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Growth, sustainability and purpose in the community business market in the Liverpool City Region

University of Liverpool and Seebohm Hill Ltd

Helen Heap, Vicky Nowak, Ellen Schwaller,
Alan Southern and Matt Thompson

power to change
business in community hands

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About this report

This research was funded in 2017 through the Power to Change Research Institute's open research grants programme. The open research grants programme aims to support the community business sector and its partners to deliver the evidence the sector needs for its own development, and to make the case for the value of community business. The research is conducted independently of Power to Change. The work and any views presented are the authors' own.

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About the authors

Helen Heap is a social investor and the founder and CEO of Seebohm Hill Ltd, a Liverpool-based social investment consultancy. She spent more than two decades working in the financial services industry. Since 2011 Helen has worked with social organisations, investors and the University of Liverpool to highlight the value and importance of the social economy in improving the lives of local citizens. Helen is a Visiting Fellow at The Heseltine Institute and sits on several boards in non-executive roles. Helen is an experienced presenter on social investment and social enterprise.

Alan Southern is at the University of Liverpool where he is the Principal Investigator of the Heseltine Institute's work on the social economy and at the Centre for Entrepreneurship in the Management School. His work focuses on inclusive economic growth, the social economy and equitable wealth redistribution. Alan has written many academic papers and edited books in this area and works with PhD students keen to develop their research. He supports social organisations through a range of practitioner initiatives and sits on the Board of two local Liverpool City Region social enterprises.

Matt Thompson is a Leverhulme Trust Early Career Fellow at the Heseltine Institute. He was awarded for a project entitled 'Reimagining the City: New Municipalism and the Future of Economic Democracy' which builds on his PhD research which explored Liverpool's history of collective alternatives to public housing. Matt is a graduate of the Universities of Oxford and College London and has experience of working in a London Borough planning department.

Vicky Nowak has recently completed her PhD at the University of Liverpool where she designed an innovative approach to look at entrepreneurship in the Liverpool City Region. She now acts as an independent researcher looking at the social economy and enterprise in the local economy.

Ellen Schwaller is a current PhD student in public health and policy at the University of Liverpool. She has a decade of work experience in the public and non-profit sectors at the intersection of health, community wellbeing, and built environment policy.

Executive summary

The objective of this report has been to build an evidence base that can demonstrate how growth can be achieved in the community business market. We show here the size of the community business market in Liverpool City Region and provide commentary on its potential for sustainability and growth.

Methodology

For this work, we established a database of community businesses in Liverpool City Region that allowed us to provide a descriptive account of all community businesses there. After we analysed the data we held, we selected a small number of community businesses for semi-structured interviews. Finally, we ran an online survey of community businesses and, for comparison purposes, a sample of social organisations from the wider social economy.

Defining and counting community businesses in the Liverpool City Region

– Definitions of community business are important, although complicated. The definition can be exclusive and is not always recognised by those working in the community business sector. Definition is not only a technical matter, and the term may well form an identity for a group of organisations in the social economy.

– Using Companies House data to identify community businesses based on our particular inclusion and exclusion criteria, we found 84 community businesses in Liverpool City Region. These have total annual turnover of £22 million, own net assets worth £38 million and they employ more than 600 paid staff.

– We found fewer community businesses in Liverpool City Region than we expected, based on previous research by Power to Change. We believe this can be explained by a lower-than-average business density for Liverpool City Region – which is likely to include community businesses – and the fact that our methodology does not include unincorporated community groups, which are included in estimates of the size of the community business market published by Power to Change.

– Extrapolating directly from our Liverpool City Region data, we estimate that the community business market in England comprises 4,400 organisations, employing around 26,400 staff, generating £0.9 billion in annual income and owning net assets of £0.6 billion. If we adjust for business density and unincorporated groups, then we estimate there are 7,100 community businesses in England. Comparative estimates for 2018 from the Power to Change *Community Business Market in 2018* report are 7,800 community businesses with 33,600 staff, £1.05 billion in income, and total assets worth £0.69 billion.

Sectors

- Over a third of community businesses in Liverpool City Region are categorised as community hubs. This is in line with national data from Power to Change. While 25 of the 30 community hubs in Liverpool City Region operate venues, we found a total of 150 separate activities being provided by these organisations and energy and transport were the only sectors which did not feature.
- The embedded character of the community hub provides a strong social connection with the community, while the physical building is the basis from which a wide range of services can be provided.
- Our quantitative data shows a much higher weighting for the finance sector in Liverpool City Region than is the case in the national data (14 per cent for Liverpool, 1 per cent for England). We found 11 credit unions operating across Liverpool City Region. After carefully considering Power to Change's four criteria for community businesses, we decided to include eight of these businesses in our analysis because they operate at a very local geographical level.
- We found it difficult to decide whether housing co-operatives in Liverpool City Region should be defined as community businesses and included in our analyses. Most operating in the region have a history which provides them with a distinct set of characteristics, quite different from other community businesses. In addition, the breadth of their social impact is questionable as they often only provide housing for a limited number of people. We felt that including them would have skewed the data and made comparisons impossible within the region and beyond. That is not to say that all housing co-operatives in all areas should be excluded, but that we consider Liverpool City Region to be a special case.

Place and deprivation

- The distribution of community businesses is heavily skewed towards the City of Liverpool, with the other five boroughs under-represented as a result.
- Community businesses are very much concentrated in areas of high deprivation in Liverpool City Region, with almost two-thirds of them located in postcodes defined as the 10 per cent most deprived, according to the Indices of Multiple Deprivation. Our data shows that community businesses are more densely present in deprived areas than other social organisations.

Finance and assets

Community businesses in Liverpool City Region are, on average, older and therefore better established than organisations in the wider social economy. Community businesses have more assets than other social organisations, even though they generate similar levels of income.

- Our survey data and interviews identified that, for some community businesses, the ownership of fixed assets, like buildings, was a major catalyst for growth. The financial data highlighted the importance of fixed assets for the development of financial resilience.
- We found that around half of community businesses in Liverpool City Region had low financial resilience. This group would be vulnerable if they suffered a material reduction in income, as they do not hold enough working capital to pay their monthly expenses.
- The governance structure of the community business is important. Our financial data showed that community businesses structured as mutual societies appeared to be more financially resilient than those with other governance structures.
- Around 44 per cent of Liverpool City Region community businesses are confident in their financial position for the next 12 months, compared to 23 per cent of all social organisations across the social economy.
- A higher proportion of community businesses have expanded over the past year compared to the rest of the social economy. Even so, community businesses were less positive about handling an unexpected major expense.
- Community businesses in Liverpool City Region generate a greater proportion of their income from public sector contracts than other social organisations. Even in a period of austerity, community businesses expect these to provide an increasing proportion of total income over the next two years.

Workforce

- Our survey data shows that employment in the sector appears to have remained consistent over the past five years. The supply of volunteers to the community business is good and has been increasing. The median figure is currently 16, up from 12 five years ago, and 86 per cent of community businesses see volunteers as ‘very important’ or ‘important’.

Support

We suggest four areas of support for the development of community business in Liverpool City Region based on need and demand identified in our findings. Power to Change and other support organisations should seek to collaborate to deliver this support.

1. Target resources:

- Prioritise financial and business support for growth-oriented community businesses.
- Initiate a medium-term plan to raise the number of start-up community businesses across Liverpool City Region, specifically in those places that appear to be under represented, such as Knowsley.

2. Build capacity within the sector:

- As sustainability and growth are pursued the critical areas of management are financial competence, market growth and managing organisational change. Support organisations should develop relationships with education and training providers so that management development is embedded in the community business sector.
- Establish a new community business leadership programme piloted in the Liverpool City Region. This should be linked to social purpose and community activism and should cultivate the next generation of community leaders.

3. Influence the decision-makers:

- The community business sector should play an active role in the governance of the wider city region economy. However, the sector is not large enough to warrant a defined role and for this reason, it is essential that representatives of community businesses are part of the wider social economy networks and particularly that of the emergent Liverpool City Region Social Economy Panel. Through this, community business should specifically seek to initiate a lobbying and engagement process to raise the profile of the sector with the Combined Authority, the Local Enterprise Partnership and Metro Mayor.

4. Build the base of knowledge about community business:

- This study provides a methodological framework for replication elsewhere. Critical to this are the identification of sustainable community businesses and those that have the potential to grow. We would suggest that Power to Change repeat the work in a priority area similar to this study area and in a non-priority area also. The purpose of this is to:
  - help consider the effect of their own interventions and their definition of what a community business is; and
  - further test the Power to Change hypotheses that posits community businesses are exemplar organisations in the wider social economy and can bring change at sector, place and community levels.

Conclusion

This study has provided an evidence baseline of community business in the Liverpool City Region. Our research shows that the community business sector is a positive asset for the Liverpool City Region, and has the power to be transformative in particular because of its reach into the most deprived communities. With the right support and intervention, there are many ways these organisations can impact productively on their local community and on the wider local economy.

It is essential that funding is secured to monitor the Liverpool City Region community business sector over the next three, five and ten years including measuring impact.

1. Introduction

The objective of this study has been to build an evidence base to demonstrate how growth can be achieved in the community business market. We use the term 'growth' to refer to those community businesses who are looking to expand their market, revenue, employment base and impact. At the beginning we suspected that many community businesses are less able to grow, wishing initially to achieve sustainability and embed their impact within their local community. We felt that greater insight about growth and sustainability would help Power to Change target their support for community businesses more efficiently. We also wanted to examine the purpose of community businesses and specifically their role in the Liverpool City Region (LCR).

The social mission of community business is at the centre of their existence. We know that this can lead to dilemma, as the social purpose of the community business and commercial reality are pursued simultaneously (Cornforth, 2014). Our research has focused on community businesses in LCR. Community businesses have been able to access support from Power to Change in LCR, in a broader context of a dynamic social economy (Heap et al., 2017).

LCR has in general been a poorly performing economy that exhibits relatively low levels of productivity, has skills shortages, records more educational underachievement and lower numbers of business per head of population (Liverpool City Region LEP, 2016). While these issues are often overstated, we know there are consequent social problems. At the start of this research we believed that by building a detailed evidence base to show what community businesses need, we might support their growth and sustainability. We believe that a case can be made for intervention that can address not only economic and social problems, but also support Power to Change and the community businesses in LCR.

In the next section we explain our staged approach to the research, involving quantitative and qualitative analysis. In following sections we explain how the definition of a community business needs careful consideration and provide an account of the sector in LCR. We then turn to community business, looking next at finance and then the potential for growth in the sector. We provide commentary on the people who work in and support community business and conclude with what we believe are pertinent points for the community business sector in LCR.

2. Methodology

Our aim was to develop the research using quantitative and qualitative methods in four stages over roughly ten months. We began with a development of the Seebohm Hill database of social organisations in the LCR.[1] This enabled us to provide a descriptive account of all community businesses in the city region and helped identify and select community businesses for subsequent stages of research. We held a small number of face-to-face interviews with community business founders and leaders, using the database to target community hubs, community transport and credit unions as these were the sectors with the highest number of organisations. We surveyed community businesses derived from the database and analysed historical trends in the growth of community businesses in the region.

2.1 Establishing the universe of community businesses

We initially anticipated that around 210 community businesses would be registered in the LCR, by extrapolating from previous Power to Change research and our own previous work (Heap et al., 2017, Diamond et al., 2018). In fact, our methodology resulted in a universe of 84 community businesses in LCR, much smaller than we had expected. See Appendix 1 for a detailed explanation of how we constructed the sample frame. More detail on the composition of the community business market in LCR is provided in Section 4.

The primary search criterion in this study was company type. This had at least two limitations:

– it does not include any community businesses that are companies limited by shares. These were not included as they do not have an asset lock and are structured to be for private rather than community gain. We realise that some companies limited by shares may define themselves as community businesses, but they have not been included in this analysis

– it does not capture any groups that are unincorporated. This includes groups that are at an early stage of development and have not yet decided on their governance structure. Previous work has discussed the different life stages of community businesses, including a ‘pre-venture’ stage, where there is not yet an established legal form (Swersky and Plunkett, 2015). This study only looks at organisations that have been incorporated.

To assess how important these limitations were, we reviewed governance structures of all Power to Change grantees in North West England. We found no grantees that were companies limited by shares, and 6 per cent of them were unincorporated. This would suggest that our methodology may have underestimated the actual number of community businesses in LCR by around five or six.

[1] Seebohm Hill Ltd constructed a database of social organisations which operate in LCR as part of the research undertaken by Heap et al. (2017).

We used the UK Standard Industrial Classification of Economic Activities (SIC 2007) and deliberately excluded some classifications on the grounds that these activities were not likely to be community-based. These included some (but not all) categories of construction, real estate, financial and insurance activities. See Appendix 1 for full details of the exclusions.

To understand whether the exclusion of these groups resulted in us systematically under-reporting the number of community businesses in LCR, we compared the sector composition of our data set with Power to Change's most recent estimate of the community business market (Diamond et al., 2018). If our methodology was missing significant groups, we would expect that the sector weightings for LCR would be much lower for these than in the national data. The data shows that LCR has much higher weightings in both housing (6 per cent in LCR, 2 per cent national) and finance (14 per cent LCR, 1 per cent national). We therefore conclude that excluding the classifications does not materially affect the number of community businesses in the data set.[2]

2.2 Interviews

We used the list of 84 community businesses to determine which subsets of the universe would be targeted for in-depth interviews. We identified sectors that were numerically high and that made up the largest portion of income, for instance those with trading potential and growth rather than start-up or propensity to start up. Within the universe of community businesses these were community hubs, community transport and credit unions. We also included an additional 'other' group, identifying organisations that represented the breadth of fiscal, geographical, and tenure status of community businesses in the city region.

Based on these parameters, a list of 16 organisations including nine Community Hubs, four community transport organisations and three 'other' organisations were contacted for interview. An additional three organisations were added in the middle of the process to increase responses. Of the 19 organisations contacted, 12 interviews were agreed to and carried out between March and May of 2018. We asked that participants be serving in a key founder or leadership role. Seven Community Hubs participated along with two community transport organisations and three 'other' organisations. In addition, we then interviewed two credit unions as we reflected upon their importance to the community business sector. This brought the total number of interviews to 14. All interviews were in-person, recorded, and transcribed."

[2] See Appendix 3 for a full list of the community businesses in LCR.

We structured the interviews around four major topics:

- organisational foundations – the history, evolution aims and goals of the organisation, and their relationship with, and involvement of, the local community.
- legal and financial status – the stage of development of the community business, its principle past, current, and future revenue streams and the evolution of grant funding.
- employees and staff – specifically to identify the distinction between types of employment in the community business – paid and voluntary, full- and part-time.
- sustaining success – how success was measured, how the community business sought support and the barriers and drivers for success.

We derived interview questions from previous research (Power to Change, 2017) and our work on describing the universe of community businesses. The interviews were semi-structured and most questions were open-ended. We systematically reviewed and coded interview transcripts using NVivo for pertinent themes and used our exploratory review to identify additional areas for research.

We summarised the characteristics of the community businesses we interviewed:

- In terms of assets and revenue over the previous three years:

£500,000

three community businesses reported average revenues of more than £500,000

£100,000

four reported a three-year average income of less than £100,000, the lowest of which was under £10,000

3 years

eight organisations had an average deficit over the last three years

£1.5m

fixed assets ranged from nothing to more than £1.5 million.

- Geographically, the community businesses were distributed across the city region with a slight increased representation from North Liverpool, with one based on the Wirral.
- Seven organisations were founded prior to 2000 and five were founded after, while one organisation had been established within the last three years.

- It seemed that the community businesses' activities matched their classification. Two charities not classified as community hubs were operating room hire facilities along with other activities and programmes. Two others, classified as community hubs, did not seem to be making much, if any, income from room hires and instead operated mostly from contracts from the local authority and grant funding. We believe that all organisations interviewed were trading at some level.
- All interviewees were leaders of their respective community business and exhibited substantial knowledge of the social economy or their organisation's main activity. Almost all reported deep community ties developed over many years with the organisation as founder, past partner, or as a user or participant in services offered.

The interviews helped us to understand community business in LCR from the perspective of the lead person. This offered or corroborated insight captured in our analysis of the 84 community businesses and the survey. It also provides an opportunity to sense-check against the national picture and other research reports provided by Power to Change, such as its annual Community Business Market work, which reports on the size, shape and scope of the community business market (see Hull et al., 2016, Diamond et al., 2018).

2.3 The survey process

The database was the starting point for the survey, which was conducted online towards the end of the summer 2018. We identified and attempted to contact all 84 community businesses in LCR. Five were uncontactable and assumed to be dormant, two confirmed that they were no longer operating, and one had moved out of the area. This left a population of 76 confirmed community businesses for the survey. To maximise participation where contact details were available, we attempted to contact organisations on a minimum of three occasions. The researcher discussed the research and identified a named contact before sending a personalised email with the survey link. They followed up with one reminder phone-call and two group-emails. This elicited a response from 46.

We used a comparator group of LCR social organisations, based on previous work to discern community businesses from the wider population of organisations in the social economy (Heap et al., 2017). We drew a sample of 200 social organisations, eliminating 65 where contact details could not be validated. In total we made two attempts at telephone contact with 124 social organisations, and emailed all survey group contacts with two reminders. This elicited a response from 34 (27 per cent). The lower response from social organisations might reflect a lesser level of telephone contact, absence of a reminder call and less personalised email contact. It might also, of course, reflect the particular relevance of the research to community businesses. Anecdotally, organisations within the community business group also appeared more familiar with the work of Power to Change.

