural skills to proactively manage their finances and business modelling. Covid-19 has exacerbated these financial skills gaps, and with the cost of living crisis unfolding, it is particularly important that CBs have the ability to navigate turbulent times and develop the strong foundations needed to remain adaptable and resilient.

Power to Change commissioned [Think Social Tech](#) to explore the challenges and opportunities facing CBs to improve their financial and digital position to remain resilient, and understand the context in which problems/needs emerge and the systems which need to change¹. Within financial capabilities, Think Social Tech identified four opportunities to better support CBs manage their financial situation:

1

Actively addressing weaknesses in financial management: this includes addressing weaknesses in their financial set up, ensuring CBs have the systems and processes needed to produce appropriate reports and forecasts, and upskilling and/or having relevant staff and board members with financial skills.

2

Moving from spreadsheets to cloud-based accounting: this involves ensuring CBs have the capacity to resource, review, and implement the right options for them, upskilling their staff/volunteers and board members, helping CBs make the transition and make the best use of cloud-based accounting, and partnering with others offering support.

3

Accessing grant funding from national trusts and foundations: includes helping CBs identify and write applications to the right funders and programmes for them, advocate for CBs and influence national trusts and foundations to provide greater contribution towards core costs (to resource activities related to strengthening financial capabilities).

4

Reviewing the business models: this involves supporting CBs to review their business models and revenue streams to assess their viability, supporting CBs to produce and review financial forecasts and creating the space to make decisions about their business model and future, and supporting CBs to make informed decisions about converting to a registered charity.

¹ [Our-Potential-Becoming -Enhancing-Digital-Financial-Capabilities-in-Community-Businesses.-Nissa-Ramsay-for-Power-to-Change-2021.pdf](#) (powertochange.org.uk)

What does it take to strengthen the financial capabilities of community businesses?

Power to Change consequently commissioned two pilot projects – one delivered by The Women's Organisation ('The WO'), and the other delivered by Locality – to explore different ways to effectively support CBs with strengthening their financial capabilities within the four opportunities outlined above.

Drawing on document reviews of project outputs, interviews and workshops with The WO, Locality, and CB participants², this report aims to:

- Determine to what extent the projects addressed the four financial opportunities (outlined above), and where there are potential gaps for further consideration
- Capture and share learning on the key enablers and barriers to strengthen CBs' financial capabilities across both pilots
- Provide recommendations for Power to Change's future approaches to supporting the financial capabilities of community businesses and the wider sector.

Limitations of our research:

It is worth noting that because our engagement with CB participants was in a group workshop setting, participants may have felt less inclined to share their honest views compared to if we had one to one interviews. We have consequently emphasised that we will use information/quotes anonymously, and did not record the session to help cultivate a safe reflective space.

Furthermore, since the individual project evaluations and our wider programme evaluation occurred right after the projects were completed, the observed impact in this report does not capture the longer-term impacts that CBs have experienced. Re-engaging CBs after at least 6 months after the projects will be needed to further understand if their financial capabilities have strengthened in the long-run, and the challenges that they may face as they implement changes/continue with their journey.

2 Altogether, Renaisi reviewed project's interim and final reports, and conducted two interviews with The WO, three workshops with The WO and Locality (one per organisation, and one group session), and three workshops with community businesses (two for The WO and one for Locality's CBs).

2. IMPACT OF THE PROGRAMME

Think Social Tech identified four key opportunities to strengthen the financial capabilities of CBs; addressing weaknesses in financial management, moving to cloud-based accounting, accessing grant funding, and reviewing the business model. Each of these involved further areas for CBs to develop their financial capabilities. Both pilot projects used these outcomes as a basis in designing and delivering their programmes.

This section examines to what extent the two pilot programmes addressed these areas, and identifies what has been learnt from what has been achieved, and where potential gaps remain.

About the two pilot projects:

The Women's Organisation's Financial Capability Improvement Academy ('FCIA')

Delivered to 13 organisations over a period of 3 months, The WO's FCIA was modelled around intensive in-person workshops with a strong peer/cohort learning approach to address the four opportunities for improving financial capabilities. Altogether, The WO delivered:



Four workshops: topics include Community Business Model Review, Financial Management for CBs, Impact and Income, and Review and Action plan



One to one advisory: available to CBs each month to help them apply what they've learned to their organisation



Peer mentoring: which involved a buddy-up approach, and an informal/organically developed network between participants



Financial contribution: each CB received £1000 to finance/compensate their participation in the programme.

The CBs who participated constituted a diverse cohort; coming from 7 different sectors, with the youngest CB having been established for 1 year and the oldest for 18 years. The approach was to have in-person group workshops, one to one sessions for more tailored support, and peer learning throughout the programme.

The workshops aimed to empower the leaders of each CB to become more financially capable and understand the various tools to manage their finance.

What does it take to strengthen the financial capabilities of community businesses?

Locality's Cloud-based accounting pilot

Locality's project aims to help CBs have good/appropriate financial management systems to help CBs to understand their finances and plan better. Consequently, they targeted supporting CBs who were in their early stages of transitioning from spreadsheets or legacy systems to cloud-based systems, CBs who had already adopted cloud-based systems but are struggling to implement it fully, and CBs who wished to improve their financial management processes and board reporting.

Locality was interested in looking for solutions that can be scaled, and consequently delivered their training online, and engaged wider sector stakeholders as part of the pilot. Altogether they delivered:



Direct support to 17 CBs: involved four workshops³, tailored training held in small groups to address specific topics in further detail, alongside a financial contribution (up to £600)



Work with industry experts: Work with Xero to explore the potential for developing standard templates and guidance for CBs and the sector, and work with Zettle to introduce other software/products that would help CBs



Consultation with advisors and accountants: since most CBs rely on their accountants to prepare accounts and set up bookkeeping systems, Locality also consulted accountants about the broader challenges in the sector for financial capabilities.

³ Topics include: Moving from spreadsheets to cloud accounting, Moving from desktop and legacy systems to cloud accounting, Getting more from your cloud accounting system, and Effective Board reporting for social businesses

What does it take to strengthen the financial capabilities of community businesses?

