power to change

Financing the future economy: How community businesses can access the right finance to achieve their ambitions

Jessica Craig
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About Power to Change

We back community business from the ground up. We turn bold ideas into action so communities have the power to change what matters to them.

We know community business works to build stronger communities and better places to live. We've seen people create resilient and prosperous local economies when power is in community hands. We also know the barriers that stand in the way of their success.

We're using our experience to bring partners together to do, test, and learn what works. We're shaping the conditions for community business to thrive.

About this paper

This report is part of Power to Change's work on ***financing the future economy***. Community businesses are vital to building a fairer economy that works for people and place. We know that when there is affordable, flexible and accessible finance available, community businesses can thrive. They are leading a movement to strengthen their communities and build local economic prosperity - beginning with action in their neighbourhoods and resulting in national change. This is the economy of the future.

The paper brings together our learning on the challenges community businesses face in accessing the right types of finance, at the right time, to sustain and grow their businesses. It highlights some of the key sources of finance and funding for community business and their respective benefits and challenges, and details how the current local and national policy context has informed the finance picture for community business to date. It also makes recommendations to funders, social investors and government – at the local, regional and national level – on how to unlock finance to help community businesses to start up, grow and thrive.

Through this report and further work to follow, Power to Change is listening to and amplifying the voices of community businesses in order to raise awareness of the challenges they face in accessing sufficiently affordable, flexible and accessible finance. We will work with others to test and grow innovative forms of finance, and advocate to unlock more and better finance for community business - working with our partners who fund and invest in communities, and with government at all levels.

Acknowledgements

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Foreword

Community business is the most local form of business, operating closest to people's everyday lives and keeping wealth in the local economy. Together with the wider social economy, community businesses are making a unique contribution to the UK economy and tackling some of society's biggest challenges through a local lens.

This report provides a comprehensive review of what Power to Change has learned about the range of finance available to community business, and the various roles these forms of finance play for the sector.

Ultimately, this is a story of untapped potential. We know the huge contribution community business already makes to our society and economy. This report shows that there are still significant barriers preventing community businesses from accessing the right forms of finance to support their ambitions, at the right time for them.

Since 2015, Power to Change has put significant funding into the community business sector, providing different forms of finance at different stages of the business life cycle to support different needs and goals. This has included funding and support for starting up and scaling up trading activity; supporting communities through Covid-19 and the cost-of-living crisis; and for purchasing assets.

As we reassert our commitment to backing community business, this paper demonstrates the role we want to play in practice. We're using our experience to bring partners together to do, test, and learn what works. Our research is rich with evidence and insight from our experience shaping the community business market. It provides an honest account of our successes in this role as well as the mistakes we have learned from. It seeks to openly share that learning in order to inform future interventions so they can best support community business.

We have done so much in our short life, investing in community businesses in all manner of ways; but we have not always stepped back to look at the wider funding landscape beyond our own interventions. This report does that.

I am pleased that we are sharing our findings, and hope this will help others who understand the importance of community business to improve their offer to the sector. To that end we have included recommendations to funders and social investors on how they can improve their financial products, and to government at all levels on the policy changes they can make to improve access to finance for community business. What is also apparent from this research is the complexity of the picture, with community businesses financing their ambitions through a mosaic of different sources of finance, and having to overcome multiple hurdles that do not exist for the traditional business community. It cannot be right that Hastings Commons – a community business leading the regeneration of its local town centre – has had to secure funding from nearly 100 separate grant, loan, and social investment awards to bring much-loved buildings back to life.

Through grit and determination community businesses have overcome these barriers, but it shouldn't be this way. This playing field needs levelling.

We look forward, through our work on Financing the Future Economy, to collaborating with partners to turn these recommendations into reality so that community business has access to the right finance at the right time. Together we will harness this untapped potential and ensure community businesses play an even bigger role in our social and economic life.

Tim Davies-Pugh, CEO, Power to Change

Executive summary

This report draws on what Power to Change has learned from funding, supporting and advocating for community business since 2015 to provide an overview of the finance and funding landscape for community business. It points to the challenges community businesses face in accessing the right type of finance at the right time to achieve their ambitions. It highlights the range and complexity of the sources of finance used by community businesses to start up, grow and sustain their businesses, and the relative challenges and opportunities that these present. It also situates access to finance within the wider policy context and provides recommendations on how funders, investors and government at all levels can unlock finance for this vital sector to create a fairer and more sustainable economy.

Accessing finance is a major challenge for community business

Community businesses in England have a total annual income of just under £1 billion and typically operate a hybrid business model to finance the development and delivery of services and facilities. Grants plus commercial and trading income are the two largest sources of finance for community businesses, but beyond these income is derived from many different sources, thus forming a complex patchwork of funding.

As in the rest of the economy, the Covid-19 pandemic and the cost of living crisis have had a significant impact on community business income, while also raising operating costs and increasing demands for their services. This has knocked the financial confidence of community businesses, and accessing the right finance at the right time to support their ambitions is a major concern. In 2022, three in five (61%) community businesses said they wanted support to find and access sources of funding, and most ranked this as being the most important form of support that they needed.[1] These concerns are mirrored in the wider social enterprise sector. In 2021, less than half (44%) of social enterprises felt that the amount of external finance (such as from grants and loans) available to their organisation was sufficient. Newer organisations (established in the past three years) and those based outside London were even less likely to feel that the external finance available to them was sufficient.[2]

The ability to access the right forms of funding and financial support at the right time is a crucial part of the development of any business, and community businesses have readily identified funding as a key component of confidence and future business growth. For all community businesses, having a financially sustainable footing influences their confidence about the future, as well as their ability to withstand successive external challenges while continuing to strengthen their communities.[3]

1 CFE Research and Power to Change (2022). *Community Business Market Report 2022.* Available at: www.powertochange.org.uk/market-reports/market-report-2022/.

2 Darko, E. (2021). *No Going Back: State of Social Enterprise Survey 2021*, Social Enterprise UK. Available at: https://www.socialenterprise.org.uk/seuk-report/no-going-back-state-of-social-enterprise-survey-2021/.

3 CFE Research and Power to Change, *Community Business Market Report 2022.*

As this report demonstrates, the community business market is a diverse one, populated by many different types of enterprising organisations delivering social and economic impact for their local communities. This diversity often impacts how community businesses experience challenges around access to finance, with sector type and legal form being among the many factors influencing the modes of funding most readily available to them. This report also tells the story of a broader challenge among social purpose organisations: to have both their social value and economic potential recognised by those who fund them and those who create the policy environment in which they operate. Many of the challenges for community businesses highlighted in this report are also true for other types of trading grassroots community organisations and social enterprises. As such, the recommendations made here can also help create an enabling environment for the wider future economy – supporting those organisations that trade for purpose, not profit, to create a fairer and more sustainable economy.

The finance landscape is varied and complex, and each form of finance comes with its own challenges and opportunities

Community businesses spend a significant amount of time and resources on exploring different types of finance, understanding what is offered, and weighing up their relative merits. Different types of finance enable different activities, with some types best suited to capital purchases (such as buying an asset) or revenue expenditure (such as paying staff), while others offer community businesses more flexibility in how they spend to benefit their business. These factors also influence the impact and duration of a particular source of income on community business finance, from short to long term.

A range of different income sources, enabling communities to access the right type of finance at the right time, is necessary to the growth and development of community businesses. This report explores some of the major sources of finance available to community businesses, what they enable, and the challenges faced in accessing them.

Grants

There is a broad and sizeable landscape of grant funding available to community businesses. These range from small grants of £1,000 to multi-million-pound capital grants, and with varying terms and conditions of use set by grant funders. Community businesses receive grants from a range of sources, including trusts and foundations, National Lottery funds, and from central and local government. While grant funding is one of the most low-risk forms of finance, and is essential to community business development in the start-up period and at key stages of growth, it can also be challenging to navigate the complex grant funding landscape and the language and requirements involved. Securing grant funding may also be difficult due to high competition. Additionally, restrictions on grant use may be set by funders, and this lack of flexibility may prevent grants from being used to support the growth of revenue streams.

Enterprise grants

Innovations in enterprise grantmaking are helping to address the risk of grant dependency by using funding conditions and incentives to encourage organisations to build their capacity to earn income from trading. Enterprise grants help to create an entrepreneurial mindset and encourage financial sustainability among community businesses. They are often delivered alongside a cohort-based capacity-building programme, which increases the up-front cost of delivering enterprise grants for funders; however, evidence from enterprise grant programmes suggests that this combined funding plus support approach enhances organisational survivability and skills development.

Trading income

One of the key features of community businesses, when compared to many charities and other third-sector organisations, is that they are trading organisations and earn income from undertaking trading and commercial contracts across a range of activities, such as public-facing support services, operating venues, retail and hospitality, and arts and culture.[4] The income generated by these activities can be used flexibly to cover costs such as staff, rent and utilities, with any surplus used for reserves or repaying investors. As such, generating trading income is often a core activity of community business. However, it can take time to establish trading activity and increase revenue, and trading income can be vulnerable to external forces which increase costs and limit demand for goods and services.

Social investment

The UK social investment market is now valued at over £9.4 billion and provides repayable finance to help organisations achieve a social purpose. Community businesses have utilised loan finance and shares (particularly community shares) to purchase assets and build their income streams, enhancing their capacity to increase revenue and, in turn, repay their investors. However, there are well-documented barriers for community businesses in accessing social investment. The cost and short-term nature of loan finance remain significant challenges for many community businesses, who often operate in areas of high deprivation and at low margins. In addition there are non-financial barriers to social investment, such as the inaccessibility of the language around investment (which initiatives such as Good Finance have sought to address), and aversion to debt among smaller organisations.

Grant funding has been made available to help organisations achieve 'investment readiness' (such as the Reach Fund), while the terms of social investment can be softened to help organisations build their capacity to take on repayable finance.

Blended finance

Blended finance products combine social investment and grant funding to offer a mix of repayable and non-repayable finance. The aim of the grant element is to facilitate lending by subsidising costs or reducing the amount to be borrowed, and to leverage in investment capital by improving risk and return expectations. Blended finance can make social investment more accessible and less risky for community businesses, as well as reduce the perceived risk to investors of investing in organisations without a track record of repaying finance. Blended finance has supported a wide range of sectors and beneficiaries, and increased capital to smaller organisations and in lower socio-economic areas of England, resulting in more impact in these places. However,

4 CFE Research and Power to Change, *Community Business Market Report 2022.*

setting up blended funds requires the convening of social investors and funders (often more than one of each) and reaching a common set of strategic goals across all of these partners may be challenging, as each will likely have their own objectives to fulfil as part of the partnership.

Community shares

Community shares are a form of withdrawable, non-transferable equity investment particular to co-operatives and community benefit societies. They enable the local community to have a direct stake in a community business for a small amount of investment, and represent a form of affordable, patient capital, as shareholders prioritise the preservation of the community business and its assets over achieving a return on their investment. Community shares can leverage in additional finance for community businesses, often helping to attract more traditional grants and loans, and are being used to match-fund grants through the government's Community Ownership Fund.

Creating a community share offer may require specialist advice and technical support, and community businesses may benefit from grant funding during this period, such as from the Community Shares Booster Fund.

Private and commercial borrowing

Like other business types, community businesses can approach commercial lenders, such as mainstream high street banks, for secured or unsecured loans. Private and commercial borrowing can be more suitable for large asset-based purchases, or mortgages on property where the loan is secured. Borrowing from high street banks may appear to offer better interest rates than social investment; however, the risk calculations of commercial lenders are less likely to take account of the social value of community businesses. It can be difficult to secure a commercial loan without a history of earned income, meaning that this may not be suitable for organisations seeking funding to develop their revenue streams from trading.

There are many other sources of finance that community businesses access, ranging from the use of reserves, to crowdfunding, or borrowing from family and friends. While less is known about the take-up of other forms of finance, these can nonetheless be important sources of funds at crucial milestones in the development of a community business.

Other factors impacting on community businesses' access to finance

Asset purchase

The type of activity that community businesses are seeking to finance can also impact on the availability of that finance. Community assets can be essential to community businesses' service delivery capacity and their financial sustainability. Community businesses in England currently own fixed assets worth an estimated £744 million, and these are key to generating trading income. They also provide social infrastructure, create a sense of pride in place, and contribute to the local economy. Therefore, the financing of asset acquisition and development is an important aspect of the overall picture. A quarter of assets come into community ownership through a community asset transfer, while an additional 24% are donated at no cost or peppercorn rent.[5] However, community businesses still need to source finance to set up, manage and maintain their assets in order to be able to generate an income stream from them. Asset purchase can be funded in different ways, including grants, social investment and blended funds, commercial loans or community shares.

But community businesses often struggle to access capital at a scale and pace to compete with private investors. They may lack the skills needed to navigate the commercial property market, and may be prevented from unlocking vacant and underutilised property for community benefit due to the opaque nature of property ownership.[6] These are challenges that Power to Change has sought to address in its history as a funder, as well as through ongoing advocacy for the extension of the Community Ownership Fund and introduction of a British High Street Investment Vehicle.

Among more mature community businesses there exists a growing network of asset-developing community businesses who are activating and stewarding land and buildings in their neighbourhoods. The funding required to enable this type of transformative work differs significantly from the finance required for early-stage and developing community businesses, and the more established community businesses involved are working to unlock sufficiently large-scale and long-term investment that is aligned to the needs of more mature asset-owning community businesses, to grow and sustain their neighbourhood-wide impact.

Changes across the life cycle of community businesses

The need for finance varies at the different stages of development in the life cycle of a community business. Requirements in the very early stages, when local people first become aware of the need for a community business, are very different to those of a more mature organisation that has reached the point of scaling up. At the very earliest or pre-venture stage, businesses may not be eligible for finance until they begin trading. Micro, flexible and small-scale grants can be effective as a community business starts up, helping to pay for the external expertise needed to establish and develop its business model, as well as in starting to generate revenue.

Beyond these two initial stages, and whilst trading is still in its infancy, access to the right kind of finance to enable growth can become a major challenge. Community businesses at the growth stage struggle to increase revenue and they need flexibility to adjust their plans and develop ideas. When a community business reaches a sustainable position, having finance to buy capital equipment or to sustain core activity for long enough to develop areas of their business can help them to scale up, but funding at this stage remains insufficient and too short-term in nature.

Access to the right forms of finance to achieve their ambitions throughout their life cycle is vital to ensuring community businesses can grow, scale and sustain their impact for their local community, over the long term.

5 CFE Research and Power to Change, *Community Business Market Report 2022.*

6 Plumb, N. (2022). *Why now is the time for a High Street Buyout Fund*, Power to Change. Available at: https://www.powertochange.org.uk/news/why-now-is-the-time-for-a-high-street-buyout-fund/#.

Challenges for marginalised community businesses

Persistent underinvestment in community businesses led by and supporting people experiencing marginalisation, combined with the impact of austerity measures and increased demand on overstretched services, has left many community businesses struggling with financial sustainability.[7] The challenges in accessing finance for marginalised community businesses might range from eligibility requirements around their legal model and governance structure, having to demonstrate a 'track record' of delivery, or the complex application forms and inaccessible language used by funders.

The policy picture

Government, at all levels, has an important role to play in shaping the conditions in which community business can access the right funding at the right time to achieve their ambitions. As the impact of austerity continues to worsen the financial position of local authorities, the role of a strong community business sector in meeting local needs has become ever more important. But beyond filling service gaps, investing in the community business sector gives people a greater voice in what happens in their local area, and local and regional authorities are recognising the potential of community business to sustainably deliver local economic development by keeping the opportunities, assets and wealth they create in the hands of local people.

Throughout much of the 2010s, central government interventions were focused on unlocking finance for community business by incentivising social investment, but since 2019 levelling up-related funding pots have seen capital flow directly and indirectly (via local and combined authorities) to community business. Added to this, recent high streets policy initiatives have recognised the role for communities as partners in developing and delivering on local visions for growth. With an election approaching, the Labour Party has also begun to set out its approach to financing the sector. Labour's emerging industrial strategy demonstrates the critical role for community businesses and social enterprises in delivering the party's mission, while its commitment to delivering clean power will not be achieved without significant investment in community-owned energy.

The need to finance and support community business is clearly integral to the achievement of both major parties' political agendas, and to creating the more inclusive and sustainable local economies that many local authorities strive to build. But despite these positive signs of recognition, community businesses are often overlooked as economic actors and they are not backed in the same way as traditional businesses, with subsidies and support to attract further investment.

