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Factors that contribute to community business success

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About this report

In 2017 Power to Change commissioned research to explore ‘what works’ in community business sectors that were identified as of interest in our report, *The Community Business Market in 2016*. This main report encompasses an analysis of finances and survey responses from three community business sub-sectors; hubs, health and wellbeing, and sports and leisure. There are also three short reports looking at each sub-sector individually as well as 15 case studies, (five from each sector) undertaken as part of this research. This study follows on from similar exploratory research into successful community housing, transport and pubs, undertaken in 2016.

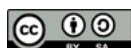


SERIO, part of the University of Plymouth, provides specialist social, economic and market research regionally and nationally. We deliver analysis and intelligence to public, private and third sector organisations. Our research helps our clients make informed decisions and develop effective policy and strategy.

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Executive summary

To further build the evidence base on the factors that contribute to community business success, Power to Change commissioned SERIO, an applied research unit at the University of Plymouth, to conduct an England-wide research project to answer the overarching research question of “what makes a successful community business?” in the following three community business sectors:

1. Community ‘hubs’ or centres
2. Sport and leisure
3. Health and wellbeing.

The research set out to understand common models or pathways to success in addition to common enablers and barriers, within and across the three sectors.

Common success factors

In answering these questions, the findings of the research indicated some clear parallels across all three sectors. Common success factors included:

1. Financial self-sustainability
2. Community and volunteer engagement
3. Staff and volunteer skill sets and roles
4. Forming strong partnerships and networks.

Financial self-sustainability

First, the highest proportion of all community businesses identified being ‘financially self-sustaining’ as the key indicator of their success. This view is supported by findings which indicate that a high proportion of businesses in these three sectors are generating increasing levels of income from trading or contracting sources, as opposed to relying on grants as their main source of funding. The majority of businesses across all three sectors also indicated that they operate at least one additional activity and gather income from a diverse range of sources, rather than being solely dependent on one source, which could assist in the longer-term sustainability of their business.

However, differences between the sectors emerged in the financial sustainability analysis, which looked in greater depth at the longer-term sustainability of a small sample of community businesses from across the three sectors. A comparison of factors such as sustainable against actual growth rates, operating expense control, gross and net profit margins and net cash flow were examined. Whilst this analysis indicated generally positive growth in the community hubs and sports and leisure businesses, increased pressure on the sustainable growth of the health and wellbeing businesses was identified, indicating that this sector is facing greater challenges in maintaining their longer term financial sustainability. It can be speculated that due to the nature and complexity of the contracts available within

the health and wellbeing marketplace, in comparison to the diverse income streams available within the community hub and sports and leisure sectors, securing long-term and/or regular income streams is significantly more challenging for these businesses. However, due to the small sample size within the financial sustainability analysis, these results should be treated with caution and not be considered representative of the three community business sectors overall.

Community and volunteer engagement

A common enabler of success for all three sectors was 'engagement from the community', and for community hubs this was the key enabler. The importance of community engagement for hubs was also highlighted in the desk-based review, with previous research noting how community hubs have a high reliance on community engagement and awareness (Hull et al. 2016, Peredo and Chrisman 2006). Moreover, the desk-based review also revealed how communities which are more 'community-orientated' may be more likely to set up community run businesses, thus indicating a greater reliance on the ongoing support of its local members for its continued success.

However, when making further comparisons, despite this being a key indicator for community hubs, a higher proportion of health and wellbeing and sport and leisure businesses identified 'well trained volunteers and staff' as more important. For these businesses having the available resources in place, particularly volunteers, plays a significant role in their successful operation. This is particularly the case for the sport and leisure sector, which is currently experiencing a period of growth, requiring additional volunteers to support the running of its activities. In addition, despite sport and leisure businesses indicating excellent retention of volunteers, and an increase in their volunteers compared to the other sectors, they also recognise that having a limited volunteer pool to draw from is becoming a challenge. Therefore, a reduction in the number of available volunteers could become a key barrier to this sector's success in the future.

Conversely, for the health and wellbeing sector the community engagement indicator of success was somewhat unexpected, as the literature suggests that a higher proportion of these businesses would select factors related to partnership work and networking. However, from analysis of the online survey, this could be considered as a response to a higher proportion of community businesses in this sector seeing a decline in their number of volunteers compared to the community hub and sports and leisure businesses analysed.

Staff and volunteer skill sets and roles

Examination of the case studies undertaken as part of this research, identified further common success factors. All three sectors reported that having the volunteers or staff with the required skill sets to plan a financial strategy for the future, including assessing risk and identifying solutions, is a key enabler of success.

They also acknowledged the vital role that volunteers play in the success of the businesses, particularly the support volunteers provide when businesses are first established. An additional common theme that emerged from all three sectors was the requirement for the business to have paid members of staff, particularly to occupy key positions to ensure that services are delivered in a consistent and professional way. A positive indication of these enablers for success was found after examination of the online survey undertaken as part of this research, which indicated that just over half of all the community businesses which had paid staff and volunteers increased their number of employees and volunteers in the last year.

Forming strong partnerships and networks

A common enabler of success that emerged was the ability to form and maintain strong partnerships and networks. Being able to network effectively and communicate ideas in a simple and coherent way was seen as the main driver of creativity within businesses, which in turn led to new services and greater sustainability. It was also a common view that strong partnerships supported the diversification of income streams. Specifically, businesses across all sectors found that, as a result of working with a diverse range of partners, they were able to generate additional opportunities to diversify their trading income. Community hubs, in particular, tended to be successful in creating partnerships. In addition, as businesses from across the three sectors move away from a reliance on grant funding, the formation of strong partnerships has been beneficial in creating a supportive network and building expertise. However, despite the formation of partnerships being an important enabler of success, all sectors highlighted that strong local networks, which focus on the needs of the community, is an equally important factor. Examples of this view were found across all sectors, with businesses proactively focusing on serving the local community in order to strengthen these links.

Common barriers to success

The findings of the research indicated some clear parallels across all three sectors in terms of key barriers. These included access to funding and asset transfer.

Access to funding

The research shows that access to funding is a key barrier common to all three sectors. Specifically, the main barrier identified by sport and leisure and health and wellbeing businesses was a 'lack of funding opportunities'. This is supported by the online survey that showed a significant number of health and wellbeing and sport and leisure businesses having a higher proportion of their income derived from grant funding. Moreover, a higher proportion of businesses from these sectors also indicated that their future funding would continue to come from grants, which could be considered as more challenging to secure as a regular income

stream. Concerns regarding funding opportunities were less prominent for community hubs when compared to the other two sectors. However, they still identified 'limited or no funding for paid staff' as a key barrier, which indicates that financial constraints still present a barrier to businesses within this sector.

Despite this, all three sectors provided a clear indication for the need to move from a reliance on grant funding to being more financially self-sustaining. Therefore, the research provides a positive indication of the three sectors moving towards diversifying income streams and reducing reliance on grant income.

Asset transfer

The review of previous research indicates that issues surrounding the transfer of assets to community-run businesses may be a particularly pertinent barrier for both the community hub and sport and leisure sectors, given the increase of support for the use of heritage assets by community hubs, and the rapid growth in the sport and leisure sector being in part due to the increasing number of asset transfers by the local authority for such purposes. However, despite a strong finance and support environment designed to accelerate growth in this area, a gap in funding for major capital projects was identified e.g. refurbishment or rebuild where other funding streams are insufficient. In addition, an investigation into the barriers to asset transfer with local authorities identified that the major barriers for community-run businesses acquiring assets included:

- The need for the local authority to create revenue from asset sales
- A lack of available human resources within the local authority
- A lack of appropriate assets for transfer.

These barriers highlight a conflict within local authorities between obtaining immediate revenue versus asset management strategies designed to yield social value over time. Previous research goes on to cite the lack of finance and technical skills both in the local authority and community businesses as additional important barriers affecting asset transfer. In particular, a failure by community businesses to plan adequately with a lack of careful consideration regarding an acquisition, particularly considering its longer-term financial implications and upkeep, are seen as key barriers to successfully managing asset transfer.

There was no direct evidence of these issues within the online survey respondents or case studies within this research. However, findings from the online survey found that a 'lack of funding opportunities', 'local authority/government support' and 'limited people with relevant funding/business expertise' were all highly rated barriers to success. Although not directly comparable to the issues outlined above, it is reasonable to infer that the barriers cited in the course of this research are factors that would contribute to problems regarding the successful transfer of assets.

1. Introduction

Community businesses are usually established by local communities in order to meet a local need, whether that is to revive local assets, protect the services that local people rely on, or address local needs. Power to Change defines community businesses as:

- **Locally rooted:** They are rooted in a particular geographical place and respond to its needs. For example, that could be high levels of urban deprivation or rural isolation.
- **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 cafes, 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.
- **Having 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.

Power to Change, as an independent trust, provides funding and support to strengthen community businesses across England by helping local people come together to take control, and make sure their local areas survive and stay vibrant.

To further build the evidence base on the factors that contribute to community business success, Power to Change commissioned SERIO, an applied research unit at the University of Plymouth, to conduct an England-wide research project to answer the overarching research question of “what makes a successful community business?” in the following three community business sectors:

1. Community ‘hubs’ or centres
2. Sport and leisure
3. Health and wellbeing

At a more detailed level, the objectives of the research were to examine:

- What is “success” for community business?
- What makes a successful community business? In each of the three sectors, can common models or pathways to success be identified?
- What can we say about the economic model for each sector?
- What are common enablers and barriers, within and across sectors?

2. Methodology

To address the research questions above, the following methodology was developed to offer robust conclusions on “what makes a successful community business?” within the three sectors.

Desk-based review

A desk-based review was undertaken to collect important contextual and comparative data which then informed the assessment against each of the research objectives. This included a literature review of documents and any research or evaluations in relation to factors that contribute to the success of community business for the three target sectors. A search strategy was developed that applied the appropriate key words to academic and non-academic databases, including Science Direct, Primo and Google Scholar (see Appendix B: Desk-based review search strategy).

However, as it was anticipated that much of the research regarding community businesses had been produced in report form rather than academic journals and therefore might not be readily available, an evidence call for grey literature was undertaken with stakeholders and organisations nationwide to inform the research. Relevant stakeholders and organisations were identified in consultation with Power to Change. A copy of the evidence call can be found in the Appendices.

The purpose of the review was not to conduct an exhaustive search of all available evidence, but rather to capture the key findings that summarise current levels of understanding.

Online survey

An online survey was developed in collaboration with Power to Change, and conducted with a sample of 420 community businesses within the three target sectors of community hubs, health and wellbeing, and sport and leisure.

Contact details for the survey sample were sourced from a combination of desk-based research, previous Power to Change grant application lists, community business stakeholder and support organisation contact lists as well as the 2016 Power to Change annual community business market survey. Contact databases were cross checked to remove duplicates and ensure personal contact details were removed. A hyperlink to the survey was then sent by email to the sample list and a six-week period was provided to receive responses.

The purpose of the survey was to collect a high-level dataset of community business characteristics to provide a broader context of the factors that enable community businesses to be successful, along with additional context for each sector and the challenges they face. A range of responses were collected on issues such as success factors, effectiveness, service delivery models and key

barriers and enablers to growth. The findings were then used to draw initial comparisons between the different community business models within and across the three target sectors.

In total, 126 community businesses responded to the online survey within the six-weeks allocated. This reflects an overall response rate of 30%. Of these 126 respondents, 30 identified as being health and wellbeing businesses, 23 as sport and leisure businesses and 73 as community hubs.

The research was limited to the number of community business that responded to the online survey, therefore the information collected cannot be considered a representative sample of the three community business sectors as a whole. However, having examined existing research on the community business market as a whole, it was felt that the distribution of community business responses to the online survey from across the three sectors was sufficiently representative in order to offer a robust analysis for the purposes of the research questions.

Case studies

The results of the survey were also used, in consultation with Power to Change, to inform the selection of 15 community businesses for the development of detailed case studies, five for each of the three target sectors. Each case study was selected based upon a specific set of criteria (set out below):

1. Online survey respondents indicated that they were happy to be contacted for further research as a case study
2. They indicated that they did not wish their responses to remain anonymous
3. Primary focus of respondents' business was the same as that with which they were identified as part of the survey sample development, e.g. businesses identified as a community hub through the survey sample contact databases agreed that this was the primary focus of their business operations
4. Online survey respondents met a minimum of three out of the four Power to Change definitions of a community business (see the introduction to Section 1 for detail)
5. Online survey respondents indicated that they were 'Operational: generating enough income from trading/contracting to cover most of their costs' or that they had 'started receiving significant income from trading/contracting'.

Once these criteria had been considered a shortlist of seven to ten potential case studies for each sector was developed. The shortlist was then re-examined against criteria three to five (above) through a desk-based research exercise, undertaken to ensure that the survey responses from the shortlisted case studies were accurate

and true. For example, publicly available annual accounts were examined to cross check whether the majority of income generated by the shortlisted businesses was derived from trading activities, as opposed to grant income.

Following this the final shortlist of recommended case studies was presented to the Power to Change team, which included sector leads for the three community business areas, to gain consensus on the final 15 case studies to be selected. This approach ensured that the most appropriate range of community businesses were selected to inform the research questions.

Developing the case studies involved semi-structured telephone and in-person interviews which enabled an in-depth exploration of topics covered in the online survey, as well as open discussion about the issues especially pertinent to each respondent, which subsequently provided data to support the research objectives. An overview of the case studies is provided in Table 1 below:

Table 1: Overview of case studies

Sector	Community business	Location
Community hub 	Aspire Ryde	Isle of Wight
	BS3 Community Development (The Southville Centre)	Bristol
	The Cheese and Grain	Frome
	Netherton Community Centre	Netherton
	The Old Co-op Community Building	North Yorkshire
Health and wellbeing 	MSH Health and Wellbeing CIC	London
	The Sweet Project	Birmingham
	Unlimited Potential	Manchester
	Wellspring Healthy Living Centre	Bristol
	Zest	Sheffield
Sport and leisure 	Jubilee Park Woodhall Spa Ltd	Lincolnshire
	Origin Sports	Newcastle
	Projekts MCR	Manchester
	Stocksbridge Community Leisure Centre	Sheffield
	Timperley Sports Club	Manchester

Full case study details can be found on the Power to Change website. Evidence arising from the development of the case studies was also used to support the findings and overall conclusions arising from the online survey analysis in Section 4 of this report.

Financial sustainability analysis

A detailed financial sustainability review was conducted of publicly available annual accounts from a sample of community businesses from the online survey. We looked at (up to) the previous three years of accounts, or accounts starting from the first full financial year of trading (as relevant). This analysis aimed to assess in greater detail the financial and resource sustainability of community businesses across the three target sectors, and utilised a series of financial indicators which examined factors such as sustainable compared to actual growth rates, operating expense control, gross and net profit margins and net cash flow. Full details of the analysis can be found in Section 5 of this report.

3. Desk-based review

Introduction

A review of academic and grey literature was carried out to gain a better understanding of the existing evidence around the success factors for community run businesses. Search terms were developed and a literature search was conducted using academic databases including Science Direct and Primo, and Google Scholar. Finally, a call for evidence to key industry stakeholders for grey and published literature was also conducted (see Appendices for details of the call for evidence). The call was used to further inform the factors that contribute to community business success within the three sectors of interest. Key findings of this desk-based review are presented in the following section, which first contextualises community business then looks at growth within the sectors, followed by barriers and finally common success factors.

3.1 Context

Hull *et al.* (2016) describes community businesses as a diverse set of organisations with a number of common characteristics. These include:

1. Being rooted in a particular geographic area and responding to local need and expectations
2. Being accountable to the local community
3. Set up with a business model designed around trading in goods or services and delivering positive social outcomes
4. Providing economic and/or environmental benefits for the whole community (Swersky and Plunket 2014).

Community businesses also strengthen their community through the inclusion of local people in key business processes. For example, through providing meeting spaces and developing links between staff, volunteers and customers (Percy *et al.* 2015).

This particular definition of a community business encompasses a broad range of community, or social benefit, business models. These include, but are not limited to, social enterprises, community interest companies, community benefit societies, social co-operatives and charitable trusts. These community, or social benefit, business models exhibit a range of different characteristics, and subsequently an equally diverse range of barriers and success factors. Therefore, any interpretation of success factors across different models should be approached with caution. However, in order to focus the analysis of this range of different models, it is suggested that a key distinguishing feature of a community business is to strive to engage local people as co-creators in the business and its delivery, with the overarching aim of transforming their local area. Some of the aforementioned models fit within this additional definition, and others are closely linked but differ in subtle ways.

Primary research into community-run businesses is relatively new, and whilst the evidence base is growing, the body of available literature that refers directly to businesses that exactly match the definition, as outlined above, is small. Therefore, the following literature review utilises a range of definitions that align with the concept of a community run business, but may not exactly match this definition in all cases. However, by taking this approach it is important to acknowledge that what may constitute a success factor for one definition of a community business, may not for another. Thus, care should be taken when interpreting the findings of this review. Where relevant, any departures from the definition, as provided above, are noted so that these can be taken into account when considering the findings and their relevance.

3.2 Growth of the sector

There is increasing evidence that the community business sector has gone through a period of expansion in recent years. Following the rapid growth of available community finance in the early 2000s, a 2015 annual survey by Social Finance (Percy *et al.* 2015) estimated that there were around 5,650 community businesses operating in England across 15 different sectors. These businesses generated approximately £0.9 billion of income on £1.4 billion of assets. They further proposed that the community business market overall has expanded by 9% from around 5,050 businesses in 2014 to approximately 5,500 in 2015, and that income had grown by 10% and assets by 15%. In 2016, Hull *et al.* (2016) estimated that the market had expanded by a further 5% to approximately 7,085. However, a report by Diamond *et al.* (2017), which was commissioned with a remit to develop and refine the methodology of the annual community business market survey, found that growth in the sector was likely to be over-estimated for 2016 and provided updated estimates of the market size in 2017:

- The number of community run businesses operating in England is approximately 6,600. Around 70% of these are situated in urban areas
- They had a total market income of £1.2 billion
- They hold assets to the sum of £0.7 billion.