Figure 1: Survey respondent breakdown

	Number	Rate (%)
Community business	46	57.5
Social organisation	34	42.5
Total	**80**	**100**

Despite an overall response of 80, not all respondents answered every question. There was a higher attrition rate as the survey progressed, which was most evident at the ‘Finance’ section, which had eight abandonments. We have highlighted the number of responses to each question in the reporting on the survey below.

3. Defining community business

The research generated discussion about what a community business is. Practitioners provided insight into the rootedness and values of community business, while our survey indicated that the same points had been considered more widely. We look briefly at definition and how we have used it to shape our research.

3.1 Definition as a methodological challenge

We found Power to Change's four key features of a community business to be a useful set of criteria in deciding how an organisation should be included in our research. The perception of interviewees was interesting – not all organisations interviewed identify with the term 'community business'. Some were quick to identify as a charity or as part of the wider social economy, working in the 'third sector'. In a basic word frequency analysis of transcripts, this correlated with interviewees who were more inclined to use words such as 'business', 'enterprise' or 'trading', and we saw a clear stratification among interviewees – some barely used such words while others used them frequently.

The four key criteria we used to confirm our data set were:

Locally rooted
community businesses are rooted in a particular geographical place and they respond to its needs.

Trading for the benefit of the local community
they are businesses. Their income comes from activities like renting out space in their buildings, trading as cafés, selling produce they grow or through generating energy.

Accountable to the local community
community businesses are accountable to local people, for example through a community shares offer that creates members who have a say in the direction of the business.

Broad community impact
community businesses benefit and impact their local community as a whole (Harries and Miller, 2018). They often morph into the hub of a neighbourhood, where all types of local groups gather, for example to access broadband or get training in vital life skills (see Percy et al., 2016).

The definition therefore used is exclusive, and not one always recognised by those in the community business. Five groups of community organisation were excluded on the grounds that they did not, in the view of the researchers, meet one or more of the criteria for community businesses. These are explained in Appendix 1. This was necessarily a subjective exercise and others may take a different view as to whether or not some or all of the groups should have been excluded.

3.2 A Matter of Classification or Identity?

The other side of the definition is how those in community business refer to themselves when asked in an interview or survey. Those we spoke to, whether or not trading was a major part of their activities, interacted with their local community on a day-to-day basis. They explained how this was central to their ethos, to serve their community. We can see this in the history of community businesses, rooted in a desire to improve a community and having founders who began as local volunteers. Our survey found that one-in-four community businesses defined themselves as a community business, although many saw themselves as charities, rather than businesses, working in the community (see Figure 2). Perhaps this is about their legal definition rather than identity – the idea of community business has greater resonance when the Power to Change definition is explained (see Scott and Probert, 2018).

Figure 2: How the community business is perceived by the founder or leader

	Total		Community business		Social organisation	
Perceived as	Number	Proportion (%)	Number	Proportion (%)	Number	Proportion (%)
Community business	15	19.0	11	24.4	4	11.8
Social enterprise	13	16.5	4	8.9	9	26.5
Charity	38	48.1	19	42.2	19	55.9
Other, please specify	9	11.4	7	15.6	2	5.9
Co-operative	4	5.1	4	8.9	–	–
Total	**79**	**100**	**45**	**100**	**34**	**100**

Frequent features of a community business start-up include:

- the charitable drive
- providing a 'good intervention'
- ensuring a holistic approach to leading change in their community
- having to react to funding stipulations.

Grant funding has been important for community businesses – initially to create the organisation and then, in part, to sustain it. The type of start-up story we heard indicated an enterprising approach, with trading activities often the means to pursue the social objective. We found organisations that took on or developed an enterprising arm to fund new or current services.

This adds further complexity to how community businesses are classified. They may share a common purpose, a mission for local intervention, but multiple factors shape a description of what they are – legal definition, community connectedness, market orientation, for example.

3.3 Housing co-operatives

The most difficult decision we faced was whether to exclude the housing co-operatives, 40 of which we found operating in the LCR. Figure 3 shows how they compare in size with the community business universe. Housing co-ops are a significant group, particularly in terms of the assets they control. Including them in the data set would change the composition of the LCR community business sector and the associated financial analysis significantly.

Figure 3: Housing co-operatives and broader community business sector in LCR

	Housing co-operatives	LCR community businesses
Number	40	84
Annual income (£)	7,560,032	22,139,767
Fixed assets (£)	64,212,534	30,761,214
Net assets (£)	23,548,018	38,469,747

When applying Power to Change's four key criteria to the housing co-ops there is no doubt that they are locally-rooted – down to particular streets in most cases. They are also all registered mutual societies – with either total representation of all tenants on governing boards, or a mixture of tenants and external members – so they are clearly accountable to the communities they serve. With income coming exclusively from rent from tenants, it could be argued that they qualify as trading businesses, even if it is for the benefit of a very narrowly-defined community. We were less convinced that housing co-ops benefit their local community as a whole – they are clearly of substantial benefit to the tenants themselves but, with an average number of fewer than 60 homes under management, they are much less likely to have a material impact on the wider community (Thompson, 2015).

The picture becomes much clearer when you consider the particular circumstances of when and why most of Liverpool's housing co-ops were formed. Most were established during the 1970s and 1980s.[3] Our calculations show that the housing co-ops established during this period benefited from Social Housing Grant funding of more than £48 million, to purchase and develop the properties from which they now generate annual income of some £8 million. This makes this group of organisations a fascinating case study in how housing co-ops can develop and flourish when the conditions are right. However, as those conditions no longer prevail and are unlikely to do so in the foreseeable future, we conclude that they do not belong in this analysis of community businesses and they have been excluded from the analysis.

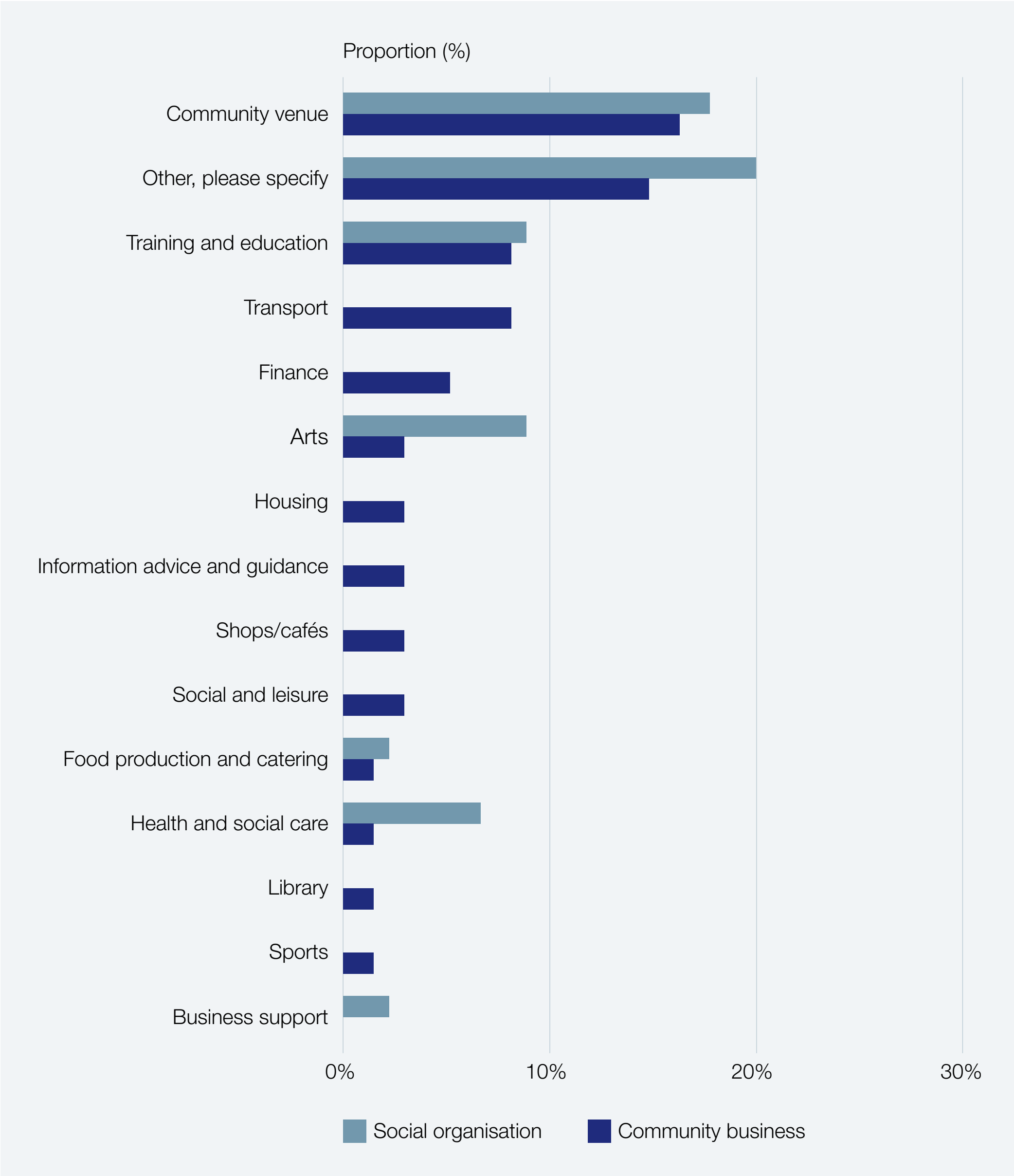
3.4 What community businesses do

Our survey found that community businesses referred to a wide range of primary activities. Overall, they were less active than other organisations in the social economy within the 'arts', 'information, advice and guidance' and 'health and social care'. Activities categorised as 'other' reinforced this difference as four social organisations referred to health and social care activities such as 'addiction recovery', 'counselling' and 'health and wellbeing for older people'. 'Other' categories mentioned by community businesses included 'building and environmental maintenance', 'commercial property landlord' and 'community development initiatives surrounding regeneration and social inclusion'.

The most distinctive activity for the community business is as a community venue. We consider the important point about physical assets in more detail below. Other main activities include transport and training and education (see Figure 4), and 41 per cent of survey respondents identified their community business or social organisation as a community hub. What is clear is that the provision of a physical location, and therefore a community asset, is significant in defining the community business sector.

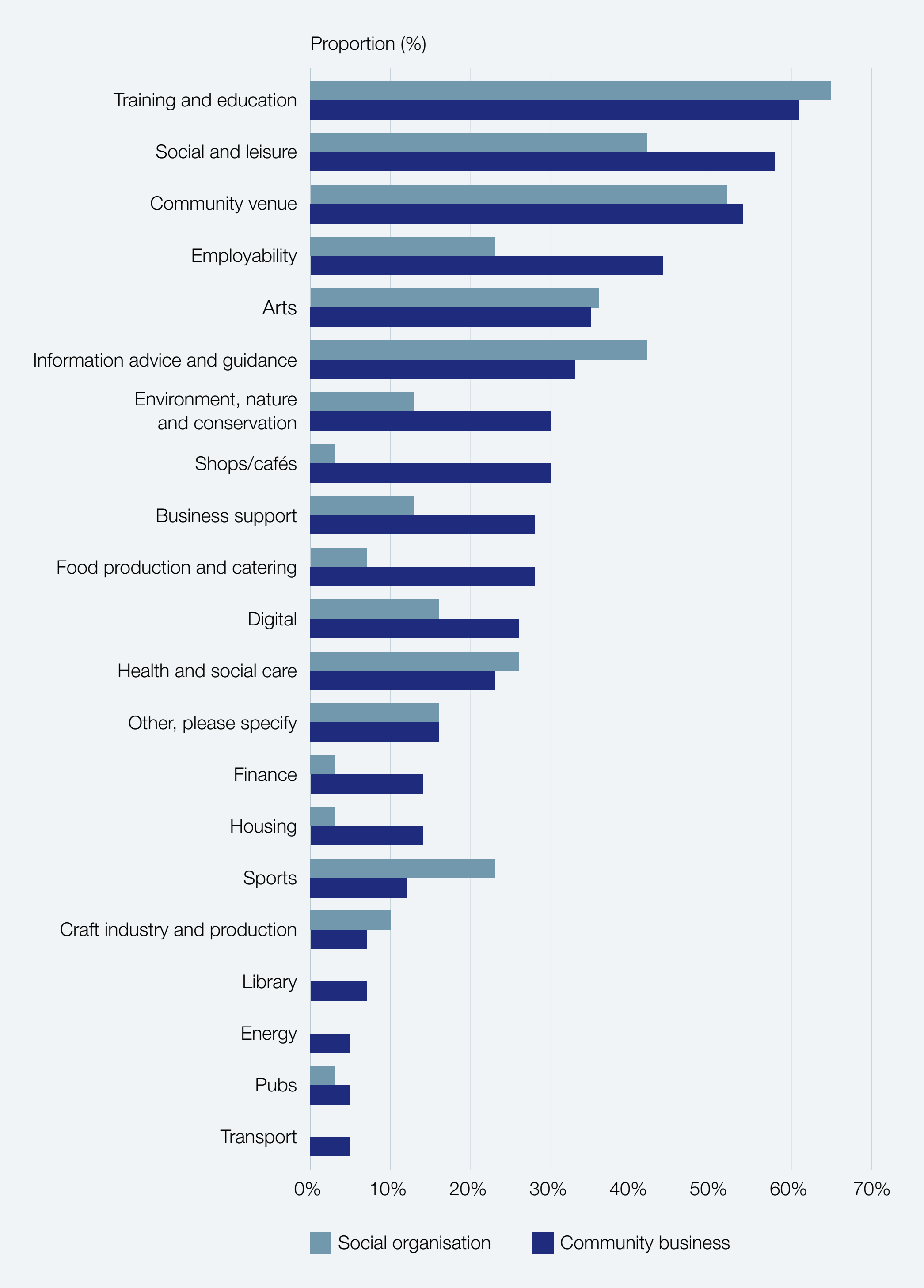
[3] 35 of the 40 housing co-ops that we found were established during the 1970s and 1980s. This was a time when local political priorities, national housing legislation and the availability of substantial grant funding led to a large number of housing co-ops being established in a relatively short period. When those conditions no longer prevailed, the impetus to form co-ops dwindled. Two housing co-ops in LCR were established in 2012 and 2016 these were not included in this analysis.

Figure 4: Main activity of community businesses in LCR



Secondary activities further broaden the diversity of community business activity (see Figure 5). This is best illustrated by a participant who commented in the 'other, please specify' section that their activities include 'anything that is potentially viable and good for a place, shared interest group and economy'. Although the social organisation cohort also reported secondary activities, these were not as extensive as in the community business group.

Figure 5: Secondary activity of community businesses in LCR



4. The community business sector in Liverpool City Region

As noted earlier, we found a universe of 84 community businesses operating across the LCR. This was smaller than expected, based on the Power to Change research that estimated an overall market size of 7,800 for England in 2018 (Diamond et al., 2018). Using population as a benchmark, our initial expectation was that there would be around 210 community businesses within LCR.[4]

We discussed possible methodological reasons for our lower-than-expected number in Section 2. We also know that LCR has a low density of businesses relative to the rest of the country – in 2016, LCR recorded 37 enterprises per 1,000 of population aged 16–64 years, compared with 47 for the North West and 56 for England (Professional Liverpool, 2018). Using the proportion of LCR's businesses to those in England (1.9 per cent) suggests an estimate around 148. Taking the lower business density into account gives an estimate of around 98 community businesses in LCR.[5]

The 84 community businesses in LCR represent only 0.2 per cent of the total number of businesses in the city region. If that percentage were replicated across England, there would be approximately 4,400 community businesses nationally. That is a much lower estimate of the number of community businesses than those previously provided by Power to Change (7,800 for 2018, 6,600 in 2017). We believe that our lower-than-expected number of community businesses for LCR is primarily due to a lower-than-average business density for the region, and the fact that our methodology does not include unincorporated community groups. It is also possible that we have failed to find all community businesses there, or that other estimates have overstated the size of the market. Once we add in an estimate for unincorporated groups and adjust for lower business density in LCR, our expectation of the number of community businesses in England is around 7,100.[6]

4.1 Sector classification

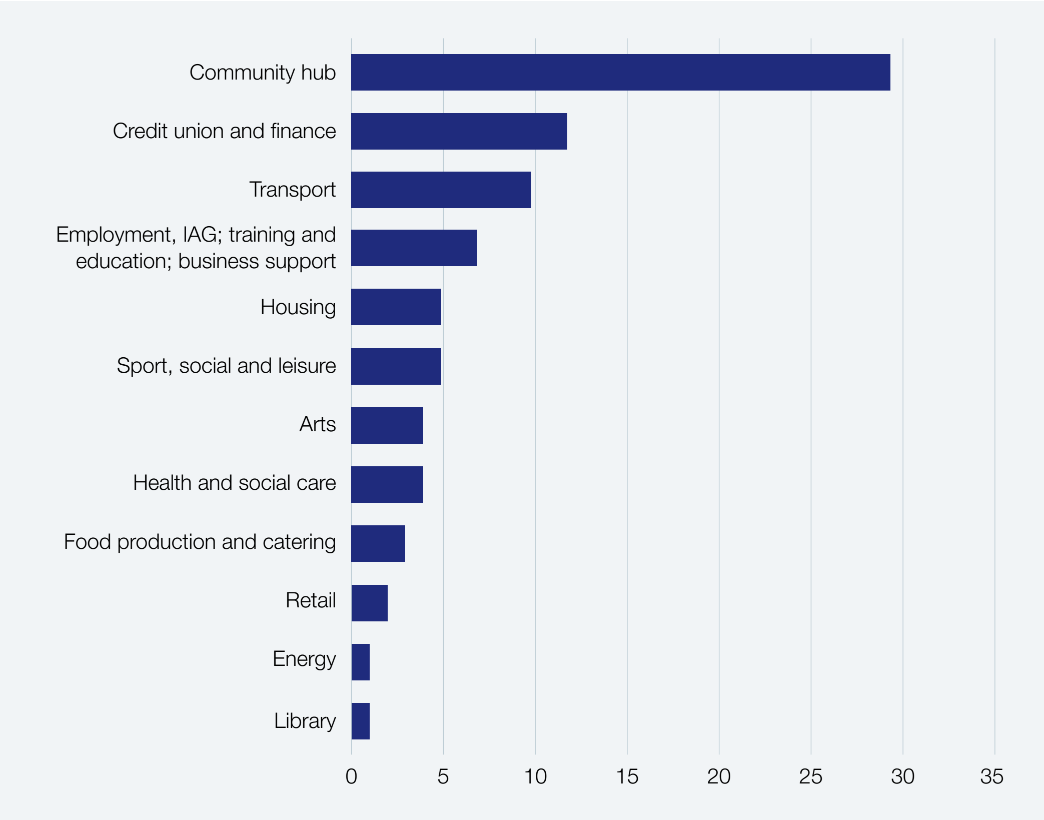
We have used the same 15 sector headings that were used in Power to Change's The *Community Business Market in 2017* (we did not have access to the 2018 market research during the data-gathering and analysis stages of our work). The United Kingdom Standard Industrial Classification of Economic Activities Codes (SIC2007) maps onto the sector headings, with the addition of a 'community hubs' category. Previous studies have highlighted the difficulty of categorising community businesses that undertake more than one activity (Diamond et al., 2018). In Figure 6 we again see the dominance of community hubs.