7 Sparks Insight and Locality (2023). *Exploring Barriers to Funding and Support Experienced by Marginalised Community Businesses Insights: Solutions and recommendations for funding and infrastructure organisations*, Power to Change. Available at: https://www.powertochange.org.uk/research/exploring-barriers-to-funding-and-support-experienced-by-marginalised-community-businesses/.

Policy recommendations

Community businesses need access to a range of different sources of finance to meet their needs at different stages of development and to support different activities (such as asset ownership, or income diversification). Accessing the right forms of finance at the right time is essential to their ability to deliver for their communities, sustainably and for the long term.

Recommendations for funders and social investors

Funders and social investors can play a key role in enabling access to finance for more community businesses by addressing the challenges and barriers outlined here, working to create a more accessible and affordable finance landscape, and supporting community businesses to diversify their income streams.

Funders and social investors should:

1 **Ensure grant funding supports community businesses to diversify their income streams and reduce grant dependency.**

Grant funding should support community businesses who want to develop and diversify their income streams and increase the resilience of their business models. Funders should harness innovative approaches, such as enterprise grantmaking, to help more community businesses to earn income from trading and to foster long-term resilience. They should also provide funding and support to enable community businesses to access social investment, such as through blended finance, or investment from the local community through community shares.

2 **Enable greater equity in access to funding, and fund flexibly to help community businesses meet their needs.**

Funders can take practical steps to reduce the complexity of their language and application processes: using plain English and avoiding jargon, shortening application processes, limiting questions and documentation required, and providing application support to prospective grantees. All of these steps could help to reduce the time and resource burden faced by community businesses and empower organisations that are typically underrepresented to access funding.

Funders should also be driven by the needs of the sector rather than their own priorities and should fund as flexibly as possible. Unrestricted funding shows that funders trust community businesses to know where the greatest need is, within their business and their local community, and how to respond to it.

3 Provide affordable, transparent and long-term investment that works for community business.

Social investors should offer affordable, transparent and long-term investment that matches the ambitions of community businesses and their current realities. This includes ensuring interest rates offered on social investment are genuinely affordable, and using products such as blended finance or small grants to support 'investment readiness'. Such mechanisms help community businesses to build the capabilities, financial resources and confidence to begin taking on repayable capital. Social investors should also consider how adopting innovative approaches that recognise the 'double dividend' of community businesses and social enterprises (their combined social and economic value) could increase take-up of social investment – such as Kindred's approach to enabling partial repayment of small, early-stage loans in social return.

To achieve this, social investors will in turn require access to sufficiently large-scale and long-term concessionary finance that enables them to fund patiently, flexibly and affordably. Dormant assets funding is supporting the growth of the blended finance market, but more work is needed to unlock concessionary capital, by government and beyond.

Recommendations for government

Government, at all levels, also has a role to play in unlocking access to finance for community businesses. Central government should continue to support community business through public funding tailored to local communities, such as the Community Ownership Fund, as well as by unlocking other sources of finance to be administered to communities, for example through the dormant assets scheme. Government should also make better use of public funding to leverage in greater private investment in community businesses and the social economy through tax incentives. Local and regional government can also support community businesses through their efforts to build fairer and more prosperous local economies. They should also take advantage of the opportunity of devolution to pass on place-based investment (for example, from levelling up funds) to the accountable and impactful community-led organisations who can build stronger communities and better places.

The next government should:

1 Adopt a cross-governmental strategy for the social economy.

The next government should adopt a social economy strategy to fundamentally reshape the approach to growing and developing this high-potential sector of the UK economy. A role within the Cabinet Office with responsibility for coordinating cross-governmental commitment to resource, empower and grow the social economy would finally give community businesses and social enterprises the policy attention and coherence that they deserve, and which is required to meet the challenges they are facing.

2 Introduce a successor to Social Investment Tax Relief.

To help community businesses to thrive, the next government should work with the social enterprise sector and social investors to test and develop new incentives to investment in the social economy, including a successor to Social Investment Tax Relief (SITR). A successor scheme should learn from and address the challenges of SITR, including by reducing the burden of accessing tax relief, and by expanding eligibility to include a wider range of legal models and venture types (including community-led housing and community energy).

3 Use dormant assets to provide long-term, flexible investment in community business.

As funding which sits outside of the usual constraints of Treasury fiscal rules, dormant assets funding can be a valuable source of capital to meet the need for flexible, long-term investment in community business. The quantum of funds must reflect the scale of their ambition, and Government should continue to make the case to financial institutions for dormant assets to provide patient and flexible capital, and continue to expand the scheme.

4 Unlock more private and institutional investment in community business.

Government should also explore how it could unlock more institutional capital for organisations that typically struggle to access finance through Community Development Financial Institutions. This could include pension fund reform or unlocking more investment from commercial banks through reforms akin to the US Community Reinvestment Act.

5 Continue to fund and support community asset ownership.

The next government should facilitate more community asset ownership by committing to the continuation of the Community Ownership Fund in the next Parliament, including through the ringfencing of any underspend of the current fund for community ownership activity.

Local and combined authorities should:

1 Empower community businesses and other social purpose businesses as part of an inclusive growth approach.

Community business has an important role to play in creating fairer, more inclusive local economies. Committing to an inclusive growth approach to local economic development is an important first step for local and combined authorities in establishing partnerships and embedding a commitment to nurture the growth of community businesses and other organisations in the local social economy.

2 Use the opportunities of devolution to formalise support for community business and unlock access to funding for the social economy.

Local and combined authorities should ensure a cabinet or strategic board member has explicit responsibility for growing and supporting the social economy, thus providing opportunities for accountability and sustained partnership working between local government and the sector. These commitments should be reflected and resourced as part of any devolution deals and financial settlements with central government.

3 Act as a convenor in place and leverage additional investment in community business, community-owned assets, and the local social economy.

Local and combined authorities should also act as convenors in their place, leveraging their own investment in the sector to incentivise other local organisations, funders and investors to provide access to finance for community businesses in their locality.

Introduction

Across England, over 11,000 community businesses are delivering vital services, strengthening communities, generating wealth that stays in their local area, and taking ownership of spaces that matter to local people. To do this, community business needs access to the right finance at the right time for them. Accessing appropriate types of finance to sustain and grow their activities is a key concern for community businesses. Many face challenges in navigating the complex funding landscape and identifying and accessing the right types of finance to support their specific business model and needs.

Since 2015, Power to Change has worked closely with community businesses by providing funding, testing ideas, and evidencing the power of community business to effect positive economic and social change in their place. We understand how finance acts as a key enabler – and its absence a barrier – to their growth and success. We have worked alongside partners to develop innovative ways to fund the growth and development of community businesses, such as blended finance, Match Trading™ [8] and incubating Kindred – the social investment and support vehicle for Liverpool City Region. We have also been making the case to Government for community businesses to be recognised as recipients of funds like the Community Ownership Fund and Dormant Assets scheme. And we have confronted challenges in our own practice to unlock greater access to funding and support for community businesses that are led by and delivering for minoritised communities and those working in areas of highest deprivation.

We have gathered the evidence that community business works (as Figure 1 demonstrates). As a result, community businesses have been recognised and supported by funders and government so that communities can utilise their power, contribute to an economy that works for people and planet, and remain resilient when faced with challenges. However, as this report sets out, many barriers stand in the way of community business achieving its full potential.

IN NUMBERS...

48%
of community businesses operate in the...

30%
most disadvantaged areas in England.

86%
of paid staff live locally.

56p
of every £1 spent stays in the local economy.

8 Developed by the School for Social Entrepreneurs.

Figure 1: Contribution made by community business

Community businesses operate in areas that have often been forgotten and where markets are broken. Forty-eight per cent of community businesses operate in the 30% most disadvantaged areas in England.[9]

Community businesses employ and are accountable to local people. Eighty-six per cent of paid staff live locally, and community businesses disproportionately employ more people with long-standing physical or mental illness or disability, people with caring responsibilities, and people who have experienced unemployment.

Community businesses generate and keep wealth in the local economy. Community–owned spaces contribute £220 million to the UK economy and 56p of every £1 they spend stays in the local economy, compared to just 40p for larger private sector firms.[10]

Community businesses improve the physical fabric of their area through owning assets that are accessible to the local community. Fifty-six per cent of community businesses own or manage at least one fixed asset. On the high street, community businesses also act as 'destination spaces' that drive footfall to other businesses and help to reduce vacancy rates.

They are also tackling some of society's biggest challenges at a local level. Seven in 10 community businesses contribute to tackling climate change while three quarters have a positive impact on tackling inequality.

Plus, in areas with a high concentration of community businesses, they have been proven to generate positive impacts for local people on issues such as health and wellbeing, satisfaction with local services and amenities, and community pride and empowerment. These impacts have been felt even by residents who haven't engaged directly with community businesses.[11]

We are proud of the legacy of Power to Change's funding and support programmes. Analysis suggests that between 2015 and 2023, £44.7 million of Power to Change's spend has contributed to bringing in an additional £209 million to the community business sector in the form of co-funding and leveraged finance.[12]

As Power to Change evolves beyond its role as a funder of community business, our renewed purpose is to shape the conditions for community business to thrive. We will do this by collaborating with partners to dismantle barriers, unlock funding and support, and amplify the innovative ways in which community businesses deliver for their communities. We believe it's vital for those backing community businesses to

9 CFE Research and Power to Change, *Community Business Market Report 2022.*

10 Harries, R., and Miller, S. (2021). *Community Business: The power on your doorstep.* Available at: https://www.powertochange.org.uk/wp-content/uploads/2021/03/Power-on-your-doorstep-Full-Report_FINAL.pdf.

11 Nelson, C., and Dufour, R. (2023). *Community Life Survey Hyperlocal Booster Report: Estimating the impact of community business at the neighbourhood level*, Power to Change. Available at: https://www.powertochange.org.uk/wp-content/uploads/2023/11/Community-Life-Survey-Hyperlocal-Booster-Report.pdf.

12 Unpublished analysis by Power to Change. This takes the form of matched and pooled funding, crowdfunding, government funding, community shares, loans and mortgages, additional grants and investments, refinanced debt and social investment.

work with the sector to identify and enable access to the right sources of finance at the right time. This report sets out recommendations on how funders, social investors, and central and local government can work with us to ensure that community businesses can grow and thrive.

Community businesses in England have a total annual income of just under £1 billion, and typically operate a hybrid business model to finance the development and delivery of services and facilities. Grants plus commercial and trading income are the two largest sources of income for community businesses, with 84% of Community Business Market survey respondents in 2022 reporting having obtained some income from grants, and 83% generating some income from trading.[13] Beyond these two key sources of finance, community businesses derive income from a variety of other avenues, forming a complex finance and funding ecosystem. For example, community businesses are accessing external finance in the form of loans from specialist social investors and from banks. They also participate in the growing community shares market to access investment from local people.

As in the rest of the economy, the Covid-19 pandemic had a major impact on community business income. The median income of community businesses fell by 17% over the period from financial year 2020/21 to 2021/22, and trading income was reported to be down by almost half since 2019/2020. This is perceived as having prompted a greater reliance on grant funding, though the growth in reliance on grants may predate the pandemic.[14] The rapid increase in the cost of living has also had a significant impact on the finances of community businesses, creating increased demand for their services while raising operating costs, and affecting the confidence of many community businesses about their financial prospects.

Against the backdrop of these external shocks, access to finance is a major concern for community businesses. In 2021, one in five community businesses were experiencing difficulty accessing financial support, while 17% experienced difficulty accessing appropriate finance.[15] To underline these concerns, in 2022 3 in 5 (61%) of community businesses said that they wanted support to find and access sources of funding, and most ranked this as being the most important form of support that they needed.[16] These concerns are mirrored in the wider social enterprise sector. In 2021, under half (44%) of social enterprises agreed that the amount of external finance available to their organisation (such as from grants and loans) was sufficient. Newer organisations (those established in the past three years), and those based outside London, were even less likely to feel that the external finance available to them was sufficient.[17]

The ability to access the right forms of funding and financial support at the right time is a crucial part of the development of any business, and community businesses

13 CFE Research and Power to Change, *Community Business Market Report 2022.*

14 Community sector funding (such as grants from charitable trusts and foundations) has been considered more important as a principal source of income in a study of community businesses in the North of England, rising from 39% of community businesses citing it as important in 2016 to 45% in 2019. Chapman, T. (2020). *Community Businesses in the North of England 2020: New comparative analysis from the Third Sector Trends study*, p. 8. Available at: https://www.powertochange.org.uk/wp-content/uploads/2020/07/Third-Sector-Trends-Report_Final.pdf.

15 Higton, J., Archer, R., Francis, N., Merrett, D., Milner, C., and Choudhoury, A. (2021). *The Community Business Market in 2021.* Available at: https://www.powertochange.org.uk/wp-content/uploads/2021/12/Community-Business-Market-in-2021-Report.pdf.

16 CFE Research and Power to Change, *Community Business Market Report 2022.*

17 Darko, *No Going Back.*

have readily identified funding as a key component of confidence and future business growth. For all community business, having a financially sustainable footing influences their confidence about the future and their ability to withstand these successive external challenges, while continuing to strengthen their communities.[18]

This report shares lessons from Power to Change's work on funding, supporting and advocating for community businesses – as well as insights from across the wider social economy sector – to identify the main sources of finance which communities draw upon, and the challenges and opportunities entailed with accessing these different sources of finance. It also makes recommendations on how those who believe in the power and potential of community business – including funders, social investors and government – can help to fill the gaps in the current community business finance market, and ensure that patient and flexible funding is available to help community businesses to grow and thrive. We are sharing what we know because we want to work with others to address the financial challenges that community businesses face, so they can continue their vital work.

This report is part of Power to Change's work on ***financing the future economy***. We will continue to shine a spotlight on the challenges community businesses face in accessing the right finance at the right time to meet their ambitions. We will test and highlight examples of innovative practice in unlocking finance, and make the case to funders, investors and government on how investing in community business can build a fairer and more sustainable future economy that works for people and place.

This report lays the groundwork for us to continue exploring the challenges and opportunities in financing community business and we hope that our partners – funders, social investors and all levels of government – will work with us to shape the finance and funding landscape to enable community business to thrive.

Image: Mary Magdalene CIC.

18 CFE Research and Power to Change, *Community Business Market Report 2022.*

Chapter 1: Challenges and opportunities across different types of finance

This chapter explores the range of different types of finance that community businesses engage with, and the relative challenges and opportunities they present (see figure 2 for summary). Community businesses spend a significant amount of time and resources exploring different finance options, understanding what is offered and weighing up their relative merits. As this chapter demonstrates, different types of finance enable different activities, with some best suited to capital purchases (such as buying an asset) or revenue expenditure (such as paying staff), while other types offer community businesses more flexibility in how they spend to benefit their business. These factors also influence the nature and duration of the impact that a source of income can have on community business finance, from shorter to longer term. A range of income sources, enabling communities to access the right type of finance at the right time, is necessary for community businesses to grow and develop.

Image: Myatt's Fields Park.

Figure 2: Summary of the benefits and challenges of different forms of finance

Type of finance	Benefits	Challenges
Grant funding	– Non-repayable funding – Can cover capital and revenue costs – Can be used to enhance capacity to generate income elsewhere – Boosts profile and short-term sustainability	– Requires following funder-set timelines and application processes, instead of having the freedom to explore finance as and when needed – Permitted use of the funds may be set by the funder – Can be short term and prevent long-term planning – Demand often far outstrips supply of grants
Enterprise grants	– Reduces grant dependence – Offers an unrestricted form of funding that community business leaders can use flexibly – Encourages organisation leaders to develop a stable income stream from trading activity	– Typically works best alongside a cohort capacity-building programme, which adds cost but can enhance skills development and survivability – Most suitable when community businesses are looking to develop income from trading
Trading income	– Largely unrestricted in how it can be used – Reduces grant dependence – Supports community businesses to develop long-term sustainability as not dependent on external sources of funding	– It takes time to establish trading income – Vulnerable to external market forces – Goods and services that could increase trading income may not be compatible with local need or affordable to the community
Social investment loans	– Expenditure can be spread over a longer term – Can often be used flexibly – Can enable asset purchases – Can be supplemented by grant or business support	– May be too expensive and short term for community businesses, particularly without established income streams to support repayment – Applying for social finance can be complex, time-consuming and opaque

Type of finance	Benefits	Challenges
Community shares	– A source of affordable and patient capital – Can be used to raise finance in less profitable sectors where loan finance is less viable – Can leverage other types of finance	– May require specialist advice and technical support to develop a share offer
Blended finance	– Can enable community businesses to enhance their capacity to take on social investment – May enable greater social impact than funders or social investors would achieve independently	– Requires convening (often multiple) funders and social investors, who need to be able to agree strategic priorities – Often requires a particular type of investment opportunity, such as asset purchase
Private and commercial borrowing	– Can enable asset purchases – May be more suitable for organisations seeking secured loans	– Can be difficult to secure without a history of earned income – Unsecured loans can be risky and expensive – Commercial lenders have less expertise in understanding the community business sector and are less likely to offer patient finance or account for the social returns they generate

Grants

There is a broad and sizeable landscape of grant funding available to community businesses. Grants can range from as little as £1,000 up to multi-million pound capital grants, and with varying terms and conditions of use set by funders. Community businesses receive grants from a range of sources, including trusts and foundations, National Lottery funds, and from central and local government. While grant funding is one of the most low-risk forms of finance, and is essential to community business development in the start-up period and at key stages of growth, it can also be challenging to navigate the complex grant funding landscape.