However, this does not take into account the large variation between different sectors. More specifically, there is considerable variation in growth levels between the three sectors of interest to this report, i.e. community hubs, sport and leisure and health and wellbeing.

3.2.1 Growth in the sport and leisure sector

The growth of community-run sport and leisure businesses has stemmed primarily from the reduction in local authority funding impacting their ability to run core community facilities (Percy *et al.* 2015). The sector is made up primarily of sports clubs, community-managed swimming pools, leisure centres, and multiple-facility

organisations. Hull *et al.* (2016) suggests that community businesses in this sector are currently enjoying strong and accelerated growth due to a combination of factors, these being:

- Local authorities disposing of or transferring the management of local assets
- A reduction in the levels and availability of grant funding, resulting in more community organisations striving to become more financially self-supporting
- Increased emphasis from central government on the use of sport to generate positive social impact
- Local community groups being in a strong position to make good use of an available asset.

3.2.2 Growth in the community hub sector

A community hub is defined as a multi-purpose centre or building that is made accessible to the local residents of the area that it occupies. It provides a range of community services, delivered by community members, and is often managed by a dedicated community organisation (Locality 2016). Examples of services include parent and toddler groups, employment support, childcare, library services and health and wellbeing activities. Hull *et al.* (2016) suggests the growth of community hubs is driven by:

- Local authorities looking to reduce costs e.g. by reducing building maintenance costs through asset transfer to community groups
- A movement towards home-based care for vulnerable people that will be delivered through services based within hubs
- A growing focus on reducing social isolation through an increase in local groups and facilities within hubs.

Hull *et al.*'s (2016) report identifies that the number of community hub businesses increased by 60 in England between 2015 and 2016 to 1,300, demonstrating what the authors suggest as reasonable growth that has come primarily from the steady transfer of local assets and in particular, strong support for the use of heritage assets (e.g. village halls) for this purpose. Following this, Diamond *et al.* (2017), in taking a different methodological approach to estimating the size of the sector also suggests that the sector is substantial and now comprises of 1,650 businesses.

3.2.3 Growth in the health and wellbeing sector

In contrast to the two other sectors being examined, the health and wellbeing sector is an emerging area for community businesses, in which the growing trend within the NHS towards social prescribing (i.e. non-clinical interventions to improve wellbeing) has 'created new opportunities for community businesses to develop services and win contracts' (Percy *et al.* 2015). As such, growth in this sector currently relies on outsourcing standard medical and clinical care services from the NHS, as well as an increase in social prescribing, i.e. referring patients in primary care with non-medical sources of support within their community such as adult learning groups, volunteering activities, arts, creativity, learning and exercise (The University of York 2015). This is coupled with a move towards 'personal budgets', which give people the right to decide on their own packages of support, rather than such decisions being made on their behalf by a local authority (Newbrunner *et al.* 2011, 2014). Percy *et al.* (2015) suggests that this sector is currently comprised of organisations delivering mainly frontline services and those that are set up to help engage individuals with local support services and care.

A recent policy review of the treatment of mental health in the community revealed that since 2015 there has been more movement in this sector, however this was largely focused on community-based discussions around appropriate services (Power to Change 2017). Diamond *et al.* (2017) suggest that there are 300 health and wellbeing related community businesses in England.

3.3 Common barriers to success

Of particular relevance to all three of the sectors being examined in this report are the key barriers to growth. The following sections provide a consideration of the common barriers across the three community business sectors, before providing a more in-depth examination of sector specific literature on their respective success factors. The review will conclude with a consideration of the key themes of success and resilience that have emerged from this consideration of the literature.

3.3.1 Community asset transfer

A review by former CEO of Lewisham Council, Barry Quirk (2007) promotes community asset transfer (CAT) as being key in empowering communities to run their own public services, allowing local authorities to focus on enabling communities to address their own challenges. Issues surrounding asset transfer may be particularly pertinent for both the community hub and sport and leisure sectors, given the aforementioned increased support for the use of heritage assets by community hubs, and the rapid growth in the sport and leisure sector being in part due to the increasing number of asset transfers by the local authority for such purposes. However, there are still a number of barriers that have been identified in this process. A recent survey by Gilbert (2016) of local authority officers investigating barriers to asset transfer identified that the major barriers for community run businesses acquiring assets included:

- The need for the local authority to create revenue from asset sales
- A lack of available human resources within the local authority
- A lack of appropriate assets for transfer.

Gilbert (2016) also proposes that the first barrier highlights a conflict between obtaining immediate revenue versus asset management strategies designed to yield social value over time. In-depth interviews also revealed that the greatest barrier to asset transfer is a lack of support among local counsellors. This lack of support results in absent or shifting targets for community groups and reflects a more general concern that community businesses will not be able to secure appropriate funding post transfer.

A report by the Audit Commission (2009) also finds local authority concerns over the capacity of the community sector to undertake the necessary work required to grow and sustain their business post asset transfer. In addition, independent survey findings cite the lack of finance and technical skills both in the local authority and community businesses as additional important barriers affecting asset transfer (SQW Consulting 2009). In 2011 the Joseph Rowntree Foundation also conducted a series of interviews and case studies of community-run businesses, finding that community businesses themselves also recognise these lack of skills as an issue. Participants acknowledged that a failure to plan adequately and a lack of careful consideration regarding an acquisition, particularly considering its longer-term financial implications and upkeep, are key barriers to successfully managing asset transfer. This subsequently provides some validation for the aforementioned concerns voiced by local authorities.

3.3.2 Inappropriate facilities

This barrier may be particularly significant for community hubs, from which there is increasing interest in developing businesses within heritage buildings at risk of dereliction or destruction. Despite a strong finance and support environment designed to accelerate growth in this area, concerns have been raised over the practicalities of transferring ownership of assets to communities (Hull *et al.* 2016). For example, issues highlighted above relating to the upkeep of community assets is a theme further supported by reports from the Rural Community Action Network (ACRE). In a review of rural community buildings, growing challenges cited included the management and upkeep of buildings, with 10% of those assessed in need of urgent repairs or replacement, and a lack of finance for such improvements (ACRE 2011).

The report further emphasises a gap in funding for major capital projects e.g. refurbishment or rebuild where other funding streams are insufficient. This is subsequently leaving buildings in decline and not fit for purpose, having a cumulative effect on the ability of such projects to attract volunteers, who are in many cases vital for sustainability. It is noteworthy however that recent support

pledged by the Heritage Lottery Fund and the Architectural Heritage Fund, and a new £3 million support programme funded by the Department for Digital, Culture, Media and Sport (DCMS) is going some way to address these barriers and support the growth of community businesses (Hull *et al.* 2016).

3.3.3 Funding gaps and raising capital

Finally, access to adequate funding is a recurring theme, and links closely with the concerns of local authorities, organisational bodies and sector in general as cited earlier. Percy *et al.* (2015) asked community businesses to rate their reliance on different success factors and found that funding plays an important role. Their survey respondents placed much greater emphasis on grant financing in comparison to loans or equity capital, suggesting that both appropriate grant availability and the development of financing products that are suited specifically to community business models are a requirement for success. As such, the lack of current and appropriate funding constitutes a considerable barrier.

Percy *et al.*'s (2015) report goes on to raise concerns about the current financial support environment. These include spending cuts across central government at all levels, alongside the closure of several important grant schemes and a reduction in grant funding from local authorities. A particular challenge cited in the report was the short-term focus of different grant-based funding schemes. Similar problems are emphasised in another recent report on supporter share ownership of community run football clubs. Brown *et al.* (2017) outline the challenges facing supporters' trusts and in particular note the importance of:

- Raising sufficient development finance to pay for the costs of getting investment-ready
- The need for the development of grant funds for community enterprise and the ownership of community assets
- The speed at which capital needs to be raised.

This report further highlights barriers that may be specific to obtaining funding in the sport and leisure sector only, namely:

- The amount of capital required is particularly large
- Getting investment-ready is a high-risk activity, which is not suited to debt or equity investment
- Inherited debts and liabilities.

Considering the sector-wide decline in available grant schemes, coupled with the rapid growth of community businesses outlined above, Percy *et al.* (2015) concludes that the shortage of relevant funding represents a noteworthy barrier to growth of community business across all sectors, including those of particular interest in this report.

3.4 Common success factors

When asked to rate their reliance on different success factors, research has shown that on average, community businesses across all sectors examined rated local support as the most important factor over and above anything else, including national policy trends or funding (Percy *et al.* 2015). This suggests that a committed community is of vital importance for the success, growth and sustainability of any community run business, regardless of sector. Nonetheless, a review of the literature has identified a number of additional success factors that are common to each sector of interest in this report. These are discussed in further detail below.

3.4.1 Sport and leisure sector

Following a series of interviews and desk-based research with a combination of sector organisations and community run businesses, Brown *et al.* (2017) identified that businesses in the sport and leisure sector have a high reliance on asset transfer and contracts. It is further suggested that having an asset can greatly help boost sustainability, provides a greater number of potential income streams and creates the possibility of asset-backed finance. The authors go on to note however that a local authority's experience in dealing with asset transfers of the scale and type required for any particular business is variable. Thus, it is important to be aware of this when considering the feasibility of CAT and the impact that the relevant local authority's experience will have on its successful implementation for any given venture.

CAT as a success factor was closely followed by the availability of grant funding and local awareness and engagement. The importance of both appropriate funding and community engagement for the sport and leisure sector are themes also observed elsewhere in the literature. For example, Brown *et al.* (2017) discuss a variety of funding options to make supporter ownership of community football clubs both feasible and sustainable. In particular they consider three forms of community finance options and their relative success, all of which also rely on strong local awareness and engagement, including:

- Community shares (withdrawable shares issued by an Industrial and Provident Society or Community Benefit Society)
- Community bonds and loans
- Community fundraising (e.g. crowdfunding).

A brief consideration of each and examples of successful implementation will follow.

Community shares have become increasingly popular as a finance option for businesses across all sectors (e.g. solar farms, shops, pubs and football stadiums). Since 2009 over £20 million has been raised from over 20,000 members to support a total of 120 businesses (Brown *et al.* 2017). Brown *et al.* (2017) cite some successful examples of this model in the sport and leisure sector, including £1.75 million raised

by FC United of Manchester to fund a new stadium and community facility and over £150,000 raised by Wrexham Supporters' Trust raised to help develop their stadium.

Alternatively, **community bonds** can be offered to investors in the form of an unsecured debt with a fixed and pre-stated interest rate. For example, AFC Wimbledon successfully raised approximately £300,000 via 60 purchased bonds at a minimal or non-existent interest rate.

Finally, the more **traditional forms of fundraising**, such as crowdfunding, donations and events or gifts, has proven to be a successful means of securing funding for some community-run sport and leisure businesses, particularly given that the money raised can be spent on high risk and developmental activities and does not have to be repaid (Brown *et al.* 2011).

A final success factor to emerge from a review of the sport and leisure literature is that of diversity. To date, the recognised traditional model to boost revenue has been via venue hire. Percy *et al.* (2015) report that organisations are beginning to explore broader options in this area in order to deliver wider community benefits. More specifically, they are beginning to develop links with other sectors, including education and health services, and are ultimately expanding their venue hire to local groups and creating public sector contracts to develop an increasingly broad and resilient revenue base. An example of this is provided by Hull *et al.* (2016), who conducted a case study of community owned Lewes football club. The club are currently in the process of diversifying their income streams through the conversion of their stadium into a 24/7 'community village' that now includes new sports facilities and spaces for rent, and aims to further incorporate a multifunctional clubhouse and community café. Furthermore, the club has developed a partnership with a mental health charity to provide a 'football therapy' service.

3.4.2 Community hubs

The work of Hull *et al.* (2016) to identify sector specific success factors found that community hubs have a high reliance on community engagement and awareness, and ultimately, on their volunteers and employees. 74% of respondents surveyed indicated that local community engagement remains very important to their success. Swersky and Plunkett (2015: 5) found that the leaders, volunteers and staff involved in the running of community businesses are typically:

“Deeply embedded in their locality [which] ensures they are in the best position to understand and respond to their community’s needs, but also that they are able to tap into local sources of knowledge, expertise and funding”.

The same survey revealed a heavy reliance on committed volunteers, thus reducing running costs, increasing local awareness and allowing businesses to continue to survive through difficult periods (also see Courtney 2016). Hull *et al.* (2016) further suggests the following activities to boost community engagement:

- Organising events
- Running promotional campaigns
- Boosting social media presence
- Reaching out to new areas of the community
- Broadening the base of regular volunteers as a vital priority to reduce the risk of asking too much from the core volunteer group.

Community support and engagement appears to be a reciprocal process; Peredo and Chrisman (2006) propose that it is characteristic of community populations that contain community-run businesses to already be more 'community-oriented' in their approach. This suggests that such communities may be more likely to set up a community-run business, which then in turn has a greater reliance on the ongoing support of its local members for its continued success.

Hull *et al.* (2016) reported that the importance of community engagement was closely followed, once again, by a reliance on successful asset transfer for community hubs. Furthermore, Gilbert (2016) argues that for an asset-based community business to be resilient and successful, they must be creative and inventive when seeking out ways to bring in resources, and find innovative ways to deliver services at a lower cost. These techniques should help to ensure the resilience of an asset based community business. Other organisations also acknowledge the importance of creativity and innovation for successful community hubs. For example, Locality (2016) propose that successful and sustainable hubs should be responsive to the changing needs and demands within the community, and suggest that it is good practice to undertake regular reviews to ensure that customer feedback, statistics and impacts to date are taken into account.

A good example of this in practise is provided by a case study of the Ameina Centre (Locality 2016) which is a community hub based in Ambleside with the initial main objective of providing educational and behaviour support to young people and their families. Following the successful delivery of this objective, the centre has now undertaken a review with the community and as a result is in the process of expanding its support to local people to access more services from the Centre. Services for older people was one of the key priorities identified and a defined set of goals has been established. Impact of the delivery of these services as they are being implemented is closely monitored by collecting a number of expected outputs and outcomes to be delivered as part of a five-year local project.

3.4.3 Health and wellbeing sector

The three key themes of success for the health and wellbeing sector identified by Hull *et al.* (2016) are asset transfer, government policy and specialised sector advice/peer networking. Given that the role of asset transfer and its importance has been discussed at length in this review, the discussion in this section will primarily focus on sector specific support and peer networking, which were identified as key themes for success within the wider health and wellbeing literature, alongside business size. Foot and Hopkins (2010) provides a more in-depth consideration of how an asset-based approach may be beneficial for businesses in the health and wellbeing sector.

The health and wellbeing sector is heavily reliant on appropriate contract arrangements and partnerships with commissioners, which requires significant sector specific support and peer networking (Hull *et al.* 2016). Johnstone and Lionais (2004) also argue for the importance of networking, suggesting that community businesses must identify skill gaps and be able to recruit individuals with those skills. Being able to access those individuals ultimately requires good networking to establish contacts for business development. Locality (2016) support this notion, suggesting that having access to appropriate networks is also important in the context of being up to date with new funding and learning opportunities locally.

Gilbert's (2016) report further suggests that appropriate networking is vital in overcoming some of the barriers discussed earlier. For example, it is argued that networking can help to create:

- Successful relationships between the people that the business engages
- Better navigation of the rules, regulations, restrictions and difficulties in the asset transfer process via the support and guidance of appropriate contacts
- Better management of the risks associated with the ownership of an asset that requires substantial repair and or maintenance
- Increased awareness regarding access to appropriate resources and funding.

A case study in Gilbert's 2016 report provides an example of how factors such as successful asset transfer and good networking can work together in tandem for wider positive community outcomes. The transfer of a town hall to a community increased local networks significantly, which in turn made the community more resilient when the town was badly flooded. Connections arising from the asset transfer scheme resulted in a collective emergency response and community-led after-care for elderly people who were affected by the flooding. The networks created around the asset ultimately increased the self-sufficiency and adaptability of the community as a whole. These positive outcomes for local residents may in turn reciprocate stronger future community engagement and support for the business itself. This relates back to the aforementioned theme of community engagement as an important factor for success, and suggests that key themes for

the success of community businesses are not standalone, but are often intertwined, have a reliance on one another, and transcend across different business sectors.

Finally, research also points to the size of the business as being a success factor for the health and wellbeing sector in particular. Needham *et al.* (2014) used a mixed method approach to investigate micro-enterprises that are specifically set up and run by community members and organisations to provide care services for the local community. The findings revealed that compared to larger enterprises, community run micro-enterprises (defined as employing five or fewer full time equivalent staff) in the health and wellbeing sector are best placed to succeed due to:

- Offering more personalised support than larger providers, particularly for home-based care
- Being better valued than larger organisations, in relation to helping people do more of the things they value and enjoy
- Being well placed to support valued outcomes when people are at a low to moderate level of need
- Being better than larger organisations at some forms of innovation
- Having the ability to offer better value for money than larger organisations.

This research also further supported networking and sector specific support as key success factors, finding that for these particular community businesses, enabling factors included:

- Strong personal networks
- Balancing good partnerships (e.g. with local authorities) whilst maintaining an independent status
- Collaboration and partnerships with other services (e.g. health related agencies, social support services and social workers) in order to provide more holistic care and potential routes to additional funding, growth and greater visibility.



3.5 Summary of findings

From this review, it is evident that there is a small but growing body of literature available regarding the growth of community-run businesses, barriers to their success and factors that increase their opportunities for success and sustainability. Specifically, common barriers across sectors include:

- The difficulties associated with the successful transfer of assets;
- Overcoming the practicalities of maintaining and repairing older community buildings and accessing appropriate support to do this and;
- Sourcing additional funding post asset transfer to grow and maintain the business.

The key themes for success are summarised in Table 2 below. This table is intended as a summary of the themes identified for the three sectors discussed above only. Some of these themes clearly transcend across sectors, whilst others are only cited in relation to specific sectors. We anticipate that whilst the literature clearly identifies important aspects of success for individual sectors, some or all of these themes may be relevant across other sectors as well (e.g. creative and innovative thinking). Further research would be required to exactly determine how sector specific each theme is, although it is clear from this desk-based review that the biggest success factors identified to date across the three sectors of interest are community engagement and local awareness; and asset transfer.