[4] We calculated as follows: 1.5 million residents in LCR/55.3 million residents in England x 7,800 community businesses in England.

[5] LCR accounts for 1.9 per cent of all businesses in England. Applying that same percentage to the estimated number of community businesses in England in 2018 gives 148 (1.9 per cent of 7,800). Taking into account LCR's lower business density gives 37/56 = 0.66 x 145 = 998.

[6] We calculate this as: (84 x 1.06) x (56/37) / 1.9 x 100 = 7,100, figures rounded.

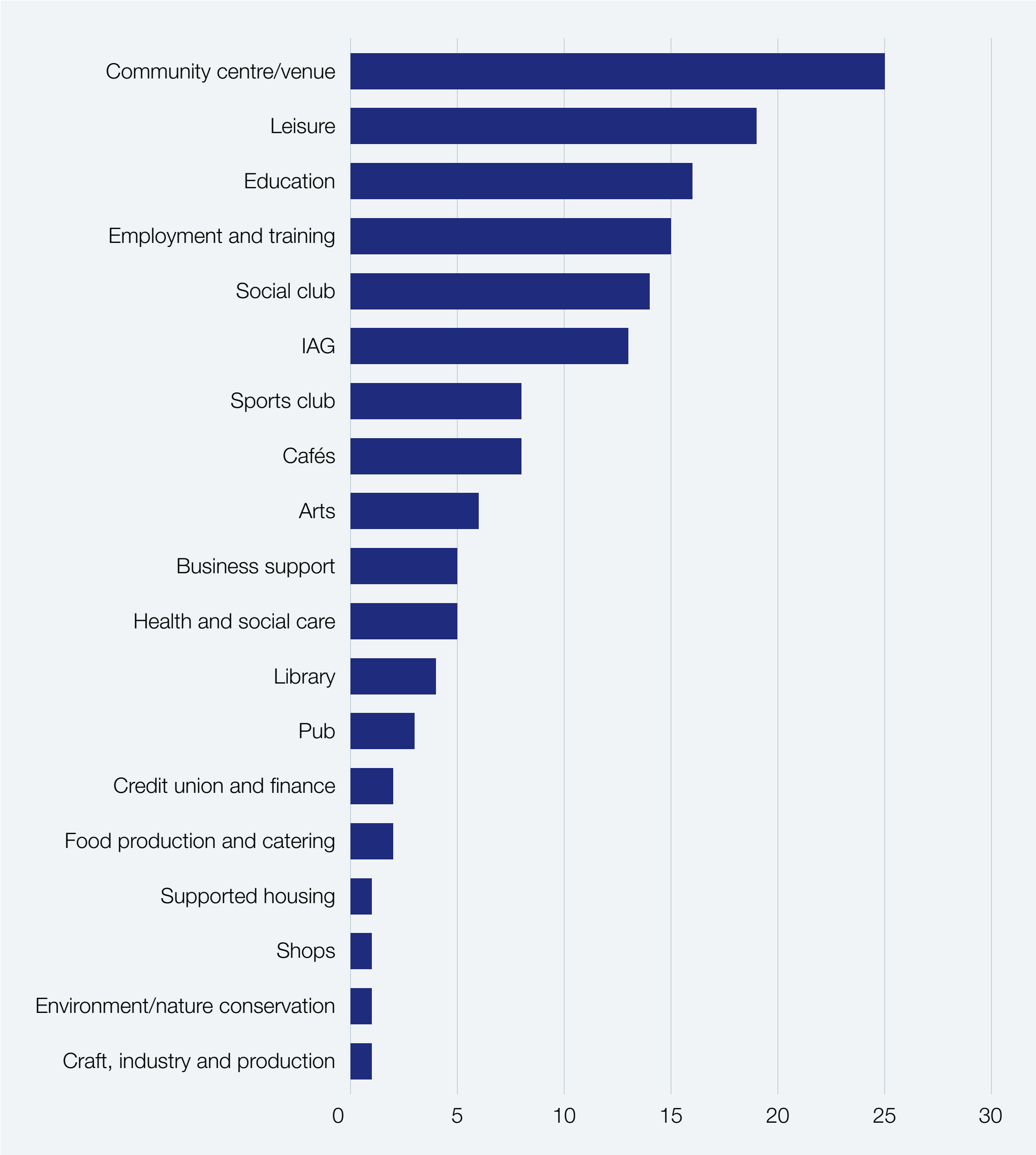
Figure 6: Community businesses by sector in LCR



Community hubs appear to be vital in many communities – responding to changes in local needs and adapting service offerings. They are regarded as a space in which a range of community services led by a local organisation are provided, and made up of or representing the community. Richards et al. (2018) define the community hub as multi-purpose delivering services, such as parent and toddler groups, employment support, childcare, library services and health and wellbeing activities. We included organisations in the community hub category if they operate a venue or if they provide services under three or more sectors.

This analysis found that 25 out of 30 community hubs in the LCR operated venues. When we looked at their work, it amounted to 150 separate activities; the only sectors which did not feature in community hub activities were energy and transport. This would suggest that operating a venue is a strong qualifying criterion for community hub. Figure 7 shows the range of services provided by LCR's community hubs.

Figure 7: Services provided by community hubs in LCR



While other work has estimated that the community hub sector in England comprised 1,889 businesses in 2018 (Diamond et al., 2018), our estimate, based on the LCR community business research, is of 1,570 community hubs in England.[7] The geographical distribution of hubs in LCR broadly follows that of the wider community business universe, with one exception – we did not find any community hubs in the borough of Knowsley. Given that Knowsley accounts for around 9 per cent of all businesses in LCR we would expect to find two or three community hubs there out of a total of 30 for the region as a whole.

[7] Our calculation is as follows: 30 hubs out of 84 community businesses = 0.36 x 4,400 estimated community businesses in England.

4.2 Age profile of the community business in LCR

The average (mean) age of the LCR community business is 16 years, while the median figure for age is 14 years. The oldest community business (incorporated in 1972) is approaching its fiftieth year, while 7 per cent of LCR community businesses are less than three years old, and 19 per cent are less than five years old. One-third of LCR community businesses have been operating for longer than 20 years.

When we compare this to the wider social economy in LCR, we find that community businesses have been established longer. Almost half of social organisations are less than five years old – we believe that community businesses are likely to have built up more resilience over time. Data for community businesses in LCR shows an older age profile than is the case nationally, where 67 per cent of businesses had started operating since 2008 (Diamond et al., 2018). 40 per cent of community businesses in LCR have existed for ten years or less.

The age of a business is important to its sustainability. In Figure 8 we provide a breakdown of the age profile of community businesses and social organisations (excluding credit unions) in LCR to show how age, income and assets are associated.[8] Median income is more or less the same for the two groups, but net assets are higher for community businesses, with the median net assets at £87,000 for community businesses and £38,000 for social organisations.

Figure 8: Age, income and assets of community business (excluding credit unions)

	Community business			Social economy		
Age	**Employees**	**Income (£)**	**Net assets (£)**	**Employees**	**Income (£)**	**Net assets (£)**
3 years or less	2	6,000	15,544	N/A	N/A	3,766
4–5 years	2	13,610	5,284	4	54,314	4,575
6–10 years	5	137,101	61,570	12	129,223	23,242
11–20 years	4	203,497	170,385	15.5	254,049	111,636
21 years plus	10	399,781	253,472	19	366,875	396,959
Median	**6**	**208,481**	**87,099**	**15**	**207,406**	**38,218**

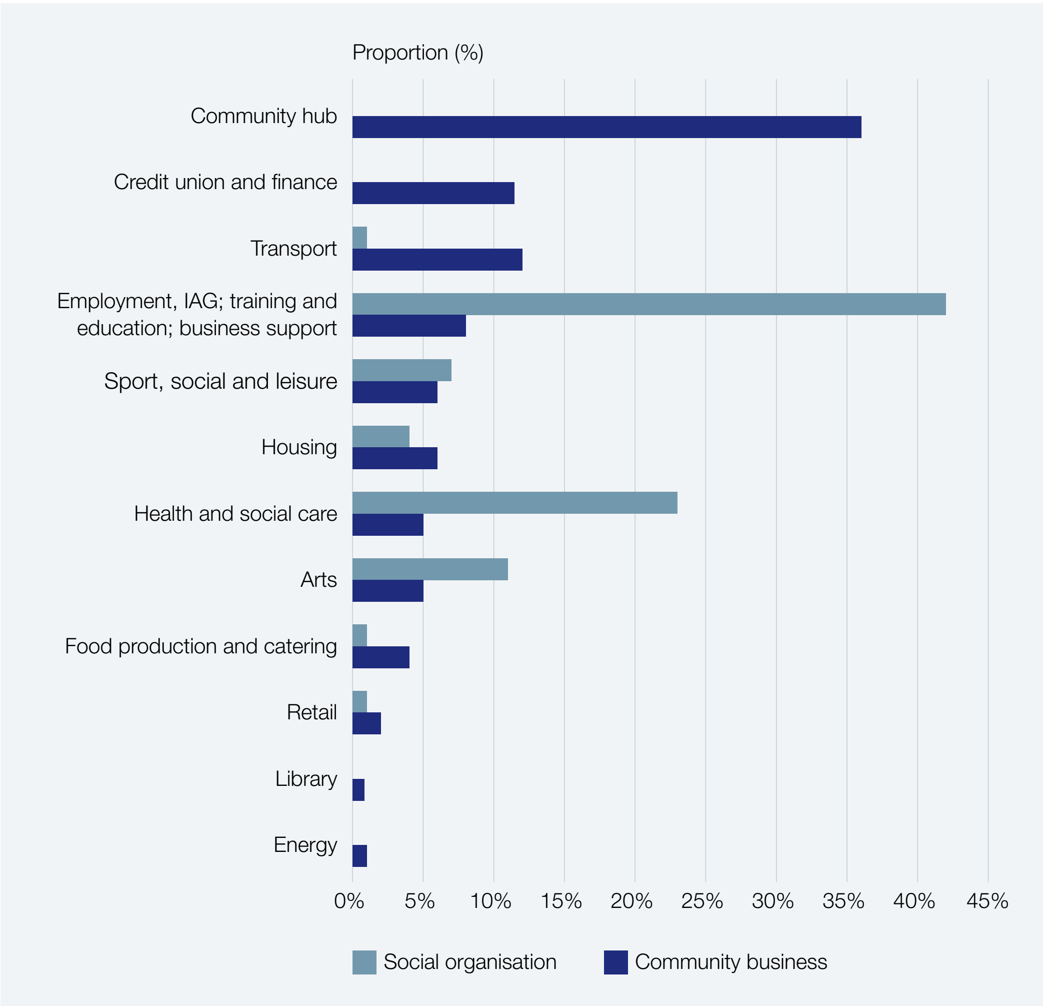
[8] See Section 6.1 for an explanation of why credit unions are excluded from comparisons of financial data.

We also see the difference between community businesses and the wider social sector when it comes to employing paid staff. In each age category there are more people in paid employment for social organisations than for their community business peers. This may reflect a higher reliance on volunteers amongst community businesses or perhaps different operating models.

4.3 Community businesses by sector

Figure 9 shows a breakdown of the number of LCR community businesses by sector and a comparison of how each sector sits within the whole LCR social economy. When comparing our results with other data (Diamond et al., 2018), we generally see a similar sector distribution to that shown for community businesses across England, although with higher weightings for community hubs and credit unions in LCR.

Figure 9: Community businesses and social organisations by sector in LCR



4.4 Community business legal form

The community business market in LCR includes all the main forms of organisation type which are available to social organisations. We can provide an overview of legal form and therefore explore the potential relevance of governance when considering the financial strength of community businesses later in this report. As we saw in Figure 2, our survey suggested that charity is an important term of self-definition, and here our data enables us to look at legal structure in more detail. A breakdown is shown in Figure 10.

Figure 10: Legal form of LCR community businesses

Legal form	Number	Proportion (%)
Registered charity	36	43
Mutual society	25	30
Community interest company (CIC)	11	13
Company limited by guarantee (non-charity or CIC)	10	12
Charitable incorporated organisation (CIO)	2	2
Total	**84**	**100**

A charitable incorporated organisation (CIO) is a relatively new form of legal entity, introduced in England and Wales in 2013. CIOs were designed specifically for charities, allowing them to register just once with the Charity Commission as an incorporated form of charity which is not a company. Registration as a CIO eliminates the need to register with and report to Companies House. Only 2 per cent of existing charities are CIOs, but over half of newly registered charities are now choosing CIO status (Charity Commission, 2017). New rules came into force in January 2018 allowing charitable companies, including community interest companies, to convert to CIO status, so this form of governance is likely to become more significant in future and will likely feature in any future analyses of community businesses.

5. Intersection of community and business

This section looks at the association between community and business. We see that community businesses are over-represented in the poorer parts of LCR, those places most in need of policy intervention and support, and tend not to be present in places with high levels of disposable income. It is an ongoing challenge for community businesses to establish a trading function when they have very localised social objectives and where there are relatively low levels of local disposable income.

5.1. Place and community business in LCR

As we have noted, the distribution of community business is skewed towards the City of Liverpool and they are generally under-represented in the other boroughs. While the distribution of for-profit business is in line with population, this is tnot the case with social organisations or community businesses. We know from previous work (Heap et al., 2017) that half of all LCR social organisations are based in Liverpool, and we now know that two-thirds of community businesses are too. Figure 11 shows the full story from Companies House data.

Figure 11: Percentage distribution of community business in LCR

	Population (aged 16–64 years)	All companies	Social organisations	Community businesses
Liverpool	34.2	32.5	50.9	61.9
Sefton	16.9	18.8	10.7	8.3
Knowsley	9.6	8.0	8.7	7.1
Halton	8.2	8.8	5.5	6.0
St Helens	11.3	11.1	6.4	4.8
Wirral	19.9	20.9	17.8	11.9
LCR Total	**100**	**100**	**100**	**100**

Community businesses are densely concentrated in areas of high deprivation in LCR. This is even more pronounced for community businesses than for the wider group of social organisations. Well over half of LCR community businesses are in postcodes which are defined as the top 10 per cent 'most deprived' in the country on the IMD scale, and there are none in those postcodes described as least deprived – the more affluent areas. Figure 12 shows (where 1 on the IMD scale is the most deprived) around 60 per cent of social organisations are in areas ranked in the 30 per cent most deprived, whereas the equivalent figure for community businesses is 77 per cent.

These figures provide a bit more evidence for a question raised in Power to Change's analysis of the community business market in 2016 – whether the community business model is more prevalent, or more successful, in more affluent areas (Hull et al., 2016). Our evidence demonstrates that community businesses do not play a significant role in the more affluent parts of the city region. The reasons for community business prevalence in more deprived areas of LCR are complex. On the one hand, it demonstrates greater levels of need in some places, along with cuts in public sector expenditure leading to less state provision of services. It can also indicate market failure, as private business do not see potential earnings from business activity in low-income areas.

Figure 12: Community business and 2015 Indices of Multiple Deprivation in LCR

IMD decile	Community businesses in IMD decile	Proportion of community businesses in IMD decile		Proportion of social organisations in IMD decile	
		%	Cumulative	%	Cumulative
1	52	61.9	61.9	39.0	39.0
2	9	10.7	72.6	12.8	51.8
3	4	4.8	77.4	9.8	61.6
4	6	7.1	84.5	12.0	73.6
5	4	4.8	89.3	6.0	79.6
6	3	3.6	92.9	6.1	85.7
7	4	4.8	97.6	5.1	90.8
8	1	1.2	98.8	3.4	94.2
9	1	1.2	100	4.0	98.2
10	0	0.0	100	1.8	100.0

5.2 Community embeddedness

Three interviewees viewed the community as co-creators, co-leaders, and co-owner, with one articulating the idea of being responsive to community need,

> **what we are here for… is to respond to community need and you can't respond to community need unless you are owned, run, managed and everybody lives and breathes the space that they occupy.**

Of those organisations that identified 'community venue' as the main or other activity 41 per cent identified as a community hub, with no major difference between community businesses (43 per cent) and the rest of the social economy (38 per cent).