Benefits of grant funding

Grants are a major source of non-repayable finance. Community businesses use revenue and capital grants to start and grow their businesses and to sustain operations whilst moving to the next stage of development. Grants can be used to cover start-up costs, capacity-building, feasibility studies (such as proposals to purchase assets or develop new business ideas), revenue costs such as staffing, purchase of assets and equipment, refurbishment, building and redevelopment.[19] They can also be used to maintain operations and 'top up' community businesses' finances when other forms of income are impacted by external forces, as in the case of the grants made available during the Covid-19 pandemic (see Example A).

Grants can also help to raise the profile of a community business and give them more confidence about their sustainability. They may also help create additional capacity to generate income from other sources, such as by strengthening trading activity or resourcing staff time to pursue other grants or borrowing.

Image: Trinity Community Arts, Born to Protest by Khali Ackford.

19 Meghjee, W., Chan, J., Alraie, M., and Pacot, M. (2022). *Community Business Fund: A short summative evaluation report*, Renaisi. Available at: https://eprints.icstudies.org.uk/id/eprint/364/1/CBF%20Evaluation%20summary%20report%20-%20Final.pdf.

Example A: Community Business Fund

The Community Business Fund, which ran from 2016 to 2021, aimed to support established community businesses to progress towards greater self-sufficiency by increasing their trading income, securing an asset, or significantly reducing revenue costs. The package of support available to community businesses entailed a grant between £50,000 and £300,000 as revenue or capital funding, or a blend of both.

The evaluation of the Community Business Fund found that a combination of revenue and capital grants had increased the value of capital assets and/or increased trading activity among grantees. Furthermore it showed that the availability of capital grants had provided access to finance which was difficult to find from other sources.[20]

Challenges of grant funding

While grant funding provides a welcome boost to the finances of community businesses and can be particularly important to their survival through uncertain times, there are many challenges associated with accessing and utilising it. Many grants are short-term in nature, thus preventing longer-term planning. Grants often have stringent eligibility criteria or are allocated for specific uses as determined by funders, which may prevent community businesses from using them flexibly to address their most pressing financial needs. The process of applying for grants can also be complex and overly burdensome, and many community businesses report that they lack the time and expertise to research and apply for funding, particularly among those who depend on volunteer capacity and may not possess specialised fundraising skills. Organisations led by minoritised communities may find it particularly challenging to access grant funding due to the complex application processes and language used by funders, as detailed further in Chapter 2.

Applying for grant funding is often highly competitive, and community businesses may expend significant time and energy on grant applications without any guarantee of success. Two-step processes which use an expression of interest can provide a light-touch mechanism to identify those projects with the best chance of success, while expert support resourced by the funder at the pre-application stage can, where available, help to ensure community businesses submit strong applications and increase their chances of success.

An over-dependence on grants as a primary source of income can also be problematic. It can lead to mission drift, as grantees prioritise objectives determined by funders over their own ambitions, and ongoing projects can become vulnerable if the funding they rely upon ends, or funders' objectives change.[21] That said, grants are a vital source of finance for community businesses when starting up, or to advance at different stages

20 Meghjee, Chan, Alraie, and Pacot, *Community Business Fund: A short summative evaluation report.*

21 Power to Change, The School for Social Entrepreneurs and Renaisi (2020). *Trading Up: Match Trading® for Community Businesses as a powerful incentive for regeneration post-COVID*, p. 6. Available at: https://eprints.icstudies.org.uk/id/eprint/184/1/ER-2020-10-Trading%20Up%20-%20Match%20Trading%20for%20Community%20Businesses%20as%20a%20powerful%20incentive%20for%20regeneration%20post-COVID.pdf.

of their development. Grants enable them to take on and test new activities and remain resilient in the face of external challenges – comparable to the provision of subsidies for private sector business development. As such, the onus is on grantmakers and funders to ensure that the requirements to obtain much-needed grant funding do not overtake community businesses' core purpose and regular activities. They can do this by funding flexibly and enabling grantees to shape the outcomes from the funding wherever possible.

Enterprise grants

The risk of 'grant dependency' in the social economy sector has led to innovations in enterprise grantmaking. This is a relatively new approach to funding which 'encourages and supports charities and social enterprises to increase or maintain their income from enterprise activities, including selling services or goods…largely through using funding conditions and/or incentives to encourage enterprising behaviour…'.[22] This is often accompanied by capacity-building support to enable organisations to gain supplementary skills in business development, networking, leadership management and financial literacy, and to increase their resilience and grow their social impact.

A 2023 report on behalf of the Enterprise Grants Taskforce found that there are a small number of current funds clearly identifiable as enterprise grantmaking, totalling around £2.6 million (from School for Social Entrepreneurs' Match Trading, Access's Enterprise Development Programme, and UnLtd's Grow It fund).[23] This could be set to grow in coming years, with a recent partnership between The Dulverton Trust, Power to Change and The National Lottery Community Fund injecting a further £700,000 into the sector in 2024. However, beyond this there are numerous examples of national funds – amounting to a further £22 million – with a clear enterprise focus, as well as regional and local funds responding to specific enterprise needs. There is significant potential and demand for both of these types of funding to increase.

Benefits of enterprise grants

Match Trading, created by the School for Social Entrepreneurs (SSE), is one innovation in enterprise grantmaking. Match Trading grants match increases in income from trading pound-for-pound, thereby incentivising trading activity and sustainable revenue. An evaluation of the Power to Change Trade-Up programme, which is a five-year, £6.5 million support programme aimed at strengthening community businesses, showed that Match Trading grants increased income from trading as a proportion of total revenue, noting a 9.5% shift in 'trading ratio' credited to the Match Trading mechanism in the programme.[24] As such, enterprise grants help to reduce grant dependency, create an entrepreneurial mindset and encourage financial sustainability among community businesses. SSE's analysis of Match Trading grants found that

22 Social Spider (2023). *Enterprise Grants Taskforce: Defining, scoping and scaling the size of the enterprise grants sector in the UK*, p. 5. Available at: https://drive.google.com/file/d/1f2dCYQqvYn6GG0dMPXWaRUf2vg2OBCMi/view.

23 *Ibid.*, p. 6.

24 Power to Change, The School for Social Entrepreneurs and Renaisi, *Trading Up*, p. 4.

they increase trading income by an average of 29% in one year, versus 12% from traditional grants.[25]

Challenges of enterprise grants

Enterprise grants are often delivered alongside a cohort-based capacity-building programme, which increases the up-front cost of delivering enterprise grants for funders. However, evidence from enterprise grant programmes suggests that this support programme enhances organisational survivability and skills development, and may therefore be viewed as a longer-term investment in community business development and sustainability.[26] Nonetheless, funders are continuing to explore ways to make enterprise grants both cost-effective and impactful, such as through the work being spearheaded by the Enterprise Grants Taskforce.[27] It is also important to bear in mind that building income from trading is not always what a community business needs to ensure its financial sustainability – they may need to consolidate their business plan or trading model to consider the best interests of the local community. Some of the challenges of trading income are elaborated below.

Trading income

One of the key features of community businesses when compared with many charities and other third-sector organisations is that they are trading organisations and earn income from undertaking trading and commercial contracts across a range of activities. These can include public-facing support services, operating venues, retail and hospitality, and arts and culture.[28] The income generated by these activities can be used flexibly, as dictated by business need, to cover costs such as staff, rent and utilities, with any surplus used for reserves or repaying investors. Building income from trading is an important route to building long-term sustainability and survivability among community businesses. That said, it may not be possible or desirable to achieve complete self-sufficiency through trading, particularly as community businesses increase the scale of their activities and ambition. Therefore, as in mainstream businesses, trading income is often used alongside investment and subsidy to help community businesses fulfil their ambitions.

Benefits of trading income

A significant benefit of trading income is that it is unrestricted. Community businesses can take decisions locally about how to use these funds to best sustain or grow their operations, without dependence on fundraising and grants. As such, a focus on generating trading income is often part of the core activity of community businesses.

Trading also enables community businesses to innovate in order to address local need, or to cope with challenges such as the Covid-19 pandemic and cost of living

25 Wilson, A., and Norbury, M. (2023). 'We've been providing enterprise grants – and the early results are compelling', Funders Collaborative Hub. Available at: https://www.funderscollaborativehub.org.uk/blogs/we-ve-been-providing-enterprise-grants-and-the-early-results-are-compelling.

26 Data from the Lloyds Bank & Bank of Scotland Social Entrepreneurs Programme (grants funded by The National Lottery Community Fund) 2017 – 2023. Sample size: 435 organisations.

27 For more information, visit: https://www.funderscollaborativehub.org.uk/collaborations/enterprise-grants-taskforce.

28 CFE Research and Power to Change, *Community Business Market Report 2022.*

crisis which have amplified pressure on services. For example, Warwick Bridge Corn Mill community benefit society accelerated its plans to begin producing flour during the Covid-19 lockdowns, in response to an increased demand for flour in the local community and around the UK. This provided a source of income that has enabled the organisation to continue flour production and maintain its plans to establish a bakery on the site, providing jobs for the local community.[29] Whilst trading remains challenging, it enabled this fledging business to navigate through lockdown.

Image: Warwick Bridge Corn Mill community benefit society.

Challenges of trading income

Among the key issues for community businesses is the time and working capital required to establish trading activity. Community businesses can find it challenging to increase revenue and generate funds to re-structure and invest in their business. Trading income can also be unpredictable in the face of external market forces, as seen in the Covid-19 pandemic and through the cost of living crisis, which can both limit the availability of trading income and increase the costs associated with trading (often alongside increases in demand for a community businesses' services).

The challenging market conditions during and since the pandemic have impacted on community businesses' ability to generate income from trading. The overall proportion of such income has been declining since 2016, with those relying most heavily on trading (for 60% or more of their total income) experiencing overall revenue decline, while those with middling levels of reliance (40% to 60% of overall income) have enjoyed more stable income levels.[30] Additionally, there has been a decline in the percentage of community businesses bidding for or delivering public service contracts since 2019. This is likely to continue for as long as the value of public service contracts remains low due to increased pressure to raise wages.[31] However, there is little to

29 See Warwick Bridge Corn Mill video, YouTube. Available at: https://www.youtube.com/watch?v=TNUPDz8kP60.

30 Chapman, T. (2023). *Community Businesses in England and Wales 2022: new findings from Third Sector Trends*, p. 10. Available at: https://www.powertochange.org.uk/wp-content/uploads/2023/07/Community-Business-in-England-and-Wales.-New-findings-from-Third-Sector-Trends-July-2023.pdf.

31 *Ibid.*, p. 11.

suggest that community businesses in the poorest areas have been disproportionately impacted by the decline in trading income. It is also the case that community businesses remain more likely than other types of trading third sector organisation to have increased their income from trading significantly – signalling that community businesses are highly resilient in the face of external challenges.[32]

Social investment

Social investment uses repayable finance to help organisations achieve a social purpose.[33] It can take many forms, with the two main types being debt finance (loans) and equity investments (shares), though access to these types of investment may depend on the legal structure of a community business. Loan finance is typically repaid with interest, over time. This may take the form of a loan secured against an asset, though unsecured loans are also widely available. Charity bonds are one example of effective, large-scale unsecured finance with fewer restrictions than bank finance, although in practice these tend only to be issued by large organisations.[34]

Equity investments give investors a share of any profits and a say in how the organisation is run. These are available to organisations structured as a Company Limited by Shares or a Community Interest Company Limited by Shares, though in practice few organisations with these structures have actually paid dividends.[35] Another form of equity is community shares (detailed below), which are a withdrawable, non-transferable form of equity investment specific to co-operatives and community benefit societies. Quasi-equity is also an emerging type of social investment which reflects some of the characteristics of shares, but without an organisation offering equity. Repayments are typically based on organisational performance, such as profits or income, rather than paying back a set amount each month.[36]

The social investment market has grown significantly in the last 11 years. Much of this growth is attributed to the establishment of Better Society Capital (BSC) as a social investment wholesaler in 2012, and its success in increasing the overall supply of capital for the market.[37] The social investment market is now estimated to be valued at more than £9 billion, growing by £1.5 billion in the last year.[38] Analysis by BSC suggests it has committed £103.8 million of its funds to community businesses across 315 deals.[39] This rises to £188 million when the investment commitments of other capital providers who invest alongside BSC are included.

32 Chapman, *Community Businesses in England and Wales 2022*, p. 10.

33 Good Finance (n.d.). *What is social investment?* Available at: https://www.goodfinance.org.uk/understanding-social-investment.

34 Better Society Capital (2020). *Impact Report*, p. 13. Available at: https://bsc.cdn.ngo/media/documents/Impact_Report_2020.pdf.

35 Third Sector (2015). *Analysis: The rise and rise of community interest companies.* Available at: https://www.thirdsector.co.uk/analysis-rise-rise-community-interest-companies/governance/article/1348096.

36 Good Finance (n.d.) *Quasi-equity*. Available at: https://www.goodfinance.org.uk/quasi-equity-0#.

37 Damm, C., and Wells, P. (2021). *Power to Change and Blended Finance*, CRESR, Sheffield Hallam University, p. 5. Available at: https://eprints.icstudies.org.uk/id/eprint/266/1/PTC_and_blended_finance.pdf.

38 Poulter, R. (2023). 'Value of UK social investment market grew £1.5bn last year, figures show', *Third Sector*, 13 September. Available at: https://www.thirdsector.co.uk/value-uk-social-investment-market-grew-15bn-last-year-figures-show/finance/article/1837089.

39 Based on the assumption that business models with 'community' in their name are the best proxy for 'community business' in the available data – such as community centres, arts venues, housing and community energy. This does not include deals in which BSC is not an investor, and therefore is likely to be an underestimation of the total value invested in community business.

Benefits of social investment

A key benefit of social investment is that for community businesses with an existing income stream, it provides an injection of cash that can be used to grow earned income in a number of ways, such as to buy an asset, employ new staff or diversify income streams from trading. This growth in earned income is then used to repay the debt over time.

Many social investors also provide capacity-building support, helping community businesses to grow and increase their capacity to take on these types of finance, as in the case of the Reach Fund (see example B).

Challenges of social investment

Accessing social investment can be challenging for community businesses without a reliable revenue stream to finance repayments. While social investment can help community businesses to grow and diversify their income streams, many operate with low margins, and in challenging funding and policy conditions, and may not be able to develop new sources of income quickly enough to repay loans. Furthermore, those without a proven track record of generating revenue may not be able to access this form of investment, or may self-select out of applying. Even among community businesses with established income streams the cost of social investment is often seen as too high.[40] This is because interest rates reflect the perceived risk and low financial returns of investing in community business.

Additionally, the range of products on offer may not be suitably aligned to community business needs. The Adebowale Commission on Social Investment found that a default of offering conventional loans prevailed in the social investment market, with a lack of products sufficiently tailored to the needs of those seeking finance.[41] The commission identified gaps in patient and flexible sources of capital for social enterprises, as well as in terms of the support, networks and advice to assist them in accessing social investment.

Asset-based requirements may also present a challenge, particularly for community businesses at an earlier stage in their development. Social investment is more readily available to the asset-backed sectors of housing and energy, while some community business sectors, such as community hubs and shops, are perceived as higher risk by investors.[42] Providing unsecured loans has been considered high risk by social investors and this is reflected in the cost of capital, meaning community organisations have often found it unaffordable. However, blended finance has significantly increased the supply of unsecured finance in recent years, with the Growth Fund (overseen by Access) helping to close a gap in the supply of small, flexible unsecured loans.[43]

40 Based on interviews with community businesses who have explored social investment.

41 Commission on Social Investment (2022). *Reclaiming the Future: Reforming social investment for the next decade.* Available at: https://www.socialenterprise.org.uk/app/uploads/2022/07/Reclaiming-the-Future-Commission-on-Social-Investment-Report.pdf.