Table 2: Key themes for the success of community run businesses identified in the literature

Community business Sector	Community engagement and local awareness	Asset transfer and contracts	Additional funding and grants	Creativity and innovation	Specialised sector advice/peer networking	Business size
Sport and leisure 	✓	✓	✓		✓	
Community hub 	✓	✓	✓	✓		
Health and wellbeing 	✓	✓			✓	✓

It is also worth reiterating that specific literature that addresses and investigates community-run businesses that exactly fit the definition cited in the introduction to this report is relatively sparse. Thus, further research would also be required to determine whether the key themes identified in this section are directly relevant to businesses that fit the definition to which this report adheres. The remainder of this report therefore looks to contribute to this body of literature, specifically looking at the success factors of community run businesses in the sport and leisure, community hub and health and wellbeing sectors. It will also further consider how far the themes identified extend to each sector and to our definition.

4. Online survey

The following section provides the findings from an online survey sent to a sample of 420 community businesses within the three target sectors of community hubs, health and wellbeing, and sport and leisure. In order to provide context to the online survey findings, this section also draws upon examples from the 15 community business case studies where appropriate. There is an overview of these case studies in the Methodology of this report (Section 2).




4.1 Profile of respondents

In total, 126 community businesses responded to the online survey within the six-week timeframe allocated. This reflects a 30% response rate from the 420 community businesses that were invited to take part.

Due to variability in the number of responses to each question within the survey, percentages reported will vary due to differing bases and/or non-responses. Response numbers are provided against each statistic reported.

Respondents were asked to indicate if they considered the community business type they were identified as for the purposes of the online survey, i.e. a community hub, health and wellbeing or sport and leisure business, was correct. Except for five businesses (3% of respondents), all identified themselves as working within the core sectors they had been identified as operating in. Despite a good response to the survey, the number of respondents was unevenly distributed across the three community business sectors, with a proportionately greater number of community hubs responding compared to the health and wellbeing or sports and leisure sectors (see Table 3). Therefore, any findings drawn from the results of the survey should be viewed with caution, as the results cannot be considered representative of the three community business sectors as a whole.

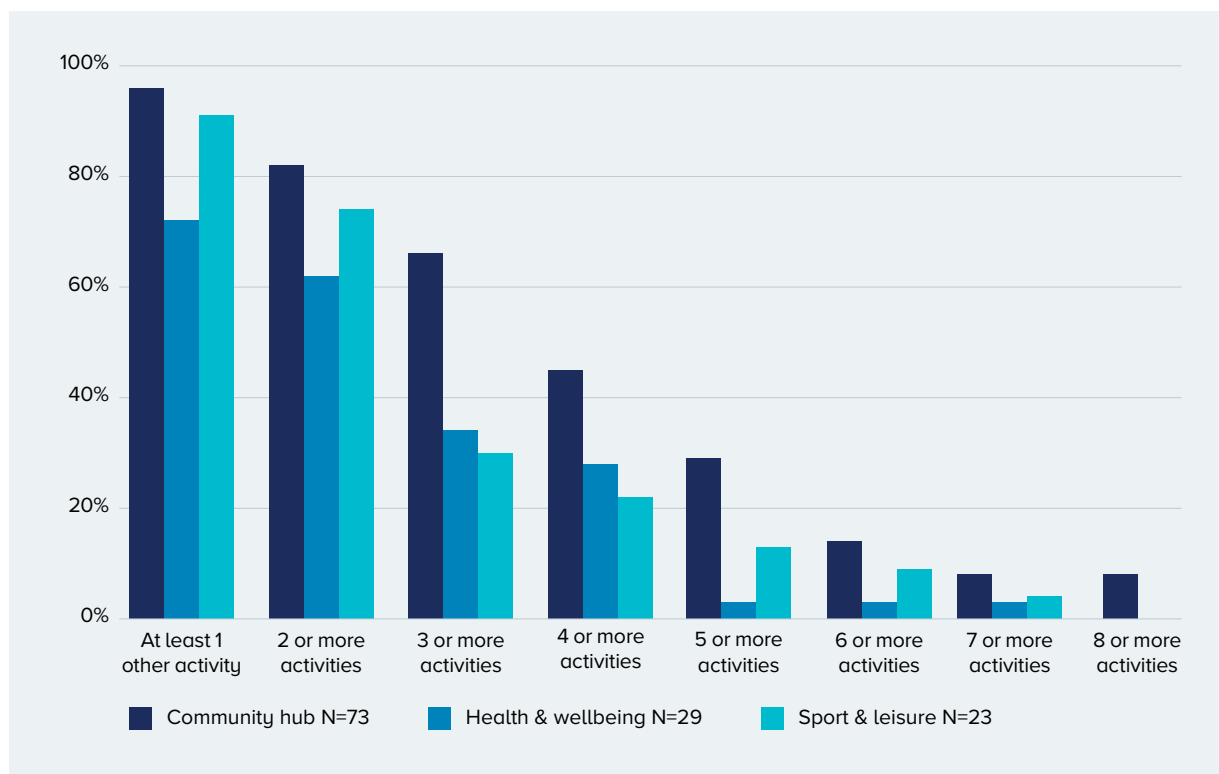
Table 3: Response rates of community businesses by sector

Community business sector	Number of respondents	Percentage of respondents	Sample size and response rate
Community hub 	73	58%	(287) 25%
Health and wellbeing 	30	24%	(77) 39%
Sport and leisure 	23	18%	(56) 41%
Total	126	100%	(420) 30%

In addition to respondents confirming their primary operational activity, they were also asked to provide information on any secondary areas of activity their business is involved in. The majority of community businesses across the three sectors operate at least one additional activity (96%, (N=70) community hubs; 91%, (N=21) sport and leisure; and 72%, (n=21) health and wellbeing). These secondary areas of activity varied greatly across all three sectors and crossed into what might be considered other community business areas, such as running cafés, food production (including farming) or catering and environmental and digital activities.

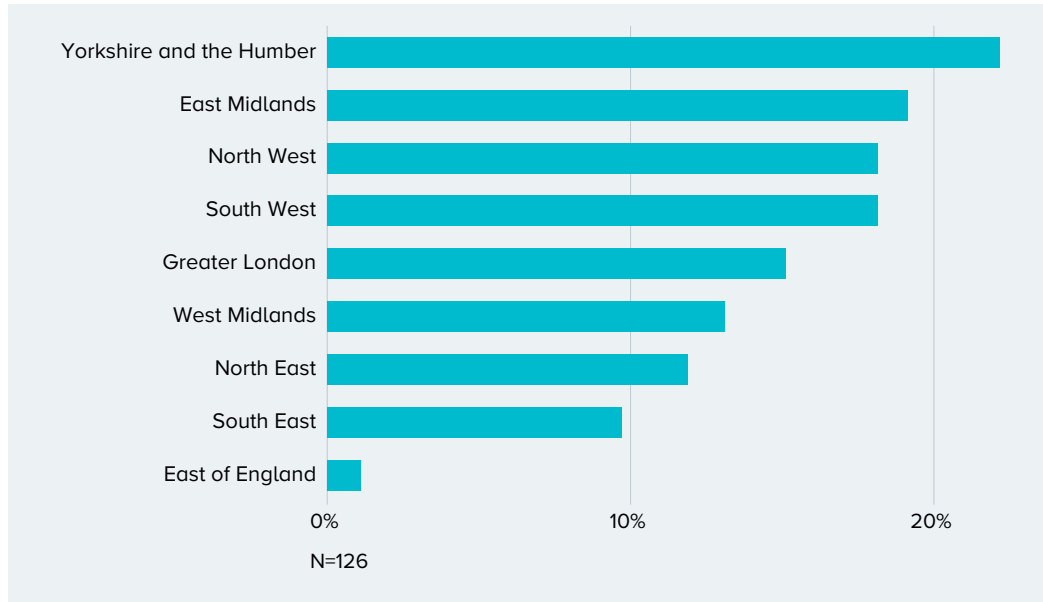
As the number of activities provided increased, differences between the three sectors became more apparent, with a higher proportion of community hubs providing a greater number of activities compared to the other two sectors. For example, two-thirds (66%, N=48) of community hubs reported running three or more secondary activities, compared to only one-third of health and wellbeing (34%, N=10) or sport and leisure (30%, N=7) businesses. This trend continues when comparing increasing numbers of secondary activities being delivered by businesses in each of the three sectors (see Figure 1).

Figure 1: Secondary activities delivered by community businesses



Businesses responding to the survey were geographically spread reasonably evenly across England, with the highest proportion of respondents based in the Yorkshire and the Humber region of England (18%).

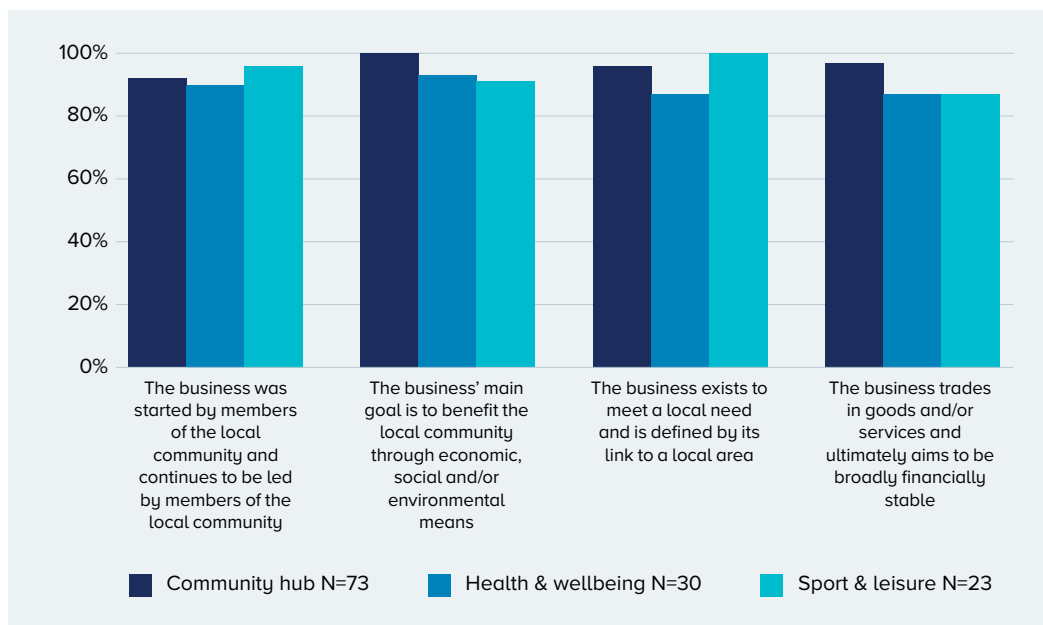
Figure 2: Geographical locations of community business respondents



4.1.1 Meeting the community business definition and legal status

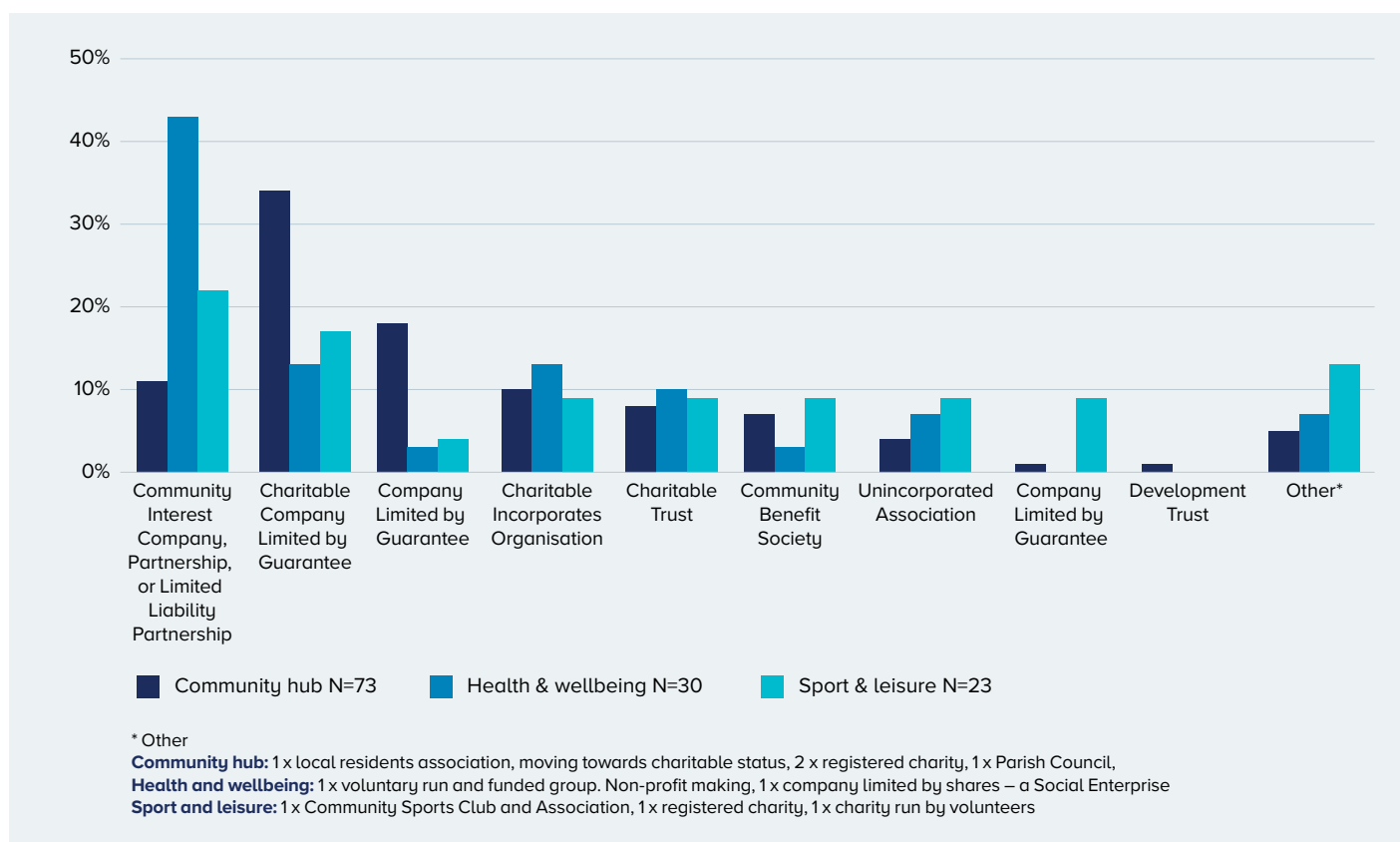
Respondents were asked to identify which of the defining criteria, as considered by Power to Change, for being a community business applied to them (see Figure 3). All respondents selected two or more of the statements, with the majority selecting all four (N=104, 83%).

Figure 3: Defining criteria for community businesses



Participants were also asked to confirm their business' legal status (see Figure 4). The results indicate that a third of all community hubs were defined as a 'Charitable Company by Guarantee' (N=25 34%), with the highest proportion of health and wellbeing businesses (N=13 43%) and sport and leisure community businesses (N=5 22%) indicating themselves as a 'Community Interest Company (CIC), Partnership, or Limited Liability Partnership'. It is not possible from the results of the survey to infer any conclusive reasons for the differences in legal status between the three target sectors, however case studies shed light on the issues community businesses take into account when choosing their legal status. For example, one of our sport and leisure case studies, Origin Sports, reported considering changing their legal status from a 'Private Limited Company' to a CIC for two main reasons. First, they found that the Private Limited Company legal status is no longer fit for purpose as the business has developed a strong focus on supporting the needs of the local community. Second, the business believes that having a CIC legal status would make them more competitive to receive relevant grant funding.

Figure 4: Community business legal status



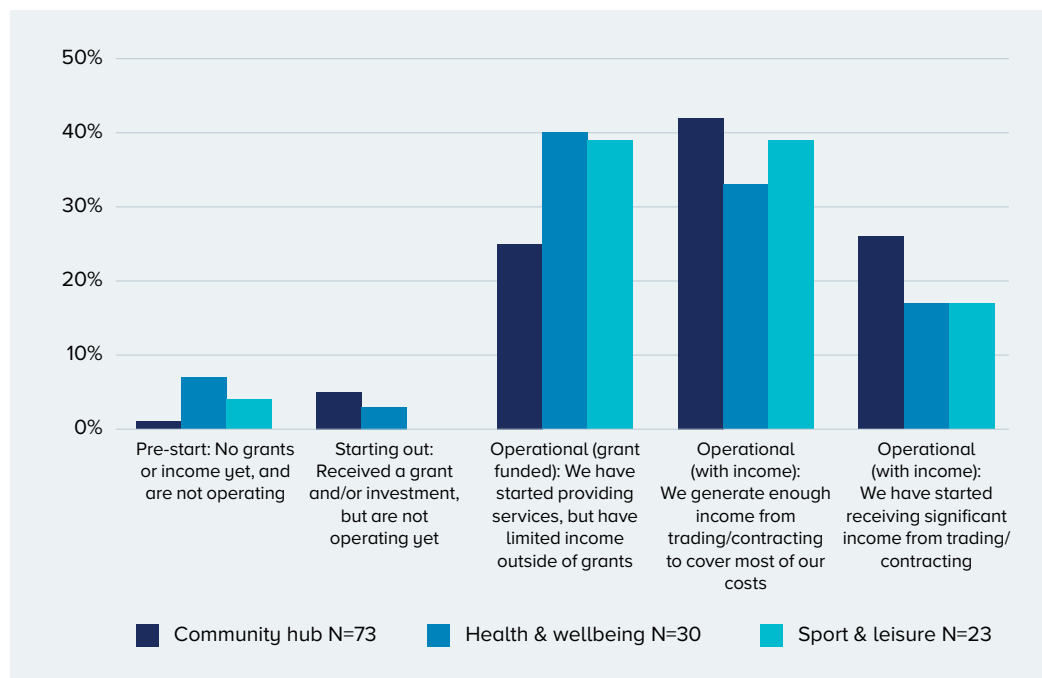
4.1.2 Current stage of business development

Community businesses were asked to indicate the stage of development they felt they had reached (see Figure 5). The majority (N=117, 93%) stated that they were operational, either with grant funding and limited trading income or generating most or significant income from trading or contracting. The results indicate that a high proportion of the businesses responding to the survey were at a reasonably mature stage of development, moving away from grant funding to generating a greater proportion of their income from trading activities. Positively, the number of businesses across all three sectors who could be considered more financially sustainable (i.e. generate the majority or all their income from trading), exceeds those who currently have a greater reliance on grant income, with 62% overall (N=78) generating sufficient or significant trading income compared to 31% (N=39) relying more heavily on grant funded income.