2.1 Addressing weaknesses in financial management

To address weaknesses in financial management, Think Social Tech identified the following areas for support:

- Identifying weaknesses in financial management and set up
- Developing systems and processes for financial reports and forecasts
- Upskilling and recruiting more staff and board members with financial skills
- Encouraging board members to scrutinise finances.

Across both pilots, outcomes were achieved consistently for the first three areas. Both The Women's Organisation and Locality conducted a diagnostic/business needs assessment to identify the financial weaknesses of organisations. The Women's Organisation then used this information to develop the content of their first workshop on financial management. This was then complemented by one to one mentoring with a CB advisor who helped individual CBs apply what they've learned to their situation, and work through their questions/practical challenges to ensure processes and systems were set up appropriately.

A participant reflected that being the only person running the CB and with little experience/background in financial skills, it was hard to even get started because "sometimes you don't even know what you need to know". Since many of the participants in the programme were relatively small and at start-up/early stage, they had a steeper learning curve to learn the basics of financial management compared to relatively long-established CBs. Nonetheless, participants altogether felt that through the programme, they became more confident in understanding and knowing the good practices around financial management, and will use his information for better decision-making and business planning.

For Locality, the diagnostic revealed that there were common themes around the needs of community businesses to shift to and utilise cloud-based accounting, and consequently designed four workshops to address their support needs. This systematically helped CBs scrutinise and make their systems and processes for reporting and forecasting more efficient and more appropriate to their business model (especially their mixed revenue model involving grant funding and income from trading) and their different reporting requirements – including to different funding bodies.



We're quite unique as an organisation. Less than 10% is derived from grants...we don't quite fit a model. We have different income streams; we have 4 departments that generate revenue and cross-subsidise.

Locality CB Participant

Many of the participants are also self-taught in financial management, and felt the programme had helped increased their understanding of how to use/interpret financial information and navigate processes. Lastly, the last webinar on Board reporting – which was the most attended session, and which all CB participants (regardless of their stage of maturity) found the most useful – helped participants to understand what and how information could be communicated to the Board in a way that was useful for them.



Some board members wanted just figures, and we give the board a lot of figures. We have these figures that people just look at, but not really understanding the meaning. Now we know it needs to be narrative-driven.

Locality CB participant

What does it take to strengthen the financial capabilities of community businesses?

While Locality has helped CB participants determine how to present financial information to their Board, there is a gap across both pilots in exploring what it takes to encourage CBs to recruit more financially skilled board members, and encourage board members to scrutinise finances in a way that is appropriate for the CB sector. In particular, more could be understood around:

- What are the knowledge, skills, or attitudes that would be helpful for Board members to have
- What is the value of this skillset for the CB
- What are the barriers of participation for Board members (this could include lack of confidence, board training, development and induction around financial skills), and
- How can CBs and Board members be encouraged/incentivised to upskill.

2.2 Moving to cloud-based accounting

In Think Social Tech's research, helping CBs move to cloud-based accounting from excel or paper-based financial management involves:

- Incentivising CBs to switch and ensuring they can resource cloud-based accounting soft- and hardware
- Creating the capacity for CBs to review and implement the right solutions for them
- Upskilling staff, volunteers, and board members to ensure CBs make the most of cloud-based accounting
- Partnering with others offering support programmes.

Since many of The WO's CBs were relatively small in operation and had limited financial skills, The WO dedicated time within the workshops to introduce different tools for financial management that CBs can adopt, including cloud-based accounting, and helped CBs identify the most appropriate systems, for them moving to cloud-based accounting was not the main aim.

On the other hand, Locality's project centred on supporting CBs make the transition to cloud-based accounting from excel or legacy systems, or make better use of their existing cloud-based systems. The webinars and tailored training helped participants become more aware of the opportunities and benefits of moving to the cloud, and its use and proper set up to save time and potentially create organisational efficiencies. The small financial contribution enabled CB participants to also resource soft and hardware for their transition (especially software costs where the initial investment could seem like a significant upfront cost), and also created the space and capacity for CBs to participate in the project, develop their skills, and take a step back in reviewing and refining their financial processes.

In addition to the overall upskilling of staff around financial management skills mentioned in the above section, participants had a better understanding of the system, and felt more confident to work with their accountants to address challenges. Furthermore, the recorded webinars and accessible tools/templates have enabled CBs to upskill their staff more widely around using cloud-based systems, including new recruits even after the end of the project. This enables greater alignment, understanding and consistency in the use of cloud-accounting systems across staff to ensure its better and sustained use in the organisation (not dependent on a single individual).

What does it take to strengthen the financial capabilities of community businesses?

However, CBs in Locality's project tended to have more understanding of accounts, and were already bought into the need for moving to cloud-based accounting (rather than smaller CBs and/or those who have not started considering cloud-based accounting).



The majority had already adopted cloud systems and needed support to fully implement and improve their systems.

Locality's final report

Since Locality focused on organisations who are transitioning or needed help with implementing cloud-based accounting, and The Women's Organisation introduced cloud-based accounting to CBs but did not explore in detail where it is relevant for which organisations, there is a gap across both pilots in:

- Exploring who/at what stage of CB development cloud-based accounting is best suited
- Identifying and understanding the barriers and enablers for organisations to make the decision⁴
- Testing what it takes to incentivise CBs to switch to cloud-based accounting
- Considering the level of financial understanding individual participants need to have in order to engage and make use of cloud-based accounting training – for example, participants needing a basic understanding of financial management before delving into specific systems and processes.

Further to the direct delivery of support to community businesses, Locality also recognised that helping CBs adopt cloud-based accounting more efficiently must involve addressing the gaps in the wider sector, and working in partnership with other stakeholders. Consequently, one key aspect of Locality's project involved working with Xero to develop a CB/sector-specific offer. This includes working with Xero to explore the potential for developing standard templates and guidance for CBs using online accounting software in the future. Through this partnership, Locality had reflected that they have helped increase Xero's understanding and awareness of the sector-specific needs and opportunities. For example, although the project has ended with Power to Change, Locality continues to work with Xero to develop sector resources – including charts of accounts, and a playbook/guide to CBs which they plan to launch on their website in early 2023, reaching many more community businesses outside of the programme. In addition to Xero, Locality had also engaged with Zettle – a popular payment software that links to cloud accounting systems, to raise CBs' awareness of the different software that can help make their processes more efficient.