42 McCulloch, I., and Dawson, J. (2023). *Communities doing it for themselves: Celebrating a decade of the Community Shares Unit*, Co-operatives UK, p. 25. Available at: https://eprints.icstudies.org.uk/id/eprint/418/1/community-shares%20report-2023.pdf.

43 Elsworth, S. (2021) *Reaching Further, much further*, Access. Available at: https://access-socialinvestment.org.uk/blog/reaching-further-much-further/.

There are a number of other, non-financial barriers to social investment. Many community businesses struggle to understand the complex language used in social investment (though initiatives such as Good Finance have sought to address this), while some may be reluctant to take on social investment due to risk aversion. Building the skills and confidence to take on investment remains a particular challenge for smaller and volunteer-led organisations, and women and minoritised communities; these are considered further in Chapter 2.

Example B: Addressing barriers to accessing social investment – the Reach Fund

The Reach Fund, funded by Access and managed by Social Investment Business, offers grants of between £5,000 and £15,000 on average to help charities and social enterprises in England to raise investment. The grant is aimed at helping those organisations who are already close to the point of taking on social investment to access final stage support.[44]

Approved social investors can refer organisations they are working with to apply for grants through the Reach Fund. To date the programme has awarded 905 grants totalling £12 million.[45] A 2021 evaluation found the Reach Fund has achieved a leverage ratio (investment raised as a multiple of grant spend) of 7:1.[46]

Blended finance

Blended finance products combine social investment and grant funding to offer a mix of repayable and non-repayable finance. The aim of the grant element is to facilitate lending by subsidising costs or reducing the amount to be borrowed, and to leverage in investment capital by improving risk and return expectations. This can help new community businesses in need of funding to reach the point where they can take on and repay investment. It can also support more established organisations looking to expand their activities or explore new revenue streams, and which may not yet generate enough profit to repay investment without some grant funding.[47] The 'blending' can take different forms, such as a loan fund which includes a grant subsidy to allow the fund manager to make smaller loans and absorb more risk, or as unsecured loans offered alongside grant funding.[48]

In 2015, as part of efforts to remove barriers and increase access to affordable finance for voluntary and community organisations and social enterprises, Access – The Foundation for Social Investment was established by the government, the National Lottery

44 Social Investment Business (n.d.) *Reach Fund.* Available at: https://www.sibgroup.org.uk/funds/reach-fund/.

45 As of 31 December 2023. Access, The Foundation for Social Investment (n.d.). Quarterly dashboard figures for Reach Fund. Available at: https://access-socialinvestment.org.uk/learning/quarterly-dashboard/.

46 Goggin, N., McGinn, P., and Baker, L. (2021). *Reach Fund Evaluation: Final report.* Available at: https://access-socialinvestment.org.uk/wp-content/uploads/2021/11/Access-Reach-Evaluation-Report-Final.pdf.

47 Good Finance (n.d.) *Types of social investment.* Available at: https://www.goodfinance.org.uk/understanding-social-investment/types-social-investment.

48 Access, The Foundation for Social Investment (n.d.). *Blended Finance: Our approach.* Available at: https://access-socialinvestment.org.uk/blended-finance/what-is-blended-finance/.

Community Fund and Better Society Capital. Access provides grant and concessional finance into blended finance structures, enabling social investors to offer more patient and flexible, smaller scale finance to charities and social enterprises. This was originally funded by a £22 million grant from the National Lottery Community Fund to support the Growth Fund, along with co-investment from Better Society Capital. Delivered through 15 social investment provider partners, Access has provided almost £50 million through 725 loans, transforming the supply of smaller scale unsecured finance between 2016 and 2022. Since 2019 Access has been allocated £83 million of dormant assets to expand blended finance programmes. Blended finance has been explored at various scales, from the £2 million Adventure Capital Fund to the £145 million Futurebuilders programme.[49]

Benefits of blended finance

Blended finance can make social investment more accessible and less risky for community businesses, as well as reduce the perceived risk to investors of investing in organisations without a track record of repaying finance.[50] It can help community businesses who might otherwise struggle to repay loan finance to be able to access a new form of finance that can bridge temporary gaps in their business model, for example at the start of their lifespan or to withstand the impact of external shocks such as the Covid-19 pandemic. In the right circumstances, it's also possible for blended finance to achieve greater social impact than either the social investor or funder would have been able to achieve independently.[51]

Blended finance has supported a range of sectors and beneficiaries, and increased capital to smaller organisations and in lower socio-economic areas of England, resulting in more impact in these areas.[52] Evidence from the Futurebuilders programme, run by Social Investment Business, found that deprivation levels improved in areas receiving social investment compared to nearby areas that did not receive investment. The research showed that deprivation levels improved by 12% when investments exceeded £3 million and over 17% for investments exceeding £4 million, between 2010 and 2019.[53] Blended finance also makes smaller deals possible, which bring new organisations into the social investment market. Social Enterprise UK's 2023 State of Social Enterprise survey reported that social enterprises seeking loan funding desired a median of £80,000.[54] Meanwhile Better Society Capital's 2022 Enterprise Level Data suggests that Access blended finance programmes have an average investment size of £81,500, while the average investment value of non-Access investments was £815,300.[55]

49 Damm and Wells, *Power to Change and Blended Finance*, p. 6.

50 *Ibid.*, p. 6.

51 *Ibid.*, p. 16.

52 Kail, A., Neaum, D., and Anderson, R. (2022). *Review of grant subsidy for blended finance to support civil society*, New Philanthropy Capital, p. 43. Available at https://www.thinknpc.org/resource-hub/review-of-grant-subsidy-for-blended-finance-to-support-civil-society/.

53 Paterson, J., and Dash, P. (2023). *Assessing the economic impact of social investment using a hyper-local analysis: Evidence from Futurebuilders England.* Available at: https://www.sibgroup.org.uk/impact/futurebuilders-england/.

54 Hochlaf, D., Gregory, D., and Darko, E. (2023). *Mission Critical: State of Social Enterprise Survey 2023*, Social Enterprise UK, p. 35. Available at: https://www.socialenterprise.org.uk/app/uploads/2023/12/Mission-Critical-State-of-Social-Enterprise-Survey-2023.pdf.

55 Levy, L. (2024). 'Our data – How do we know we're expanding the reach of social investment?', Access – The Foundation for Social Investment. Available at: https://access-socialinvestment.org.uk/blog/our-data-how-do-we-know-were-expanding-the-reach-of-social-investment/.

Challenges of blended finance

Setting up blended funds requires the convening of social investors and funders (often more than one of each). Reaching a common set of strategic goals across all of these partners may be challenging, as each will likely have their own objectives to fulfil as part of the partnership.[56] Additionally, blended finance appears to require a particular form of investment opportunity to work: a review of Power to Change's experience of blended finance found that such deals often require an associated asset linked to a new or expanded funding stream, where the loan capital is used to finance an asset purchase or significant works.[57]

A potential critique of blending finance at the fund level is that it may hold more benefit to the fund manager than the investee by de-risking their investment through the provision of subsidy, though the amount of subsidy available may not necessarily be enough to make a significant difference to the risk faced by the lender.[58] Nonetheless, blending at the level of the investment deal itself, as in the case of Power to Change's blended deals with Key Fund and Social and Sustainable Capital (SASC) (see Example C) and many of the Futurebuilders investments, may be preferred.[59]

Image: Giroscope.

56 Hochlaf, Gregory and Darko, *Mission Critical*, p. 11.

57 *Ibid.*

58 Damm and Wells, *Power to Change and Blended Finance*, p. 7.

59 *Ibid.*

Example C: Blended finance deals

Power to Change partnered with Key Fund and SASC on two blended finance schemes. In 2015, Power to Change partnered with SASC to provide £3.53 million of loans and £923,000 in grants as part of six bespoke blended finance deals. These deals worked best to fund an asset which generated an income stream, rather than activities such as marketing; where surplus income was generated, it benefitted the local community.[60]

With Key Fund, which started to offer blended deals over 20 years ago, Power to Change has supported two waves of investments deals which tended to be smaller than those provided with SASC. These loans were targeted at organisations in the poorest three deciles of the Index of Multiple Deprivation, and the grant element was more likely to be used to fund expenditure with a social impact prior to the community business breaking even.

The deals enabled external finance to be leveraged, but only where terms such as the cost and duration were balanced fairly between the different lenders. A key finding of this experiment was that operating as a partnership, rather than setting up a new fund, had a number of benefits: partners were able to share expertise and take advantage of economies of scale, distributing cash to community businesses that needed it quickly and cost-effectively (especially in deprived areas), whilst maintaining due diligence.

Community shares

Community shares is a user-friendly name for withdrawable, non-transferable share capital. It is a form of equity uniquely available to co-operatives and community benefit societies. Community shares are a flexible and effective way to raise finance that supports the long-term sustainability of organisations, with 92% of all businesses who have used community shares still trading today.[61]

Community businesses may require specialist advice and technical support to develop a share offer, and may benefit from grant funding during this period. The Community Shares Booster Fund has provided support for community businesses at all stages of developing a community share issue (see example D). This comprises pre-grant support to help understand community shares and explore whether it is right for them; development grants, including for financial planning, governance support and marketing costs for a share offer; and equity match investment.[62] Over 50% of share offers supported through the Booster Fund have been in the 30% most deprived areas, enabling a further £15.6 million of community investment.

60 Damm and Wells, *Power to Change and Blended Finance*, p. 9.

61 Co-operatives UK (n.d.). *About community shares.* Available at: https://www.uk.coop/support-your-co-op/community-shares/about-community-shares.

62 Power to Change (n.d.) *Community Shares Booster Fund.* Available at: https://www.powertochange.org.uk/our-work/our-programmes/community-shares-booster/.

Example D: Booster Fund – Grimsby Community Energy

The Community Shares Booster Fund supports new and existing community businesses in England to explore, plan for and launch a community share offer. The programme is funded by Power to Change and Access – The Foundation for Social Investment, and delivered in partnership with Co-operatives UK, Locality, Plunkett Foundation and Co-operative and Community Finance. The Booster Fund provides development grants averaging £7,000 to prepare a community share offer. It also provides equity matching investment, typically matching pound for pound up to £100,000 invested, providing the minimum share offer target is reached.[63]

Grimsby Community Energy (GCE) is a member-run co-operative which has been working to bring community energy projects to Grimsby since 2016. GCE was awarded £5,000 through the Booster Fund to prepare the launch of a share offer to fund the development of six new solar PV sites. GCE has also leveraged funding from the Northern Powergrid's Net Zero Communities Fund and UK Shared Prosperity Fund to enable the project. Their share offer achieved the Community Shares Standard Mark, a national standard of good practice in community shares.[64] GCE's solar panel installations help local charities and social enterprises to reduce their carbon emissions and also save them tens of thousands of pounds on their energy bills.[65]

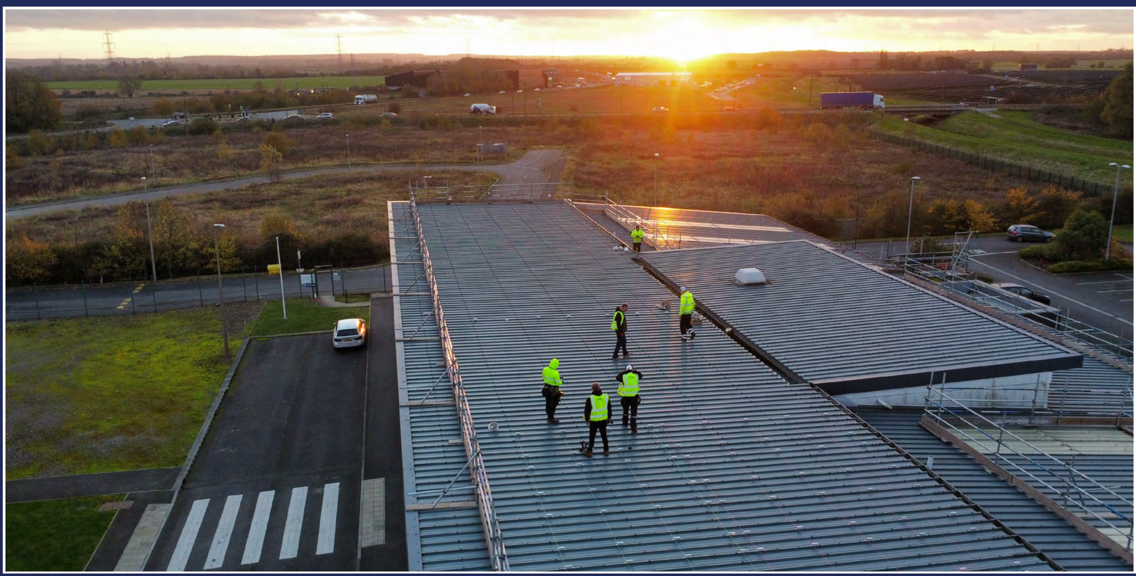


Image: Grimsby Community Energy.

63 Power to Change, *Community Shares Booster Fund.*

64 See Grimsby Community Energy website for more information: https://grimsbycommunityenergy.coop/.

65 Co-operatives UK (2023). *Case Study: Grimsby Community Energy: saving money and saving the planet.* Available at: https://www.uk.coop/case-studies/grimsby-community-energy-saving-money-and-saving-planet.

Benefits of community shares

Community shares enable the local community to have a direct stake in a community business for a small amount of investment. They are a form of affordable, patient capital, benefitting from the fact that community shareholders appreciate the time it may take to generate a financial return, and prioritise the preservation of the community business and its assets over this.

According to the latest Community Shares report, £210 million has been raised through community shares by 540 organisations in communities across the UK, by, creating over 130,000 investor members.[66] Community shares have been particularly prevalent in community energy and housing, where projects are typically long-term and capital intensive, and where patient and flexible investment through community shares reduces the cost of loan financing to deliver these projects.[67] There is an increasing trend of using community shares for multi-purpose community hubs which tend to be less profitable (meaning loan finance is less viable), with community shares providing affordable additional capital alongside capital grant funding.

Community shares can leverage in additional finance for community businesses, often helping to attract more traditional grants and loans: for every £1 invested, an additional £1.18 is leveraged through grants, loans and institutional investment.[68] Community businesses are using community shares as matchfunding for the Community Ownership Fund (see Chapter 3).

Challenges of community shares

Community members in areas of high deprivation, who can arguably benefit most from co-operative and community-owned projects, are less likely to have the disposable income to invest in them. However, community businesses in these areas have benefitted greatly from the matched equity investment model of the Booster Fund, which helps them towards reaching their investment goals. Additionally, organisations like Grimsby Community Energy are working to leverage investment from outside of their locality to tackle this challenge.

Community businesses are also breaking new ground to promote equity through community shares. The Friends of the Joiners Arms launched a community share offer in 2022 with support from the Community Shares Booster Fund in order to raise funds to secure a LBGTQ+ venue for London. At £25, their shares were more affordable than the typical community share offer, and they had an average investment of around £50. They also made ‘pay it forward’ shares available for purchase. Over 700 of these were sold and will be distributed to marginalised members of LGBTQ+ communities, such as homeless people and refugees, who may have faced barriers to purchasing them during the share raise.[69] The share offer reached 2,260 investors, demonstrating that community shares can support movement building as well as raising investment.

66 McCulloch and Dawson, *Communities doing it for themselves.*

67 *Ibid.*, p. 12.

68 McCulloch, I. (2020). *Understanding a Maturing Community Shares Market Report 2020.* Available at: https://www.uk.coop/blog/understanding-maturing-community-shares-market-report-2020.

69 Co-operatives UK (2022). *Friends of the Joiners Arms – a ground-breaking community shares venture.* Available at: https://www.uk.coop/case-studies/friends-joiners-arms-ground-breaking-community-shares-venture.

Private and commercial borrowing

Like other business types, community businesses can approach commercial lenders, such as mainstream high street banks, for secured or unsecured loans. The purposes of social investment as compared to commercial lending are not entirely distinct: lenders inhabit a spectrum, ranging from those primarily driven to deliver a financial return on investment, to those primarily or wholly motivated by supporting social impact. Commercial lenders such as high street banks are likely to be more motivated by financial return on their investments and less motivated by the social value that investing in community businesses can generate, which can impact on the terms and cost of capital they offer.