When assessing and then comparing each community business sector separately, some differences emerge, with over two-thirds (68%, N=50) of community hubs generating trading income to cover most or all of their costs, compared to 57% (N=13) of sport and leisure, and 50% (N=15) of health and wellbeing businesses. One of our community hub case studies, Netherton Community Centre (NCC) provides a clear example of this. Over the last six years, 95% of income for NCC has come from trading, with the remaining 5% from the local authority and forecasted turnover for next year is approximately £56,000, which means the business will be completely self-sufficient.

No definitive conclusions can be made from the online survey data regarding why these differences exist. However, it is reasonable to assume that as community hubs could be considered a community business sub-sector that has been established longer than the health and wellbeing sector for example, we would anticipate their sources of income to be more numerous and diversified, as the sector is more developed. One of our sport and leisure case studies, Timperley SportsClub (TSC) also illustrates the process of moving away from grant income dependency. Through successfully and strategically managing grant income they have been able to improve their assets and remain competitive. This has led to only 5% of the club's income being generated from grant funding, whilst the remaining 95% coming from trading income generated through hiring out facilities, club membership fees and an on-site bar.

Figure 5: Community business development stages



4.1.3 Use of social media

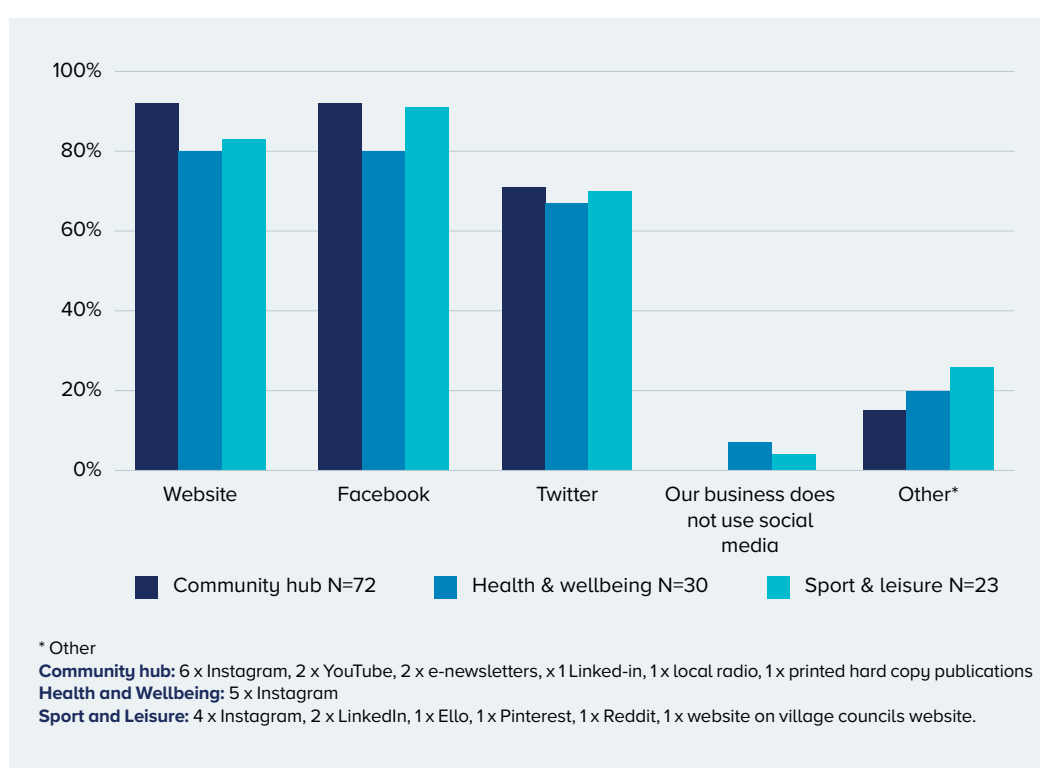
The majority of respondents used some form of social media, with only three respondents (2%) stating that they did not use any (two health and wellbeing and one sport and leisure business). In reviewing the number of social media platforms used, the majority of respondents used two or more (N=104, 83%). The most popular platforms used were websites (N=109, 87%), Facebook (N=111, 89%) and Twitter (N=87, 70%). Additionally, a number of respondents also stated that they used Instagram (12%), with a small minority stating other types of social media used, such as LinkedIn, YouTube and e-newsletters (see Figure 6).

These findings indicate that the majority of businesses surveyed have good levels of social connectivity. It is reasonable to assume that this level of connectivity could assist in the promotion of activities and thereby contribute to the businesses success. This point was highlighted in our health and wellbeing case study, The Sweet Project, as the business recognises the importance of having a strong online profile to increase visibility. However, because of the sensitive nature of the business, they find promotion through social media quite challenging. On the one hand, it aims to attract a high number of students for social work placements, which can be facilitated by an interactive and vibrant online presence. Yet, because the business also works with vulnerable populations, they are mindful of confidentiality issues with clients and weary of disseminating unauthorised images or information. Thus, in this case, they recognise that their online presence could be improved to

promote their activities to the target audience whilst closely monitoring the suitability of content to be shared.

Nonetheless, the online survey did not examine the impact or benefits of social media as a success factor for community businesses. Therefore, this may be an area for further investigation in the future.

Figure 6: Types of social media used by community businesses






4.2 Employees and volunteers

4.2.1 Numbers of paid staff and volunteers

The majority of community businesses across all three sectors stated that they employed paid staff members (N=99, 79%) and/or involved volunteers in their business activities in some way (N=119, 94%). A higher proportion of community hubs employ paid staff (N=63, 86%) in comparison to health and wellbeing and sport and leisure businesses (see Table 4). As previously observed, community hubs on average provide a greater number of services (see Figure 1) and therefore it could be assumed that a greater proportion of community hubs require paid staff to manage and deliver these activities.

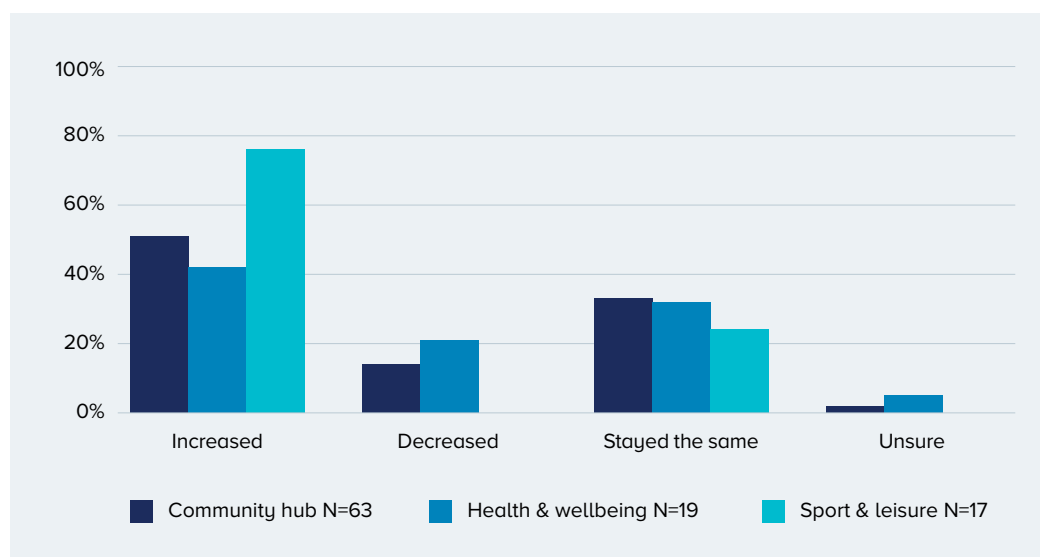
Table 4: Community businesses with paid staff and/or volunteers

			Community hub N=73 		Health and wellbeing N=30 		Sport and leisure N=23 	
	No.	%	No.	%	No.	%	No.	%
Only paid staff	5	4%	3	4%	1	3%	1	4%
Only volunteers	25	20%	10	14%	9	30%	6	26%
Both paid staff and volunteers	94	75%	60	82%	18	60%	16	70%
Unknown	2	2%	0	0%	2	7%	0	0%
Total	126	100%*	73	100%	30	100%*	23	100%

Nb. Highlighted section in table indicates the highest proportion of respondents per sector.

Just over half of all the community businesses which had paid staff (N=53, 54%) stated that their number of employees had increased in the last year (see Figure 7), while almost a third (N=31, 31%) had stayed the same. Interestingly, most of the sport and leisure sector community businesses reported an increase in the number of paid staff in the last year (N=13, 76%), although there was no clear indication for the reason for this increase.

Figure 7: Changes in number of paid staff in previous year



The majority of community businesses who stated they had paid staff were also able to specify the number of full-time equivalent (FTE) staff their business employed. The responses ranged from businesses operating with less than one FTE staff member to over 100, with the majority (N=68, 74%) stating they employ up to ten FTE staff (see Table 5).

When reviewing each sector, it appears community hubs have fewer FTE staff than the other two sectors:

- Community hubs: 62% <5 FTE paid staff
- Sport and leisure: 53% <5 FTE paid staff
- Health and wellbeing: 44% <5 FTE paid staff.

Despite a greater proportion of community hubs stating that their business operated with paid staff, it appears the number of FTE paid staff is proportionately lower compared to the other sectors, with a higher proportion of community hubs operating with less than five FTE staff. This could signify that they are able to operate more effectively with fewer staff, or alternatively have established an operational model which allows them to work more efficiently with fewer paid staff and a greater number of volunteers. This view is supported when assessing the number of volunteers community hubs utilise in comparison to the two other sectors (see Table 6).

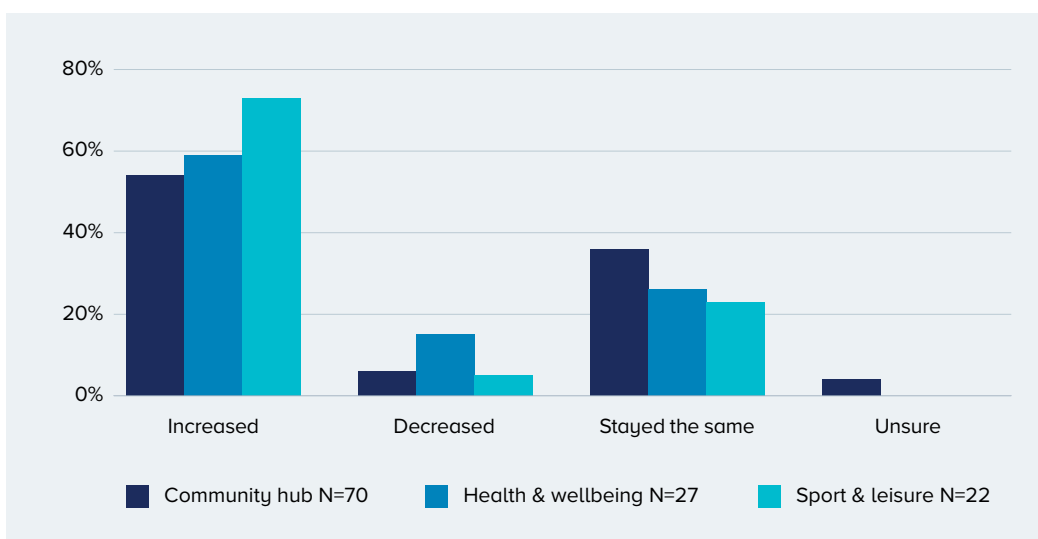
Of the 119 community businesses who have volunteers, over half (N=70, 59%) stated that the number of registered volunteers had increased in the previous year (see Figure 8). In addition to seeing an increase in the number of paid staff, the sport and leisure sector also reported the biggest increase in volunteers (N=16, 73%) compared to the other sectors. Our sport and leisure case study, Jubilee Park Woodhall Spa (JPWS), illustrates this point. Between 2016 and 2017 the number of volunteers increased mainly as a result of the enhanced reputation and profile of the business, which the park considers a strong factor of its success. As the business has become more successful, the managing committee recognises how vital volunteers (including Trustees), have been to the governance and running of the park.

Table 5: Number of full-time equivalent staff

			Community hub N=73 📍		Health and wellbeing N=30 ❤️		Sport and leisure N=23 🏀	
	No.	%	No.	%	No.	%	No.	%
Under 1	14	15%	9	15%	2	11%	3	20%
Over 1 to 5	39	42%	28	47%	6	33%	5	33%
Over 5 to 10	15	16%	7	12%	4	22%	4	27%
Over 10 to 15	6	7%	2	3%	2	11%	2	13%
Over 15 to 20	4	4%	2	3%	2	11%	0	0%
Over 20 to 30	6	7%	6	10%	0	0%	0	0%
Over 30 to 70+	8	9%	5	9%	2	12%	1	7%
Total	92	100%	59	100%	18	100%	15	100%




Nb. Highlighted section in table indicates the highest proportion of respondents per sector.

Figure 8: Number of registered volunteers in previous year



Of the community businesses who stated they had volunteers involved in their activities, the number of volunteers ranged from two to 400, with the highest frequency of businesses involving up to ten volunteers.

Table 6: Number of registered volunteers

			Community hub N=73 	Health and wellbeing N=30 	Sport and leisure N=23 			
	No.	%	No.	%	No.	%		
Between 1 and 10	43	36%	19	28%	1	56%	9	41%
Over 10 to 20	34	29%	26	38%	2	7%	6	27%
Over 20 to 30	4	3%	2	3%	2	7%	0	0%
Over 30 to 40	8	7%	7	10%	1	4%	0	0%
Over 40 to 50	10	8%	6	9%	4	15%	0	0%
Over 50 to 60	5	4%	0	0%	0	0%	5	23%
Over 60 to 70	3	3%	1	1%	1	4%	1	5%
Over 70 to 80	0	0%	0	0%	0	0%	0	0%
Over 80 to 90	2	2%	1	1%	1	4%	0	0%
Over 90 to 100	1	1%	1	1%	0	0%	0	0%
Over 100	8	7%	6	9%	1	4%	1	5%
Total	118	100%	69	100%	27	100%	22	100%

Nb. Highlighted section in table indicates the highest proportion of respondents per sector.

4.2.2 Retention of paid employees and volunteers

Respondents across all sectors reported a good retention of both staff and volunteers, with a high proportion remaining within businesses for over three years (see Figures 9 and 10):

- Paid staff: >3 years N=65, 66%
- Volunteers: >3 years N=48, 40%

When comparing different sectors, a slightly higher proportion of community hubs reported having paid staff remaining in their business for a period of three years or longer (N=45, 71%), with sport and leisure businesses reporting a higher retention of volunteers for three or more years (N=14, 64%).

Figure 9: Average length of time paid staff are involved in the business

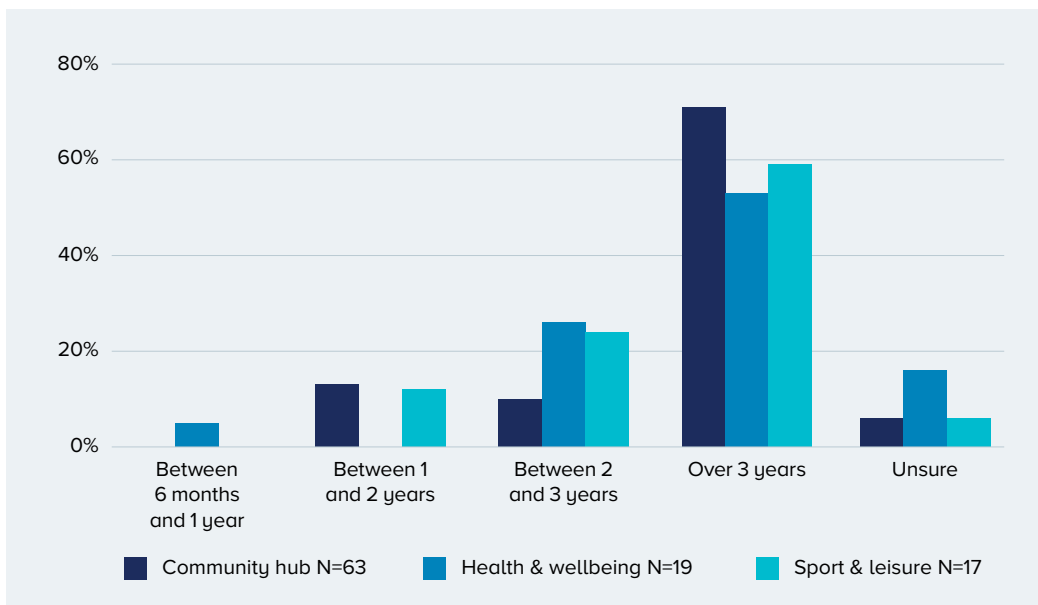
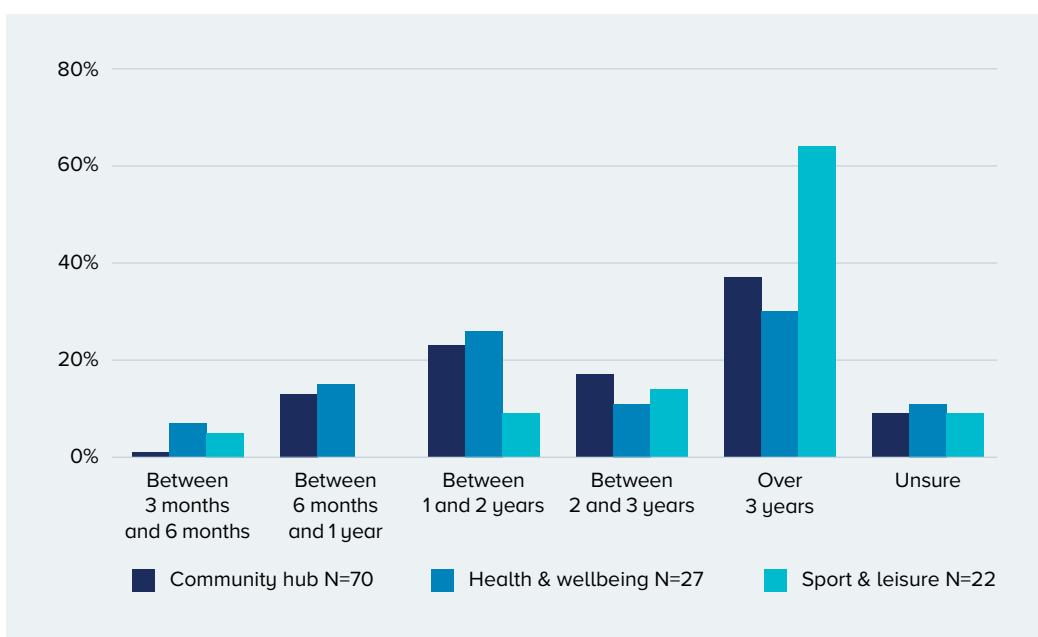


Figure 10: Average length of time volunteers stay involved in the business



In reviewing these results, the findings provide some indication as to the growth of the three community business sectors, with a high proportion of businesses from across all three sectors reporting an increase in staff and volunteers to support business activities.