What does it take to strengthen the financial capabilities of community businesses?

2.3 Accessing grant funding

Accessing grant funding was another key opportunity, and involves:

- Helping CBs identify and support CBs to write strong applications to the right funders and programmes for them
- Supporting CBs to review their business model and revenue streams
- Advocating for CBs to funders, and influencing funders to provide core costs funding alongside project costs.

While this was outside the scope of Locality's project, The WO embedded a review of grant funding opportunities and writing funding applications in their third workshop, 'Impact and Income'. What participants found particularly helpful was linking their key impact messages with their marketing and funding applications, and the peer workshops on writing grant applications to become familiar with what funders are looking for and how to articulate their story and impact. In addition, the CBs also leveraged on each other's knowledge and understanding to collectively develop a database of funding opportunities, which benefited all participants as they became aware of different funding opportunities they may not have been aware of and were able to share application best practice. This database has subsequently been shared across The WO's colleagues to help support other organisations across their programmes.

While advocating for CBs to funders was outside the scope of both pilots, the evidence and learnings gathered from both pilots will help demonstrate the importance of core costs to strengthen CBs financial capabilities, and identify gaps in the sector where Power to Change can consider influencing in the future.

2.4 Reviewing the business models

The fourth area for strengthening financial capabilities involves supporting CBs to review their business model, which includes:

- Identifying potential revenue streams and assessing their organisational viability
- Supporting CBs to produce and review financial forecasts
- Enabling CBs to make an informed decision about their charitable status and an appropriate organisational structure
- Creating space for CBs to make key decisions about their business model and future.

This was outside the direct scope of Locality's pilot⁵, whereas The WO's first workshop was focused on supporting CBs to use the business model canvas to identify the value created for the community, their team, and wider stakeholders. For many of the participants, the business model canvas was new to their organisation and participants were often too busy with delivery to think more strategically about their organisations. Participants reflected that especially since starting up, they tended to provide free or low-priced services to enable people to participate and gain traction. However, going through the business model and thinking through their revenue and pricing model systematically, has helped them see their individual workstreams within the wider context of their organisation.

⁵ Through helping organisations set up cloud systems, Locality's pilot provided the tools to help CBs generate the information needed to assess their performance against different revenue streams and activities.

What does it take to strengthen the financial capabilities of community businesses?

All participants found this useful, especially the one to one sessions which supported CBs to talk through some decisions and changes to their organisations. For example, participants appreciated the opportunity to speak with the advisor who understood the different business structures and regulatory requirements to then offer suggestions, which also gave CBs the time and opportunity to think through these ideas and identify concrete steps to implement important changes to their business.



I enjoyed the one to ones. It was useful to have that help... We realised that our prices were too cheap... We decided to put more bids in to see if we can get ESOL funding

The WO CB participant

2.5 Impact outside of the four opportunities

Across both pilots, the peer network of support was also a key outcome that CBs valued from the programme. For both projects, CBs appreciated knowing that they were not alone in facing specific challenges, and also learned a lot from each other's experiences.



Until I came onto the programme, I felt isolated.

The WO CB participant

This was particularly the case for The WO's CBs which had a strong cohort element, and regularly brought together the same group of participants, which built strong relationships between CBs which will likely last after the project ends. CBs have since sought advice from each other, and have even started new projects together. This sustained network of support was appreciated by all the CBs in The WO's cohort, and was especially impactful for smaller CBs as they sometimes had very small teams with little expertise and gained a lot from speaking with more established CBs.

2.6 Gaps and limitations

It is worth mentioning that the above captures the outcomes that CBs felt at the point right after projects were delivered, and may not represent the long-term impact/outcomes of the programme. Especially for financial capabilities where changing financial systems, processes, and revenue streams could take time, it would be important to re-engage with participants after at least 6 months (and possibly again after 12 months) at the end of the programme, to determine how CBs have continued to implement what they have learnt, and what difference this has made to their organisation.

Locality's focus on the wider system also highlights the importance of addressing CB's financial capabilities not only through direct interventions for CBs, but in influencing and addressing the gaps in the wider sector. The lack of support for CBs' financial capabilities is a systemic issue, and it is consequently important to understand how stakeholders have a role to play to help build an empowering ecosystem for CBs to be financially resilient and thrive (explored further in the report). It will be critical for future programmes to build on the initial learnings that Locality's project explored, and consider approaches that will address wider system needs in addition to individual CB's financial capabilities.

3.

ENABLERS OF IMPACT



Although both pilots used different approaches and targeted different opportunities to increase the financial capabilities of community businesses, there were common enablers of impact that emerged. This included enablers that were specific to increasing the financial capabilities of organisations, and general good practices for programmes.

3.1 Enablers for increasing the financial capabilities of CBs:

Sector knowledge

The WO, Locality, and CB participants described how important it was that the programme was delivered by people and organisations that understood the specific sector to ensure that content and support were appropriate.

Locality, a network of over 1400 members/organisations supporting local people, has a strong track record of working with CBs across the UK, considered a reputable infrastructure organisation supporting the sector. In addition, Neal Trup, an accountant who leads a consultancy and accountancy practice specialising in charities and the social and community enterprise sector and is a member of the Charities SORP Committee, has many years of working with CBs and understands the nuances of sector needs and challenges. This enabled participants to trust in their expertise, and also enabled the learning from tangible experience through live demos and real life case studies.



Good content and delivered in friendly and human way! Demystifying the accounting language.

Locality final report

For example, participants reflected that CBs have mixed revenue models, and have different reporting requirements to the Charity Commission and Companies House. Consequently, being able to speak to advisors and go through live demos (in Locality's project especially) who knew about these business models and reporting requirements was crucial for CBs to receive the appropriate advice around how to adapt their systems accordingly.



Neal's an accountant in the sector, so seeing how an accountant does it, how the information is provided at source, how we get the results from different ways, was valuable

Locality CB participant

The WO have lived experience of the many challenges that their participants were facing, having followed a similar development path. This gave them credibility and also meant that they were able to talk about these issues in a way that was relatable to participants by using the right language and content. Furthermore, The WO delivered the programme in a way that emphasised the common values between The WO and the CBs, which helped build trust and alignment with the participants.

What does it take to strengthen the financial capabilities of community businesses?