Benefits of private and commercial borrowing

Private and commercial borrowing can be more suitable for large asset-based purchases or mortgages on property where the loan is secured against the asset, and less appropriate for community businesses seeking unsecured loans. There is a perception that commercial lenders can offer better terms or lower interest rates on loans as compared to social investment; however, for community businesses the reality is highly context dependent.

Challenges of private and commercial borrowing

With their focus on delivering social as well as economic returns, community businesses may be perceived by commercial lenders as presenting a greater risk of defaulting on loans and having lower potential for return on investment, relative to mainstream SMEs. As a result they may in reality face high costs of capital, or be excluded from accessing loans through commercial lenders.

It can also be challenging, risky and more expensive for community businesses to obtain an unsecured loan from commercial lenders, who have less specialist expertise in understanding the community business sector and are much less likely to offer patient finance than social investors. As with social investment, it can be difficult for community businesses to secure a commercial loan without a history of earned income, which can be a barrier for community businesses looking to develop their revenue stream.

Social banks such as Charity Bank or Unity Trust Bank offer an alternative to high street lenders, as they may have more specialist knowledge and a regional network. Social banks provide £1.7 billion of capital to the social impact investment market and made 2,445 loans to social enterprises and charities from 2011 to 2020.[70]

Other sources of finance

There are many other sources of finance that community businesses access, ranging from the use of reserves, to crowdfunding, or borrowing from family and friends. While less is known about the take-up of other forms of finance, it is worth noting that these could nonetheless be important sources of financial support at crucial milestones in the development of a community business.

70 Better Society Capital, *Impact Report*, p. 12.

Reserves

Community businesses are much more likely than other third sector organisations to have used reserves to invest in new activities such as buying property, developing a new service or employing a development worker.[71] Larger community businesses are more likely to draw on reserves than smaller ones. The main advantage of reserves is that the funds do not have to be repaid; however, most businesses will have a reserves policy and will want to minimise the risk of funds being lost or mismanaged.

Personal funds

Previous research has documented that some community business leaders take out personal director's loans or mortgages against their personal assets to start a community business or purchase an asset.[72] Though this is common among conventional entrepreneurs, it can represent a significant personal risk for community business leaders. Community business growth can be slow and margins small, and the use of personal funds may arise due to a lack of other available sources of finance.

High-net-worth individuals

This form of finance uses informal contact with high-net-worth individuals, 'angel investors', trustees, or other individual donors on favourable terms. There is little documented evidence about the scale of borrowing from high-net-worth individuals, nor is there much information or support for community businesses on how to manage these relationships and formalise the terms of the investment. The rise in this type of informal investment appears to be driven by a growing interest in social impact investing, motivated by a desire to invest in a local area or on a particular issue (for example climate change).

Donations

Unlike other types of third sector organisations, the proportion of community business income from donations is very small – averaging around 3%.[73] Little is known about how such income is spent or what it funds.

Crowdfunding campaigns

Finance raised through online crowdfunding platforms can have a range of uses, and may represent the 'democratisation' of funding, with these digital platforms providing one of the most simple and accessible ways to raise debt-free funds.[74] Unlike grants and social investment, crowdfunding enables community businesses to raise small

71 Chapman, *Community Businesses in the North of England 2020.*

72 Plunkett, J., and Swersky, A. (2015). *"What if we ran it ourselves?" Getting the measure of Britain's emerging community business sector.* Available at: https://www.youngfoundation.org/institute-for-community-studies/repository/what-if-we-ran-it-ourselves-getting-the-measure-of-britain-s-emerging-community-business-sector/

73 Institute for Community Studies, Community Business Sector Overview Dashboard. Available at: https://viaanalytics.shinyapps.io/ics-community-business/.

74 Shepherd, M. (2023). *Crowdfunding Statistics: Market size and growth*, Fundera. Available at: https://www.fundera.com/resources/crowdfunding-statistics.

amounts of funding from a large number of individuals and can attract many 'first time' investors.[75]

In addition to equity-based crowdfunding (including community share issues), crowdfunding can also be reward-based. Nesta defines this as when 'individuals donate towards a specific project with the expectation of receiving a tangible (but non-financial) reward or product at a later date in exchange for their contribution'.[76]

Crowdfunding can be used to support a community business at a key growth stage, such as to help acquire an asset. It can also be used by community businesses at risk of closure to rapidly raise the finance needed to continue their work and persevere through difficult circumstances. While crowdfunding allows community business leaders to bypass barriers to other types of finance – such as the credit checks needed to obtain loans or the sometimes slow and time-consuming process of applying for grant funding – running a successful crowdfunding campaign does require resources, particularly to market and publicise the campaign.[77]

Example E: Community Business Crowdmatch

Between 2017 and 2022, Power to Change partnered with Crowdfunder UK to run Community Business Crowdmatch. This fund offered matched funding of up to 50% of a crowdfunding target, to a maximum of £10,000, for new or existing community businesses providing services or activities that benefitted their local community. Across this period, Community Business Crowdmatch enabled Power to Change to deliver £496,069 in funding, across 106 projects, directly to community businesses.[78]

Crowdmatch campaigns backed by Power to Change exceeded their funding targets, raising 129% of their target on average. The funds generated had a significant financial impact, with £2,514,781 raised in total by community businesses since 2017, meaning that for every £1 Power to Change invested in a Crowdmatch campaign, community businesses were able to leverage around £3.83 in additional funding through both members of the public and other funders.

75 Floyd, D., and Gregory, D. (2017). *We still haven't found what we're looking for: Uncharted investment in charities, social enterprises and community businesses*, Power to Change, p. 21. Available at: https://www.youngfoundation.org/institute-for-community-studies/repository/we-still-haven-t-found-what-we-re-looking-for-uncharted-investment-in-charities-social-enterprises-and-community-businesses/.

76 Baeck, P., Collins, L., and Zhang, B. (2014). *Understanding Alternative Finance: The UK alternative finance industry report 2014*, Nesta, p. 8. Available at: https://media.nesta.org.uk/documents/understanding-alternative-finance-2014.pdf.

77 Shepherd, *Crowdfunding Statistics.*

78 Power to Change and Clear Impact Consulting (2023). *Community Business Crowdmatch Evaluation: Final evaluation report.* Available at: https://www.powertochange.org.uk/research/community-business-crowdmatch-evaluation/.

Chapter 2: Other key issues in the community business finance landscape

As the previous chapter has demonstrated, the various types of funding or finance enable different opportunities, and present particular challenges, for community business. This chapter explores three further thematic issues that impact on community businesses' access to finance - issues which funders, investors and policymakers should address to ensure community businesses can access the right finance at the right time for them.

Ownership and financing of assets

Community assets can be essential to community businesses' service delivery and financial sustainability. Community businesses own fixed assets worth an estimated £744 million, with the most common being community hubs, halls and centres.[79] Not only are they key to generating trading income but they also provide social infrastructure, create a sense of pride in place and contribute to the local economy. In 2019, there were more than 6,300 community-owned assets in the country, with these assets contributing nearly £220 million annually to the UK economy.[80] Therefore, the financing of asset acquisition and development is an important aspect of the overall picture.

A quarter of assets come into community ownership through a community asset transfer while an additional 24% are donated at no cost or peppercorn rent.[81] However, community businesses still need to source finance to set up, manage and maintain their assets if they are to generate an income stream from them. Where there is a cost, asset purchase can be funded in different ways, such as grants, social investment and blended funds, commercial loans and community shares.

Community businesses face several barriers to asset ownership. They often struggle to access capital at scale and at pace to compete with private investors. They may lack the skills needed to navigate the commercial property market, and may be prevented from unlocking vacant and underutilised property for community ownership due to the opaque nature of property ownership.[82] These are challenges that Power to Change has sought to address during its history as a funder, as well as through ongoing advocacy for the extension of the Community Ownership Fund and introduction of a British High Street Investment Vehicle.

79 CFE Research and Power to Change, *Community Business Market Report 2022*; Archer, T., Batty,E., Harris, C., Parks, S., Wilson, I., Aiken, M., Buckley, E., Moran, R., and Terry, V.(2019). *Our assets, our future: the economics, outcomes and sustainability of assets in community ownership.* Available at: https://www.powertochange.org.uk/wp-content/uploads/2019/07/Assets-Report-DIGITAL-1.pdf.

80 Archer, *Our assets*, our future, p. 2.

81 *Ibid.*

82 Plumb, *Why now is the time for a High Street Buyout Fund.*

Power to Change's programmes have, in different ways, supported community businesses to purchase, manage, invest in, and restore assets. For community businesses participating in the Bright Ideas, Trade Up and Community Business Fund programmes, having tailored business and technical advice, peer networks, and flexible funding were the most helpful forms of support in facilitating their access to and management of assets, and in mitigating risks.[83] The most beneficial aspect of the Community Business Fund was its flexibility around a blend of capital and revenue grants, depending on a community business's goals. Revenue grants provided community businesses with running cost support, either to support acquisition or to develop programmes associated with the capital investment.

In 2020, Power to Change piloted a new approach to helping community businesses overcome the challenges of competing with private investors to obtain assets, by providing one community business with flexible grant funding to support the purchase of strategically significant assets as they became available. The pre-arranged grant allowed Nudge Community Builders in Plymouth to purchase assets in a complex market, where the sale of one building – a much-loved former dance hall and nightclub that had been vacant for 15 years – took over three years to be completed.[84] The grant arrangement combined capital to contribute to the purchasing and development of the assets, with revenue funding to pay for specialist support and resource Nudge's staff to develop the business plan for the assets. While this approach undoubtedly helped to address the challenges of pace and scale that community businesses face in buying assets – and provided flexibility in doing so – this pilot approach was curtailed by the need to focus on supporting community businesses to respond to and survive the impact of the Covid-19 pandemic.

Image: Repowering London by Tim Mitchell.

83 Chan, J., Meghjee, W., Pacot, M., and Alraie, M. (2022). *Thematic Paper: Assets & community businesses lessons from the Bright Ideas, Trade Up and Community Business Fund programmes*, Renaisi. Available at: https://eprints.icstudies.org.uk/id/eprint/340/1/Thematic%20paper%20-%20Assets%20and%20CBs%20-%20Final.pdf.

84 Power to Change (n.d.). *Case Study: Nudge Community Builders.* Available at: https://www.powertochange.org.uk/case_study/nudge-community-builders/.

Example F: More Than a Pub

The More Than a Pub programme ran from 2016 to 2021. It was funded by Power to Change and the Ministry of Housing, Communities and Local Government, and delivered by the Plunkett Foundation along with a network of advisers. Loans were provided by Co-operative and Community Finance and Key Fund.

It was launched with the aim of supporting communities across England to buy and run local pubs at risk of closure as community businesses. To be selected for support, groups had to demonstrate how the asset would constitute 'more than a pub' by having a positive impact on the community, for example by providing vital local services that would otherwise be unavailable.[85]

A total of 313 unique community groups received some form of support across the two phases of the programme, with 45 groups approved for a combined loan and grant package of up to £100,000 to cover capital costs such as the purchase or renovation of a pub.[86] In total, 63 pubs were supported into community control by the end of the programme and over £14 million was leveraged in community share capital by local organisations supported by the programme.[87]

The Gardeners Rest in Neepsend, Sheffield, benefitted from the first round of More Than a Pub funding. A pub dating back to 1898, it was bought with a community share offer in 2016, with over 400 local residents investing between £100 and £5,000 to become democratic owners of the pub. Now the Gardeners Rest has become an important community hub, going beyond the offer of a traditional pub to provide a venue for arts exhibitions, and employment and training opportunities for young people with learning disabilities.[88]

85 Litchfield, A., Meghjee, W., Sisya, K., and Thornton, A. (2021) *More Than a Pub Final Evaluation*, Power to Change, p. 3. Available at https://renaisi.com/wp-content/uploads/2021/09/PTC_3817_MTAP_Final_Evaluation_FINAL.pdf.

86 *Ibid.*, p. 16.

87 *Ibid.*, p. 25.

88 For more information, see The Gardeners Rest: https://www.thegardenersrest.co.uk/.

The funding required to fulfil the aspirations of mature, asset-owning community businesses can vary significantly from that required by more early-stage and developing organisations looking to take on their first asset. There is a growing network of these more established community businesses in England who are activating and stewarding land and buildings within their neighbourhoods for the purpose of creating transformational change.[89]

These community businesses often own or manage multiple, complex assets, including formerly neglected land and buildings. Working with the local community over time, they look to restore these to beneficial community use. While the income they earn through trading supports these community businesses to be sustainable over time, they often struggle to access the patient, flexible and affordable investment they need to continue transforming their neighbourhoods. They often have to resort to aggregating many smaller pots of funding and investment to meet their goals.

This growing peer network of mature organisations has come together to identify and unlock the long-term, flexible investment their communities need. They are attempting to harness large-scale aligned, patient funding from private and institutional sources (such as philanthropic money or pension funds) to provide capital and revenue funding particular to the needs of more established community organisations. And crucially, their approach is based on collective growth, not competition for piecemeal funding.[90] Further work is underway to unlock this long-term investment in neighbourhood transformation (see Appendix 1 for more information).

Challenges at different stages in the life cycle of community businesses

The need for finance varies at different stages of development in the life cycle of community businesses. Requirements in the very early stages, when members of a community first become aware of the need for a community business, are very different to those of a more mature organisation that has reached the point of scaling up (see Figure 3 for a summary). Power to Change's grant and support programmes, such as Bright Ideas, Trade Up and the Community Business Fund, have been designed to enable businesses to make the necessary transformation to reach the next stage in their development.

An assessment of evaluation findings across all three programmes revealed the major challenges associated with access to finance.[91] It highlighted a gap in supporting community businesses to become less grant-reliant and more self-sufficient, but also noted that larger grants with a longer-term focus are vital, and must provide freedom and flexibility for investing in new ventures. Understanding the type of business and the stage it is at, and designing financial support to mirror these stages of development, is highly beneficial for community businesses.[92]

89 Platform Places (2023). *Hawkwood: A gathering of community asset leaders and the birth of a new peer network.* Available at: https://www.platformplaces.com/news/hawkwood-a-gathering-of-community-asset-leaders-and-the-birth-of-a-new-peer-network.

90 *Ibid.*

91 Haw, S., and Theminimulle, S. (2022) *Supports and challenges for community businesses: Lessons learnt from Power to Change's legacy programme evaluations*, Power to Change and the Institute for Community Studies. Available at: https://eprints.icstudies.org.uk/id/eprint/409/1/Supports%20and%20challenges%20for%20community%20businesses.pdf.

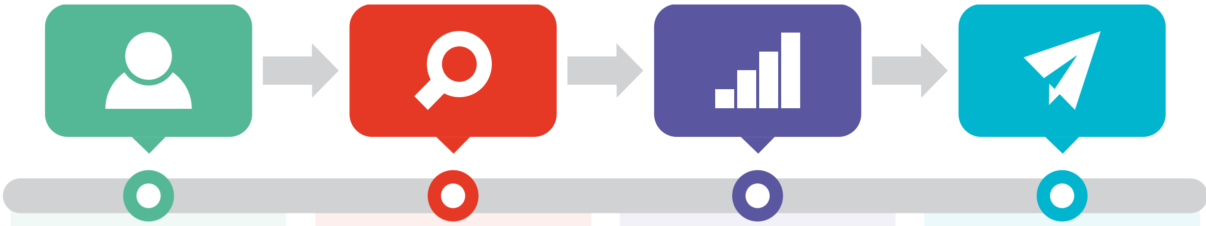
92 Haw and Theminimulle, *Supports and challenges for community businesses*, p. 4. Life cycle model from Plunkett and Swersky, *"What if we ran it ourselves?"*

Pre-venture and inception: At the very earliest or pre-venture stage, business may not be eligible for finance until they begin trading. At this point support networks and hubs, especially with the involvement of key stakeholders such as local authorities, are more important. Micro-grants, flexible and small-scale grants can be effective at this stage to cover early costs, and financial capital can help kickstart the process of generating revenue from assets. At the point at which the community business is formalised (inception stage), training in key skills to run the business are needed, and expertise and technical support around financial capacity may be required. At this stage seed funding can help an organisation to become established as a community business and pay for the external expertise needed to establish and develop its business model.

Growth: Beyond these first two initial stages, and whilst trading is still in its infancy, access to the right kind of finance to enable growth was found to become a major challenge. Community businesses at the growth stage struggle to increase revenue and need flexibility to adjust their plans and develop ideas. Power to Change programmes provided large revenue and capital grants, which were shown to make a difference to the sustainability of a business, as well as funds linked to broad support programmes. Grants were used to cover running, investment and staff costs related to development activity.