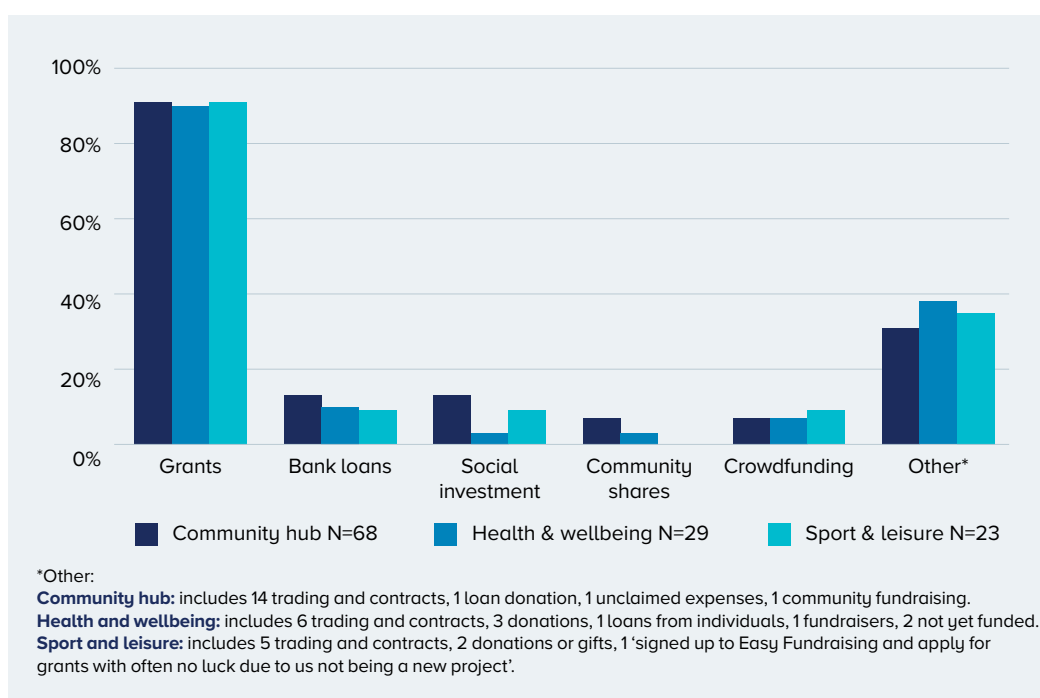
Interestingly, the survey also highlighted the proportionately rapid growth of the sport and leisure sector in terms of paid staff and volunteers, when compared to the other two sectors. Sport and leisure businesses also reported retaining volunteers for longer, with almost two-thirds of their volunteers remaining within the businesses for three years or more.

4.3 Financial resources

4.3.1 Sources of funding

Respondents were asked to indicate the sources of their current funding, with the option to select multiple funding sources. The survey found that the majority of community businesses received grants of some form (N=109, 87%). Interestingly, earlier findings suggest that only 25% to 40% of community businesses operate with limited income outside of grants (see Figure 5). This suggests that the proportion of businesses who indicated that their sources of income are mainly or significantly derived from trading still receive some level of grant funding. The proportion of income derived from each funding source is discussed in the following section of this report (see Figures 11, 12 and 13).

Figure 11: Sources of funding



From Figure 11, respondents who indicated 'other' as their source of funding represent the second largest group after 'grants', therefore it is worth examining the responses in the 'other' category further. A significant proportion of these businesses indicated that 'other' sources of income are predominately trading and contracting activities, examples of which include commissioned work, venue rent and hire, sales, memberships and providing consultancy or training.

4.3.2 Proportion of income received from different funding sources

Community businesses were asked to indicate the proportions of income they received from a range of pre-determined funding sources and any sources that were not listed (identified as 'other'). Although 86% (N=106) of businesses responded to this question, on closer view only a third (N=43, 34%) of the businesses provided proportions which added up to 100% of their total income. To minimise distortion of the results and for the purposes of analysis, only responses from community businesses where the proportion of income totalled 100% have been analysed. Therefore, caution should be applied when interpreting these findings due to the low base number of responses.

Respondents indicated percentages of income source, which for the purpose of analysis have been clustered into four percentile groups, i.e. 0%, 1 to 30%, 31 to 70% and 71 to 100%. The results, unsurprisingly, indicate that the proportions of different funding streams community businesses across the three sectors receive vary greatly, and there is limited reliance on one source of funding alone (see Figures 12 to 14). A small proportion of businesses indicated having the majority of their income coming from one source, with 15% (N=3) of sport and leisure, 11% (N=3) health and wellbeing and 7% (N=4) of community hubs identifying 91-100% of their income coming from one source. The majority of businesses had a proportion of their income from grant funding, with relatively high proportions receiving over half of their funding from multiple grants (35%, N=16 community hubs; 41%, N=9 health and wellbeing; and 45%, N=7 sport and leisure).

Figure 12: Proportion (%) of funding from different funding sources: Community hubs

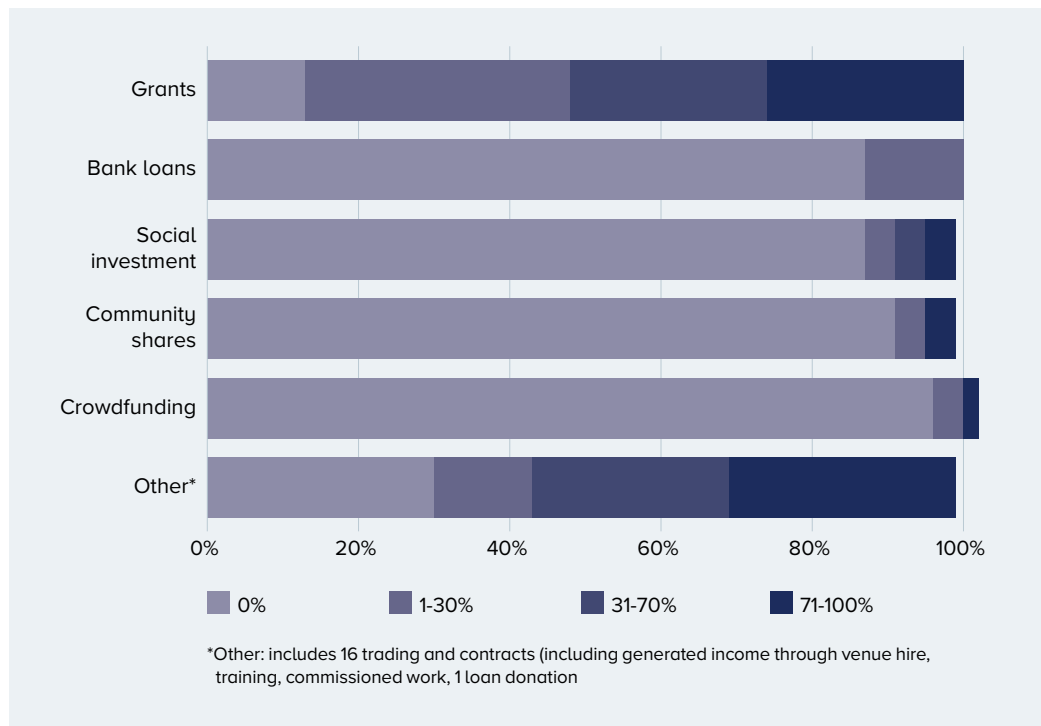


Figure 13: Proportion (%) of funding from different funding sources: Health and wellbeing

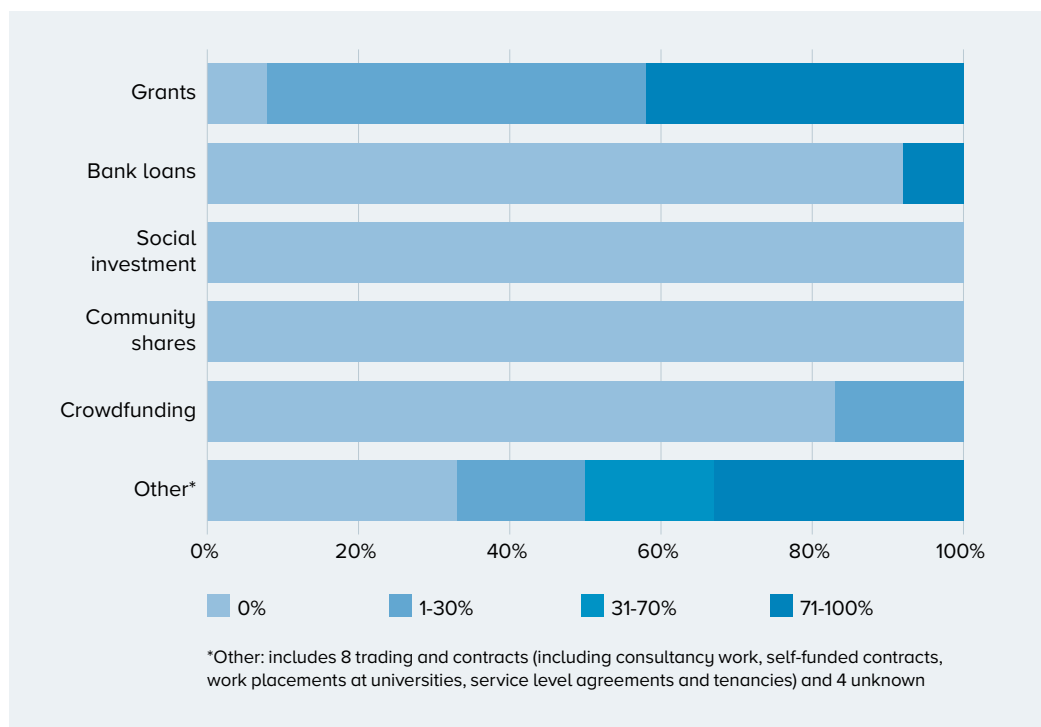
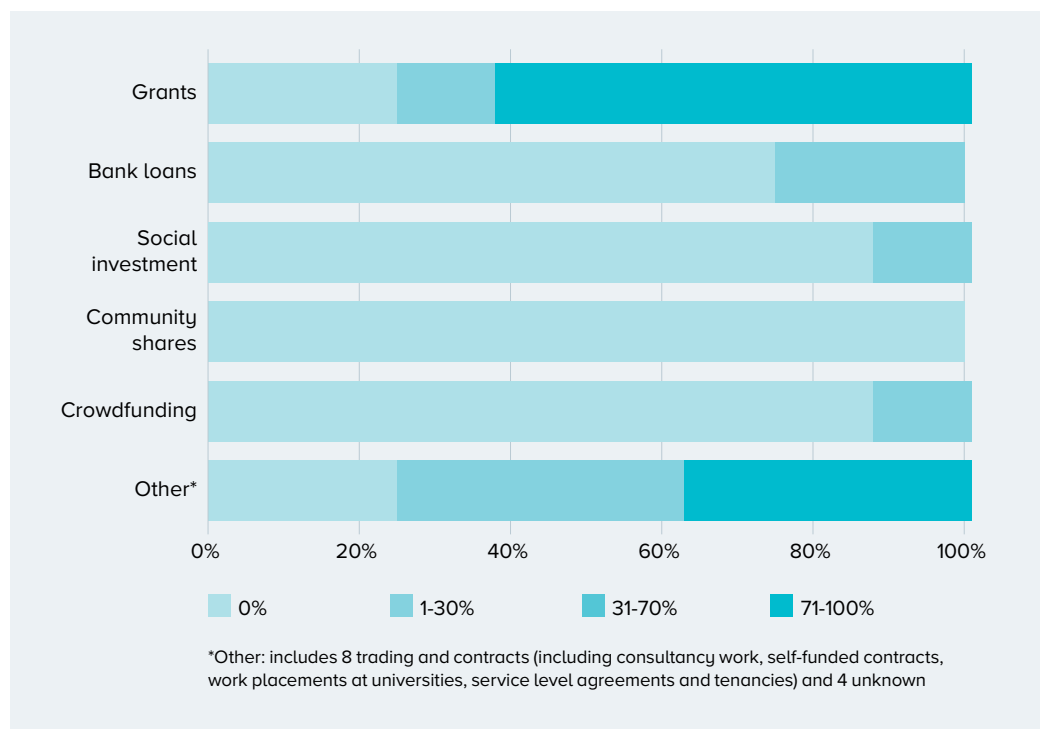


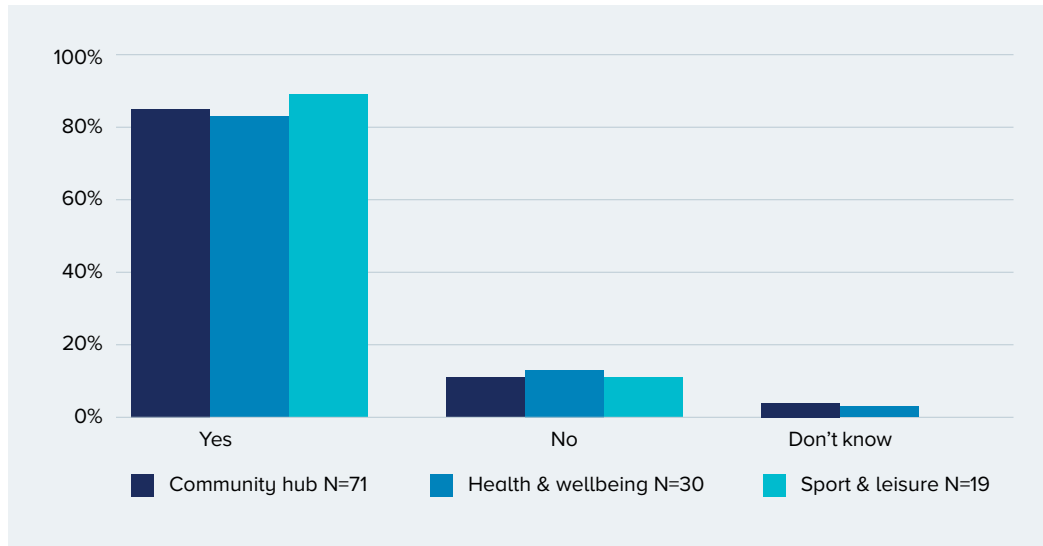
Figure 14: Proportion (%) of funding from different funding sources: Sport and leisure



4.3.3 Planning for future income sources

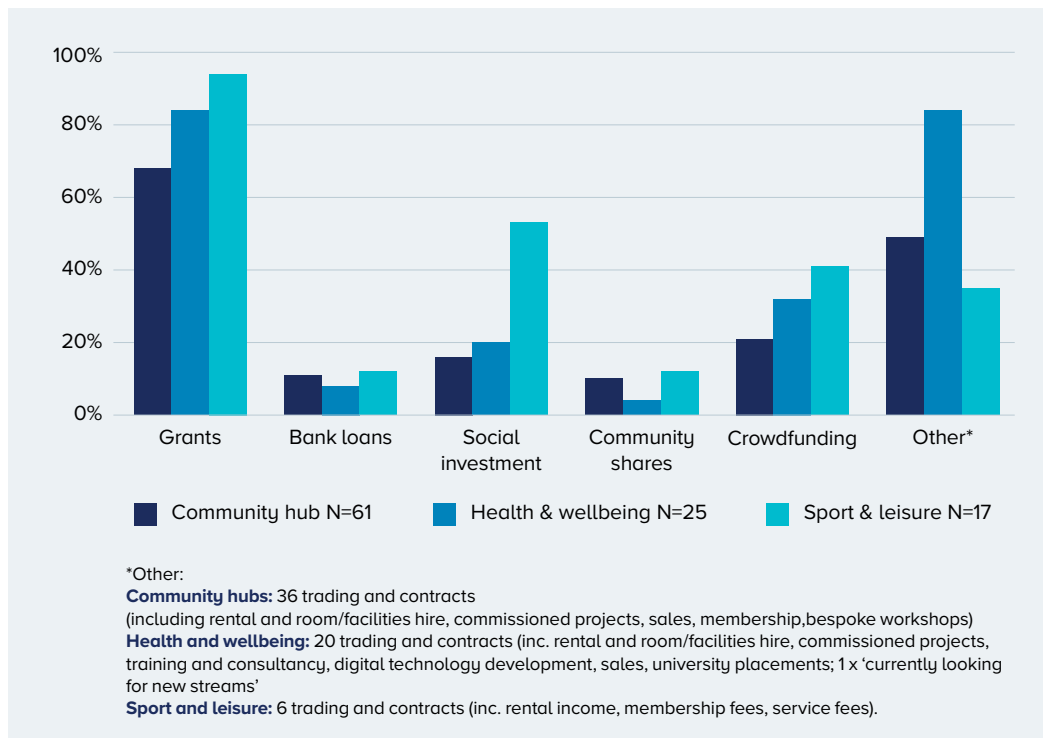
The majority of respondents indicated that they have plans in place for generating income for the next three years (N=102, 85%). Although this is encouraging, it highlights that out of the 15% of remaining respondents, 12% (N=14) have no plan for income generation and 3% (N=4) are unaware of any plans that may be in place (see Figure 15). This could be interpreted as uncertainty about the security of future funding, particularly given that the majority of respondents rely on some form of grant funding (N=37, 86%), with 40% (N=17) having over 50% of their funding generated through grant income. However, as previously stated, caution should be taken when assessing the proportion of funding from different funding sources due to the low base number of responses to the survey. Nevertheless, research from the literature review observes how community businesses have raised concerns over limited funding opportunities and the constraints around the short-term focus of grant funding and therefore this finding could be symptomatic of these concerns (Percy *et al.* 2015).