It helped coming from The WO and understanding what they do
The WO CB participant

Another important aspect of The WO approach was to bring in guest speakers who brought different perspectives and lived experience on technical topics to bring in a different dimension to learning. The WO would facilitate these discussions making sure that jargon was broken down and the session was pitched at the correct level.

This led to both projects having content that was sector specific, resources that were accessible and useful, jargon being broken down and information pitched at the right level, and The WO and Locality being flexible to accommodate the realities of running a CB.

Providing core funding, and flexibility in allocation

There are few funders who offer core funding to CBs, which means that developing staff and improving processes are rarely supported. Consequently, the core funding provided for CBs during both pilots was important to allow CBs to engage in the programmes and invest in strengthening their financial management skills and systems. For The WO, all CB participants stated that the financial contribution was important, with 67% stating it was very important, and 33% stating it was moderately important. Similarly, Locality had reflected,



The funding enabled less established organisations to take part in training for the first time. It also helped them with software purchase costs and their accountants' services.
Locality Report

It was also important that the funding offered was flexible to address the different barriers that CBs would face in strengthening their financial capabilities. This includes covering for capital (i.e. purchasing soft and hard-ware) and revenue/operational expenditure (i.e. staff salaries).

Tailoring and flexibility

Considering the diverse backgrounds of CBs, and the range in participant's starting understanding/skills in financial management, it was important that content and support was delivered in a tailored way that was appropriate for the different levels of understanding, and met the specific needs of CBs.

The WO's one to one advisory sessions were planned to allow CBs to implement what was learned in their workshops to their own organisation. Given the range of different levels of development between CBs, this was especially important to ensure that all participants could apply learning that was appropriate and relevant to their organisation. This was also provided in a flexible way, so that participants who needed it could use it, and those that did not need it would not feel forced to.

Although in a group setting, Locality's tailored training was designed to address specific topics that participants wanted to understand in further detail, and also allowed participants to attend more than one session to share experiences. Participants appreciated this mix of tailoring and group session, and especially liked hearing questions from others in a similar position/sector context.

Nevertheless, participants in both projects have suggested that further tailoring may be needed. This will be discussed in the next section on barriers to impact.

What does it take to strengthen the financial capabilities of community businesses?

Accessibility of resources

The sector is known for being time-poor, and CBs and their participants often lack capacity to engage in things outside of what is necessary to keep their organisations running or direct project delivery. Consequently, the accessibility of resources for strengthening financial skills and systems was crucial. CB participants in Locality's project stated that they appreciated the online, recorded sessions, which enabled their staff to watch sessions they missed/on demand, and also enabled them to share the training more widely to other people in their organisations. A CB participant in The WO's project echoed this need, as they mentioned wanting a way to catch up on workshops that they missed, which was difficult to do because the sessions were in-person.

In addition to accessible webinars or training, both cohorts in The WO and Locality's projects appreciated the resources, templates, and tools that they received during the programme. Nevertheless, having some guidance and support to use these well are necessarily.

3.2 General good practices and enablers

In addition to the enablers that were critical to increasing the financial capabilities of CBs, there were also general good practices that were important for CBs' experience.

Thinking time and space

A key reflection from participants was around the pacing of the project. For The WO's CBs, the time between sessions helped create the capacity for CBs to reflect on the direction they are going. Participants stated that the time between sessions was helpful in allowing CBs the time to reflect on what was learned and apply it to their organisations.



I think the day long sessions fortnightly gave you enough time to reflect between them.

The WO final report

For those organisations that engaged in the one to one sessions after the workshops, they felt that this provided additional support and helped them not feel overwhelmed. Sessions also followed on from each other, meaning that participants could also raise any issues they had with implementing the previous sessions learnings in the next session.

For Locality, participants found the content delivered in the 2-hour webinars helpful, but would have preferred shorter, bite-sized videos. Especially where the content is technical and detailed, breaking up the information into smaller pieces would have allowed participants more time to digest information. This suggests that breaking down the information and allowing time for participants to digest information will also be important.

Creating a safe space for peer/cohort learning

Cultivating a safe space for CBs to participate, raise questions, and share experiences, was critical for CBs to fully engage and get the most of the project. When this is done effectively, participants felt confident to share their challenges honestly. This was especially important for CBs who have less financial skills or experience, as they felt comfortable raising areas they did not understand or needed further support in.

The WO's welcome session at the start of the project, which focused on introducing everyone to each other and sharing what the project will look like going forward, was critical in setting the culture of collaborative learning, and establishing relationships between the CBs.

What does it take to strengthen the financial capabilities of community businesses?

This also kick-started peer networks between CBs, and ensured that a safe space was established and maintained throughout the programme. Locality similarly created a culture of equals in their webinars and training sessions by bringing organisations together around shared challenges, and creating the space for organisations to contribute, ask questions, and problem-solve together. This helped fostered a sense that they were 'all in the same boat', regardless of their sector/ background.