Scale: When a community business reaches a sustainable position and seeks to scale up, grant funding is needed to buy capital equipment or to sustain core activity for long enough to develop areas of their business. However, less support was found to be available at the scale stage, and whilst funding was available it was not long-term enough to support financial sustainability. At this stage, Power to Change's Community Business Fund provided growth-focused grants to community businesses for capital or revenue funding, with the aim of supporting businesses to progress towards greater self-sufficiency.

Figure 3: Community business finance needs at different stages of development



PRE-VENTURE

Challenges

- May not be eligible to apply for finance if not a registered community business, or due to lack of track record from trading

Finance needed

- Micro grants
- Flexible, small-scale capital grants

Activity supported

- Mobilising activity
- Access to and management of assets

INCEPTION

Challenges

- Funding needed to pay for training and technical support

Finance needed

- Seed funding
- Financial capabilities support

Activity supported

- Becoming a registered community business
- Paying for external expertise and specialist support

GROWTH

Challenges

- May struggle to increase revenue, need flexibility to adjust plans and develop ideas

Finance needed

- By this stage community businesses will have established a stable base of income from trading

Activity supported

- Promoting sustainability and preventing business failure
- Covering operating costs
- Strengthening or diversifying trading income streams

SCALE

Challenges

- Financial support often lacking for scale stage
- Available finance not long-term enough to support financial sustainability and progress to self-sufficiency
- May seek to expand asset ownership or develop assets (including multiple and complex assets)

Finance needed

- Long-term, flexible funding

Activity supported

- Capital purchases such as assets, or asset redevelopment
- Sustaining core activity while developing areas of the business

Barriers for marginalised community businesses

Research commissioned by Power to Change from Spark Insights and Locality has explored the challenges that community businesses led by or supporting people experiencing marginalisation face in accessing funding and support.[93] It found that persistent underinvestment in community businesses supporting people experiencing marginalisation, combined with the impact of austerity measures and increased demand on stretched services, has left many community businesses struggling with financial sustainability and highly dependent on small teams and volunteers.[94]

93 Sparks Insight and Locality, *Exploring Barriers to Funding and Support Experienced by Marginalised Community Businesses.*

94 *Ibid.*, p. 6.

This research drew on the experiences of community businesses who work with people experiencing racial inequality, language barriers, economic and educational disadvantage, long-term unemployment, and other forms of exclusion from society. It found that current funding models embed rigid structures and formalities that are inherently at odds with the nature of community-facing work and the communities that these organisations serve. Many participants felt that the existing processes and approaches to accessing funding aren't equitable and that there will not be progression until these systems are designed to include people experiencing marginalisation, regardless of how much support is targeted at building capability.[95] Challenges cited in accessing finance included eligibility requirements around legal model and governance structure, having to demonstrate a 'track record' of delivery, and the complex application forms and inaccessible language used by funders.

These findings also reflect the challenges faced across the wider social economy sector, as highlighted by the Commission on Social Investment.[96] The Commission found serious issues of inequity within the social investment market, in particular racial inequity in access to funding and support, and a lack of diversity and representation of people with lived experience of marginalisation within the social investment community. It suggests that social investment has become unattractive to many Black-led social enterprises due to lack of access to financial skills, the limitations of not having a track record or assets to borrow against, as well as working in areas of deprivation with multiple challenges.

However, some programmes have sought to specifically address these barriers by providing funding and support for marginalised groups and those operating in areas with high deprivation and challenge (see Examples G and H).

95 *Ibid.*, p. 7.

96 Commission on Social Investment, *Reclaiming the Future*.

Example G: Black and Brown-led Social Traders (BlaST) Network[97]

While developing Kindred (see Example I), the co-founders recognised that organisations led by and for marginalised communities are generally less likely to access social investment. Around 20% of community businesses and 13% of social enterprises are majority-led by people of minoritised ethnicities – yet only 2.6% of social investment goes to Black-led social enterprises.[98] Tackling this issue was therefore a key priority during the creation of Kindred.

In November 2020, Kindred worked with Joanne Anderson to secure funding from the UnLtd Inclusive Recovery Fund to develop BlaST. Its mission is to increase social impact and help accelerate change to address inequalities. Between January and March 2021, 23 Black-led socially trading organisations came together to form the network, with support from Kindred.

The BlaST community is made up of more than 50 business leaders in the Liverpool City Region. It provides a vital peer-to-peer support network and works with Black and Brown traders in the region to understand their needs, build community and support them to access finance in the future. During its first year the network distributed £50,000 in the form of small awards to 23 Black-led socially trading organisations, allowing these businesses to test ideas and access specialist support.

Image: Cafe Laziz, BlaST.

97 Power to Change (n.d.). *Black and Brown-led Social Traders (BlaST) Network Case Study*. Available at: https://www.powertochange.org.uk/case_study/black-and-brown-led-social-traders-blast-network/.

98 BlaST (2021). *An evaluation of the BlaST network project*. Available at: https://kindred-lcr.co.uk/wp-content/uploads/2022/08/BlaST-evaluation-ONLINE.pdf.

Example H: Community Business Renewal Fund

The Community Business Renewal Fund was part of the £5.4 million Renewal Initiative support package developed by Power to Change in response to the Covid-19 crisis. It comprised unrestricted grant funding (Renewal Fund), matched investments topping up public fundraising (Reboost and Crowdmatch), capability strengthening support (Powering Up) and support to protect Power to Change's investment in community assets.

The Renewal Fund provided unrestricted grants of £10,000 to £20,000 to enable community businesses in England to adapt, renew and rebuild their businesses to remain financially viable during the Covid-19 crisis.[99] It recognised the outsized impact of the Covid-19 pandemic on racially minoritised and disabled people, and so prioritised applications which supported these communities, as well as organisations operating in Indices of Multiple Deprivation (IMD) 1-3 areas. In total, £2.8 million was awarded to 164 community businesses. Funds reached most of the Renewal Initiative target groups, with 29% of funding delivered to organisations led by minoritised communities.[100] A significant proportion of the recipients operated in areas of high deprivation, with 68% of funding delivered in IMD 1 to 3 places, 42% of which was in IMD 1 areas.

Recipients reported that the flexible nature of the funding supported them to respond quickly to local need and challenges within their business, and that they felt respected and trusted to use the funds to meet community needs. However, many reported that the application requirements were too complex and time consuming – particularly given the pressures on capacity and services already created by the pandemic.

Image: Ware Arts Centre.

99 Power to Change and Social Investment Business (2021) *Community Business Renewal Fund: Guidelines for applicants.* Available at: https://www.powertochange.org.uk/wp-content/uploads/2021/02/Community-Business-Renewal-Fund-guidelines.pdf.

100 Power to Change, unpublished.

Chapter 3: The policy picture

Government, at all levels, has an important role to play in shaping the conditions in which community business can access the right finance at the right time. Throughout much of the 2010s the focus of central government was on unlocking finance for community business by incentivising social investment, but since 2019 levelling up-related funding pots have seen capital flow directly and indirectly (via local and combined authorities) to community business. Added to this, recent high streets policy initiatives have begun to recognise the role for communities as partners in developing and delivering on local visions for growth, and to signal an understanding of the importance of patient and flexible funding.

As an election approaches, the Labour Party has also begun to set out its approach to financing the sector. Labour's emerging industrial strategy demonstrates the critical role for community businesses and social enterprises in delivering the party's missions, while its commitments to delivering clean power will not be achieved without significant investment in community-owned energy.

Therefore, the need to finance and support community business is clearly integral to the achievement of both major parties' political agendas and should be of concern to policymakers. But despite these positive signs of recognition, community businesses are often overlooked as economic actors and are not backed in the same way as traditional businesses. To unleash their potential, and deliver on their political commitments, the next government must provide support and incentives, and remove policy blockers, to help community businesses finance their ambitions.

Central government

Funding for levelling up

Government's approach to addressing regional inequalities through levelling up has presented new opportunities for community business to access funding. Over £11 billion in levelling up funding has been released to tackle the most pressing economic and societal challenges facing the UK. However, much of this funding has been directed to local authorities and the short-term, competitive and fragmented nature of the funds has been widely criticised, with the short timelines for bidding and delivery impeding on the impact created by these funds, and on the ability of local authorities to effectively engage local communities in their plans.[101]

The UK Shared Prosperity Fund (UKSPF), and its predecessor the Community Renewal Fund – the successors to European Union structural funds after Brexit – have provided

101 Westerling, J., and Craig, J. (2023). *Work in Progress?* Available at: https://www.powertochange.org.uk/wp-content/uploads/2023/03/PTC_3965_Levelling_Up_Report-March-2023_FINAL.pdf; House of Commons Committee of Public Accounts (2024). *Levelling up funding to local government: Twenty-first report of session 2023-24*. Available at: https://committees.parliament.uk/publications/43820/documents/217384/default/.

investment in communities and place, supporting local businesses, people and skills.[102] Guidance to local authorities recommended using the funds to support the growth of the local social economy and community businesses, and to improve business support for the sector.[103] It also recommended that community organisations and social enterprises should form part of the local partnership group to shape investment funds. However, access to investment through the UKSPF mirrors challenges with many other grant funds, requiring community businesses and social enterprises to invest time and resources into applying for funds without guarantee of success.

The Community Ownership Fund (COF) has emerged as government's key source of direct funding for community businesses as part of levelling up. A total funding pot of £150 million for 2021 to 2025 supports community organisations and (following changes to funding criteria) town and parish councils to take ownership of assets that are at risk of being lost from community use. As a competitively allocated fund, community groups can bid for match funding to acquire important assets and run them for the benefit of the local community.

This fund provides an important source of capital for the purchase and redevelopment of community-owned assets. Following updates to the Fund in May 2023, organisations can now bid for up to £2 million in capital funding for all asset types (previously limited to £250,000 for most projects), and up to £50,000 in revenue funding (or 20% of the total capital funding applied for, whichever is smaller).[104] The changes also reduced the match funding requirement from 50% to 20%, and to 10% for projects that have been assessed as having the highest need.[105] This 'match' can include the value of an asset obtained by community asset transfer, making the COF an effective way for community businesses to leverage local authority support.

Community share offers are playing an important role for community organisations looking to access the COF. Co-operatives UK estimate that of 70 COF projects totalling £16.4 million, almost a third either had or were going to raise their matchfunding through community shares.[106] This figure is greater than might be expected, given that community shares are unique to co operatives and community benefit societies, which represent 18% of respondents to the 2022 Community Business Market survey and just 11% of the wider social enterprise sector. These figures demonstrate the potential of community shares to leverage additional funding.[107]

Recent initiatives focused on high streets and town centres also present opportunities for community businesses to access and control investment in their local community. The High Street Accelerator pilots have seen 10 areas receive £237,000 of revenue funding each to create partnerships that empower residents and community

102 HM Government (2022). *UK Shared Prosperity Fund: prospectus.* Available at: https://www.gov.uk/government/publications/uk-shared-prosperity-fund-prospectus/uk-shared-prosperity-fund-prospectus.

103 Department for Levelling Up, Housing and Communities (2022). *Interventions list for England.* Available at: https://www.gov.uk/government/publications/uk-shared-prosperity-fund-interventions-outputs-and-indicators/interventions-list-for-england.

104 Department for Levelling Up, Housing and Communities (2023). *Community Ownership Fund: prospectus.* Available at: https://www.gov.uk/government/publications/community-ownership-fund-prospectus/community-ownership-fund-prospectus--3.

105 *Ibid.*

106 McCulloch and Dawson, *Communities doing it for themselves*, p. 25.

107 *Ibid.*

organisations to work together on long-term regeneration plans.[108] Government has also announced the Long-Term Plan for Towns, which will provide £20 million of 'endowment-style' funding to 75 towns, delivered by a Town Board including community leaders and local businesses.[109] Both initiatives appear to reflect a positive trend towards flexible funding of local regeneration which, if delivered as planned, will provide local leaders and community business with a key role in planning and delivering investment.

Dormant assets

The Dormant Assets Scheme is an important source of affordable social investment. It enables blended finance models and, through its recent expansion to create a Community Wealth Fund, represents another potential source of long-term funding for disadvantaged communities and for catalysing community business.[110] The Dormant Assets Scheme is a unique type of funding which is not bound by the typical Treasury fiscal constraints and therefore presents an opportunity for flexible and creative funding.[111]

The announcement of the creation of a Community Wealth Fund from dormant assets is in large part a result of campaigning by the Community Wealth Fund Alliance (of which Power to Change is a member) for long-term, community-led investment in the neighbourhoods that need it most.[112] Government has indicated it will allocate £87.5 million from dormant assets from 2024 to 2028 for the Community Wealth Fund to deliver long-term funding to 'small towns' in England with high levels of deprivation and low social infrastructure.[113] Though the quantum of funding is lower than anticipated, this still presents a valuable opportunity to secure long-term investment in communities with significant need.

Power to Change has argued that the delivery of the Community Wealth Fund should be through long-term, flexible funding that empowers communities and involves community business.[114] Crucially, the flexibility of dormant assets funding should be used to put decision-making power over how funds are spent into community hands, with limited direction from central government, as well as providing support to build capacity to deliver.

Power to Change has also been a key partner in the campaign for a Community Enterprise Growth Plan from dormant assets. This proposal recognises many of the

108 Department for Levelling Up, Housing and Communities (2023). *High streets levelled up with £7 million funding boost.* Available at: https://www.gov.uk/government/news/high-streets-levelled-up-with-7-million-funding-boost.

109 Department for Levelling Up, Housing and Communities (2023). *Our Long-Term Plan for Towns.* Available at: https://assets.publishing.service.gov.uk/media/651d637c6a6955000d78b2de/Long-Term_Plan_for_Towns.pdf

110 *Ibid.*

111 Department for Culture, Media and Sport (2023). *Consultation outcome: Consultation on the English portion of dormant assets funding.* Available at: https://www.gov.uk/government/consultations/consultation-on-the-english-portion-of-dormant-assets-funding.

112 Find out more about the Community Wealth Fund Alliance at: https://communitywealthfund.org.uk/about-us.

113 Department for Culture, Media and Sport, and Department for Levelling Up, Housing and Communities (2023). *Technical Consultation on a Community Wealth Fund in England.* Available at: https://www.gov.uk/government/consultations/technical-consultation-on-a-community-wealth-fund-in-england/technical-consultation-on-a-community-wealth-fund-in-england.

114 Power to Change (2023). *Our response to government's consultation on the £87.5 million Community Wealth Fund.* Available at: https://www.powertochange.org.uk/news/our-response-to-governments-consultation-on-the-87-5-million-community-wealth-fund/.

known challenges of social investment currently in channelling investment and support to smaller community organisations in places that have previously struggled to attract investment. It aims to provide small, flexible and affordable loans through blended finance (which has been particularly effective in supporting enterprises in the most deprived communities), while investing in non-profit community lenders in underserved areas and providing tailored business support to encourage small enterprises to grow.[115] In response to the consultation on the English portion of dormant assets funding, published in March 2023, Government affirmed its commitment to exploring the proposals of the Community Enterprise Growth Plan, though at this time the plan has not yet been formally adopted.[116]

Incentives

Tax reliefs have been a highly effective incentive to encourage investment in conventional businesses, but it is only in the last decade that similar incentives have been made available to encourage investment in community businesses and social enterprises. More must be done to encourage investment in the social economy.

Social Investment Tax Relief (SITR), which ran from 2014 to 2023, was the main tax relief mechanism for the social economy, offering a 30% tax relief for individual investors on equity (shares) or debt investment in qualifying social enterprises, charities and community businesses. Over 180 investments have been conducted, totalling £18.6 million.[117] This is, however, well below the projected £83 million, which can be attributed to the complexity of accessing reliefs through the scheme as well as trading restrictions that have excluded some of the fastest growing community business sectors - notably community energy, leasing assets and property development.[118]

A call for evidence to the social enterprise sector on the use of SITR in 2019 demonstrated many of the limitations of the scheme. Many respondents reported low awareness of SITR as the greatest reason for poor take-up, while around three quarters reported difficulty in using the scheme. Additional challenges included the lack of capital supply for the levels of demand, a lack of or unclear guidance, complex restrictions on eligibility, and limited resources within social enterprises to manage applying for and utilising SITR.[119] Following the call for evidence, the sunset clause on the scheme was extended from 2021 to 2023; then-Treasury minister Jesse Norman rejected the possibility of a further extension and suggested that 'a much more fundamental reconsideration' of the tax relief was required, to be developed

115 Power to Change, *Our response to government's consultation on the £87.5 million Community Wealth Fund.*

116 Department of Culture, Media and Sport (2023). *Government response to the consultation on the English portion of dormant assets funding*, 7 March. Available at: https://www.gov.uk/government/consultations/consultation-on-the-english-portion-of-dormant-assets-funding/outcome/government-response-to-the-consultation-on-the-english-portion-of-dormant-assets-funding.