Figure 15: Plans for funding/income generation for next three years



The majority of respondents indicated that their future funding will be sourced from grants (N=85, 84%). However, overall, two-thirds of respondents also indicated 'other' future funding sources, which included trading or contracts, i.e. 35% (N=6) of sport and leisure; 59% (N=36) community hub; and 80% (N=20) of health and wellbeing community businesses (see Figure 16).

Figure 16: Sources of future funding



The results indicate that a high proportion of respondents are generating increasing levels of income from trading or contracting sources, as opposed to grant income. This aligns with the results from Figure 5, which shows a high number of respondents generating sufficient or significant income through trading and contracts.

These results indicate that the community businesses sampled are gathering income from a diverse range of sources, rather than being solely dependent on one source, which could assist in the longer-term sustainability of their business. For example, although the majority of our community hub case study BS3 Community Development's (BS3CD) income comes from trading activity, the organisation has also significantly increased income from non-trading sources such as banks loans, grants, and social finance to fund the development of the new Chessel Centre. BS3CD secured a £175,000 bank loan to buy the building in addition to receiving a £300,000 grant from Power to Change and a £144,000 capital grant from Bristol City Council. BS3CD also launched a charity bond and raised £280,000 from selling bonds to the local community and other individuals. Big Society Capital matched the amount of money raised, which meant BS3CD acquired a total of £560,000 towards the new build, which they anticipate contributing significantly to their sustainability moving forward.

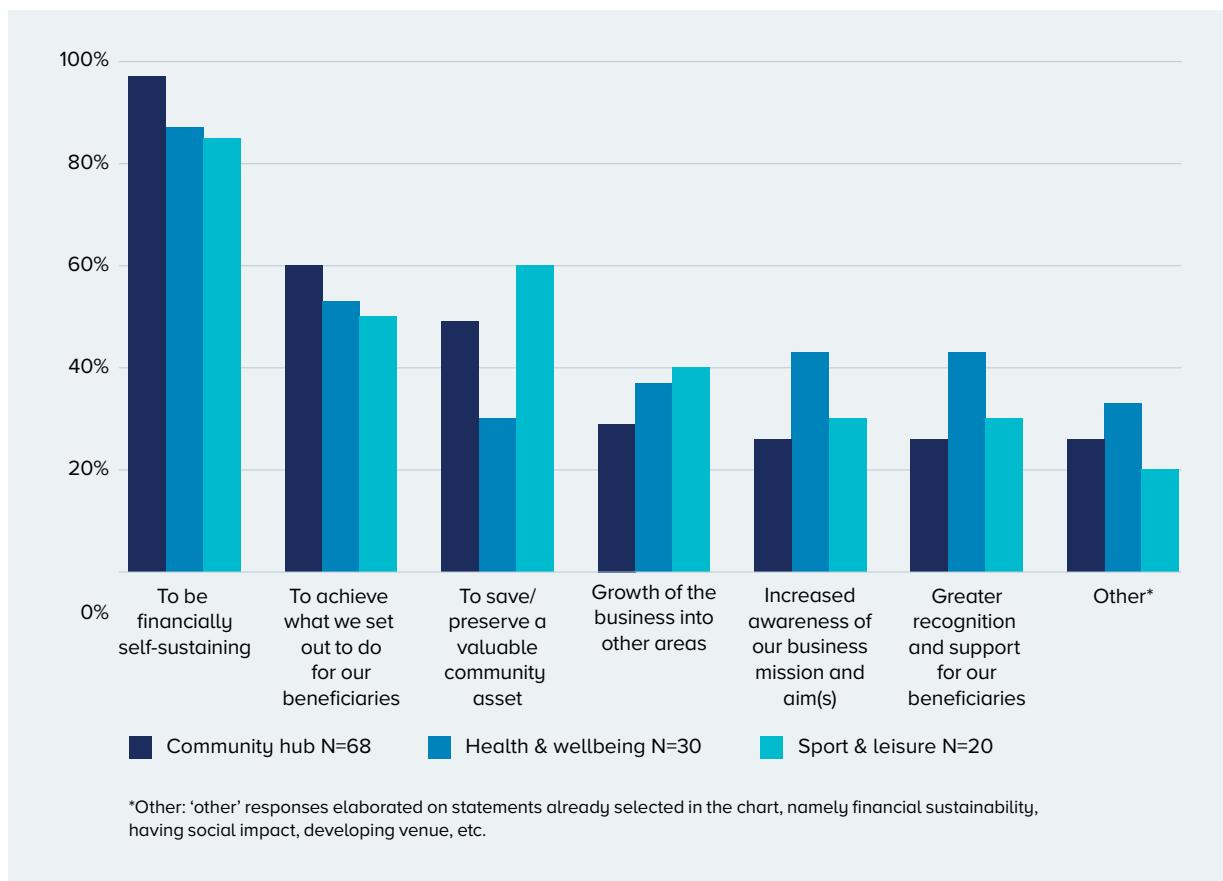
However, it must be noted that there are other factors outside of funding sources which can affect the longer term sustainability of community businesses, including staffing levels and motivation, community engagement and relevant skill sets.

4.4 Success factors

4.4.1 What success looks like

Online survey respondents were asked to select from a series of multiple option pre-determined statements to express what they considered success to 'look like' from their businesses perspective. The majority of businesses across the three sectors found being 'financially self-sustaining' to be the greatest measure of success for their business (see Figure 17).




Figure 17: What ‘success’ looks like for community businesses



4.4.2 Contributing factors to success

Each community business was asked to select from a list of factors that they consider contributed to the success of their business (see Table 7). Overall, the highest proportion of all businesses considered ‘engagement from the community’ to be the strongest (N=102, 84%). When comparing the three different sectors, this remained the strongest factor for community hubs (87%, N=62), with a higher proportion of health and wellbeing and sport and leisure businesses selecting ‘well trained volunteers and staff’ to be the most important contributing factor to their success (87%, N=26 and 76%, N=16 respectively). A clear example of this can be seen in our health and wellbeing case study, Wellspring Healthy Living Centre (WHLC). As many of the staff at WHLC are involved in mental health services, it is vital that they also have a breadth of community knowledge as well as specialist skills in issues such as mental health and domestic violence. Without this level of expertise, the centre would not be able to perform effectively. Therefore, WHLC works hard to recruit enthusiastic staff who have a positive attitude and are able to maintain their core competencies.

Table 7: Contributing factors to the successful running of community businesses

			Community hub N=73 		Health and wellbeing N=30 		Sport and leisure N=23 	
	No.	%	No.	%	No.	%	No.	%
Engagement from the community	102	84%	62	85%	25	83%	15	65%
Good business and/or funding expertise	95	78%	57	78%	23	77%	15	65%
Well trained volunteers/ staff	93	76%	51	70%	26	87%	16	70%
Motivated and engaged volunteers	92	75%	58	79%	19	63%	15	65%
Beneficial partnerships with other organisations	87	71%	51	70%	22	73%	14	61%
Access to funding	85	70%	46	63%	25	83%	14	61%
Ability to have paid staff	79	65%	54	74%	14	47%	11	48%
Local authority/ government support	55	45%	30	41%	16	53%	9	39%
Third sector support and/or service	46	38%	28	38%	12	40%	6	26%
Access to Peer networks	44	36%	28	38%	12	40%	4	17%
Appropriate legislation	26	21%	17	23%	6	20%	3	13%
Other*	10	8%	6	8%	3	10%	1	4%

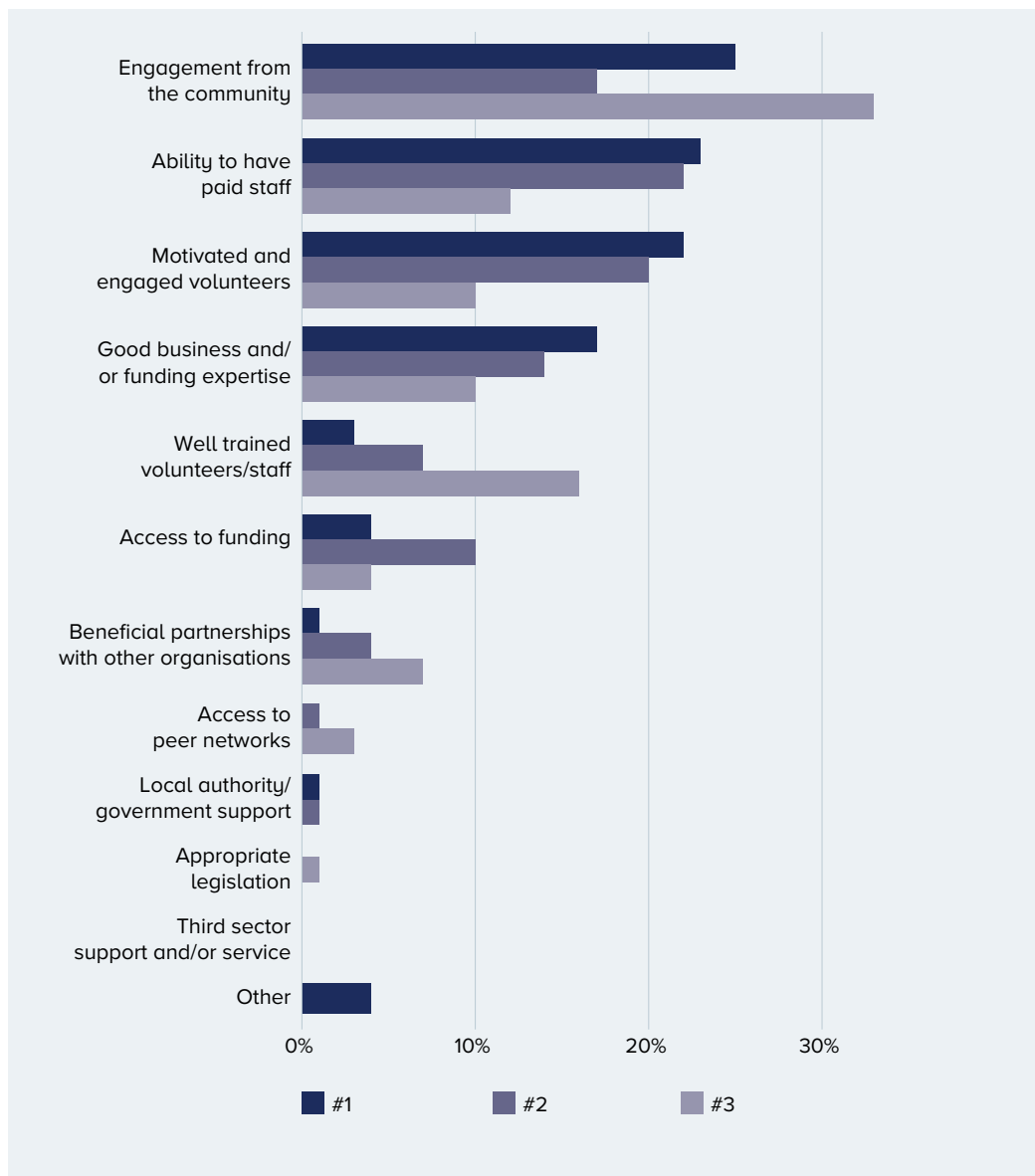
NB. Highlighted section in table indicates the highest proportion of respondents per sector.

*Other contributing factors were offered by responding businesses, including factors pertaining to the ethos of business, governance and management skills and support, having a creative workforce, having a workforce that reflects the diversity within communities and control over finance.

Community businesses were then asked to rank the contributing factors they had

selected in order of importance (i.e. #1 as most important). For the purposes of analysis, the top three contributing factors were identified for each community business, and are displayed in Figures 18 to 20 below.

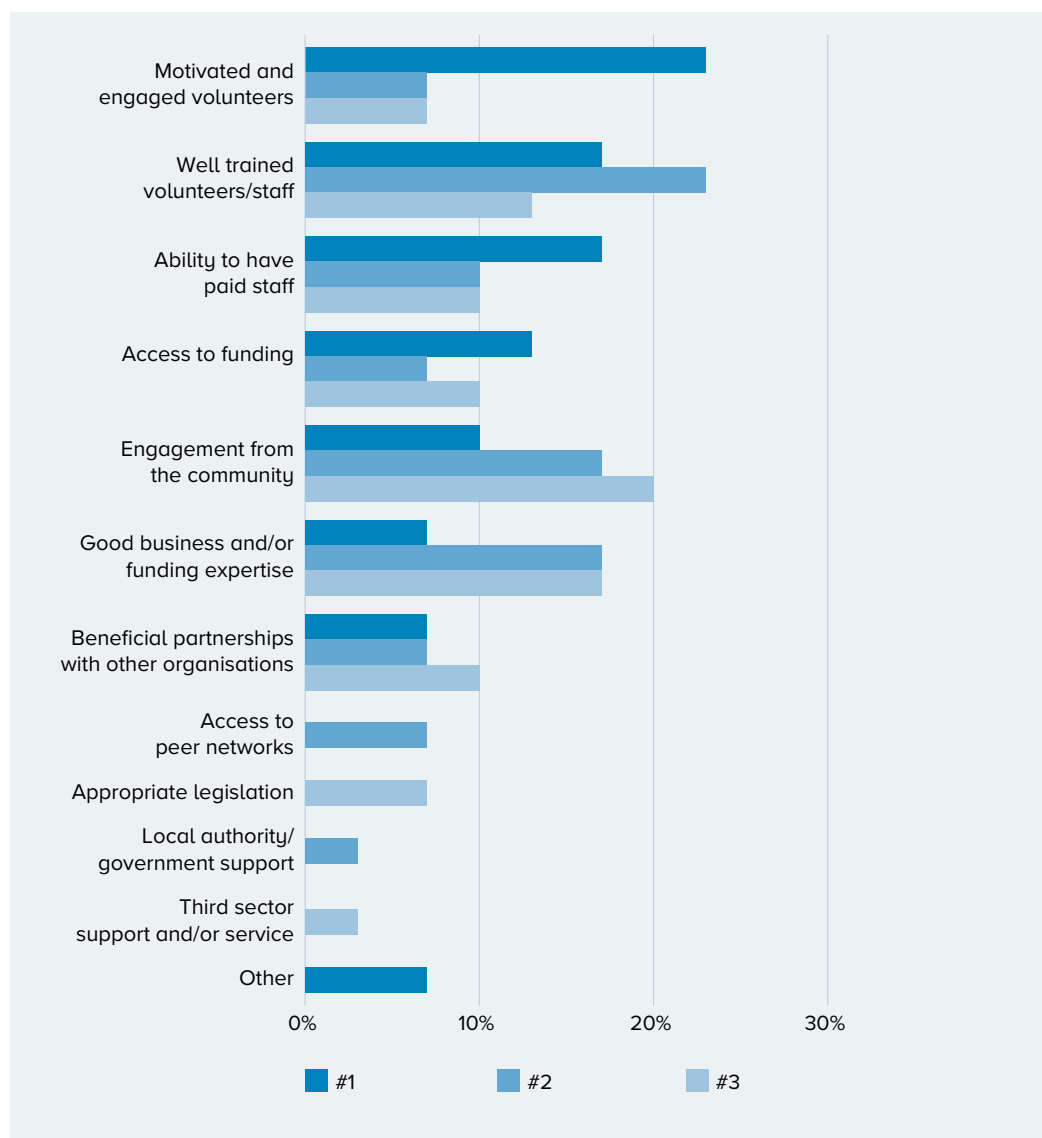
Figure 18: Top three factors which contribute to business success: Community hubs



The highest proportion of community hubs selected ‘engagement from the community’ as the most important success factor for their business, with a quarter (N=17) selecting this as their top contributing factor. The importance of community engagement was also highlighted in the desk-based review, with previous research noting how community hubs have a high reliance on community engagement and awareness (Peredo and Chrisman 2006, Hull *et al.* 2016). Moreover, the desk-based

review also revealed how communities which are more ‘community-orientated’ may be more likely to set up community run businesses, thus indicating a greater reliance on the ongoing support of its local members for its continued success.