Recruiting a diverse group of participants

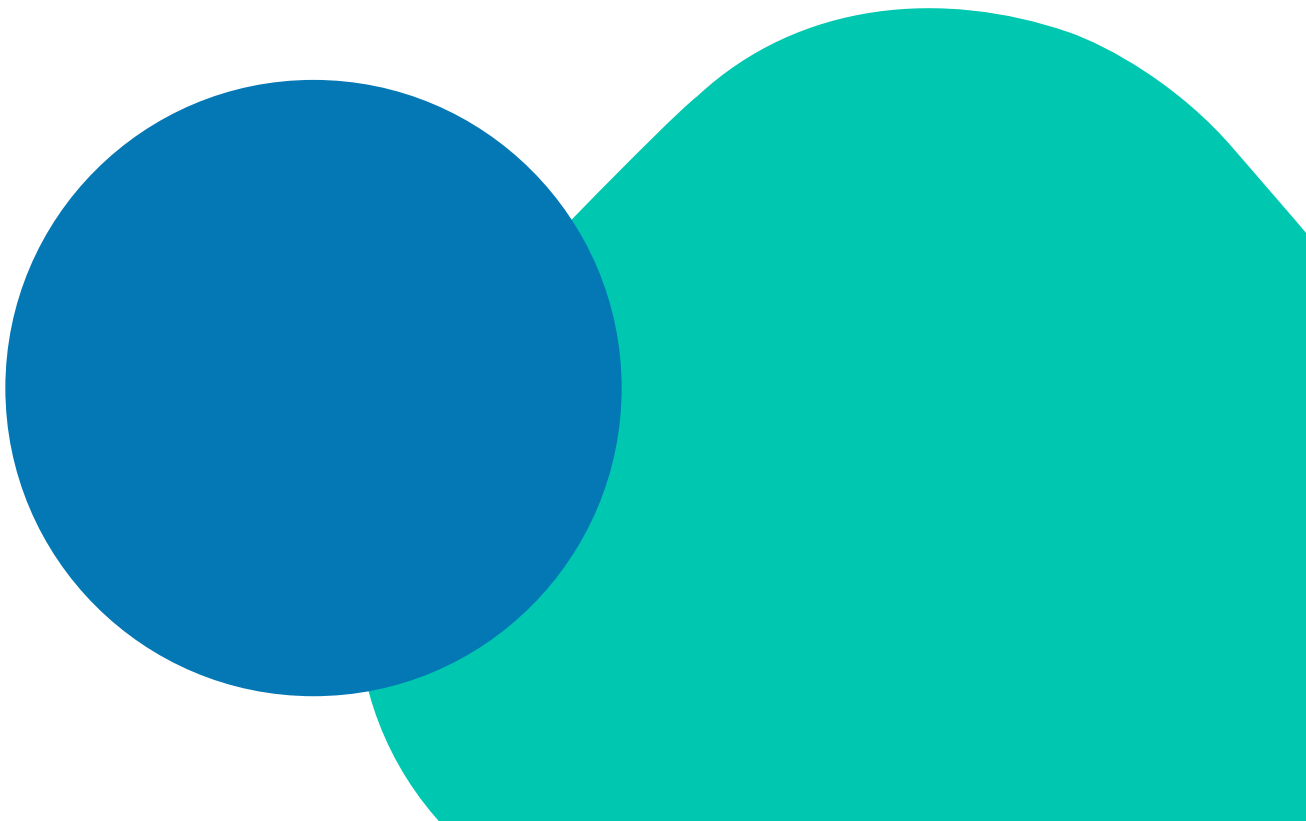
Having a diverse group of participants and CBs also contributed to increased financial capabilities. For The WO who focused heavily on cohort and peer learning, bringing together a diverse group of CBs of different sizes, in different sectors and a range of different business models, enabled peer learning to be more rich - learning from different CBs' experiences while creating a sense of a shared journey in facing common challenges.



Everyone has a different background so it's useful to learn from these experiences

The WO participant

The diverse CBs also meant that they saw opportunities to start new projects together (rather than in direct competition) after the pilot, potentially bringing new business development opportunities for the CBs. Furthermore, because participants understand and appreciate each other's backgrounds, many of the CBs are now helping each other outside of financial capabilities - for example, a CB running a community asset is seeking advice from another participant who has a background in leasing property.



4. BARRIERS TO IMPACT



Similarly, there were common themes around the barriers to impact that emerged from both pilots. This section outlines these barriers to strengthening the financial capabilities of community businesses.

4.1 Communicating expectations

The programmes were designed in specific ways in response to Think Social Tech's research on how to strengthen the financial capabilities of community businesses. For example, the need for CBs to involve and spread financial management across CB staff and levels of the organisation, to ensure that CBs do not become too dependent on one singular person, and ensure appropriate checks and balances are in place.

The WO consequently encouraged CBs to commit up to three members of staff to join the programme. However, some CBs struggled to commit three members of staff to the programme, and became frustrated when other CBs had less than three staff attend. While CBs understood the benefit of sending multiple participants after the sessions have ended, this suggests that future programmes should focus on communicating and demonstrating the value and rationale for the way the programme is designed so that CBs have more buy-in to the process.

4.2 Balancing the needs of different CBs

Both projects demonstrate that although having a diverse group of CBs was valuable, more needs to be done to ensure that group/collective support is pitched at the right level (more tailoring based on the starting points of participants), and that appropriate follow-up is provided to ensure CBs can discuss their specific situations. This is especially the case for financial capabilities where it could involve jargon and complex processes which could be difficult for some people to understand without basic training.

For example, four of the CBs that The WO engaged had been established more than five years ago. These more established CBs found the support too simplistic for them as they already had a good understanding of the basics, and instead needed more in depth support on specific issues they were dealing with. Additionally, they sometimes found less value in peer learning compared with the start-up/ relatively early-stage organisations.

Locality also received mixed reviews on some aspects of their webinars, as some CBs felt that the information went over their head, and could be too theoretical

What does it take to strengthen the financial capabilities of community businesses?

“**Things went too quickly and there was too much emphasis on what should be provided in management reports rather than the Xero processes. Whilst in principle the reporting needs of a big organisation are the same as for a small, in practice they are different and the level of understanding are different.**
Locality CB participant

Future programmes could consider providing different types or more targeted webinars based on the organisation's size or experience/ sector/ structure/ size, consider offering more time for one to one or group-based drop ins for CBs to discuss specific challenges, and offering different ways for CBs to engage so that they can access the most relevant resources when they need it.

4.3 Lack of long term and ongoing support

The WO, Locality, and CB participants reflected that, especially for financial capabilities, it requires more time than the project period to implement change properly and see the difference it makes for their organisations. For example, one of The WO's participant reflected that although the business model canvas was helpful, she felt that she still had a lot of questions about what to do next, and how to implement some of the things that were discussed in the one to one.

“**Long term support would have been better to allow us to review changes and reflect more.**
The WO CB participant

“**Change doesn't happen in 3 months or 6 or even a year. Power to Change need to do a longer programme over 2 to 3 years.**
The WO CB participant

A number of The WO's CBs have subsequently accessed other support and resources provided by The WO after the programme ended. Similarly for Locality's participants, many reflected that what they have learnt from the webinars will take time to implement, and will be gradual. For example, for those using excel-based or legacy systems, they may not have transitioned to cloud yet and consequently anticipate many more questions and need for support to set it up properly. In a survey Locality conducted after the programme, 4 out of 6 felt they would need further support post-programme to adopt a cloud system. This is especially the case for smaller organisations, as one participant reflects,

“**I am nervous about the disruption and the amount of work to change over. I feel that there will be challenges for our organisation in operating a Cloud Accounting system. I feel we will still be vulnerable as I would be the only person able to run a Cloud Accounting system**
Locality CB participant

This suggests that long term and ongoing support is needed to achieve sustained change, and the findings from Locality's project also suggests that accessible online resources/templates and helplines would be useful here. Some participants mentioned having a follow up or check in after a few months at the programme, is a must to help support them to work through any challenges, give CBs additional time to ask questions, and also keep them accountable to what they have committed to do.