117 Impact Investing Institute and Better Society Capital (2022). *Bridging capital into communities: A practical guide for policy makers.* Available at: https://www.impactinvest.org.uk/wp-content/uploads/2023/04/Bridging-capital-into-communities-A-practical-guide-for-policy-makers.pdf.

118 Better Society Capital, *Social Investment Tax Relief*. Available at: https://bigsocietycapital.com/impact-report-2020/ecosystem/policy-development/social-investment-tax-relief/.

119 HM Treasury (2021). *Social Investment Tax Relief: summary of responses to the call for evidence.* Available at: https://assets.publishing.service.gov.uk/media/60589fc6d3bf7f2f0b583079/210211_SITR_SoR.pdf.

in collaboration with the social enterprise sector.[120] The scheme was discontinued in April 2023 and no further review of tax reliefs for the social economy or prospect of a successor scheme has yet been forthcoming.

Despite its limitations, SITR helped to offset the risk to individuals of providing much-needed affordable and patient capital to the social enterprise sector, and SITR was ranked 4th of 46 initiatives in a Europe-wide study on the effectiveness of tax incentives in fostering investment in small and medium enterprises and startups. Without SITR many community businesses find themselves locked out of accessing tax reliefs, as the remaining schemes are equity-based only and many community business models cannot offer shares. However, for co-operatives and community benefit societies, tax relief on share offers has provided a valuable incentive to investment: from 2016-2021, 34% of community share offers looked to offer tax relief through SITR, the Seed Enterprise Investment Scheme and the Enterprise Investment Scheme, raising £22.5 million.[121]

Community Investment Tax Relief (CITR) is designed to encourage investment in disadvantaged communities by giving tax relief of up to 25% over five years to companies and individuals investing in Community Development Finance Institutions (CDFIs). To date it is estimated that £145 million has been raised by CDFIs using CITR.[122] The scheme is flexible in that investment can be raised from banks, individuals and companies using loans, equity, deposits and securities. There are currently 33 CDFIs accredited to take on CITR and they use it to finance commercial and social enterprises in areas of high deprivation, and those that experience exclusion from other sources of finance. According to Responsible Finance (the trade body for CDFIs), nine in 10 CDFI customers have previously been declined by mainstream investors, and 85-90% go on to repay their loan fully.[123]

The March 2023 Budget extended CITR by increasing the amount accredited bodies can raise, and increasing the limits that CDFIs can lend, to £375,000 for non-profit enterprises, representing an opportunity for community businesses to access capital at scale. Borrowing with CDFIs carries the same challenges as other types of loan providers, such as the affordability of interest rates and issues around accessing an income stream to repay loans. The use of tax reliefs to reduce the cost of capital for CDFIs is intended to have a knock-on impact on the cost of borrowing that then flows to community organisations.

The opposition’s offer

The Labour Party’s Start Up, Scale Up review (2022) largely focused on growing the UK’s venture capital markets to stimulate growth and overlooked the contributions of the social economy, despite the sector’s significant growth in comparison to

120 House of Commons Debate 22 April 2021, Finance (No.2) Bill (First Sitting), contribution by Jesse Norman MP, Financial Secretary to the Treasury. Available at: https://hansard.parliament.uk/Commons/2021-04-22/debates/534f7782-22a4-4ce6-8fa1-c216b87ed6b7/Finance(No2)Bill(FirstSitting)?highlight=%22social%20investment%20tax%20relief%22#contribution-EC79A295-6F92-4100-A401-EFA5910C4190.

121 McCulloch and Dawson, *Communities doing it for themselves.*

122 Responsible Finance (n.d.). *Community Investment Tax Relief.* Available at: https://responsiblefinance.org.uk/the-community-investment-tax-relief-citr/community-investment-tax-relief-citr/.

123 British Business Bank (n.d.). *Community Development Finance Institutions.* Available at: https://www.british-business-bank.co.uk/finance-hub/community-development-finance-institutions/.

mainstream business. However, with Labour's industrial strategy, the party is starting to recognise a role for the social economy in delivering on its mission-driven plans for government. On the clean energy mission specifically, there are emerging commitments to make significant investment in community energy through the Local Power Plan. Labour has committed to investing £3.3 billion over the course of the parliament to provide grants and low interest loans for communities and local authorities to generate local clean power.[124]

In addition to these developments, Labour are exploring how new resource can be made available to support the introduction of new rights for communities – such as the Community Right to Buy. The Community Ownership Commission, published by the Co-operative Party (Labour's sister party), and chaired by the former Chief Economist for EY, Mark Gregory, has made a series of proposals to create a financial environment to support greater community ownership, including but not limited to:

- Reshaping the Community Ownership Fund (COF) to ensure early-stage capability development is built in and that it reaches the most deprived parts of the country.
- Moving to a placed-based funding model by allocating the COF for five years to local authorities to distribute.
- Extending the mandate of the British Business Bank to cover community business.
- Increasing the funding and guarantees the British Business Bank offers to CDFIs to support increased lending to community-owned businesses.
- Commissioning research to assess if Local Government Pension Schemes (LGPS) could be incentivised to invest in community assets.

All this should be viewed in the context of perceived political risks constraining Labour's planned spending commitments, motivating the party's interest in how public funding can crowd in further private and social investment. For example, Shadow Chancellor Rachel Reeves has said that Labour's 'national wealth fund' – a fund designed to co-invest in projects other than energy production which are seen as essential to Britain's green energy transition – will have to attract £3 in private investment for every £1 that it invests.[125]

Local government

Local authorities

Despite current challenges to their financial resources, there are numerous ways for local authorities to empower their local community businesses and help them to unlock the right finance at the right time. As the impact of austerity continues to worsen the financial position of local authorities, the role of a strong community business sector in meeting local needs has become ever more important. But beyond filling service gaps, investing in the community business sector gives people a greater voice in what

124 Labour (2023). *Make Britain a clean energy superpower.* Available at: https://labour.org.uk/wp-content/uploads/2024/03/Make-Britain-a-Clean-Energy-Superpower.pdf.

125 Financial Times (2023). *Rachel Reeves to pledge new lock on Labour green fund investment.* Available at: https://www.ft.com/content/a61262c6-a342-4a1c-96cd-414e447f6924.

happens in their local area, and local and regional authorities are recognising the potential of community business to sustainably deliver local economic development by keeping the opportunities, assets and wealth they create in the hands of local people.

Despite the narrow focus of some levelling up funds, these increasingly call for partnership between local authorities and other local stakeholders such as community leaders and local businesses. As locally accountable organisations, community businesses can help to provide a voice for local people in shaping how investment is used in their place. As beneficiaries of investment, they can also play a role in delivering on these plans in a way that is cost-effective and maximises social and economic impact in the local community. This can be applied by local authorities in passing on investment from short-term funds, such as UKSPF, to community businesses, as well as engaging them in the development and delivery of more long-term plans for place-based investment and regeneration, such as the Long-Term Plan for Towns.

Beyond giving community businesses a share and a say in investment from central government, local authorities have found other routes to use their powers and resources to support community business and social enterprises. Local authorities have historically made loans to community organisations either directly or through community foundations, drawing on access to low-cost finance via the Public Works Loan Board. Examples of lending to community businesses illustrate the scale of activity, with loans varying from £3 million to £100 million in the housing and community energy sectors and to help secure community assets.[126] For example, the Goodwin Development Trust, a social enterprise employing 200 local people in Hull, obtained a loan at a fixed 3.5% interest rate for 30 years from Hull City Council to finance the city's first social eco-housing development, providing more than 40 new homes to the community, with Hull City Council sourcing the capital required from the Public Works Loan Board.[127] A strong pre-existing partnership and shared aims between the council and the development trust, and strong community buy-in for the project, were essential to its success. However, the abolition of the Public Works Loan Board in 2020 and transfer of its functions to the Treasury, combined with the constrained financial context for local authorities, have contributed to the decline of this type of loan funding from local authorities to community businesses.

Local authorities can also support community businesses through the transfer of assets. A quarter of assets come into community ownership in this way, with the primary motivations being to preserve an asset deemed to be of local value (to prevent it from falling into disrepair, or to prevent privatisation), or to provide benefits to the local community (to ensure services and facilities meet local needs, and to maximise reinvestment of community business surpluses in the community).[128] However, the use of Community Asset Transfer is being held back by a lack of resources and capacity within local authorities. Research by Capacity in the Liverpool City Region found that due to the pressures local authorities face, assets projects that can generate a higher financial return (such as through business rates and council tax receipts) are being prioritised over community asset transfers, which are judged to

126 Pagura, S. Pollock, R., and Mussani, S. (2018). *Investing in Localism: How local authorities can provide good finance for community business*, Power to Change Research Institute Research Report Working Paper. Available at: https://eprints.icstudies.org.uk/id/eprint/77/1/WP-2018-06-Investing%20in%20localism.pdf.

127 *Ibid.*, p. 4.

128 Archer, *Our assets, our future*, p. 35, 4.

have lower potential to create this type of return despite the additional social value they can generate. A lack of understanding about what Community Asset Transfer entails, and the skills and capacity to facilitate it, is also a restricting factor.[129]

Community businesses also stand to benefit from the attempts of some local authorities to redistribute wealth and tackle inequality locally. Camden Council, which hosts a number of wealth-generating creative arts and knowledge institutions within the borough, has announced plans to launch a local social investment fund, the Camden Community Wealth Fund.[130] The council plans to offer repayable loans, equity finance, grants and business support to local residents, businesses and organisations, with a focus on those who may struggle to access more traditional investment routes; it explicitly names community businesses as potential beneficiaries.[131]

Modelling suggests the Camden fund could be capitalised through a combination of seed funding from the council (through disposal of assets), debt finance from the Public Works Loan Board, pension funds, taxation, and corporate and developer contributions.[132] While still in development in Camden, this presents a potentially innovative model for local authorities to mobilise their assets and those of local wealth-generating institutions to improve access to finance. However, as the model partly depends on the presence of wealth-generating local institutions, as well as the council's financial capacity, this might not be suitable in areas which lack investment and where local authorities are in serious financial difficulties, or in smaller places.

Combined authorities

Combined authorities are increasingly taking on a role in nurturing the social economy at the regional level, by growing the market and creating opportunities for investment. In 2019, Power to Change partnered with Liverpool City Region Combined Authority and local social economy leaders to set up Kindred, an independent Community Interest Company led by a community of socially trading organisations (STOs). Kindred's role is to provide support and repayable, interest free capital for the sector in the Liverpool City Region. Power to Change incubated Kindred's organisational development by providing governance, organisational development, investment and venture support. With £5.5 million of non-repayable capital from the combined authority matched by £1 million from Power to Change, Kindred launched and made its first investments in local community businesses in early 2021.[133]

More recently, the Liverpool City Region Combined Authority has launched a new Business and Enterprise Board to bring the voice of local business, including community business, closer to the city region's economic policymaking, as part of the integration of Local Enterprise Partnership (LEP) functions into the combined

129 Archer et al., *Our assets, our future*, pp. 4-5.

130 Mazzucato, M. Macfarlane, L., Mikheeva, O., and Bellinson, R. (2022). *A mission-oriented community wealth fund for Camden: Governing finance with public purpose.* Available at: https://www.ucl.ac.uk/bartlett/public-purpose/sites/bartlett_public_purpose/files/iipp_camden_report_digital_singlepage.pdf.

131 Camden Council (2023). *The Camden Community Wealth Fund: The story so far* (draft document). Available at: https://join-camden.co.uk/wp-content/uploads/sites/174/2023/09/Community-Wealth-Fund-Story-so-far_us.pdf.

132 Mazzucato, *A mission-oriented community wealth fund for Camden.*

133 Power to Change (n.d.). *Kindred in Liverpool City Region.* Available at: https://www.powertochange.org.uk/case_study/kindred-in-liverpool-city-region/.

authority.[134] Giving community businesses a voice in the strategic direction of regional economic development may provide another platform from which to advocate for the role of the combined authority in unlocking access to finance.

Example I: Kindred LCR Community Interest Company

Kindred was created as a community-owned local social investment and support vehicle for the Liverpool City Region. Its model recognises and addresses gaps in the regional finance marketplace for socially trading organisations (STOs) and was co-designed with the sector to best fit its social investment needs.[135] Money is loaned at 0% interest, STOs may have the option of repaying partly in social value, and each arrangement is specific to the needs of the organisation, providing low-cost and patient capital.

Kindred's philosophy is 'pay back and pay forward'. Businesses invested in by Kindred in turn reinvest back into the fund so that other businesses can benefit. Access to hands-on support is provided by the expertise of the membership through peer-to-peer support and learning, tailored to grow both the individual and collective social impact.

The first £1 million of funding was invested in 20 STOs in Spring 2021 in a 'pilot' round. The evaluation found that, collectively, the 20 STOs nearly doubled their number of employees from 81 to 158. Their combined turnover also doubled from £1.88 million to £3.76 million, and they attracted a further £10.5 million of additional investment.

Building on the experience of incubating Kindred, Power to Change is currently working with the West Midlands and North of Tyne Combined Authorities to develop their offer for the social economy, exploring ways to nurture and grow community businesses in the regions, including by financing their growth through regional social investment funds. The most recent round of devolution agreements has seen Greater Manchester and the West Midlands Combined Authorities agree 'Trailblazer' enhanced devolution deals with government, giving them access to new powers to promote economic growth and deliver levelling up, as well as single budget agreements that enhance their control over local investment. Among the specific agreements reached as part of the West Midlands deal is a commitment to doubling the size of the local social economy in ten years, through work to develop a social economy accelerator programme, growth fund and local social economy clusters.[136] By including this in the deal, the combined authority has set a precedent to use its devolved powers, resources and partnership with government to further the growth of the social economy and create access to finance for social businesses in the region.

134 Liverpool City Region Combined Authority (2023). 'Business leaders sought to shape Liverpool City Region's growth sectors', 25 July. Available at: https://www.liverpoolcityregion-ca.gov.uk/news/business-leaders-sought-to-shape-liverpool-city-regions-growth-sectors.

135 Kindred (n.d.). About us. Available at: https://kindred-lcr.co.uk/about-kindred/about-us/.

136 HM Government and West Midlands Combined Authority (2023). *West Midlands Combined Authority deeper devolution deal*, p. 66. Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1143002/West_Midlands_Combined_Authority_Trailblazer_deeper_devolution_deal.pdf.

These local and regional approaches to social economy growth, and its positioning within their wider economic growth strategies, demonstrate the important role of local government in using its own assets, and convening others, to unlock access to finance for community businesses. Despite the widespread financial difficulties impacting local government, local authorities can channel funds from central government for levelling up and devolution into supporting and financing the sector, as well as giving them an enhanced role in shaping spending decisions.

However, the ability of local and combined authorities to respond to the current finance and funding needs of community business remains a challenge, with each of these approaches requiring long-term sustained resourcing and capacity. Additionally, as indicated in the West Midlands approach, growing the supply of finance must be accompanied by sufficient support and investment to build the demand and capacity of the sector to take it on – which should be accounted for within local and regional government's business support responsibilities post-LEP transition (see Appendix 1 for more). Nonetheless, local and combined authorities are still likely better positioned than central government to respond to the needs of community businesses in their area.

Image: Future Yard.

Policy recommendations

As this report demonstrates, community businesses require access to a range of sources of finance to meet their needs at different stages of development and to support different activities (such as asset ownership, or income diversification). Accessing the right forms of finance at the right time is essential to their ability to deliver for their communities sustainably and for the long term.

Funders and social investors can play a key role in enabling access to finance for more community businesses by addressing the challenges and barriers outlined here, working to create a more accessible and affordable finance landscape, and supporting community businesses to diversify their income streams.

Government, at all levels, also has a role to play in unlocking access to finance for community businesses. Central government should continue to support community business through public funding tailored to local communities, such as the Community Ownership Fund, as well as by unlocking other sources of finance to be administered to communities, for example through the dormant assets scheme. Government should also make use of subsidy to support the growth of community businesses, including by incentivising greater private investment in community businesses and the social economy through tax incentives. Local and regional government can also support community businesses through their efforts to build fairer and more prosperous local economies, but should also take advantage of the opportunity of devolution to pass on place-based investment (for example, from levelling up funds) to the accountable and impactful community-led organisations who can build stronger communities and better places.