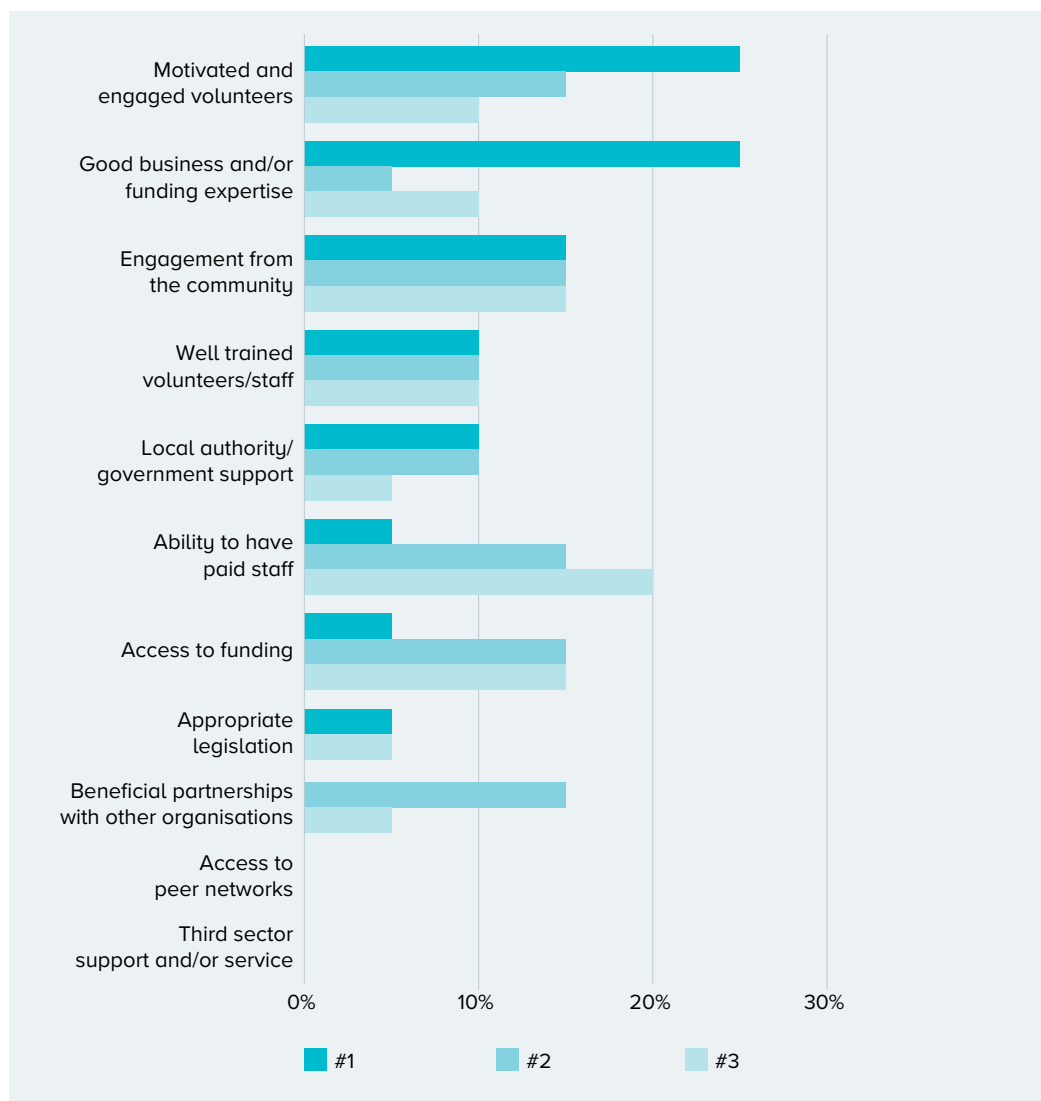
Figure 19: Top three factors which contribute to business success:
Health and wellbeing



For health and wellbeing, the highest proportion of community businesses selected ‘motivated and engaged volunteers’ as the top-ranked contributing factor to the successful running of their businesses. Our health and wellbeing case study, Unlimited Potential (UP), highlights how the business recruits staff and volunteers from the communities they work with in order to ensure they meet the aims they set out to achieve for their beneficiaries. This approach provides UP with valuable insight into the community’s needs and their effectiveness. In turn, this also helps

them engage with the community on a deeper level, developing innovative solutions from ideas and knowledge they would not have been able to tap into without this insight. However, the top-ranking contributing factors as identified in the survey results appear to not support some of the literature which would suggest a higher proportion of health and wellbeing businesses would select factors related to partnership work and networking (Hull *et al.* 2016) (e.g. beneficial partnerships, peer networks, local authority/government support, third sector support).

Figure 20: Top three factors which contribute to business success: Sport and leisure



For the sport and leisure sector, the two top-ranked contributing factors were identified as ‘motivated and engaged volunteers’ and ‘good business and/or funding expertise’. Almost three-quarters (73%) of businesses in this sector reported an increase in the number of volunteers registered in the past year (see Figure 8). In addition to this, almost two-thirds (64%) reported having volunteers stay involved with the business for three years or more (see Figure 10). This increase and retention of volunteers suggests the efficient utilisation of volunteer support within the sector, and therefore, effectively managing and engaging with volunteers could be considered a likely success factor. The need for good business and/or funding expertise could also be considered as a reflection of where community businesses in this sector are at in their development. Compared to the other sectors, a higher proportion of sport and leisure businesses are more reliant on grant funding, with almost two-thirds (63%) receiving between 71-100% of their total income from this source. Therefore, it is reasonable to assume that they are now seeking the necessary business or funding expertise to help steer their income sources away from grant funding.

Our sport and leisure case study, Projekts MCR, clearly demonstrates the importance of funding expertise. Effective communication skills, specifically the ability to share aims and achievements, have been essential for Projekts MCR’s success. Understanding how to write a business case is also key and this links closely to bid writing for additional funding. Managing Director, John Haines, currently oversees bid writing and writes the majority himself. However, in order to develop skills within the business he encourages members of the team to write a business case for ideas they put forward, outlining the costs and projected income.

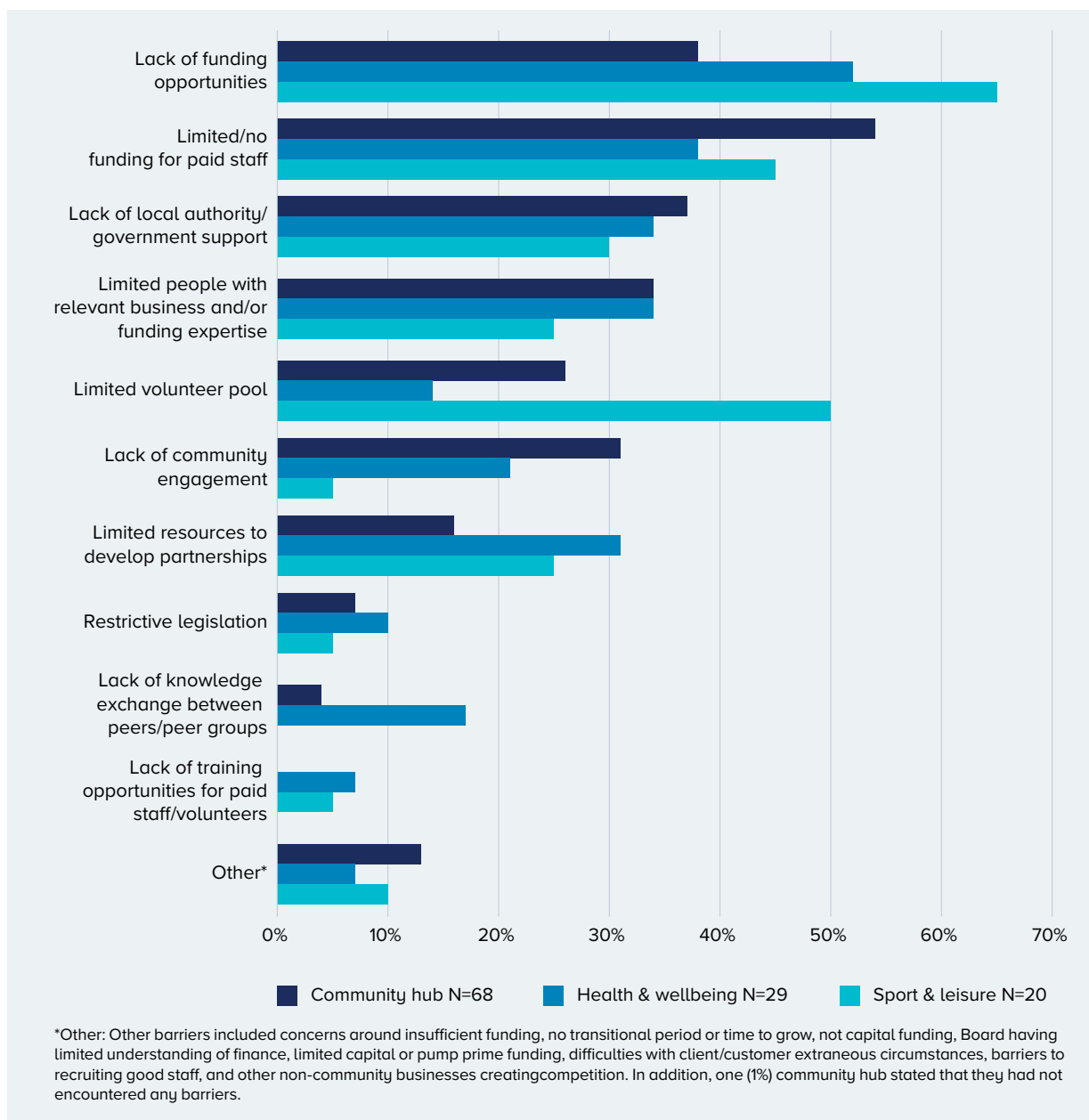
4.5 Main barriers to success

Following on from reviewing success factors, respondents were asked to select up to three statements from a series about what they considered to be the main barriers to the successful running of their business. The survey results show that all businesses indicated access to funding as a key barrier. Specifically, by sector, the main barrier identified by sport and leisure and health and wellbeing businesses was a ‘lack of funding opportunities’ (65% and 52% respectively). In these two sectors, our case studies reported that competitive access to capital funding was a barrier to expanding their business. For example, our sport and leisure case studies, Origin Sports and Stocksbridge Community Leisure Centre, shed light on the challenges businesses face when operating from listed buildings as they faced operational restrictions and high maintenance and running costs as barriers to generating income.

Community hubs also identified the main barrier as being ‘limited or no funding for paid staff’ (54%). For example, one of our community hub case studies, The Old Co-op Community Building, identified this limitation as a high priority that needs to be addressed in the near future in order to remain competitive and sustainable.

They recognised the need to generate funding to employ a deputy director and secure additional permanent staff members who can be trained in-house to become familiar with the running of the business. Limited or no funding for paid staff also remained the second most frequently selected barrier for health and wellbeing businesses (38%). It is therefore clear that financial constraints present a key barrier to community businesses within the three sectors. However, half of the sport and leisure respondents selected a ‘limited volunteer pool’ (50%) as their second most barrier, reflecting this sector’s reliance on volunteers for the development of their businesses.

Figure 21: Main barriers to the successful running of community businesses



4.6 Summary of findings

The findings indicate clear parallels across all three sectors in terms of the key factors for success, with the highest proportion of community businesses identifying being 'financially self-sustaining' (N=109, 90%) to be the greatest measure of success for their business. This is reflected by the high number of respondents stating that they are currently, or planning, to generate their own trading income for the future (see Figures 5 and 16).

Engagement in the community is also a strong success factor that identifies across all three sectors, most notably for community hubs (N=62, 85%) and health and wellbeing (N=25, 83%) businesses. Previous research has observed how communities that are more 'community-orientated' are also more likely to start community-run businesses in the first place, which confirms a likely reliance on ongoing support from members of the community to support continued success.

In addition to the highest proportion of health and wellbeing and sport and leisure community businesses selecting 'well trained volunteers and staff' as a contributing success factor, respondents from these two sectors also ranked 'motivated and engaged volunteers' as their highest ranked contributing success factor. Clearly, having the available resources in place, particularly volunteers, plays a significant role in the successful operations of all three sectors. Particularly for sport and leisure business this finding supports previous research highlighted in the desk-based review that states how this sector may be experiencing accelerated growth, requiring volunteers to support the running of its activities (Hull *et al.* 2016). For the health and wellbeing sector this indicator of success was somewhat unexpected, as the survey results appear to not support some of the desk-based literature which would suggest a higher proportion of health and wellbeing businesses would select factors related to partnership work and networking (Hull *et al.* 2016). However, this could be considered a response to a higher proportion of community businesses in this sector seeing a decline in their number of registered volunteers compared to the other two sectors (15% reduction in previous year, see Figure 8).

Despite sport and leisure businesses indicating excellent retention of volunteers (see Figure 10), and an increase in the number of volunteers compared to the other sectors (see Figure 8), they also recognise that having a limited volunteer pool to draw from is becoming a challenge. Therefore, a reduction in the number of available volunteers could become a key barrier to the success of this sector.

In addition to reviewing factors that were ranked as contributors to success for a community business, there are similar trends across the three sectors for those factors which were selected less frequently or did not appear in the top three. These included 'local authority/government support', 'appropriate legislation' and 'third sector support and/or service'. Although it is not clear why these factors scored lower, it is interesting to note that they are common across all three sectors.

When assessing the main barriers to success, concerns regarding funding opportunities were less prominent for community hubs when compared to the other two sectors. It also appears that a greater amount of health and wellbeing and sport and leisure businesses have a higher proportion of their income derived from grant funding (see Figures 12, 13 and 14). A higher proportion of businesses from these two sectors appear to currently be operational with grant funding as opposed to operational with their own income generation (see Figure 5). Moreover, a higher proportion of businesses from these sectors also indicated that their future funding would continue to come from grants (see Figure 16).

This is not to say that limited funding opportunities are not a concern for community hubs, given that over a third recognised this to be a key barrier (N=26, 38%). However, all three sectors gave clear indication for the need to move from reliance on grant funding to being more financially self-sustaining, with the majority of community businesses from each sector seeing this as a key success factor. Therefore, the results of the survey provide a positive indication of the three sector's recognition of the need to diversify income streams and reduce reliance on grant income.

5. Financial sustainability analysis

As part of the research, community businesses responding to the online survey were asked to provide basic income and expenditure data for their businesses for the latest full financial year. An income and expenditure analysis was performed on data received from survey respondents (See Section 5.1)

To assess financial sustainability over a longer time period, publicly available annual accounts for a sample of community businesses from the online survey were also collected to provide more detailed financial information for (up to) the previous three years of accounts, or from the first full financial year of trading (where relevant). This small sample included a mixture of community hubs, sport and leisure and health and wellbeing business types. The analysis was performed by assessing performance and sustainability through the comparison of a number of financial indicators across the different community business sectors (see Section 5.2). All data used in the analysis has been anonymised. Due to the small sample size, the analysis cannot be considered representative of the three community business sectors as a whole. In addition, the community businesses analysed varied due to the availability of the full financial data required to conduct the analysis for each separate indicator. Therefore, analysis under each financial indicator is not a direct comparison between the same community businesses. However, the analysis does provide some insight into the financial sustainability of community businesses by sector.

5.1 Online survey – income and expenditure

30% of total respondents (38 of 126) provided both income and expenditure information for the 2016/17 financial year. Figure 22 provides an overview of the distribution of income against expenditure for community businesses in each of the three target sectors.

As Figure 22 shows, there are significant differences between the levels of income and expenditure reported by community businesses across the three sectors, with proportionally a far greater number of community hubs reporting considerably greater income and expenditure levels on an annual basis. However, due to fewer respondents from the health and wellbeing and sports and leisure sectors in the online survey, it is not possible to draw meaningful conclusions for this difference or assume that this difference in income and expenditure is representative of the three sectors as a whole. However, further analysis of the number of services offered by the different community business types (Section 4.1) found that community hubs offer on average twice the number of income generating services outside of what could be considered their core business than both health and wellbeing and sports and leisure business (four additional services compared to two respectively). Although these differences cannot fully account for the gap in revenue generation between the sectors, it does provide some indication as to the reason why community hubs generate higher revenues, when compared to the other two sectors.

Figure 22: Annual income against expenditure 2016/17 by community business type



Despite a small overlap between income and expenditure levels for health and wellbeing and sport and leisure businesses, income levels within the sport and leisure businesses still exceed those reported by the health and wellbeing sector. This could potentially be attributed to the early stage maturity of the health and wellbeing community business sector, as indicated by Hull *et al.* (2016), combined with the limited number of income streams businesses in this sector can exploit when compared to both community hubs and sports and leisure businesses. In addition, the health and wellbeing market has significantly different characteristics to the two other sectors, with the availability of contracts for commissioned services being limited in their availability and more time consuming to secure.

With the exception of five businesses (three community hubs, one health and wellbeing and one sports and leisure), all respondents reported a break even or excess of revenue generation over expenditure. Further analysis to explore other factors of financial sustainability such as profitability is not possible from the data provided by the online survey. However, this simple analysis of income against expenditure indicates a general financial healthiness within the community businesses that provided a response to the survey.

5.2 Long term financial sustainability of selected sample

5.2.1 Indicator One: Comparison of sustainable against actual growth rates

Sustainable growth rate is the rate at which a business can increase its income without having to raise additional funds from lenders or investors, i.e. the rate represents how many more income generating activities the business can develop in each year without having to borrow or raise additional capital to fund these activities. Sustainable growth rates are therefore used to determine whether a business has adequate capital to meet their strategic growth needs. In comparison, actual growth rate is simply the increase or decrease in sales over the same given period of time.

Businesses may grow faster, slower, or just at the sustainable growth rate. While a high actual growth is not by default a negative, a growth rate that exceeds the sustainable growth rate means the business will need to finance increases in its operations by either issuing new stock, taking on new debt, reducing dividends, or increasing profit margins. Conversely, a lower actual growth rate than the calculated sustainable growth rate may serve as evidence that the business is not performing as efficiently as it could do.

The sustainable growth rate is expressed in percentage terms, with a positive figure indicating that there is sufficient capital available within the business to generate additional revenue, and conversely a negative figure indicates a lack of capital. Where the growth rate is indicated as zero, the business is utilising all its capital, i.e. it is operating at maximum capacity with the resources it has available. To give an example; a business with a sustainable growth rate of 4.5% can increase the earnings it turns back into equity by 4.5% year over year.

Figure 23 provides a comparison of the sustainable and actual growth rates for those businesses sampled over a three-year period. Given the sustainable growth rate indicator is based upon growth trends over time, it was decided that businesses trading for one year or less should be discounted from the analysis to prevent distortion of the results.

From Figure 23, it is a clear that two of the health and wellbeing businesses sampled demonstrated just below zero or negative growth rates (health and wellbeing businesses three and five respectively), signifying that they have reached, or exceeded, the amount of revenue they can generate based on the

resources they have available to them. Subsequently, their businesses have contracted over the three-year period and to reverse this trend they will need to attract additional capital from outside of the business, either through borrowing or other investment methods, to invest into revenue generating activities. This is borne out by comparing their sustainable growth rate against their actual growth rates, which indicate significant falls in income over the same period. The third health and wellbeing business is operating at near zero level, but unlike the other two businesses has positive actual growth over the past three years. Whilst a positive outcome, the business is utilising all of its available resources and if its actual growth continues at current rates it runs the risk of not having sufficient capital resources available to meet its future growth needs. Therefore, it may also need to look at sourcing additional capital into the business.