What does it take to strengthen the financial capabilities of community businesses?

4.4 Capacity and attitudinal barriers

It is well known that the sector is stretched and time-poor. CBs in particular, are often focused on service delivery and may be less able to engage in areas outside of delivery. The competing priorities of day-to-day challenges poses a potential barrier to strengthening the financial capabilities of CBs in the long-run.



Yes, I do want to adopt the system, [but] I do need the time to be able to allocate a chunk of time to make the crossover and to undertake further training to run it for us
Locality CB participant

This is particularly the case when it comes to learning and adopting a new technology, such as cloud-based accounting. Locality reflected that one of the main barriers includes “familiarity with existing systems and spreadsheets, not being clear about the benefits of a new system, and concerns around costs, training, and support....and the required expertise and capacity for tailoring [existing cloud software]”. This suggests that although organisations may see the benefit of changing to cloud, without the capacity or support infrastructure available, CBs may continue to use what they are familiar with.

This echoes the observation to explore more around how to incentivise organisations who do not know about cloud-based accounting to use such systems, and to understand how to continually incentivise organisations at the cusp of the transition to cloud-based accounting. Long-term support and availability of capacity seems to be key, although more needs to be done to determine other mechanisms to shift attitudes and reduce hesitation to engage with technology/digital solutions to financial management.

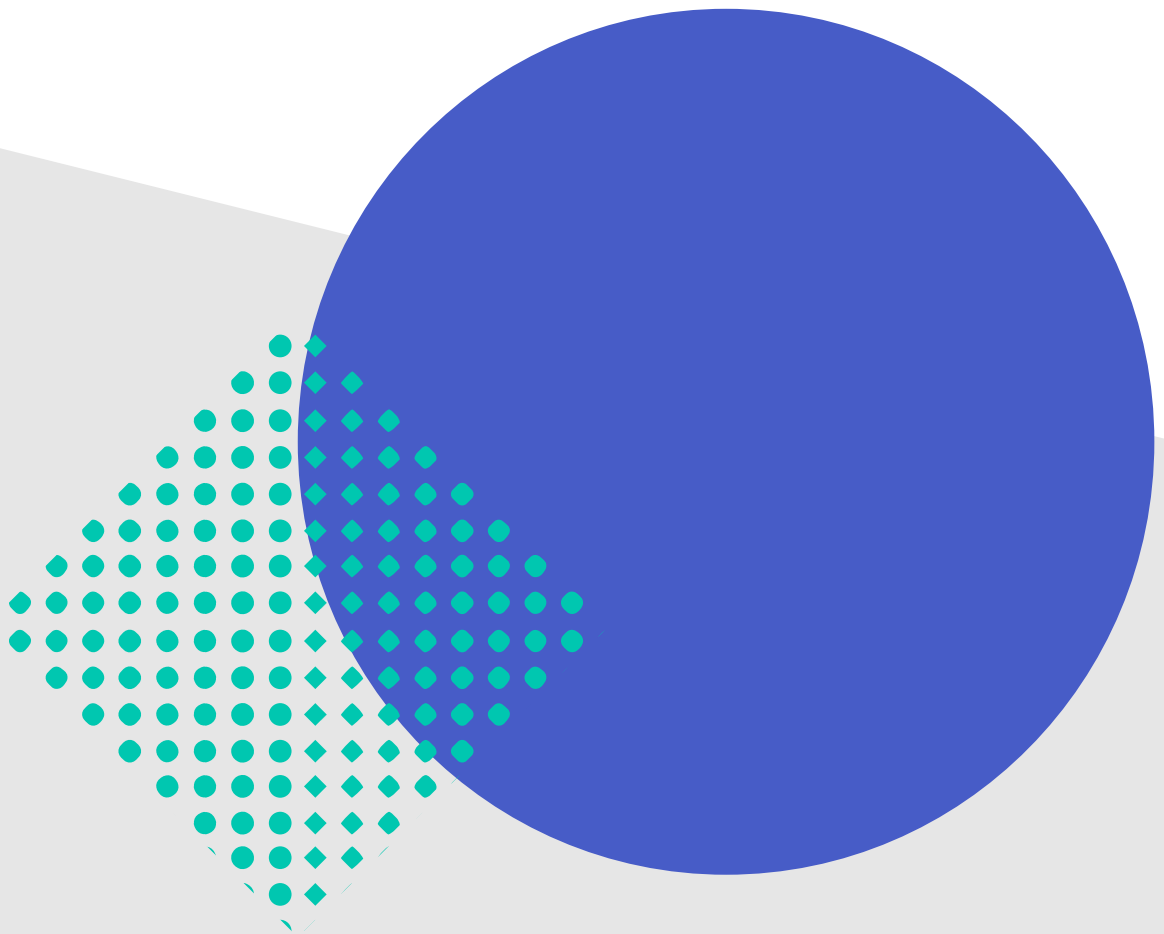
4.5 Systemic barriers

Future programmes that deliver support directly to CBs will help solve one part of the problem, but the sustainability and scalability of this will be limited if the wider sector is not strengthened or involved. Drawing on the discussions with Locality, The WO, and Locality’s discussion with accountants, below are the sector gaps and the key stakeholders that need to be part of the solution:

- ◆ **Accountants:** most CBs don’t use sector accountants – there’s simply not enough of them to support the sector, and local accountants are often not familiar with specific needs. This tends to result in CBs being set up with the wrong structure (either a charity or a business) and/or bookkeeping systems set up inappropriately.
- ◆ **Professional bodies & regulatory bodies:** professional bodies play a key role in setting the standards and expectations for the profession, and could do more to incorporate charity accounting modules, and provide more support, training, and advice to accountants working or looking to work in the sector. In addition, regulatory bodies have disproportionate regulatory requirements for smaller CBs, adding significant burdens and complexity, and have little guidance or support for the sector.
- ◆ **Fintech and accounting service providers:** like Xero, existing fintech and accounting software are mostly designed for commercial/owner managed businesses, and consequently lack some relevant functionality for CBs to use, and requires expertise to tailor accordingly. Across the sector, there is limited sector specific templates, advice and support, and CBs struggle to access the expertise needed to make these products fit for purpose.