This diversity in perception raises questions about how a community business defines its identity. All but one of the founders and leaders we interviewed suggested an identity rooted in a specific geographic area. Here, community is identified as receivers of the community business service and community members are defined as clients. When local involvement from the community took place it could well be as part of an evaluation of service. With only one exception, all organisations included their community as part of their advisory board.

Services and programmes were mainly provided locally to an identifiable community. We found a few contracts that were fulfilled beyond the originally-defined area. Obviously, rooms in community hubs can be hired out to people outside the immediate community, with any surpluses reinvested locally. In light of austerity measures, we found community businesses looking beyond their initial markets. We were told of community hubs being closed because of budget cuts and when this happened, others would begin to expand into the service area. This was echoed by one of the community transport organisations.

One community business had a considerably larger geographic reach, served the entire City of Liverpool and parts of the wider city region and established itself around one site. It included local people in deciding how to use a new building and supported the community in a variety of ways. Many community businesses occupied a physical space that acted as somewhere the community could engage, access services, or participate in the organisation. Community transport organisations also had fixed assets, like a bus or coach, that enabled them to deliver their aims.

We were interested in how embeddedness translated into something valuable for the community business. Our interviewees felt the benefits of being rooted in the community, sharing knowledge between their organisation and the community, and recognised the organisation's direct or indirect role in improving the lives of community members:

> **There were families that … would have never been able to engage so [the local authority] commissioned us to do outreach work … so they got statistics for those families that would have never come to the Children's Centres.**

> **95 per cent of my staff members are local people … We grow our own. So volunteers come in and move into paid positions as soon as we can practically do it.**

> **You try to source local tradesmen, use local businessmen as far as possible because that is putting something back into the local economy as well ... We get a local electrician, we are going to have the whole lights all re-tuned to LED lights.**

Levels of embeddedness like this provide the community business with a unique perspective that for-profit and public sectors do not generally have. Community businesses build trust and transparency among community members. Where the principle of engagement with local people takes the form of co-creation, joint planning, policy development and service design, it opens the door for the community business to connect with individuals who may not feel comfortable interacting with formal public sector systems.

Beyond this, we had interviewees who talked about the importance of being able to connect community members to wrap-around services. When a community member engages with a hub, they will come for a particular reason or to fill a particular need:

> **Perhaps they are finding it difficult to budget or maintain their tenancy for whatever reason, [then] can we support them through education, training and skill.**

This is the opportunity for those in the hub to enable a wider connection for the individual through a range of additional support and services. Initially, there is the intervention and benefit to the individual as the hub supports and signposts. Then, there is the idea that this can be part of a broader range of activities that brings in revenue to support the hub's work. The Alt Valley Community Trust, a community hub in LCR, demonstrates just such an association of community and place with social and business objectives.

Box 1: Community hub case study – Alt Valley Community Trust

Alt Valley Community Trust

Alt Valley Community Trust (AVCT) started life as an educational charity providing adult education services and vocational training from its 'Communiversity' in Croxteth. AVCT emerged during a political struggle involving a community concerned about the closure of a local comprehensive school.

It has grown consistently and developed into a multi-faceted community hub that contributes to individual wellbeing and sustainable communities across north Liverpool. Today it has annual income of around £2 million and directly employs 60 people in three community centres, nurseries and nursing homes, sports centres, a community pub, a shopping area, an FE college, a skills centre and a community farm. AVCT also runs a subsidiary property company, a catering company, and an environmental maintenance company, and offers support to start-up social organisations and small businesses.

The organisation specialises in community engagement strategies that create a real sense of pride, wellbeing and esteem. As a result, local services that were once at risk of closure have been protected along with the premises used to provide them, transforming the lives of many individuals who live in disadvantaged circumstances. The Joseph Rowntree Foundation identified ACVT as a key influence on improvement in North Liverpool:

> **This Social Enterprise (AVCT) was credited by many as a key reason for improvement in Croxteth. This is partly for its education, training and employment programmes, but also for the Leadership it provides within the community, challenging other service providers to use their resources for maximum local benefit.**
>
> **IPPR North and JRF, 2010**

North Liverpool Community College is the education and training arm of AVCT, providing accredited programmes which include study, traineeships and apprenticeships designed to help young people and adults into real work and education opportunities. Where possible, courses are tailored to the needs of students and the local community. For example, Funding from Power to Change was used to design and deliver an award-winning level three Health Care Assistant course with Alder Hey Children's Hospital to provide the specialist skills necessary for caring for children.

AVCT's community engagement is central to everything it does. By offering opportunities for people to come together, get to know each other, discuss their needs and think about ways to improve their lives, AVCT supports individuals through a process of change, empowering them and building their confidence which, in turn, will have a profound effect on their local community. This is done by:

– engaging with local people through a team of Community Champions

– working in partnership with other agencies to address the needs of local people

– improving community-based resources

empowering people by involving them in drama, creative writing, short courses and other informal educational opportunities.

By co-locating libraries, nurseries, sports facilities and community cafés, footfall has increased and a significant increase in use has led to an improvement in the sustainability of each of the individual services that may not have been possible had they continued operating on a stand-alone basis.

Working in partnership with housing associations, local authorities, schools, tenant groups, ward councillors and voluntary organisations increases awareness of services and avoids duplication, allowing for a more effective use of local resources.

6. Finance and assets

In this section we use the database and survey data to examine some of the financial characteristics of community business in LCR. Financial sustainability has been defined as obtaining a majority, or all, income from trading activities, with either minor or no dependency on grant funding (Richards et al., 2017). The next section draws mainly from the database. A case study then shows why assets are so important and how they can be a catalyst for development. Finally, we present our survey results showing revenue, investment and expected financial confidence and resilience.

6.1 Accounting statistics

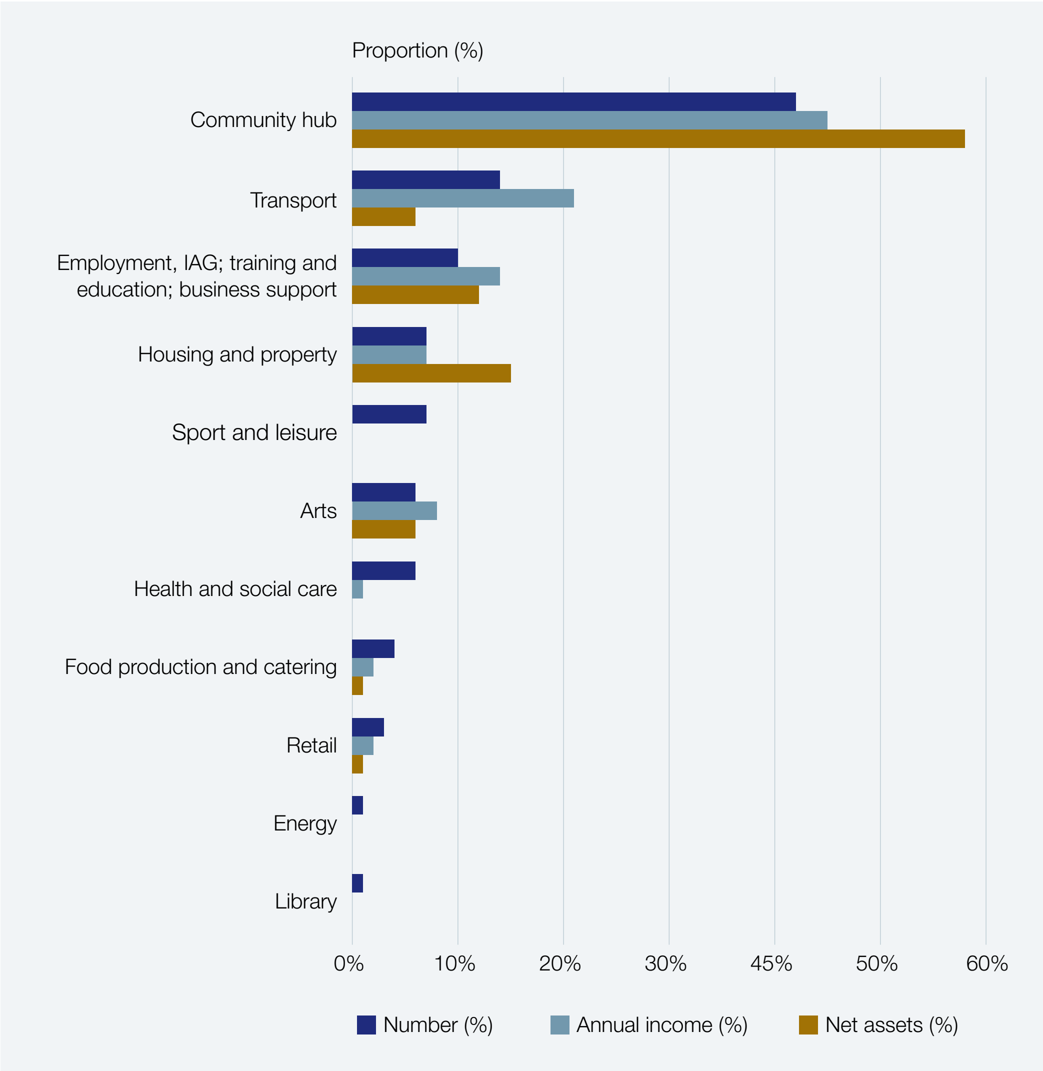
Annual accounts for the most recently reported financial year show that LCR community businesses collectively generated annual turnover of £22 million, owned fixed assets of £31 million, net assets of £38 million, and employed more than 600 staff.[9] Not all community businesses produce detailed accounts however, and we were only able to obtain data for a proportion of trading income for 60 organisations (c.70 percent). We then ascertained a median split between grant and trading income, at 9 per cent and 91 per cent respectively.

The financial characteristics of LCR community businesses reinforce the sense that some sectors are in a strong position while others are under-developed. The largest sector in income terms was community hubs, generating £8 million of the total. Credit unions were the next largest at just under £5 million, with transport at £3.5 million, and employment, IAG, training, education and business support reporting income of £2.5 million. Sport and leisure, energy and libraries were the smallest sectors, with a small number of community businesses generating less than £40,000 in total income between them.

The total value of net assets – the difference between total assets and total liabilities, and a measure of financial strength – was £38 million. Of this, the largest share was held by the community hubs (£17 million). Next largest was the £9.3 million held by the credit unions. However, as credit unions hold the savings of their members (which belong to the individual savers, not the credit union) and include these in their financial statements, care is needed when interpreting the net assets they reported. When we make cross-sector comparisons for income and assets we will therefore follow the convention of excluding any companies in financial sectors from our data. Figure 13 shows how income and net assets are distributed.

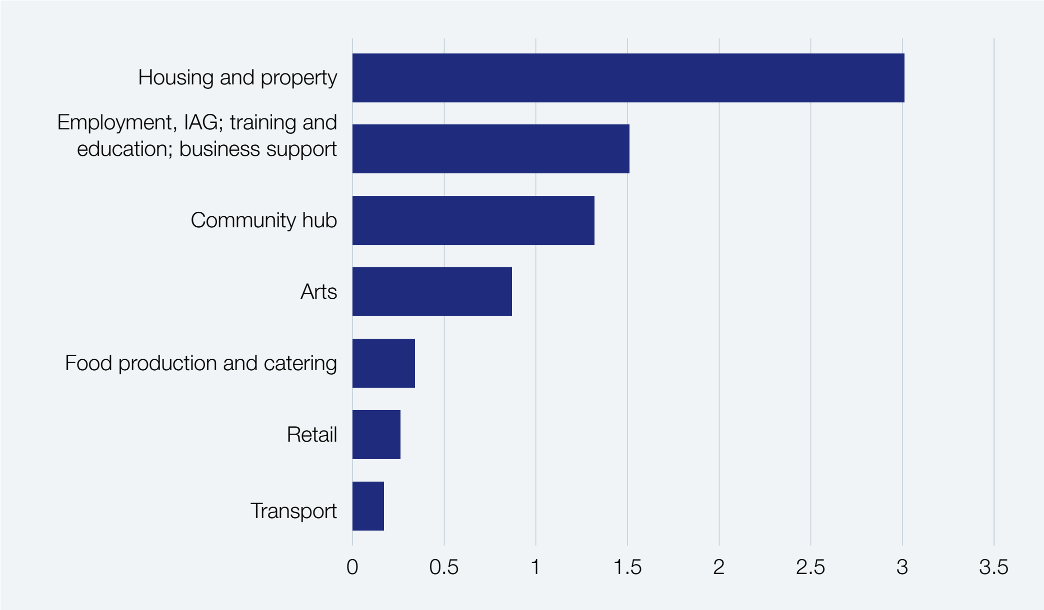
[9] This would have been 2016 or 2017, depending upon the financial year end of the organisation, at the time our data was collected.

Figure 13: Proportion of income and net assets by sector (excluding credit unions)



Community hubs, housing and property and, to a lesser degree, business support, employment, IAG, training and education all have a higher share of the net asset pot than their share of the number of businesses. This implies that these sectors are relatively profitable. By contrast, the nine companies in the sport and leisure, and health and social care sectors account for less than £200,000 in net assets between them, a share of just 0.6 per cent of the total, even though they account for 11 of the community businesses. This implies there is low profitability in these two sectors in LCR.

Figure 14: Asset intensity ratio of LCR community businesses

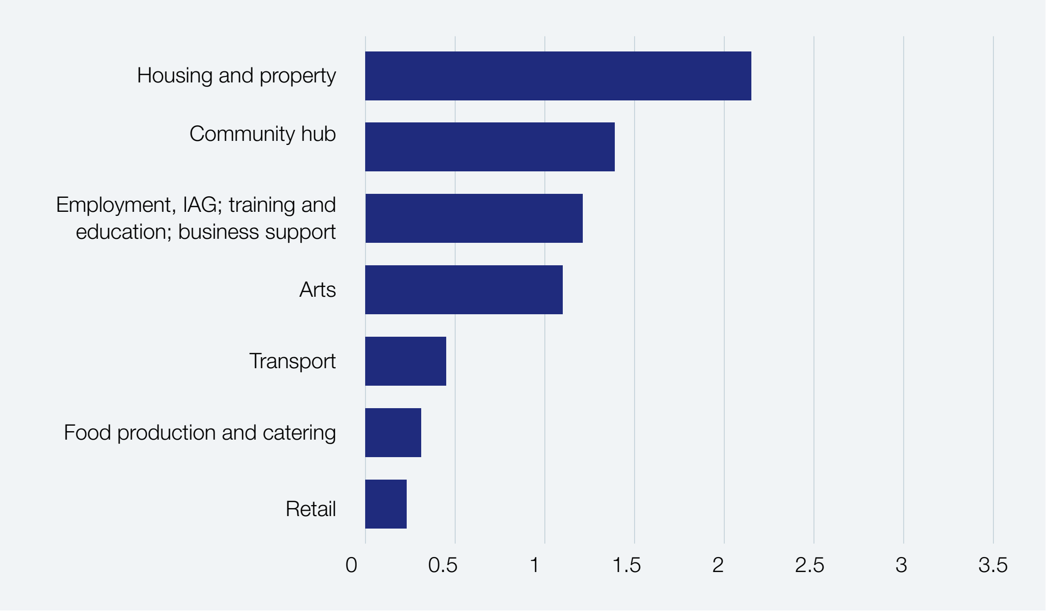


The figures also suggest the importance of tangible fixed assets. Those community businesses with the most tangible fixed assets also appear to be the most profitable. In Figures 14 and 15 we present a measure of asset intensity and then relative profitability by sector.[10]

These show that housing and property, the support sectors (employment, IAG, training and education, and business support) and community hubs all have a proportionately higher share of both fixed and net assets. By contrast, transport, food and retail all have lower shares of fixed and net assets than they represent in number of organisations. This raises questions about the importance of tangible assets as a driver of profitability.

[10] Asset intensity is calculated as the sector percentage share of total fixed assets divided by the sector percentage share of the total number of LCR community businesses. Relative profitability is calculated as the sector percentage share of total net assets divided by the sector percentage share of the total number of community businesses.

Figure 15: Relative profitability ratio of LCR community businesses



Our work shows that the median number of paid staff in LCR community businesses is six. This compares with a median number of four people employed in the most recent national market data (Diamond et al., 2018).

We see median annual income of £208,000 (median £107,000 for England in 2018), fixed assets of £45,000 and net assets of £132,000 (median assets for England £120,000 in 2018).

Extrapolating from our initial LCR figures, we estimate that the community business market in England employs around 26,400 staff, generates just £0.9 billion of annual income, owns fixed assets of £0.2 billion and net assets worth £0.6 billion. Comparative estimates for 2018 from Power to Change are 33,600 staff, £1.1 billion of income and total assets worth £0.7 billion (Diamond et al., 2018). We use fixed and net assets rather than total assets as a more useful indicator of the value accumulated within a business, so the previous year figures for assets are not directly comparable with ours.