This chapter makes recommendations to funders and social investors on how to address some of the challenges and barriers to accessing finance that have been identified in this report. It also provides recommendations to government – both central government and local and combined authorities – on how to facilitate access to finance now and in the next parliament.

Recommendations for funders and social investors

1. Ensure grant funding supports community businesses to diversify their income streams and reduce grant dependency.

As this report demonstrates, the ability to earn income from trading is key to the growth and sustainability of community businesses, and trading income is among the most flexible sources of finance for community businesses. However, establishing and maturing trading activity requires time, resources and skills, and the impacts of recent external forces (such as the pandemic and cost of living crisis) have once again increased community businesses' dependence on grants.

Grant funding should therefore support community businesses to develop and diversify their income streams and increase the resilience of their business models. Funders should harness innovative approaches such as enterprise grantmaking to help more community businesses to earn income from trading and to foster long-term resilience in their business models. They should also provide funding and support to enable community businesses to access social investment, such as through blended finance, and to access investment from the local community through community shares.

Blended finance – combining grants and loans – is also essential to making repayable capital more accessible to community businesses, and presents an opportunity to demystify social investment and build community businesses' financial capabilities to take on further investment.

2. Enable greater equity in access to funding, and fund flexibly to help community businesses meet their needs.

Though support to diversify income is essential to reducing the grant dependency of community businesses, this research demonstrates that there is still a role for grant funding in helping community businesses to start up, grow and survive in challenging circumstances. But the evidence shows that access to grants is not equal, and community businesses led by and delivering for minoritised communities continue to cite challenges such as the administrative burden, inflexibility of grants and inaccessible language used by funders as key barriers to accessing funding.

Most funders will be cognisant of these challenges already, but more bold action is needed. Funders can take practical steps to reduce the complexity of their language and application processes: using plain English and avoiding jargon, shortening application processes, limiting questions and documentation required, and providing pre-application support to prospective grantees. All these steps could help to reduce the time and resource burden faced by community businesses and empower those organisations that are typically underrepresented in funding opportunities to access funds.

Funders should also be driven by the needs of the sector rather than their own priorities and should fund as flexibly as possible. As the example of the Renewal Fund demonstrates, unrestricted funding shows that funders trust community businesses to know where the greatest need is, both in their business and their local community, and how to respond to it.

3. Provide affordable, transparent and long-term investment that works for community business.

A key barrier to accessing social investment is the limited patience and affordability of loan products, relative to the small size and low margins of community businesses. Particularly for early-stage community businesses seeking finance to start and scale up, social investment may be viewed as too expensive or too risky if other income streams (such as from trading) are not yet matured enough to support the repayment of loans. Social investment products must match the needs and goals of community businesses – not the other way around.

Social investors should offer affordable, transparent and long-term investment that matches the ambitions of community businesses and their current realities. This includes ensuring interest rates offered on social investment are affordable to community businesses, and using products such as blended finance or small grants to help community businesses to build the capabilities, financial resources and confidence to begin taking on repayable capital. Greater upfront transparency and comparability around the cost of social investment would also support community businesses in their financial planning and boost their confidence to take on social investment.

Social investors should also consider how adopting innovative approaches that recognise the 'double dividend' of community businesses and social enterprises (their combined social and economic value) could increase take-up of social investment - such as Kindred's approach to enabling the partial repayment of small, early-stage loans in social return.

To achieve this, social investors will in turn require access to sufficiently large-scale and long-term concessionary finance that enables them to fund patiently, flexibly and affordably. Dormant assets funding is supporting the growth of the blended finance market, but more work is needed to unlock concessionary capital by government and beyond.

Recommendations for the next government

1. Adopt a cross-governmental strategy for the social economy.

The next government should adopt a social economy strategy to fundamentally reshape the approach to growing and developing this high-potential sector of the British economy. Siloes within government have for too long prevented joined-up thinking about the needs and opportunities of social businesses, with responsibility spanning multiple government departments in an often disjointed way. A role within the Cabinet Office with responsibility for coordinating a cross-governmental commitment to resource, empower and grow the social economy would finally give social enterprises and community businesses the policy attention and coherence that they deserve, and that is required to resolve the challenges they are facing. Community businesses and other social business models should also be a central pillar of any future industrial strategy, reflecting their important role in delivering sustainable and fair economic and productivity growth.

Beyond cross-departmental working, central government should also commit to a more coordinated approach with local and regional government to embed support for the social economy within approaches to local economic growth. It should work in partnership with the sector, funders and social investors to learn from the present challenges and continue to develop the offer.

2. Introduce a successor to Social Investment Tax Relief.

To help community businesses to thrive, the next government should work with the social enterprise sector and social investors to test and develop new incentives for investment in the social economy, including a successor to Social Investment Tax Relief (SITR).

A successor scheme should learn from and address the challenges of the previous scheme, including by reducing the burden of accessing tax relief (for participating businesses and investors). It should expand eligibility to include a wider range of legal models of social-purpose business (such as co-operatives), to fully capture the potential of the community shares market – as well as a wider range of venture types, to better capture the spread of activities that social enterprises provide, including in high-growth sectors such as community renewables and housing.

The successor scheme should also provide a more generous incentive to align with the risk profile – such as the 50% relief on new investments offered through the Seed Enterprise Investment Scheme. It could also explore the option of offering corporation tax relief to enable organisations to invest (as with Community Investment Tax Relief). Such changes would help to attract more investors to back their enterprising local community business, enabling community businesses to raise the finance they need to scale and grow sustainably and with genuine community buy-in.

3. Use dormant assets to provide long-term, flexible investment in community business.

As funding which sits outside of the usual constraints of Treasury fiscal rules, dormant assets funding can be a valuable source of capital to meet the need for flexible, long-term investment in community business. It is positive that Government recognises the need to unlock access to finance for community businesses through the social investment strand of dormant assets funding, and the announcement of a Community Wealth Fund from dormant assets can take this further. However, the quantum of funds must reflect the scale of ambition. Government should continue to make the case to financial institutions for dormant assets to provide patient and flexible capital and continue to expand the scheme.

Using Community Wealth Funds to invest in community businesses can sustainably build local social infrastructure, tackle deprivation and enhance local capacity. Therefore Government should seek to share Community Wealth Funds between places with no social infrastructure and those with some existing community organisations, in order to anchor and convene partnerships around the funds.[137] Government should also apply the principles of the Community Enterprise Growth Plan in its approach to the social investment portion of dormant assets, as a means to address the challenges of social investment and ensure it is accessible to the communities and organisations that need it most. An investment of £500 million over ten years would unlock at least the same amount of private capital – doubling the amount available to communities – while the use of loans would allow this to be recycled and go further.[138]

137 For more information on Power to Change's position, see: Power to Change, 'Our response to government's consultation on the £87.5 million Community Wealth Fund'.

138 Community Enterprise Growth Plan (n.d.) *What is the Community Enterprise Growth Plan?* Available at: https://www.communityenterprise.uk/_files/ugd/c13f57_6d5ef257ff5a47308e641dfb208f7cce.pdf.

4. Unlock more private and institutional investment in community business.

Government should also explore how it could unlock more private and institutional capital for organisations that typically struggle to access finance through Community Development Financial Institutions. This could include pension fund reform (as with the directive to invest 5% of the Local Government Pension Scheme's assets under management in local areas in the Levelling Up and Regeneration Act), or by unlocking more investment from commercial banks. The latter could be achieved by introducing a reform akin to the Community Reinvestment Act introduced in the USA in 1977, which compels banks to make finance available for CDFIs to serve underrepresented and marginalised communities. However, such reforms would also require that funding and support be directed to CDFIs to broaden their geographic coverage and coverage of underserved communities, and to raise awareness within the social enterprise sector of the role of CDFIs in providing affordable finance.

5. Continue to fund and support community asset ownership.

The next government should facilitate more community asset ownership by committing to the continuation of the Community Ownership Fund in the next Parliament, including through the ringfencing of any underspend of the current fund for community ownership activity, and with the quantum – and ambition – of funds expanded.[139] Extending the fund to £300 million over the course of the next parliament could bring a further 1,300 assets into stable community ownership, representing a 20% increase in community-owned assets, with the potential to create at least 5,000 jobs and 30,000 volunteering opportunities.[140]

Government should also go further to support community ownership by supporting the establishment of a British High Street Investment Vehicle. Modelling for Power to Change suggests that an initial £100 million of government investment in the form of subsidy could leverage a further £250 million in commercial and social investment, which could purchase and restore a diversified portfolio of around 200 properties across England.[141] This would provide a much-needed source of patient and flexible capital for community ownership and meet demand for an impact investing opportunity on a scale attractive to institutional investors. The investment vehicle would be run and managed by combining commercial property expertise with on-the-ground community intelligence, with high street property purchased according to local demand. Government subsidies could provide revenue support and help community groups to build their skills and business plans to ensure purchased assets are transferred into sustainable and long-term community ownership.

139 Allocation correct as of February 2024. Department for Levelling Up, Housing and Communities (2023). Community Ownership Fund: successful bidders, 25 September. Available at: https://www.gov.uk/guidance/community-ownership-fund-first-round-successful-bidders.

140 Power to Change (2023). *Manifesto for the Age of Localisation*. Available at: https://www.powertochange.org.uk/wp-content/uploads/2023/09/Power-to-Change-Manifesto-1.pdf.

141 Plumb, N., *Why now is the time for a High Street Buyout Fund.*

Finally, government should make interventions to build the pipeline of assets for community ownership by introducing a Community Right to Buy, strengthening the powers in the 2011 Localism Act.[142] Local authorities can also assist this by supporting communities to register Assets of Community Value, and by identifying assets in public ownership for Community Asset Transfer.

Recommendations for local and regional government

1. Empower community businesses and other social purpose businesses as part of an inclusive growth approach.

Community business has an important role to play in creating fairer, more inclusive local economies. Committing to an inclusive growth approach to local economic development is an important first step for local and combined authorities in establishing partnerships and commitments to nurture the growth of community businesses and other organisations in the local social economy.

This framework can help establish a precedent for community business engagement as part of decision-making processes around economic development strategy and funding, for example by including them as members of Town Boards and business voice groups, and as partners in local regeneration activity.

As part of building an inclusive local economy, local and combined authorities should also seek to provide finance for community business through their commissioning and procurement, by making it simple for community businesses to bid to deliver services in their communities.

2. Use the opportunities of devolution to formalise support for community business and unlock access to funding for the social economy.

Local and combined authorities should use the opportunity of devolution to formalise their partnership with community businesses and social economy organisations, and to unlock finance from devolved funding to resource social economy growth.

Local authorities should ensure a cabinet member has explicit responsibility for growing and supporting the local social economy, providing opportunities for accountability and sustained partnership working between local authorities and the sector. Combined authorities should identify a member at strategic board level with responsibility for growing and strengthening the social economy, and these commitments should be reflected and resourced as part of any devolution deals and financial settlements with central government, as in the West Midlands' enhanced devolution deal.

Local and combined authorities should also utilise funding from central government to address regional inequality when it comes to investing in community businesses. Community businesses often operate in areas of high deprivation, and as locally rooted and accountable organisations they are well placed to understand, and address, what

142 For more information on this proposal, see Power to Change, *Manifesto for the Age of Localisation*.

their communities need in order to thrive. Local government should utilise funding such as the UK Shared Prosperity Fund to provide small grants and business support to grow local social economy organisations. Local and combined authorities should also explore whether capital funding from central government (which often requires 'shovel ready' projects due to tight spending timelines) could be used to support community organisations to purchase or redevelop local assets which provide vital social infrastructure. Local authorities can also support community organisations in accessing Community Ownership Fund support, since the value of transferred public assets can be leveraged as match funding for COF applications.

3. Act as a convenor in place and leverage additional investment in community business and the local social economy.

Local and combined authorities should also act as convenors in their place, leveraging their own investment in the sector to incentivise other local organisations, funders and investors to provide access to finance for community businesses in their locality.

This may involve working with local anchor institutions to more fairly distribute wealth created in a place (as is being explored by Camden Council). Or it could involve developing a credible partnership to provide social investment at the regional level and on terms which meet local needs - such as for no/low interest, patient and flexible capital (as has been achieved in Liverpool City Region, through Kindred).

Image: Chilli Studios by SVG Photography.

Conclusion

Across the country the activities of community business are strengthening communities and local economies. They are creating innovative responses to local challenges, providing services and stewarding assets which support local people and create good places to live and work. While their impact is clear, this report demonstrates that accessing the right finance – to start up, grow, take on assets, respond to challenges and build new income streams – when it is needed remains a major challenge for community businesses. Power to Change will continue to advocate for community business and work with partners to address these issues.

The complexity and variety of the finance market does serve a purpose, offering a variety of different routes by which community businesses can finance their ambitions. However, this complexity also makes it challenging and time consuming for community businesses to access the finance they need, and without opportunities at scale their finances often resemble a patchwork quilt of many different grants, loans, and other income streams. This is not sustainable – the path to opportunity must be clearer, and meet the scale of demand and ambition that community businesses represent.

As the recommendations outlined in this report suggest, it will require effort from all those who appreciate the significant social and economic potential of community business – from funders, social investors, all levels of government and all those that support community business – to ensure the right finance, at the right time, for every business. There is urgent need for a renewed and collective focus on addressing the barriers to finance to ensure community businesses can fulfil their aspirations and continue to serve their communities, and this report identifies pathways for each of these stakeholders to do just that.

This research has also raised new questions and opportunities which are outlined in Appendix 1, and which Power to Change will seek to address in our ongoing work on ***financing the future economy***. It is clear that community businesses are not backed by investors or government in the same way as traditional forms of business, and lack access to dedicated incentives and subsidies to support their growth. However, there is growing demand from individual and institutional investors for impact and social investing opportunities, and new frameworks are needed to make these opportunities available on terms and at a scale which are appropriate to both investors and community businesses.

Further research could focus on how to unlock the flexible, early-stage investment that venture capital typically provides to conventional businesses, while reflecting the additional social return that community business provides. Further work is also needed to unlock the large-scale and long-term funding that more mature community businesses need to transform their neighbourhoods.

Finally, this report has touched on the need for support to accompany finance, to ensure community businesses can develop their capabilities to take on and make use of the different sources of finance, and to improve their skills to secure funding. Access to finance and support go hand in hand, and further research is required to explore the capacity and capability needs of community business in terms of access to finance.

As Power to Change moves forward in our work backing community business, we will continue to harness what we have learned, and amplify the calls of community business to influence funders, investors and policymakers to unlock the funding and finance that community businesses need to thrive.

Appendix 1: Areas for further work

1. Venture capital for the social economy

An emerging finding of the research is that despite being a resilient form of business which generates both economic and social returns, community businesses are not backed in the same way as other types of business. Currently there is a gap in the market for flexible investment for early-stage ideas, as is typically provided by venture capital. Equity-like early money for community business could help emerging organisations to navigate the challenges of developing ambitious and innovative community business objectives. This could then pave the way for these organisations to take on social investment as they develop. Further research is needed to consider how this could be offered on appropriate terms for community business, while representing an attractive proposition to investors given the lower potential for financial returns in the social economy. This may be a niche in the market that could be filled by impact investors and high-net-worth individuals interested in generating social as well as financial return on investment.

2. Long-term investment in neighbourhood transformation

There is growing acknowledgement of the role community businesses play in neighbourhood transformation. Beyond single asset-owning community businesses, there is an expanding network of community businesses who own and manage multiple, complex assets and operate at the neighbourhood level. These asset-developing community businesses struggle to access finance from traditional sources, such as social investment and grants that is both sufficiently long-term (often across multiple decades) and at a large enough scale to achieve their ambitions. Instead, they face the burden of aggregating smaller funds from many different sources. Further work is needed to identify and unlock innovative sources of long-term investment, including through private and institutional sources, such as pension funds, to back up this community-led approach to neighbourhood transformation.

3. Building community business capability to access finance

The research demonstrates that community businesses require different skills and knowledge (capabilities) to engage with different types of finance. They also need time to step away from day-to-day activities for the purpose of financial planning, to apply for grants and loans, and to diversify or grow income streams (capacity). A related research project could explore the support needs of community businesses in terms of strengthening their capabilities to engage with different forms of finance, and to undertake other business functions vital to the growth and sustainability of 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

Power to Change is the think-do tank that backs community business. We turn bold ideas into action so communities have the power to change what matters to them.