What does it take to strengthen the financial capabilities of community businesses?

- ◆ **Intermediary networks and organisations:** there are existing networks and organisations supporting CBs in different places and at different local, regional, and national levels. Nevertheless, CB participants felt that although they are part of these networks, they often do not provide support with financial capabilities or are less apparent/explicit in their offer around this topic.
- ◆ **Commissioners and policy makers:** recent crises highlight the need for resilient communities, and the crucial role of CBs and social businesses as part of the local economy to create opportunities, develop skills, and address key needs in their community. Policy makers and commissioners have a critical role in steering a wider system approach to ensure greater recognition, prioritisation, and support for the sector to thrive.



5. LEARNING



Drawing on the above insights from both pilots, this section takes a step back to consolidate learning around the following key questions:

- What are the different considerations, enablers and barriers, and good practices that we could draw on for supporting CBs' financial capabilities?
- What will it take to involve the wider sector and address sector gaps?

5.1 Considerations for direct support to CBs on financial capabilities

Sector expertise is key

Understanding of sector needs and nuances is critical to ensuring content is relevant to the specific financial characteristics and requirements of CBs. For example, participants appreciated how The WO could speak from their lived experience of growing from a similar position to themselves, and appreciated the sector expertise of Locality (and Neal) to deliver detailed guidance on how to set up and utilise cloud systems for CB structures. Drawing on expert support specific to the CB context/sector is therefore critical for future programmes.

Reducing barriers for CBs to strengthen their financial capabilities

Linked to the above, future programmes will need to consider the different barriers for CBs to invest and strengthen their financial capabilities. Providing core funding and flexible funding, helps to free up the capacity needed for organisations to strengthen their core operations, and cover capital and operational costs. Allowing CBs to apply for funding

to resource future capacity needs to implement changes to their financial systems could also be considered to incentivise organisations to continue strengthening their financial management processes even after the programme has finished.

The accessibility and pacing of the information was also important for time-stretched organisations. Having recorded webinars was appreciated by participants in Locality's project, who could access the sessions on-demand, and share it with other members of their organisation to facilitate upskilling across the organisation. Participants also shared a preference for short training videos (2-3 mins) on specific topics to complement longer training sessions, which suggests future support could use a mix of both.

This nevertheless may depend on the stage of the organisation, as Locality reflected that more established organisations with a good understanding of accounts, may need quick solutions to specific questions, and it may require a good basis of knowledge to be able to make use of the short training videos independently. All participants across both cohorts nevertheless mentioned wanting more accessible support resources, tools, and templates, which can also accompany the other training materials.

What does it take to strengthen the financial capabilities of community businesses?

Balance between peer/group learning and individual support

All of the participants valued the opportunity to connect and learn from others, and especially appreciated when peers shared common, sector-specific challenges. There are nevertheless key elements for ensuring peer/group learning works for organisations, and balancing this with individual support.

Learning from both pilots suggests that different forms of peer learning could work well. This includes bringing small groups together around a common issue or challenge (but will require an expert in financial management to facilitate learning), when a relatively established organisation mentors a smaller or start up organisation, and bringing together a diverse group of CBs in a specific place.

Nevertheless, specific to strengthening financial capabilities, participants saw greatest value in peer learning that involved deliberate matching of peers based on sector / size / structure of the CBs and the role of the participant. CBs reflected that being matched with other organisations with a similar business or revenue model and reporting requirements, would be valuable in sharing learning and good practices. Similarly, matching participants by their role will also help participants learn from each other around how their roles and Financial management more generally fits within the wider organisation.

The feedback from participants nevertheless suggests that one to one sessions were still critical, especially at the start of the programme to identify the needs and circumstances of individual organisations, especially understanding the specific barriers of harder to reach organisations. Specific to increasing financial capabilities, one to one sessions were particularly helpful for:

- Larger CBs who tend to have more complicated businesses and had more specific questions, and desired more one to one sessions with an advisor. Smaller CBs comparatively did not need such intense support, and already derived a lot of value from the group training sessions and learning from their peers



I think I will need one to one support to make sure that this is set up well for us, we have a difficult mix of income and costs that needs to be very well accounted for to satisfy the requirements of all our funding bodies.

Locality CB participant

- Where the guidance and information is relatively technical or detailed (for example, the details around tailoring cloud-accounting systems)
- As a method of keeping CBs accountable to implementing changes (i.e. to their business model/revenue streams, grant funding, financial systems).

Balancing online support and in-person support

Both programmes had a lot of success in their delivery method and some important learnings can be drawn on where online support and in-person support is most appropriate for strengthening the financial capabilities of CBs.

In-person support can be resource-intensive for all parties involved, but is valuable in bringing the CB cohort together to build rapport and develop supportive peer relationships, and have the business advisor visit the CB to understand their specific circumstances and tailor their support accordingly. The power of face-to-face delivery was particularly emphasised by CBs since the programme was their first in-person learning opportunity following covid lockdowns.

What does it take to strengthen the financial capabilities of community businesses?

Online support is cost effective, accessible, and scalable. This is particularly helpful for time-poor CBs who may need access to quick guidance or templates. Some specific reflections on where it works well for increasing financial capabilities include:

- When the resources are communicated or marketed well, so that organisations who need it know where to find it
- Where standalone resources are provided, it is important that surrounding support is available to ensure CBs can use the tools appropriately (i.e. helpline, business advisor and/or accountant support)
- In raising awareness of the benefits of something by addressing the common questions or barriers through case studies or lived experience. For example, raising awareness of the benefits of cloud-based accounting systems for different CBs
- When it involves interactive elements, including Q&A sessions and live demos on how to do things. This is particularly the case for more complex subject matter, as it enables CBs to actively engage and test the learning in their own context.