Box 2: Asset ownership case study

Baltic Creative Community Interest Company

Baltic Creative CIC was established in 2009 by Liverpool Vision, the city s economic development company, as a vehicle to acquire and manage several large warehouses in the Baltic Triangle area of Liverpool for the explicit purpose of incubating digital and creative businesses. Initial funding of capital and revenue grants worth £5 million were provided by the European Regional Development Fund, North West Development Agency and Liverpool City Council.

Liverpool City Council owned 18 warehouses that were built in the 1980s and which covered 45,000 sq. ft. in the Baltic Triangle. At the time, the buildings and the area they occupied were derelict and under-used. The creative and digital sectors in the city region were suffering from high rates of unemployment and lack of opportunities. Liverpool Vision understood the regeneration potential of Baltic Creative and how to access appropriate funding.

The community interest company was created and then purchased and redeveloped properties which, by 2013, were fully-let with a long waiting list of potential tenants. In addition to providing value-for-money work space, Baltic Creative offers business support to the creative and digital community via events, opportunities for collaboration and partnership working.

As it is legally set up as a community interest company, Baltic Creative has an ‘asset lock’ on all the buildings it owns and is bound to support the growth of the creative and digital sectors in LCR. Profits can only be used for supporting that ‘community of interest’, by reinvesting in property for rent to creative and digital businesses, reinvesting in tenants or reinvesting in the creative and digital sectors. The CIC structure allows the community to benefit from the value they create, rather than being moved out once values rise and private developers cash in, as is so often the case.

The initial investment has provided Baltic Creative with a reliable rental income and a strong balance sheet which, in turn, has been used to support further growth of the business. The company now owns and manages total space available for let of 118,000 sq. ft. and has been able to borrow more than £600,000 to acquire additional properties within the Baltic Triangle (Baltic Creative, 2017).

The space managed by Baltic Creative is fully occupied with over 150 tenants employing around 500 people. Unmet demand remains strong with 130 active enquiries for space reported in 2017. An independent review of GVA generated by the SMEs accommodated at Baltic Creative calculated £8.35 million of annual economic output produced within the LCR economy (Baltic Creative, 2017) and the Baltic Triangle was voted the coolest place to live in Britain by *The Times* in 2017 (see The Times, 14 March 2017). The creative and digital cluster in the Baltic Triangle continues to grow and Baltic Creative has ambitious plans to further extend its floor space, support more businesses and attract high-value jobs to LCR.

The development of Baltic Creative as a business, and the rejuvenation of the Baltic Triangle as an exciting place to live and work, is attributable to the skill of the board and management team of the company and the vision of the founders. They recognised that ownership of property provides the opportunity for stable income streams, a balance sheet against which to secure funds for growth and long-term security. All of this combined with a strong mission and a clear ‘community of interest’ and governance structure makes for a successful and thriving community business.

6.2 The financial resilience of the community business market in LCR

We assessed the financial strength of the community businesses in LCR using data on assets and annual expenses. By comparing the value of easily-realisable assets with annual expenditure it is possible to determine which organisations are financially strong and which are more challenged. For this purpose, we define free assets as net assets minus fixed assets. For registered charities, fixed assets such as buildings often may only be used for specified purposes laid down by the donor, and these are categorised as restricted funds. The focus here is on unrestricted funds which are not invested in tangible fixed assets and can therefore be realised quickly if needed. Free assets are also known as free reserves.

Any community business which reported free assets worth six months or more of annual expenses, according to Companies House data, was included in the 'high free assets' group. Organisations with between two and five months of free funds are categorised in the 'mid free assets' group, and those with less than two months fall into the 'low free assets' group. No data was available on annual expenses for 21 companies in the data set, so we were not able to include these in the analysis. We also excluded the 11 credit unions from this part of the analysis for reasons explained previously (see Section 6.1).

Figure 16: The financial strength of the community business sector in LCR

	Income p.a. (£)	Fixed assets (£)	Net assets (£)	Number of staff	Mean age	Number
High free assets group	4,162,434	1,463,593	4,637,792	147	13	11
Mid free assets group	2,014,865	863,342	1,620,461	85	11	12
Low free assets group	11,165,758	19,403,071	17,572,918	279	18	29
Total	**17,343,057**	**21,730,006**	**23,831,171**	**511**		**52**

Over half of the community businesses, for which data was available, fall into the low free assets group. This is important because these organisations would be vulnerable if they were to suffer from a material reduction in income, as they do not hold sufficient working capital to pay their monthly expenses. This group includes organisations which hold tangible fixed assets (usually buildings) worth more than £19 million in total but, because these are mostly counted as restricted funds, they would not be available for sale, at least in the short term. In most cases, the buildings are an integral part of the operating model of the organisation and so it would make no sense to sell even if this were permitted.

Around one-quarter of community businesses fall into the mid free assets group, with between two and five months of expenditure available as reserves in case of a sudden or unexpected change in circumstances. Many charities aim for two to three months of expenditure as a healthy target when setting their reserves policies, so organisations in this category consider themselves to be financially sound. Almost one-fifth of the community businesses in LCR can be considered as financially strong with at least six months' worth of expenditure held as reserves. Six of the organisations in this category hold free assets which would cover more than one year's annual expenditure. This group included a higher proportion of mutual societies than the other two categories, which may indicate that this governance structure lends itself to greater financial resilience.

Perhaps counter-intuitively, financial strength for LCR community businesses seems to be lower for those organisations that have existed for longer – median age for the high free asset group is 13 years compared to 18 years for the low free asset category. Also, half of the financially strong group (five businesses) have annual income of less than £30,000 and employ no paid staff which keeps costs low but makes them very small businesses. Four of these are structured as mutual societies. The sample size here is too small to draw any conclusions but it may be worth undertaking further research to examine the characteristics of small mutual societies and whether this model lends itself to being more financially resilient.

6.3 Financial resilience of community hubs

As the single largest sector in both LCR and national data sets, we thought it was important to take a close look at the financial resilience of community hubs. Figure 17 shows that nine out of the 25 community hubs for which data is available fall into the high or mid free assets group, meaning that they can be considered as financially sustainable. However, 16 hubs do not have sufficient free reserves to meet their current expenditure needs. This does not necessarily mean that these organisations are in any immediate danger of financial difficulty, but it does show that they are vulnerable to any sudden or material deterioration in operating conditions.

Figure 17: Financial resilience of the LCR community hub

	Income p.a. (£)	Fixed assets (£)	Net assets (£)	Count
High free assets group	283,224	206,845	904,009	4
Mid free assets group	1,024,225	306,909	700,665	5
Low free assets group	6,539,365	15,572,444	15,051,628	16
Total	**7,846,814**	**16,086,198**	**16,656,302**	**25**

6.4 Indication of financial needs

The survey revealed findings around financial needs of community businesses in LCR. We asked them to indicate how income had been generated over the previous two years, what their current income streams were and about their plans for the next two years. Figure 18 illustrates how community businesses access a wider range of income streams and are significantly more likely to currently obtain revenue from EU and public sector contracts when compared to the wider social economy organisations in LCR. It seems the diversity in income is set to continue for the next two years.

Figure 18: Income sources: past, current and in future

	Total		Community business		Social organisation	
	Number (72)	%	Number (41)	%	Number (31)	%
Within the past 2 years						
Grants, donations and legacies	49	68.1	26	63.4	23	74.2
EU contracts	10	13.9	8	19.5	2	6.5
Public sector contracts	18	25.0	12	29.3	6	19.4
Trading	36	50.0	22	53.7	14	45.2
Investments	6	8.3	3	7.3	3	9.7
Other	8	11.1	4	9.8	4	12.9
Currently						
Grants, donations and legacies	44	61.1	26	63.4	18	58.1
EU contracts	11	15.3	9	22.0	2	6.5
Public sector contracts	19	26.4	15	36.6	4	12.9
Trading	40	55.6	26	63.4	14	45.2
Investments	5	6.9	4	9.8	1	3.2
Other	11	15.3	8	19.5	3	9.7
Within the next 2 years						
Grants, donations and legacies	39	54.2	24	58.5	15	48.4
EU contracts	7	9.7	5	12.2	2	6.5
Public sector contracts	21	29.2	16	39.0	5	16.1
Trading	39	54.2	23	56.1	16	51.6
Investments	10	13.9	8	19.5	2	6.5
Other	10	13.9	5	12.2	5	16.1

We found that 63 per cent of community businesses had brought in grants, donations and legacies in the past two years and over half relied on trading. A slightly higher proportion indicated they were trading now (63 per cent) although fewer believed they would be bringing in income by trading in two years' time (56 per cent). Around a third of community businesses have public sector contracts, although this is expected to increase slightly from the proportion who have relied on this form of income (29 per cent), currently at 37 per cent and expected to increase to 39 per cent. The wider social economy figures show three out of four social organisations had relied on grants, donations and legacies in the past two years, although this had dropped to 58 per cent in the current year and was expected to drop further in the next two years, down to 48 per cent. There was only a small increase in expectations of revenue generation through trading among social organisations, while organisations in the wider social economy appear to be less involved in securing public sector contracts compared to community businesses.

Figure 19: LCR community business funding sources: past, current and in future

	Total		Community business		Social organisation	
	Number (72)	%	Number (41)	%	Number (31)	%
Within the past 2 years						
Power to Change funding	6	8.3	5	12.2	1	3.2
Loan from a commercial lender	4	5.6	4	9.8	0	0.0
Loan from a social lender	6	8.3	6	14.6	0	0.0
Community share offering	0	0.0	0	0.0	0	0.0
Crowdfunding	2	2.8	2	4.9	0	0.0
Other	6	8.3	2	4.9	4	12.9
Currently						
Loan from a commercial lender	3	4.2	2	4.9	1	3.2
Loan from a social lender	3	4.2	3	7.3	0	0.0
Power to Change funding	6	8.3	6	14.6	0	0.0
Community share offering	0	0.0	0	0.0	0	0.0
Crowdfunding	1	1.4	1	2.4	0	0.0

	Total		Community business		Social organisation	
Other	5	6.9	4	9.8	1	3.2
Within the next 2 years						
Loan from a commercial lender	2	2.8	2	4.9	0	0.0
Loan from a social lender	7	9.7	7	17.1	0	0.0
Power to Change funding	12	16.7	9	22.0	3	9.7
Community share offering	4	5.6	4	9.8	0	0.0
Crowdfunding	10	13.9	6	14.6	4	12.9
Other	8	11.1	5	12.2	3	9.7

When we asked about sources of funding, including investment, it demonstrated how organisations in the social economy are, in general, under-capitalised (see Heap et al., 2017). While care is needed when interpreting the response to this question, we see in Figure 19, Power to Change grants and social loans are the most frequently used funding sources although commercial lending is shown too. Some community businesses are using crowdfunding, and this looks set to increase over the next few years, while social organisations also plan to use this source. Around 15 per cent of community businesses have been able to access social investment in the past two years, although this figure drops in the current year (7 per cent). For some reason, more expect to borrow from social lenders in the next two years (17 per cent). Power to Change currently funds 15 per cent of our community business respondents and 12 per cent have accessed this support in the past two years. The figure jumps to 22 per cent who anticipate funding from Power to Change in the next two years.

Overall the figures on financial need would suggest an optimistic view on funding in the next two years. When compared to the past two years, particularly with regard to crowdfunding, community share offers and Power to Change funding, there are higher levels of expectation. In responses to 'other' forms of finance, one suggested a bank overdraft facility, while another identified social equity.

Comments on funding included:

– how large capital grants and revenue can support corporate social responsibility, pro-bono specialist services and expertise

– that the monetary value of their work, that is the social value they deliver, should be calculated when looking for matched funding

– that community businesses look to raise social equity as a chosen investment route, and that this is seen as distinct from other financial product types.

Box 3: Credit union case study

Credit unions

Credit unions are financial cooperatives owned and controlled by their members. They have a strong community focus, with each credit union serving members who live or work in a particular geographical area, belong to a specific group such as a church or trade union, or work for the same employer. This 'common bond' is the legal obligation which determines who can become a member of the credit union. They are regulated by the Financial Conduct Authority and provide customers with savings protection via the Financial Services Compensation Scheme. Eight out of the 11 credit unions operating in LCR operate in very small geographic areas and have around 5,000 members or fewer. They deliver significant financial inclusion benefits to the individual members and, as a result, to the wider communities to which they belong.

Credit unions provide simple financial services, such as loans and savings accounts, only to members. In a credit union, members pool their savings to lend to one another. The small amount of income raised by loans pays for the operating costs of the credit union. Any surplus which is generated may be paid out as a dividend to members who have savings or used to support the development of the credit union – the members decide on the distribution of surpluses. Some credit unions offer a fixed rate of interest on savings, but most give a yearly payout called a 'dividend'. The dividend is the way in which the credit union rewards its savers for the use of their money and is paid as a proportion of the level of savings held over the year. The amount received, if any, depends on how much surplus the credit union has made in the year. This is not the same as for-profit companies paying out surplus to shareholders in proportion to the number of shares they hold.

Membership of a credit union can bring significant benefits to individuals and the communities in which they live and work by promoting financial inclusion. Members are encouraged to save on a regular basis and can access loans which are reasonably priced (interest rates are capped by law at 3 per cent per month or an APR of 42.6 per cent). Help is provided with budgeting and, should members encounter difficulties in making loan repayments, credit unions offer a range of approaches to support their customers and enable them to gain control over their personal finances.

There were 193 credit unions operating in England in 2017 with around 760,000 members, or 2.2 per cent of the resident population. Our research indicates that there are currently 11 credit unions operating within the LCR with an estimated membership of around 70,000, representing 4.5 per cent of the population. While the share of residents who are members of a credit union is higher in LCR than in England (and Wales, also with a 2.2 per cent penetration rate), membership is much higher in Scotland (6.4 per cent) and Northern Ireland (over 30 per cent), suggesting that there is still scope for growth in membership, savings and loans for LCR-based credit unions who wish to extend their reach into the communities they serve (Bank of England, 2017).

There has been much change in the composition of the credit union market within LCR over the last decade. In 2007 there were 24 organisations serving a membership of just over 33,000 with total savings of £15.7 million and loans outstanding of £15 million (Jones and Egan, 2009). There has been considerable consolidation, particularly among the community credit unions (those serving members who live or work in a specific geographical location), with three societies deregistered and several mergers or transfers of operations to other organisations. At the end of 2017, 11 credit unions have a total membership of almost 66,000 supporting savings and loans of around £30 million.11

So, while the number of credit unions in existence has decreased considerably, those who remain have grown at an average annual rate of around 10 per cent in membership terms, slightly higher in savings and loans. This trend reflects both an increase in demand for the services provided by credit unions and the difficulties faced by smaller organisations in meeting the considerable economic and regulatory costs of operation.

Discussions with management of several LCR credit unions indicate that there is significant unmet demand within the region for the services they offer. The main constraint is lack of capital to lend to customers and to ensure that regulatory reserve requirements are met.

[11] Estimates provided by the research team.

Respondents were asked a series of questions concerning their confidence in the financial prospects of their organisation. Figure 20 affirms that community businesses are exhibiting greater levels of confidence in their future financial prospects for the next 12 months than social organisations overall. This growing confidence is found in other Power to Change work (Diamond et al., 2018) and we find some 44 per cent of community businesses reporting that they are confident in their financial position for the next 12 months.