Post-programme support

Strengthening financial capabilities is a journey, and it is important that post-programme support is available to community businesses as they develop. This could include:

- Follow-ups/check-ins after a period (i.e. 6 months) to support CBs with specific challenges, and refer/signpost organisations to further resources and support
- Setting up a sector-specific repository of resources that CBs can continue to access and use, including tools/templates, short training videos on specific topics, and interactive elements like Q&A forums and helplines
- Continue supporting platforms or spaces for peer learning, including events, an open database of CB contact details, and facilitate CBs to learn together and from each other.

Since many CBs depend on their accountants to produce their annual accounts and set up their bookkeeping systems, future programmes should consider the critical role accountants play in the long-term strengthening of CBs' financial capabilities. This could include involving accountants in parts of the programme so that both CBs and their accountants are aligned with how things can become more fit for purpose, and developing the accountant's understanding of the sector.

What does it take to strengthen the financial capabilities of community businesses?

5.2 Involving and strengthening the wider sector

Locality's project aimed to engage wider sector stakeholders to explore and address the gaps in the system, and determine a more sustainable solution to strengthen the financial capabilities of CBs at scale. With fintech providers, Locality scoped and agreed an MoU to develop specific resources and tailored products more suitable to CBs, whereas with accountants, Locality aimed to understand their perspective on sector gaps. This section outlines the learnings from their interaction with system stakeholders.

What has been learnt?

From Locality's experience engaging with fintech providers for the first time, the following learnings can be drawn:

First build their understanding of the sector and align objectives: initially Locality hoped to build a relationship with fintech providers through collaboratively developing resources and products for the sector. However, Locality learned that in the initial stages of the collaboration, it was necessary to first explain how different sectors work and build their understanding, and help them see how their potential role/contribution in the future. This then helped ensure their strong alignment and commitment to the project

Understanding and managing expectations of how each partner works, and what partners could do: although an original vision of the collaboration was proposed, regular and transparent communication was important to establish an understanding of how each other's organisation worked, the time it takes, and what could be within or outside their scope (i.e. for example, the scope for tailoring existing fintech products rather than necessarily developing a bespoke product for the sector)

It was important to have the right contacts in the organisation, but also ensure alignment is sufficiently spread across the organisation: while it is important that the project sits with people who can lead and deliver the project in the partner organisation, it is equally important that even with staff changes, the project and relationship continues beyond the individual. The MOU, and the effort Locality put in to develop the fintech provider's understanding, align objectives, and build rapport were key factors to enabling this.

6. CONCLUSION AND RECOMMENDATIONS



Both pilots have used different approaches to develop the financial capabilities of different community businesses in the UK. CBs have altogether benefitted from both approaches, and have completed the projects feeling more confident and able to manage, interpret, and communicate their financial situation.

Some questions and gaps remain – this includes:

- Checking in with CBs 6 months after the projects to consider the sustainable impact and continued challenges CBs may face after the projects have ended
- Exploring further what it takes to upskill board-level individuals and help them use financial information for decision-making
- Understanding what it takes to continue incentivising organisations to invest in their financial management, especially where it requires a departure from their current ways of working and may involve ‘new’ technologies
- Exploring the role wider stakeholders can play in addressing the gaps in the sector and developing a more supportive ecosystem for CBs’ financial capabilities.

The experience from both pilot projects have produced a lot of learning, and suggest that there is a critical role for funders in this space to strengthen the financial capabilities of community businesses. Firstly, funding or directly supporting CBs to build up their financial capabilities. Key factors and considerations include:

- Ensuring content is relevant to the specific sector, drawing in sector experts where needed
- Enabling peer networking and support, especially matching organisations with similar business/revenue models, sizes, or sector, or matching participants with similar roles
- Consider the balance / where it’s appropriate for in-person or online activities, and one to one or group sessions, understanding that although in person or one to one sessions could be resource intensive, it is needed to help organisations apply financial management skills/systems to their specific contexts
- Communicating expectations and ensuring that information is also presented at the right level/accessible, considering the different starting points and roles of participants

What does it take to strengthen the financial capabilities of community businesses?

- Providing core and flexible funding to organisations to access specialist sector support, finance their participation in their programme, and/or transition to other systems
- Consider the role of accountants in programmes to enable long-term strengthening of CB participants and further upskill professionals in the space
- Ensure post-programme support and signposting is available to ensure continuity and sustainability of CBs' journey in improving their financial management.

Secondly, involving system stakeholders to ensure the wider ecosystem is strengthened to enable CBs to flourish in the long term. Some key opportunities include:

- **Accountants:** future programmes could involve sector accountants in designing projects and sector resources, involve CB's accountants in the programme to help develop their understanding of the sector, or consider specific programmes targeted at raising awareness and understanding of the sector for accountants
- **Professional bodies, regulatory bodies, commissioners and policy makers:** influencing these stakeholders will be key to strengthening the wider sector at scale. This could include raising their awareness of the market opportunity and the needs of sector and providing guidance and sharing learning to influence policies to ensure the right incentives, resources, and infrastructure are in place

- **Fintech and accounting service providers:** partnering and collaborating with Fintech software providers to offer sector specific resources and tailoring. Future programmes will need to consider how to appropriately incentivise and involve providers to encourage greater ownership and buy-in to the project.
- **Intermediary networks and organisations:** More could be done to strengthen intermediary networks and organisations, either by helping them deliver more suitable support around financial capabilities, or to connect them with other providers so that they can signpost CBs accordingly when they need support.

In order to engage and influence system stakeholders, there is a critical opportunity and need for funders to also raise awareness and create a shared language around strengthening financial capabilities. Reflections from both pilots highlight that CBs, intermediary organisations, government bodies and even other funders, do not have a common understanding of what financial capabilities entail and its importance. The four opportunities highlighted by Power to Change's previous research, and the learnings from both pilots, could be a basis for bringing different system stakeholders around a common understanding and shared goal, and providing coordinated support in this area to community businesses.



Power to Change

The Clarence Centre
6 St George's Circus
London SE1 6FE

020 3857 7270

info@powertochange.org.uk
powertochange.org.uk
🐦 @peoplesbiz

Registered charity no.
1159982

Renaisi

Unit 1.2, 224-254
Cambridge Heath Road,
London, England, E2 9DA

020 7033 2600

info@renaisi.com
renaisi.com
🐦 @renaisi