Figure 20: Financial confidence of community business in LCR

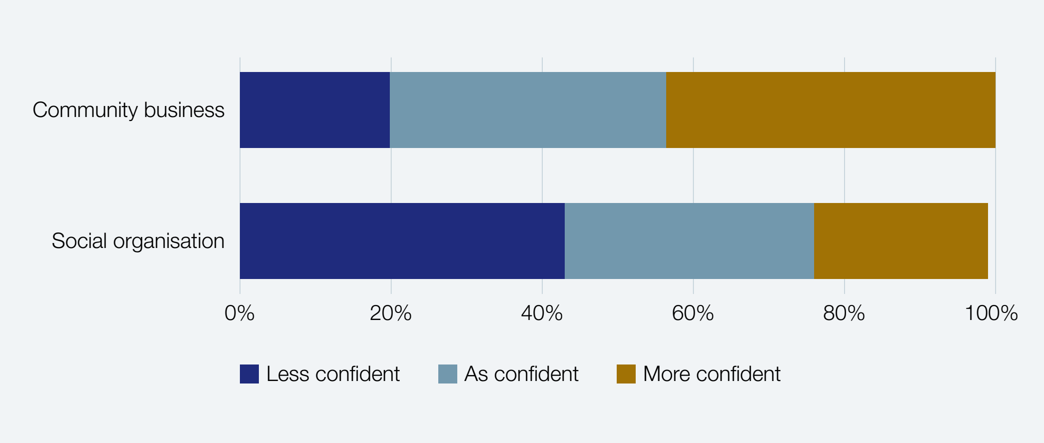
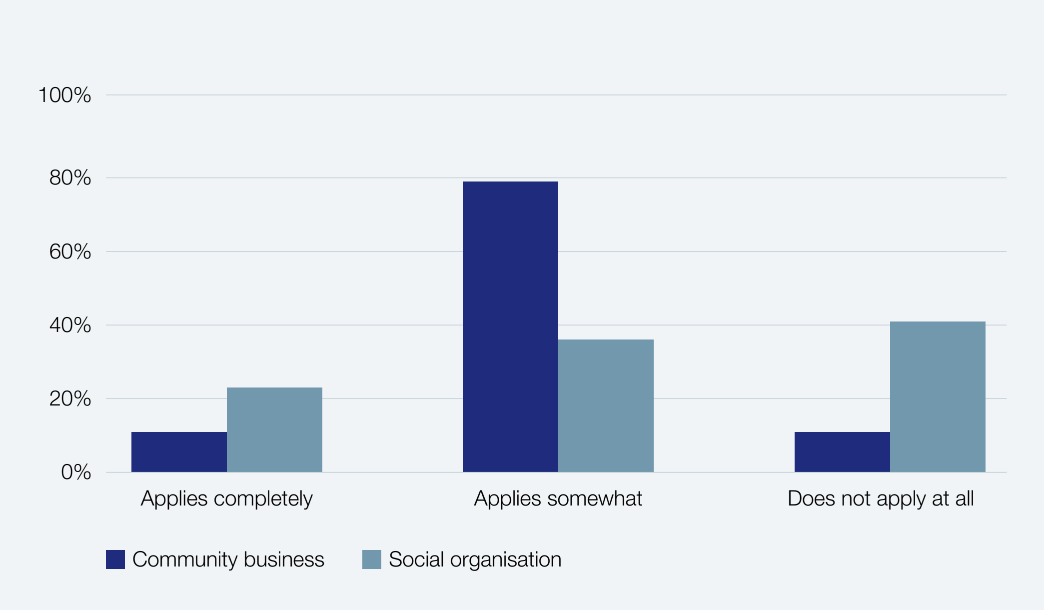
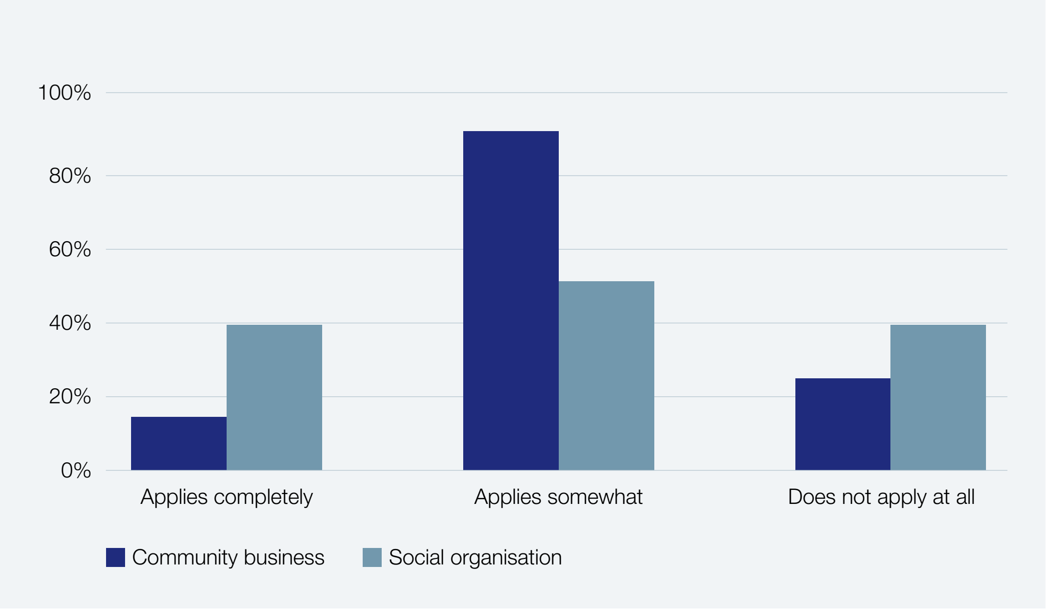


Figure 21: LCR community business can handle an unexpected major expense



We then asked questions to help us understand better the financial situation of the organisation. We asked whether a series of four positive and negative statements concerning the health of finances applied to the organisation 'completely', 'somewhat' or 'not at all'. Figures 21 to 24 illustrate these results, demonstrating the financial resilience of community businesses. Figures 21 and 22 indicate that community businesses were less positive about handling an unexpected major expense than social organisations and felt less able to handle a major financial interruption.

Figure 22: LCR community business are able to handle a financial interruption



Figures 23 and 24 continue the theme of financial resilience, showing less community businesses reporting 'just getting by' than in the rest of the wider social economy, while there was little difference in those struggling to pay, with few reporting this as a major problem.

Figure 23: LCR community business are 'just getting by'

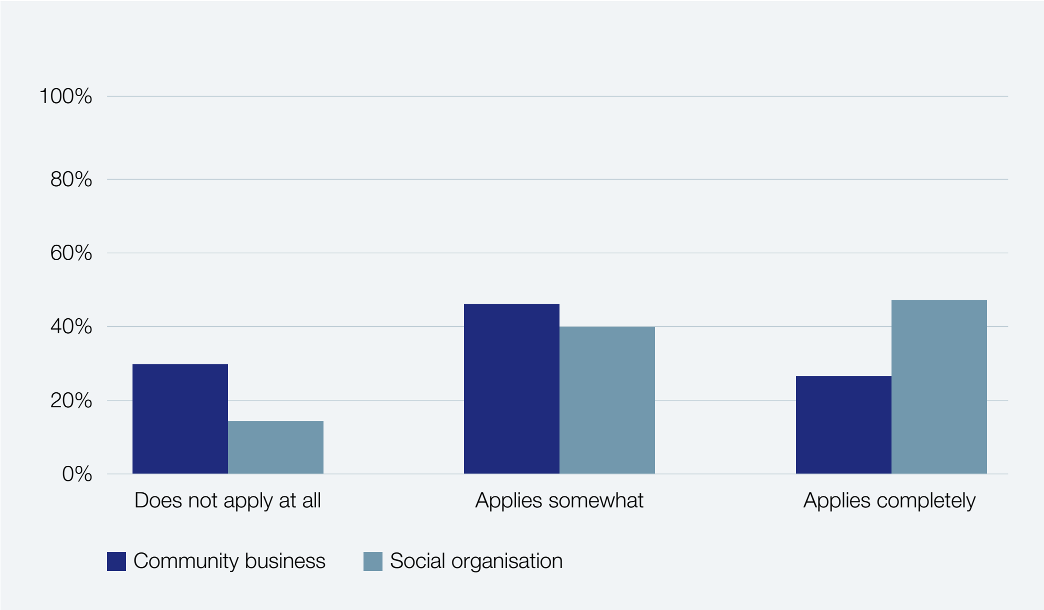
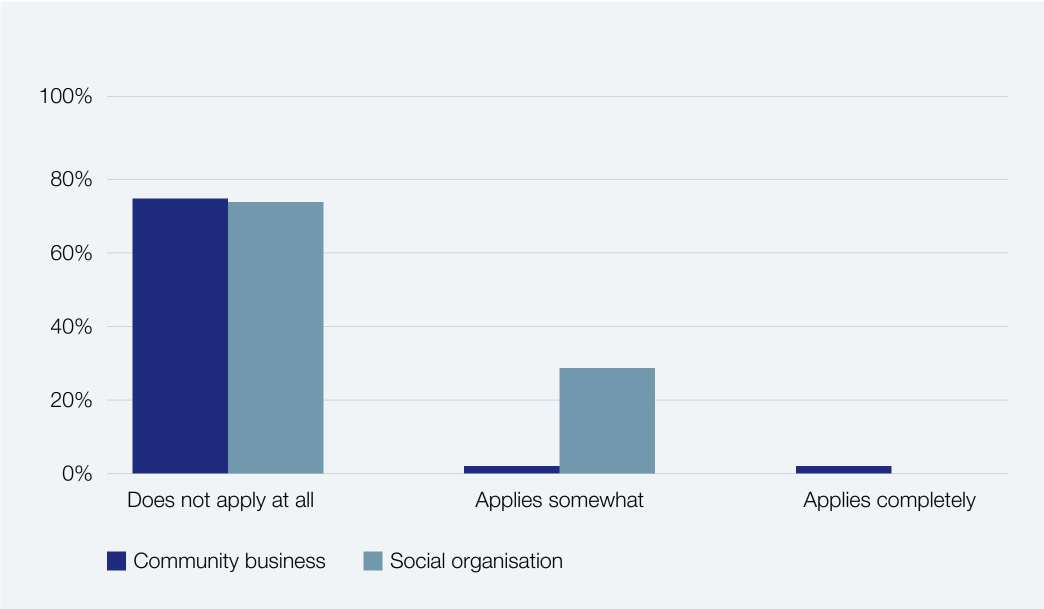


Figure 24 LCR community business are 'struggling to pay'



6.5 Securing income

There were three principal income streams for community businesses we interviewed. First were grants from the public sector, foundations and trusts. Second was income from facilities rentals and events and finally, commission earned for services. We look at these areas in a little more depth below. Other, minor sources of income included from goods made, for instance catering, cafés and shops, pay-as-you-feel donations from people accessing services, crowdfunding, member fees and individual donors.

Grant funding

Grant funding has decreased in importance mainly due to the restructuring of public expenditure over the last ten years. Community businesses talked to us about the reduction in the number of public sector grants, such as those provided by the NHS or the local authority. Trying to secure grant funding has become a more competitive process although this is a form of revenue that all community businesses are keen to secure.

Not only have grants become scarcer, their duration has shortened, with examples of some funding schemes having been reduced to a single year. One respondent told us:

> **So from the local council we get a small grant. Again, that was cut by 12 grand two years ago. [The grant is] funded on a year-by-year basis ... you can't really plan on a year-by-year basis on what you want to do in terms of staffing. Staff know that their contract depends on identifying or receiving additional funding.**

We should note that the type of funding is important to the way community businesses pursue certain projects. We found instances that showed how the aims of the organisation had been shaped by the objective of the grant funders, potentially leading to mission drift.

Commissions for services

Requests for bids on a commission basis have decreased mostly due to austerity. Even so, there were eight community businesses that indicated recent or current income from services commissioned, securing contracts mostly from the public sector. Both community transport organisations we interviewed depended heavily on contracted work for services and community hubs too, told us how this type of work made up a significant amount of their income. One of the community hubs did not have any commissioned work, although we did find that this type of income generation tended to support the aims of the community business. In some cases, we found that contracted work was for providing technical assistance to other community organisations.

In-kind support

Community businesses also drew on various in-kind donations to help support activities and supplement infrastructure needed to carry out services. While in-kind support was never the driver of an activity, on occasion it was cited as a reason key services could be offered. One interviewee told us:

> **I think the biggest success of the organisation being established was working with companies, local business individuals, to then see this [refurbishment] project. What can we save by getting gifts in kind, by getting volunteer time using expertise out there, and within 12 months we've lessened [the cost by] nearly £300,000 of goodwill from various companies and businesses.**

There were two principal ways community businesses benefited from this type of donation. One was through volunteer hours and the other was through free or reduced maintenance costs or materials to be used by the community business.

7. The potential for growth

Other approaches to financing community businesses

Both community transport businesses we spoke with had created secondary for-profit businesses. These either helped to fund current projects or helped the community business to tender for new work. Two organisations brought up crowdfunding as a source of finance in the past, although neither indicated much success. One of these organisations explained how difficult crowdfunding can be and that it can result in minimal financial gain for the time needed to execute it.

For member-based organisations, membership fees did not generally bring in much income. Instead, membership was one way to identify and engage stakeholders, many of whom were part of a particular community. Interestingly, borrowing of any kind was considered a risk by most of the interviewees. Two organisations were repaying loans for which past leaders were responsible and both considered it irresponsible of the decision-maker at the time. A common perception about loans was captured in one interview:

> **With a loan you are committed to pay it back and it's something the trustee board now does not want to have the responsibility for, loans. You've got to make sure that you've got the income back to repay that loan.**

The interviews confirmed our view that many community businesses are under-capitalised with limited investment opportunities, and where there is investment, there are difficult expectations made about pay-back within a short timeframe.

Future trade and new revenue

Five organisations, including the three youngest, indicated that they were actively seeking new revenue streams. Of those actively seeking new forms of revenue, only three had support or infrastructure in place to pursue new trading opportunities. Well-established organisations were less likely to be thinking about new ways to fund their activities. New opportunities for revenue streams included things like creating and selling goods, particularly foods, community shares, and new fee-for-service initiatives. A few organisations indicated that they wanted to diversify their funding portfolio. However, due to limited capacity, they did not have the time needed to strategically think through the available options.

The experience of community hubs

Community hubs differed in the way they funded their activities. Three hubs told us that venue rental was a minimal revenue stream, while four organisations indicated that their primary revenue stream was from venue rental. For two of these community hubs, this income allowed them to carry out additional initiatives. Venue rentals were mainly associated with a community project or services, such as training and education. We noted venue rental used by the community, for individual private use or by the private sector. Most community hubs had managed to secure at least one extended contract providing the basis for a long-term rental.

We wanted to look at the growth history of each of the community businesses operating within LCR. Unfortunately, the data we gathered limited what we were able to do in this regard. The reasons are shown in Appendix 2.

7.1 Using registered charities to explore the financial trends of community business

The group of community businesses which consistently report detailed accounts over the full period of this analysis is registered charities. There are 36 charities in the LCR community business universe (43 per cent of the total number). They are the longest-established members of the community business population with a median age of 17.5 years, and they employed 419 staff in the most recently reported year. The charities all reported data in all categories for each year in our study. This gives us a complete picture for the entire period without any of the distortions or omissions described in Appendix 2. We have therefore used this group as a proxy for the community businesses sector in LCR. It is important to note that while the charity group provides some insight into the financial trends of some community businesses, it may not be fully representative of all aspects of financial condition or growth. For the charity group of community businesses, the total annual income was £13 million. This accounted for 72 per cent of the overall community business universe (excluding credit unions), with fixed assets of £18 million and net assets of £20 million. Over the five years of reported accounts included in this data set, annual income for the charities declined by 6 per cent, fixed assets increased by 2 per cent, and net assets (total assets minus total liabilities – a measure of the money a business has available to fund its future operations) rose by 5 per cent.

Given this, the average annual growth rate indicates -1.4 per cent for income and +1.2 per cent for net assets. ONS data shows that the UK's non-financial businesses generated average annual growth in turnover of 1.1 per cent over the same period. This means that the charity group within the LCR community business sector has under-performed compared to the broader economy over the period. This may well reflect the impact of austerity not only on the charitable sector, but also the wider community business market.

Figure 25: LCR-registered charity growth analysis

	Last year	Year 2	Year 3	Year 4	Year 5	Growth (%)
Annual income (£) YOY[12] change (%)	12,950,546 8.6	11,925,205 -2.2	12,191,451 -8.2	12,601,396 -8.2	13,723,115	-5.6
Annual expenditure (£) YOY change (%)	11,619,064 -14.3	13,562,580 15.8	11,715,642 -2.5	12,012,425 2.7	11,699,579	0.7
Fixed assets (£) YOY change (%)	17,931,519 4.6	17,142,044 -15.4	20,267,304 7.9	18,788,498 7.3	17,518,342	2.4
Net assets (£) YOY change (%)	20,220,877 7.7	18,775,713 -13.8	21,771,946 8.9	19,984,003 3.6	19,296,957	4.8
Number of months covered by net assets (%)	20.9	16.6	22.3	20.0	19.8	

7.2 Acquisition and development of assets

We know from previous research that acquiring assets is an important part of sustainability in the social economy in general and specifically in this study, for community hubs (see Heap et al., 2017, Richards et al., 2018). Our data shows that the community hubs have a much higher fixed asset to income ratio than the rest of the community business sector in LCR. This is drawn from data for 25 community hubs and 30 other community businesses. Total fixed assets for the community hubs are worth £16 million vs annual income for the group of £8 million, giving a ratio of 2.0. The non-hub community businesses have total fixed assets worth just under £7 million vs income of £12 million and a ratio of 0.55.

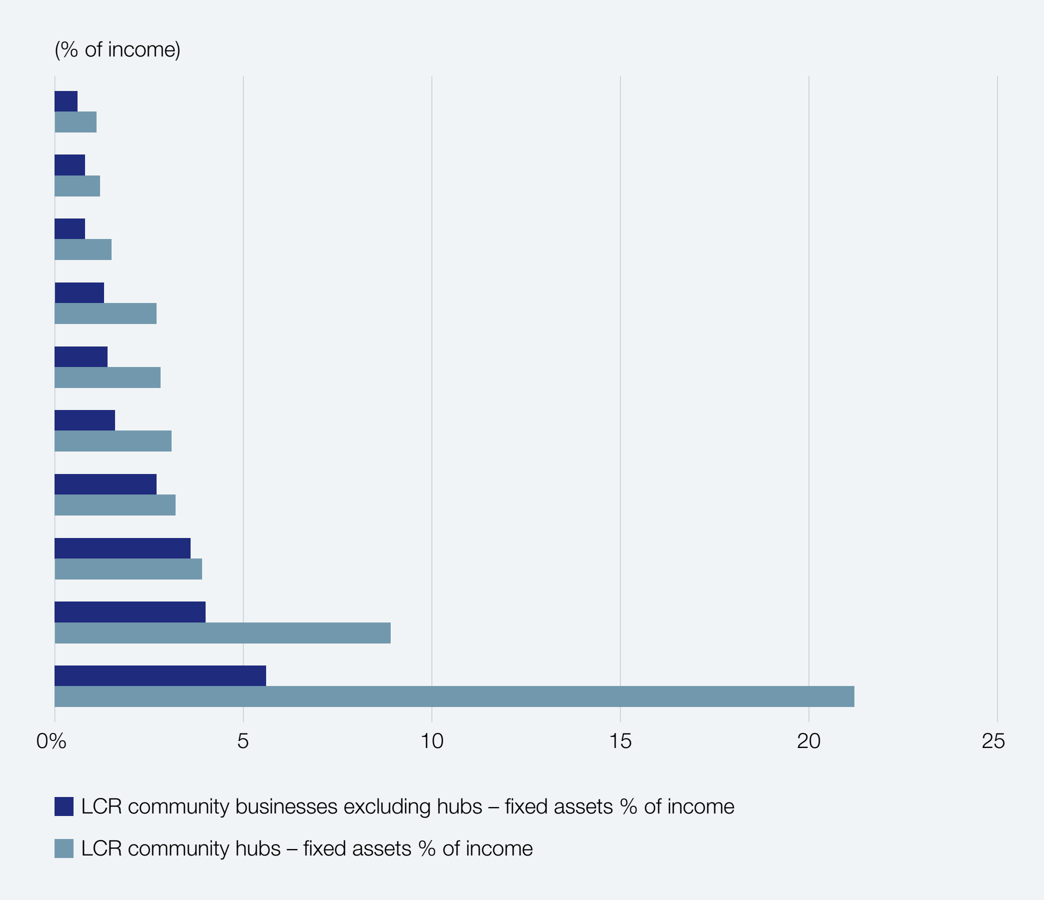
[12] Year-on-year.

Figure 26: Total fixed asset to income ratio

	Community hubs	Non-hub community business
Number	25	30
Total fixed assets (£)	16,086,198	6,615,499
Total income (£)	7,846,814	12,071,300
Fixed assets to income ratio	2.05	0.55

Ten of the Community hubs and 10 of the community businesses that aren't hubs own fixed assets worth £20,000 or less, meaning that asset ownership is not a material feature of their operating model. For community hubs as a group, fixed assets are a more significant factor than they are for the non-hubs as shown by Figure 27, which compares the asset to income ratios for the ten most asset-dependent organisations in each group.

Figure 27: Fixed asset to income ratios



7.3 Key factors for sustained success

Some recurring themes emerged among interviewees when discussing the key factors essential to an organisation's success. During our discussions, we heard fixed assets being talked about as a factor of success, especially when an organisation transitioned from not having sufficient designated space to having purchased, upgraded, or expanded their property, whether rented or owned. Fixed assets such as buildings were identified as a major catalyst for growth and sustaining the community business.

Fixed assets were also sometimes regarded as a potential drain on resources. Community hubs that own their property outright or leased property for a minimal fee, but are responsible for maintenance, expressed concern over unanticipated and anticipated costs of a major repair. One interviewee told us:

> **[We are] looking at funding the roof. There are three big things: the roof, the hall floor, and boiler. If any of them went ... The fact that we have a healthy bank balance, that is good because it gives us a cushion.**

We came across two organisations that cited past structural damage to property that led to a clear reduction in activities or services.

We also found that some community businesses look to growth as a necessity, especially younger ones. Whereas the established community hubs that do not prioritise community development often do not have any intention of growing and are content to sustain their current level of operation. One interviewee told us:

> **Will we grow? We will chase the money if the opportunity arises because you need to nowadays, but we are quite happy and stable at the point we are ... if funding regimes continue as they are, we might see a reducing size a little bit. You've got to shrink and flex it's all about the funding and we already have a history of doing that but not in a massive way.**

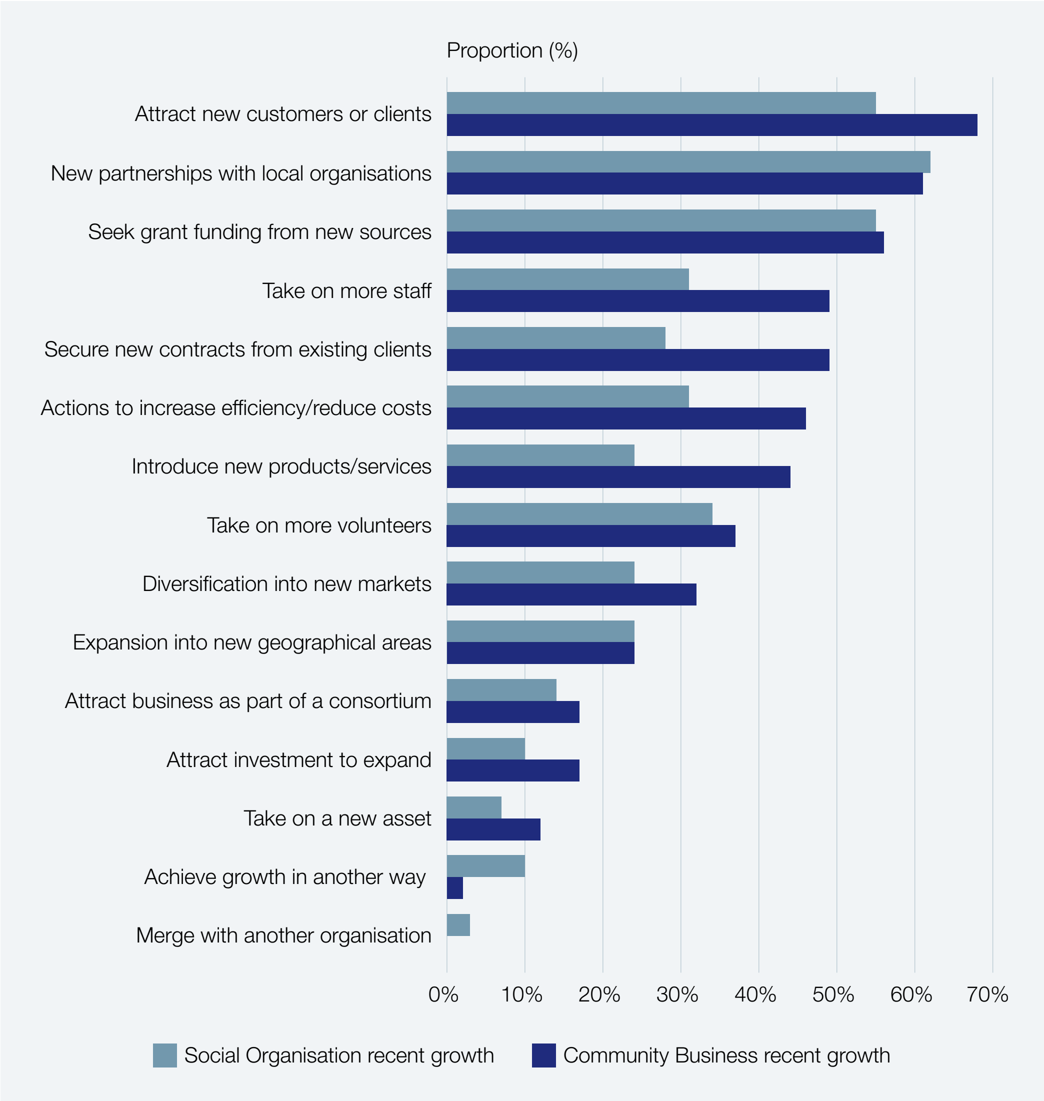
More than one community hub identified the Heritage Lottery Fund as a resource that had either granted funds or could grant funds to upgrade their property. Our interviews suggested that cuts to public sector services may not always result in a sudden change of financial support to organisations – often it is more gradual, although in a couple of cases, austerity did result in substantial changes to singular programs for organisations depending on funding.

Policies, typically at the national level, were also identified as a cause of temporary setbacks. Two examples applied to both community transport organisations we interviewed. In recent years when the level of the National Minimum Wage has been updated, one of the organisations was halfway through a grant period of three years. The grant paid for the National Minimum Wage before the update was applied and the organisation had not planned for this, so it had to make up the difference by dipping into its reserves. Additionally, policies impacting vehicle driving licences could have an impact on employees through a need for retraining and on transport fleet because of revised environmental standards.

7.4 Conditions for growth

Our survey we asked about previous and expected growth. A higher proportion of community businesses have expanded over the past year compared to the rest of the social economy. Figure 28 indicates the sources of growth in the LCR social economy, and how community businesses have seen partnerships, new grant funding and expanding their market or client base as significant. We can see a marked difference in those organisations that have taken on a new asset with 34 per cent of community businesses compared to 7 per cent of social organisations believing this has affected their growth. Securing new contracts from existing clients is an area of growth – 56 per cent for community businesses and 38 per cent for social organisations – whereas mergers account for 10 per cent of social organisations' reported growth compared to only 2 per cent of community businesses'.

Figure 28: Sources of growth over past 12 months – LCR community business (%)



Similar ideas pertain to future growth (see Figure 29). Over the next 12 months, the top three plans for both cohorts are through developing new partnerships, new grant funding and expanding market and client base. Differences between community business and the wider social economy are less marked in anticipation of how the organisation may grow, although we note that community businesses are searching for expansion across a range of activities.

8. People: a community business asset

Figure 29: Sources of growth in the next 12 months – LCR community business (%)

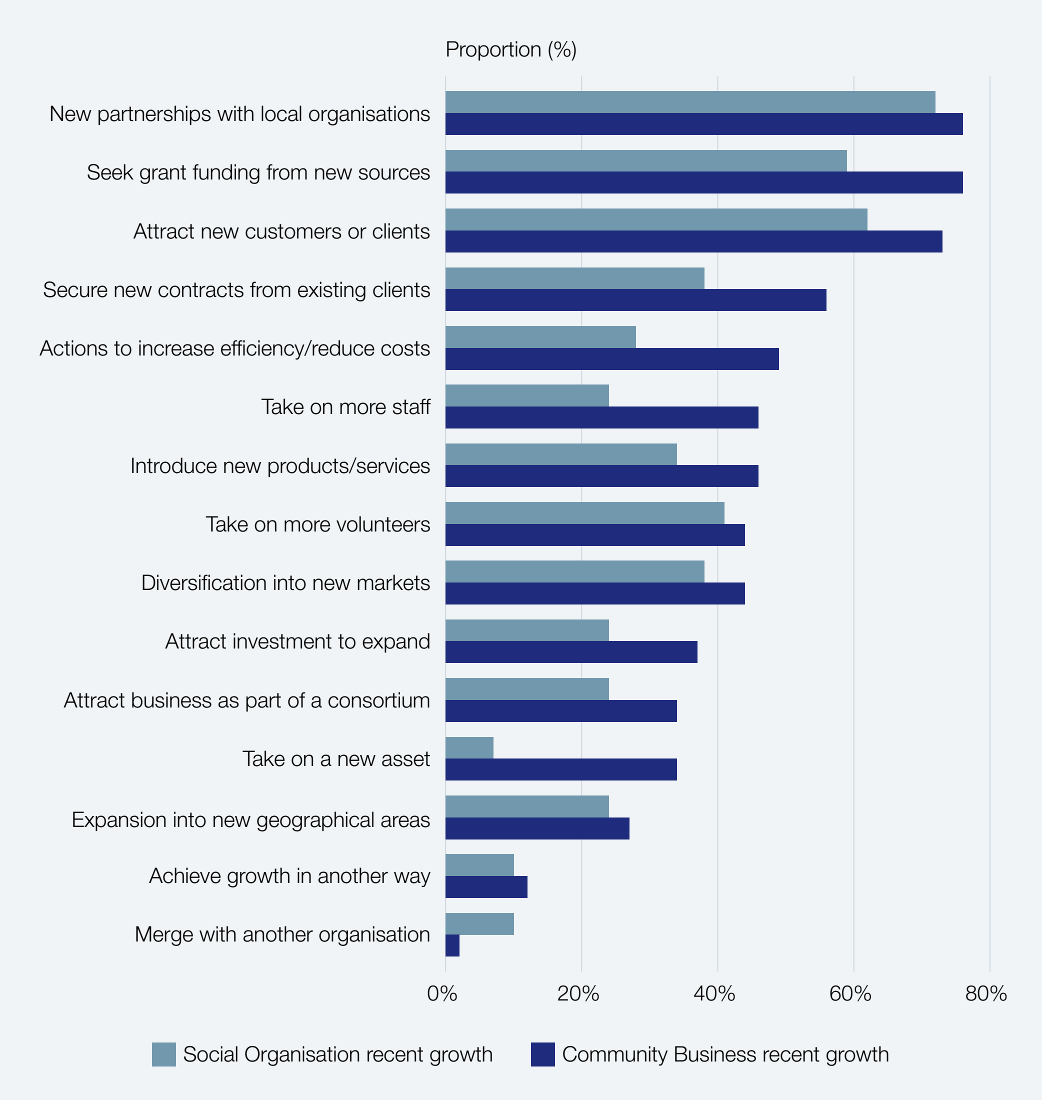
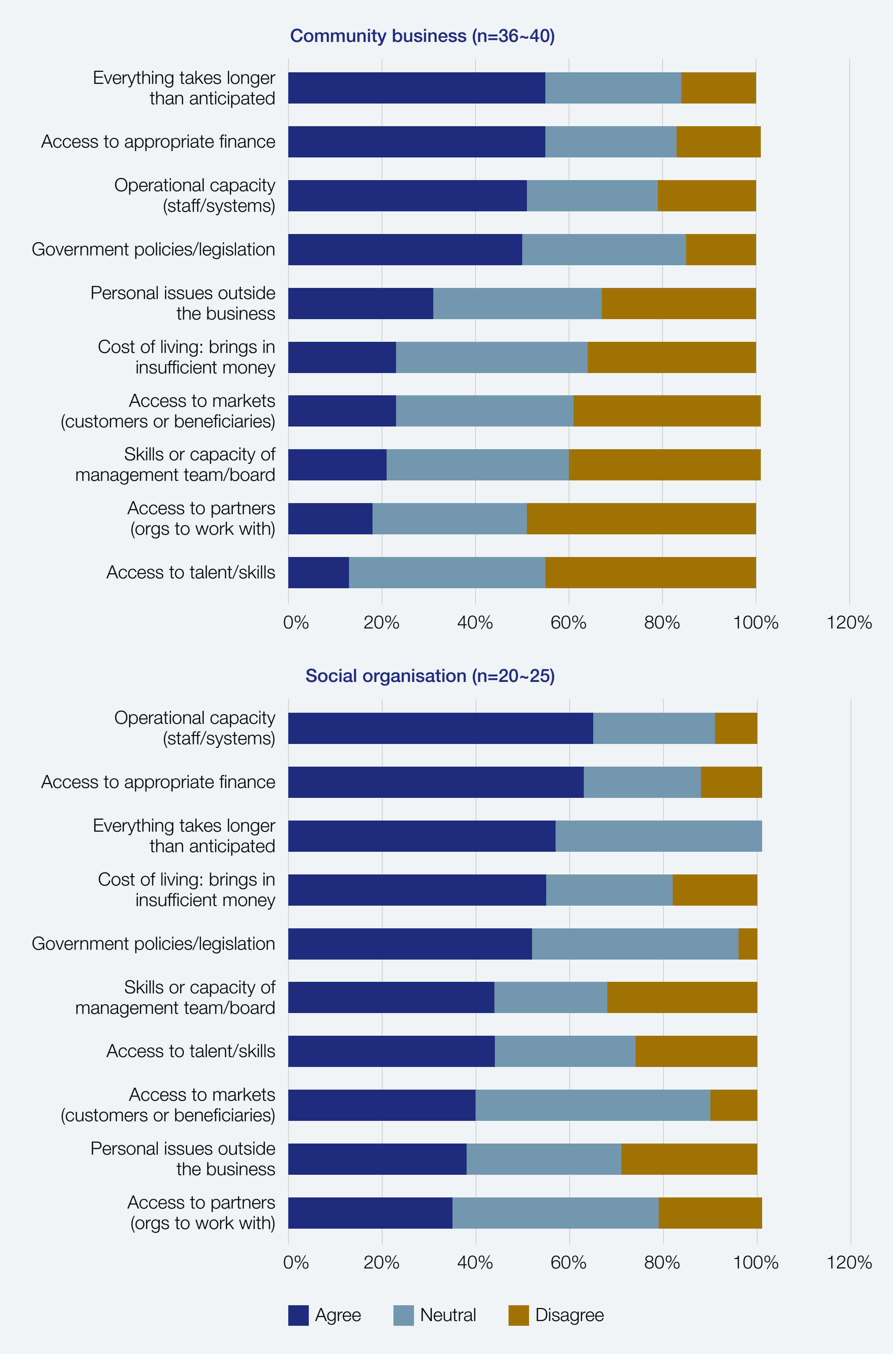


Figure 30 outlines what factors community businesses felt had been obstacles to their growth. They are ordered according to the level of agreement that each was considered to be an obstacle (see also Power to Change, 2017, p.18). More social organisations than community businesses appear to have a wider range of obstacles to overcome, to achieve growth. The highest response came to general operational expectations and accessing finance, with 55 per cent of community businesses citing these reasons. Government policies and legislation was cited as a reason that inhibited growth for community business and social organisations, with one in two making this point. These factors indicate a similar set of frustrations that we have seen previously reported about small businesses, and show a generic environment for trade that remains challenging. We can also add to this that community businesses trade to pursue their social objective, so it is doubly difficult.

Figure 30: What prevents growth in your organisation?



People are a central asset to community businesses. Many founders or leaders identified their staff and volunteers as a major asset to the organisation and often cited a shared ethos that led to retaining key players. A shared understanding and commitment to the vision of the organisation reportedly led to other benefits, like retaining staff and volunteers and receiving in-kind support from local businesses. Furthermore, the capacity to adapt and be resilient to change – mostly changes in the sphere of funding – was also noted. For some founders and leaders this was through doing more with less or sacrificing their own wages to keep things afloat. For the more stable community businesses, successfully diversifying financial portfolios was cited.

8.1 The role of founder and leader

In our interviews we noted that the founder or leader played a critical role in establishing and sustaining the community business.

> **When I took over, [the organisation] was very much charitable led, which is great but very grant-dependent … there was very little left to work with, other than a very beautiful building that was falling down. We needed to re-engage with people of the area, review what it is that we do. If we say "we do education", how do we do that, what are our challengeable objectives? So, I did all of that.**

We occasionally found leading without pay, although maintaining social mission and solvency could also be associated with the role that the leader of the community business plays.

Interviewees were asked how, as the key decision-maker in the community business, they accessed support for their work. At least some of this support came from the experience of the founder or leader built up over their career and the social networks and experiences they were able to draw on. Most had previous careers in the wider social economy with only a few previously working in the private sector. Two interviewees discussed ad hoc, informal information groups that they were responsible for forming, where they might share knowledge on paying benefits to staff, for example, or seeking to provide some level of human resource management. Other more formal groups and training were mentioned as a source of information, support networks and to facilitate exchange of business ideas.

A few founder or leaders identified that a lack of capacity, either time or skills, made it difficult sometimes to help with strategic planning. More often than not, the capacity problem had to do with time and not skills (see also Figure 30). Consultants were not necessarily considered the answer either, as they can be expensive and may not be trusted by community members or staff to complete what is needed successfully. Survey respondents mentioned lack of strategic capacity, managing ex-employees and the time commitment, a lack of legal and HR experience, the recruitment of suitably qualified volunteers and reduced staff hours as the business side struggled.

8.2 Community business employees

Staff and volunteers that are committed to the aim and mission of the community business are clearly thought of as an essential part of the organisation. Our interviewees told us that often staff would be local community members themselves and, in some cases, they were drawn from training programmes run by the organisation. Thus, development from a position of volunteer to paid staff appears to be something that can occur regularly in community businesses. We found that there was variability in numbers of staff and volunteers, with two community businesses having no paid staff.

The survey results indicated that community businesses tend to employ more staff than social organisations, although we note that this is counter to what we reported earlier i.e. that the median number of people employed was six for community businesses and 15 for social organisations, whereas in our survey we find the mean figure for employment is 12 for community businesses and eight for social organisations. We believe this contradiction is due to the sample frame and relative low response in reporting on this question.

Figure 31: LCR: staff numbers, consultants and freelancers – community businesses and social organisations

	Community Business Number 31~38			Social Organisation Number 14~21		
	Mean	**Median**	**Range**	**Mean**	**Median**	**Range**
Full-time now	8.6	3.0	0–80	3.8	2.0	0–16
Full-time 5 years ago	7.3	3.0	0–80	2.5	1.0	0–8
Net change (now–5 years ago)	+1.3	-		+1.3	+1	
Part-time now	3.5	2.0	0–15	2.7	2.0	0–11
Part-time 5 years ago	3.1	1.0	0–23	3.1	1.0	0–15
Net change (now–5 years ago)	+0.4	+1		-0.4	+1	
Consultants/ freelancers now	2.9	1.5	0–20	2.1	2.0	0–4
Consultants/ freelancers 5 years ago	2.7	.0	0–40	1.9	0.0	0–10
Net change	**+1.4**	**+1.5**		**+0.2**	**+2**	

Our interviews indicated that most community businesses with employees try to pay above the minimum wage. One interviewee said:

> **We've never dealt with minimum wage. We've always tried to be minimum wage plus. We were at the living wage standard and we'll be above the new living wage when it comes in as well. As an organisation, it's a struggle, but we like to pay what is seen as an appropriate amount for the sector.**

Others told us about the need to ensure adequate pension provision, although worryingly we did find one instance where it was evident that the organisation paid only at minimum wage and discouraged employees from signing up for the pension scheme.

8.3 Volunteers

Volunteers are regarded as an important asset and there appears to be a good supply of willing people. Not once did an organisation indicate that they needed more volunteers and in a couple of instances it was clear that without a strategic approach volunteers could potentially become a burden. In our survey of all respondents, 57 per cent reported that they had volunteers working for them over the past 12 months.

There does appear to be a wide variation in the number of volunteers employed – this was implied in our survey and confirmed in our interviews. We found that the median figure for volunteers in a community business was 16 now, compared to 12 five years ago. The trend was opposite in the wider social economy, a median number of volunteers at 11 now and 16 five years ago (see Figure 32).[13] The extent to which community businesses are reliant on volunteers can be seen with 66 per cent of community businesses reporting that volunteers were 'very important' to their business operations, rising to 86 per cent when combining those who reported that volunteers were 'important'.

[13] See also Diamond et al. (2018) who indicate a mean figure for community business of 31 volunteers and a median figure of 20.

Figure 32: The importance of volunteers to LCR community business

	Median	Range
Community businesses		
Volunteers now (n=35)	16	1–80
Volunteers 5 years ago (n=32*)	12	0–70
Social organisations		
Volunteers now (n=22)	11	3–250
Volunteers 5 years ago (n=20*)	16	0–250
Total		
Volunteers now (n=57)	15	1–250
Volunteers 5 years ago (n=52*)	12	0-250

*excludes those organisations founded after 2013.

8.4 Workforce inclusivity and engagement

In our survey we set some questions to begin to explore how community businesses support and engage their employees – and where relevant, volunteers. We are not aware of any previous examination of this in the community business sector, or in the social economy in general. We asked community businesses whether they recognised and promoted trade unions or other independent staff organisations. We also asked if the employees had voting rights (i.e. as a cooperative) or if there were any other forms of employee engagement. Table 33 provides the response to this question, although this was low for social organisations only and have been removed.

Table 33: Support for employee engagement in LCR community business

	All respondents (n=60)		Community Businesses (n=41)	
	Number	%	Number	%
Promote or recognise a trade union	15	25	12	29
Have an independent staff body or committee	11	18	10	24
Other	9	15	6	15

Amongst all respondents, 25 per cent replied that they promote or recognise a trade union, with the figure for community business suggesting three in 10 do this. A further 24 per cent of community businesses said they had an independent staff body or committee and 15 per cent some other form of support for employee engagement. This indicates that two-thirds of community business have some form of employee engagement although clearly further work is required to understand the form and function of this.

'Other' approaches specified most frequently related to formal and informal in-house initiatives. These would include 'consultation and steering groups', 'in-house policy', 'regular team meetings' 'internal structures', and involvement of the board of trustees. Some respondents, particularly within social organisations, referred to how being a small team enables effective communications, one noting 'As we are only two everything is discussed', and another; 'We are a small highly-motivated team that communicates and collaborates very effectively. There is very little hierarchy and all opinions and ideas are welcomed and encouraged.'

9. Conclusion

We have demonstrated that defining what a community business is remains a complex but useful process. It is a definition that is not always recognised, even within the sector itself, and one of the useful findings from our work is the need to develop a distinct identity for community business. This might be something to consider, not least when one considers how the term 'social enterprise' easily conjures up positive images – despite having no legal definition.

Our analysis has revealed that in LCR there are 84 community businesses. They have an annual turnover of some £22 million, fixed assets of £31 million, net assets of £38 million, and employ some 600 people. This shows that the community business market is small, but substantial. We know that some community businesses are in a stronger financial position than others and that there are many that remain under-capitalised and struggle. While the community business sector represents only 0.2 per cent of the total business population in the city region, if we adjust for LCR's low business density relative to the rest of the country, and include unincorporated groups, we estimate a figure of some 7,100 community businesses across England. That is a slightly lower number than has been found by other work, using a different methodology.

While four in ten community businesses remain confident about their financial position, they may struggle to face an unexpected major expense. We also believe that the sector has seen its annual income decrease over the past five years, although assets, fixed and net, have increased. In turn, the community business appears able to draw upon a committed employee- and volunteer-base who are engaged positively in the organisation. That most community businesses are located in the poorest parts of the city region, and that they are embedded within communities, may need some further thought about what is working and what is failing.

We suggest that we should be able to provide a more nuanced set of ideas to help develop the community business sector in this city region. There are clear pockets of strength in the sector and a need for specific types of support to enable growth, meaning that the demand and supply of finance and social investment requires serious discussion. Community hubs, credit unions, managerial capacity, accessing new markets and maintaining contracts are all areas of the community business sector where attention needs to turn. This report should enable such a discussion.

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Appendix 1: Establishing the sample frame

The first step was to identify the postcodes used within LCR. We built a universe of social organisations by searching Companies House data (accessed via DueDil) on a postcode-by-postcode basis using over 60 postcode districts (L1 to L40, L69, WA7 to WA12, CH41 to CH65, PR8 and PR9). The primary search criteria used was company type. Organisations which are companies limited by guarantee (CLG), charitable incorporated organisations (CIOs), community interest companies (CICs), or mutual societies (co-operative, community benefit, industrial and provident societies) were included in the data set.[14] While this gave us the number of active registered companies in each postcode, one limitation is that it does not include any community businesses which are structured as companies limited by shares because these companies do not have an asset lock and are structured to be for private, rather than community, gain.

A review of the governance structures of all Power to Change grantees in north-west England showed that none of them were companies limited by shares, so it is not believed that omitting these produces any significant issues of underestimation.

Only companies shown as active in Companies House data were included in the search. This produced an initial list of more than 1,800 social organisations within LCR. Using the UK Standard Industrial Classification of Economic Activities (SIC 2007) code reported by each company on their annual return/confirmation statement to Companies House, organisations with the following classifications were excluded on the grounds that these activities were not likely to be community-based:

- 41100 Development of building projects. There is a separate classification covering construction of residential buildings, which is included in the data set.
- 64110-64999 Financial and insurance activities. This part of the classification data be relevant when compiling a community business data set. LCR data does include the classifications covering insurance, pensions, and financial intermediaries, which may be more applicable.
- 68201-9 Renting and letting of real estate, conference and exhibition centres. It is possible that our methodology will miss some community businesses whose primary purpose is building or space rental. This classification was omitted due to the large number of residential management companies within it, who share many of the governance characteristics of community businesses, but which do not meet Power to Change's four key criteria. If this classification were retained it would significantly add to the number of companies to be assessed and potentially make the methodology unmanageable.

[14] More information on these different forms of business structure can be found at: https://www.gov.uk/set-up-a-social-enterprise.

- 74990; 99999 non-trading or dormant companies. This is a category of company which is usually a subsidiary of a holding company established in order to protect a trading style or product name. Small companies and community businesses which are in the early stages of start-up may not trade for some time, but if they are registered with Companies House they will most likely have selected a SIC2007 code which is relevant to their intended activities, and not the non-trading classification.
- 85100-85310 Pre-primary to general secondary education.
- 94910 Activities of religious organisations.
- 94920 Activities of political organisations.

Organisations with a limited liability partnership governance structure were also removed from the list. A UK limited liability partnership is a corporate body which must be a profit-making business where profits are distributed among members according to a partnership agreement.

As the data provided by DueDil on co-operative, community benefit, industrial and provident societies (all forms of mutual societies) is often extremely limited, we conducted a manual search of the FCA Mutuals Register, looking for any societies registered in LCR postcodes. This produced an initial list of just under 200 organisations. We then identified the last year for which annual accounts were published and excluded any societies where:

- no accounts were available at all. All active companies, co-operatives and community benefit societies are required by law to file annual accounts with Companies House or the Financial Conduct Authority. If the organisation is small or has not traded during the year, it will still be required to provide limited financial information including a simple balance sheet.
- the society had been deregistered.
- the only accounts available were produced before 2016.

This took the original list of around 200 mutual societies down to just over 100 and these were added to the master list.

We undertook an additional search of DueDil for any organisations registered in LCR postcodes with ‘community’, ‘communities’ or ‘co-operative’ in the name. Organisations that are registered charities were matched against the LCR social economy database gathered by Seebohm Hill Ltd in 2015/16. We then manually screened the list of charities to exclude all that were part of national organisations (and therefore not community-based). We then used the master list to identify the organisations that might be classified as a community group (i.e. place-based, engaging with local people, or benefiting a particular group of people) based on publicly available information on websites or company accounts. This process was, inevitably, a judgement call on the part of the research team. Finally, any organisations known to the research team as potential community groups, which were not already included on the master list, were added.

The results of this process are summarised Figure A1.

A1: Establishing the community business dataset

Governance	Number	%
Charity	36	20.7
CIO	2	1.1
CIC	11	6.3
CLG (non-charity or CIC)	10	5.7
Mutual societies	115	66.1
Total	174	100

We then assessed the remaining list of community groups for the subset of community businesses. For this we applied Power to Change's four key criteria of a community business:

- **Locally rooted –** they are rooted in a particular geographical place and respond to its needs.
- **Trading for the benefit of the local community –** they are businesses. Their income comes from things like renting out space in their buildings, trading as cafés, selling produce they grow or generating energy.
- **Accountable to the local community –** they are accountable to local people, for example through a community shares offer that creates members who have a voice in the business's direction.
- **Broad community impact –** they benefit and impact their local community as a whole. They often morph into the hub of a neighbourhood, where all types of local groups gather, for example to access broadband or get training in vital life skills (Percy et al., 2016).

This exercise further reduced the list by excluding five groups:

1. Social clubs (20 organisations) – even where these were trading, for example from food and drink sales, they were only for specific groups of people (United Services Club, Labour Club etc.) and not for the benefit of the local community as a whole.

2. Registered social landlords (31) – while these organisations have governance arrangements which put them in the category of mutual societies, they are not locally rooted.

3. Housing co-operatives (40) – these organisations clearly meet Power to Change's accountability and locally-rooted criteria but are not considered to be trading for the benefit of the local community or, in most cases, to have broad community impact.

4. Supporters clubs (6) – income comes primarily from membership fees, not trading.

5. Allotment societies (4) – income comes primarily from membership fees, not trading. In making the decision to exclude these last two groups we looked at HMRC guidance which shows that membership subscriptions paid to a community amateur sports club (CASC) do not count as trading income.

This process of exclusion resulted in our universe of 84 LCR community businesses. This figure was considerably lower than that we initially envisaged.

Appendix 2: Growth analysis data limitations

We wanted to look at the growth history of each of the community businesses operating within LCR. Unfortunately, the data we were able to gather limited what we were able to do in this regard. Specifically, the issues were:

1. Inconsistent reporting of data by individual companies:

a. No accounts available for some years. For credit unions, where net assets are very high relative to the overall values reported by community businesses, published accounts are not available for all years, possibly due to mergers.

b. Accounting treatment different from year to year. For example, one community business with a substantial net asset base reported differently in the two most recent years vs the previous years. This makes year-on-year comparisons meaningless for this individual organisation and also for the community business universe as a whole because of the materiality of the numbers.

2. Absence of data from some community businesses.

Small organisations are not required to report income data to Companies House, so many choose not to do so. This results in patchy availability of data for annual income. All companies reporting to Companies House must provide an abbreviated balance sheet, so it is possible to see data for fixed assets and net assets for each year for which accounts are available.

3. Newly-formed companies.

Median age of community interest companies and charitable incorporated organisations (both relatively recent additions to the corporate governance landscape) is four years, compared with a median age of 14 years for community businesses in the other governance categories. As a result, accounts are only available for the most recent years, if at all, for the CICs and CIOs. This means that we are not comparing like with like when looking at the most recent year vs the fifth year.

Appendix 3: List of community businesses in Liverpool City Region

Company name	Sector
ARTS hub 47 Community Co-operative Limited	Arts
Kazimier Productions CIC	Arts
Plaza Community Cinema	Arts
The Black-E	Arts
Comtechsa	Business support
Co-operative Business Consultants Limited	Business support
Merseyside Expanding Horizons Limited	Business support
North West Housing Services	Business support
Alt Valley Community Trust Limited	Community hub
Birkdale Community Hub and Library	Community hub
Chain Lane Community Centre Limited	Community hub
Dingle Multi Agency Centre Limited	Community hub
Edge Hill Youth and Community Centre Limited	Community hub
Fazakerley Community Federation	Community hub
Four Estates Limited	Community hub
Granby Toxteth Development Trust Limited	Community hub
Hoylake Parade Community Centre	Community hub
Initiative Factory Limited	Community hub
Kaalmo Youth Development Limited	Community hub
Kensington Community Learning Centre CIC	Community hub
KFCA (Kensington Fields Community Association)	Community hub
Maghull Community Enterprise	Community hub
Marybone Youth & Community Association Limited	Community hub
Murdishaw Community Centre Limited	Community hub

Company name	Sector
Rice Lane Community Association Limited	Community hub
Rotunda LTD.	Community hub
Safe Regeneration Ltd	Community hub
South Sefton Development Trust (T/A Regenerus)	Community hub
St. Michaels & Lark Lane Community Association	Community hub
Stanlaw Abbey Development Trust Ltd	Community hub
SWAN Women's Centre	Community hub
The Florence Institute Trust Limited	Community hub
Tiber Community Building	Community hub
Tunza's Pride Ltd	Community hub
Vauxhall Neighbourhood Council Limited	Community hub
Venus Working Creatively With Young Women	Community hub
Westbourne Hall Community Trust	Community hub
Ykids Ltd	Community hub
Beautiful Ideas Company (North) CIC	Credit union and finance
Central Liverpool Credit Union	Credit union and finance
Enterprise Credit Union	Credit union and finance
Halton Credit Union	Credit union and finance
Knowsley Mutual Credit Union	Credit union and finance
Lodge Lane & District (Liverpool) Credit Union	Credit union and finance
Norris Green Credit Union	Credit union and finance
Partners Credit Union	Credit union and finance
Riverside Credit Union	Credit union and finance
Sefton Credit Union	Credit union and finance

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

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