Conversely, the community hub and sport and leisure sectors demonstrated positive sustainable growth rates, indicating that they have sufficient resources available within their balance sheet to grow and re-invest. However, those businesses that have significantly higher actual growth rates than their sustainable growth rate (businesses one, six and eight), whilst positive, also run the risk of having insufficient capital resources available to meet their future growth needs, i.e. they are growing faster than the resources on their balance sheet allow.

The exceptions within this analysis are businesses two and seven. Community hub business two demonstrated less actual growth over the three-year period than is achievable, based on the resources available within their balance sheet. This indicates that the business is not performing as efficiently as it could, or there is the option for this business to look at its strategy for growth and deploy some more resources into new or existing income generating services.

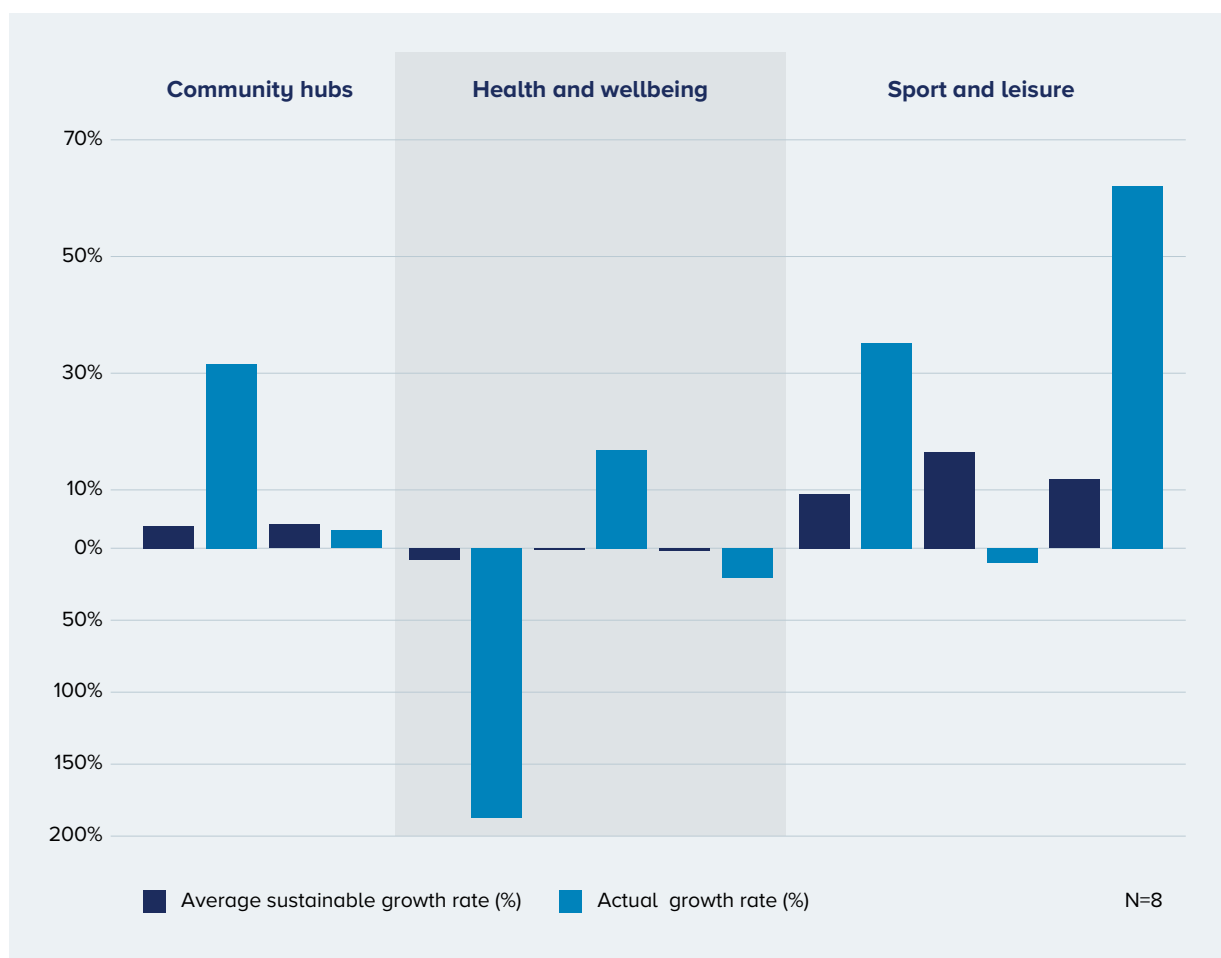
Sport and leisure business seven, whilst indicating potential for strong sustainable growth, has seen a reduction in actual growth rate indicating an overall reduction in sales income. This is not by default a negative situation, but indicates that revenue generated over the past three years has been used to increase assets on its balance sheet. Provided these resources are utilised in the future to increase existing or new income generating services, the businesses overall growth rates will remain positive, as actual growth rates are boosted by increased sales from these services.

This variability in growth rates across the three sectors is driven by differences in efficiency of generating revenue against available assets, and the levels of re-investment into assets that generate income over time. It could also be argued that the asset based nature of community hubs and sport and leisure businesses lends itself to a healthier balance sheet, from which a diverse range of revenue

generating activities can be developed. However, what is clear is that from those businesses sampled, the community hub and sports and leisure businesses are in a far more positive position than those within the health and wellbeing sector.

Clearly, there will be many reasons that apply specifically to each business for this outcome, and which cannot be explained from looking at growth rates alone. In addition, given the small sample size it is not possible to infer these results as representative of the three community business sectors as a whole. However, they do provide some indication as to the importance of effective management of assets for the purposes of revenue generation.

Figure 23: Average sustainable growth rate (%) compared to actual growth rate by community sector type over a three year period



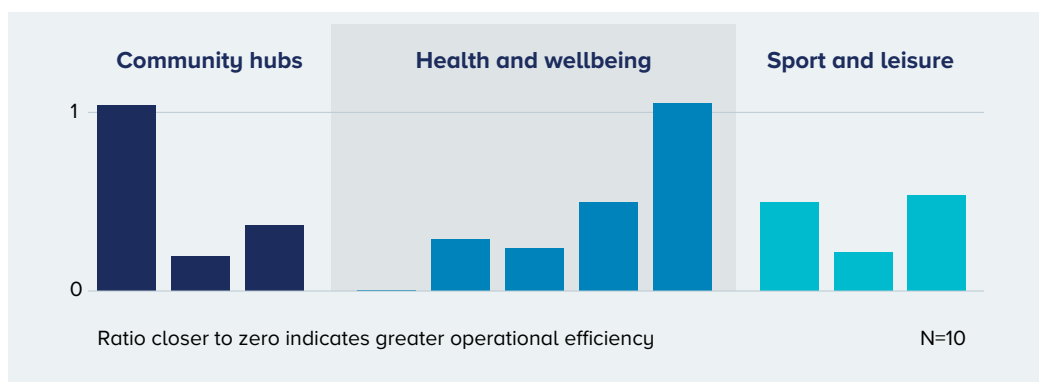
5.2.2 Indicator two: Operating expense (fixed or overhead cost) ratio

The operating expense ratio is a useful indicator for analysing if a business can generate a profit when fixed or overhead costs are considered by comparing operating expense to net sales. A ratio below the value of one indicates a greater control over operating expenses, with the smaller the ratio, the greater the organisation's ability to generate profit if revenues decrease.

As indicated in Figure 24 the level of operating expense control across all the community businesses analysed is generally positive, indicating good levels of cost control and operational efficiency, despite the scale of income and overhead expenses varying significantly across the businesses sampled. In addition, with the exception of one community hub who returned a ratio of 0.97, the ratios across all three community business sectors are broadly comparable, indicating that there is no significant difference in the ratio of overhead expenses against net income experienced by the different community businesses sampled in each of the three sectors.

The two exceptions to highlight are a community hub returning a ratio of 0.97 and a health and wellbeing business that returned a ratio of 0.005. First, the community hub reported high levels of operating expenses against net sales over the three-year period, reflected by costs associated with the diversity and number of services it provides in comparison to the other businesses sampled. Despite this it has maintained sufficient net sales to cover these expenses. However, there is a greater risk for this business, when compared to the others, in its ability to generate a profit if revenues decrease once fixed costs have been accounted for. Conversely, the health and wellbeing business reported minimal operating expenses, reflecting its business model of having minimal overheads relating to maintaining building assets. This particular model is in contrast to the other health and wellbeing businesses sampled, who all operated from their own building assets with the associated costs this entails.

Figure 24: Average operating expense control ratio against sector



5.2.3 Indicator three: Gross and net profit margins

The gross profit margin indicator assesses financial health by revealing the proportion of money remaining from revenues after accounting for the cost of goods sold (COGS), i.e. how much of each pound earned is translated into gross profits. Gross profit margins are expressed in percentage terms. The higher the percentage, the more the company retains from each pound of sales to service its other costs and obligations. Following on from this the net profit margin can then be calculated. Net profit margin is a profitability ratio. Essentially, it is the percentage of profit from business operations after deducting COGS, interest expenses, taxes and dividends from revenues. Net profit margin indicates how well the company converts its sales into profits, therefore it is both a measure of efficiency and of overall business health.

As indicated in Figure 25, with the exception of one health and wellbeing business, gross profit margins across the all community businesses analysed were positive, indicating an ability to generate sufficient revenues to cover their COGS and have some margin remaining to service other costs and obligations. However, when compared to net profit margins, three of the four health and wellbeing businesses and one community hub business indicated a negative net profit margin, suggesting that despite generating sufficient revenue to cover the COGS, when interest, taxes and other revenues are considered they have generated an overall loss. However, it must be noted that gross and net profit margins in this analysis are averaged across a three-year period, therefore this result does not mean that these businesses are generating a loss in every year. There are also other factors that could contribute to these negative net margins, such as one of the three years' gross profit margins being significantly reduced, which when considered across the timescale analysed leads to a negative figure.

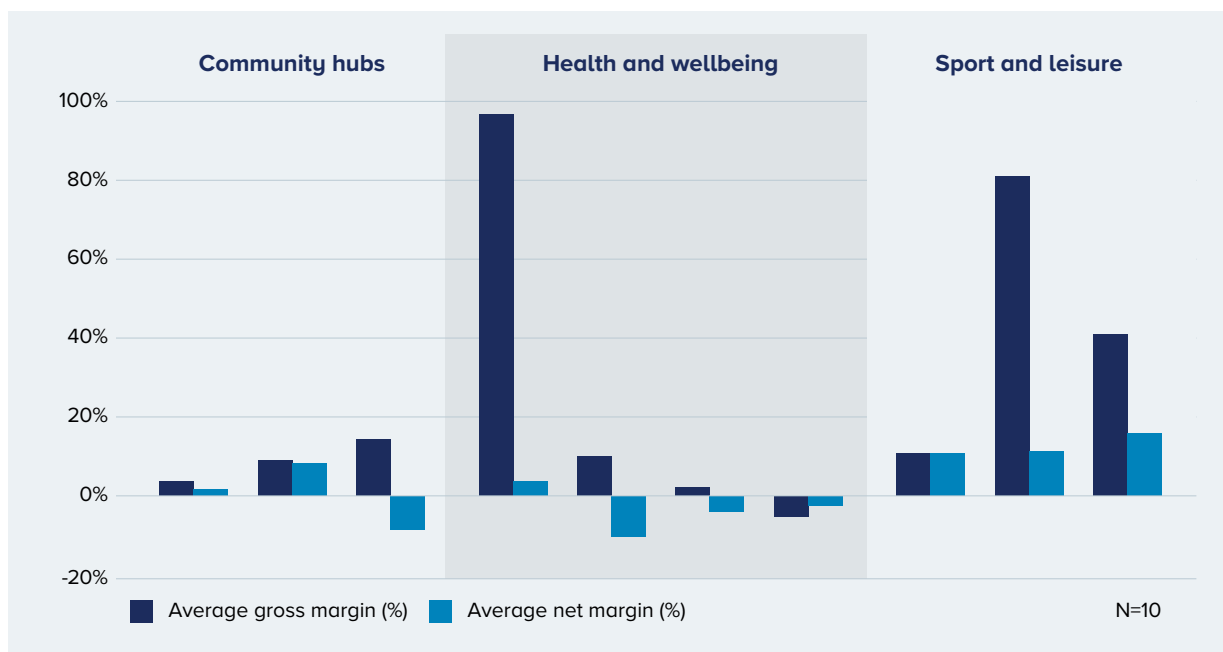
In addition, as net profit margin is a function of total revenues minus all costs within a business, and all but one community business demonstrated positive gross profit margins, it could be assumed that the negative net margins result from increasing overhead expenses. However, when considering the positive operating expense control ratios indicated in the previous section, it is more likely that these negative margins have been driven by a reduction in overall revenue, which has had a negative effect on gross margins for these businesses. Subsequently when fixed or overhead expenses are taken into account, this has led to an overall loss in one or more years which has affected the average net profit margin.

The exception to this is the one health and wellbeing business which indicated an average negative return for both gross and net profit margin. Given the gross profit margin loss is small overall (-1.6% on average over a three-year period) this result is not due to significant reductions in revenue, but a small but consistent overspend of COGS, which in turn leads to a negative net profit margin. Given the scale of

revenue generated for this business in real monetary terms this negative value is not significant, and is likely to be easily corrected by a small increase in revenue or fall in the COGS.

One point that can be taken from this analysis is that the health and wellbeing businesses in general indicate gross and net profit margins which are under greater pressure than those of community hub and sport and leisure businesses. This cannot be considered as representative of the sector as a whole but does indicate that these health and wellbeing businesses are more likely to be sensitive to factors affecting gross and net profit margin, i.e. decreasing revenues and increases in overhead expenses. Conversely, the community hub and sports and leisure businesses are more likely to be resilient to changes in revenues and overhead expenses, improving their chances for longer term sustainability.

Figure 25: Comparison of average gross and net profit margins (%) by by sector over a three-year period

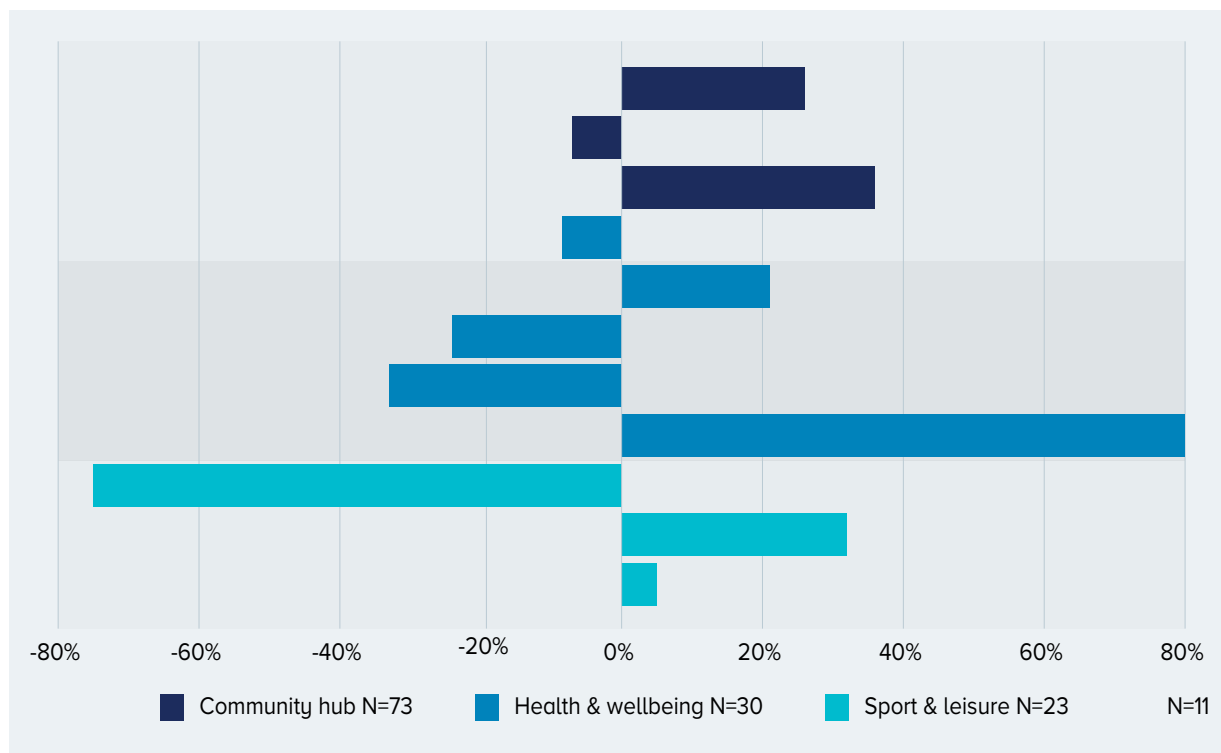


5.2.4 Indicator four: Net cash flow

Net cash flow refers to the difference between cash inflows and outflows in a given period, and provides an indication of an organisations ability to maintain liquid assets to service regular, day-to-day, trading.

As indicated in Figure 26, six of the 11 community businesses analysed indicated successive positive year-end cash reserves for the financial periods they reported against, i.e. cash left in the bank after cost of goods, overhead and re-investment expenses had been accounted for. The remaining five indicated a net reduction in cash reserves over time. From the data provided, it is not possible to comment as to why net cash reserves reduced specifically in the case of these businesses. However, given year end cash reserves remained generally positive for all the community businesses analysed over the time period, it could be assumed this is a result of general cash flow fluctuations or investment in new services, rather than issues with cash flow management. Therefore, overall the reported cash flow reserves indicate that the community businesses analysed are capable of servicing regular, day to day, trading. However, if the trend of reducing cash flow reserves continues for those who posted a reduction over the three-year period, it could be an indication of a long-term trend of falling sales or decreases in net profit margin, which will increase pressure on these businesses to maintain day to day trading.

Figure 26: Compound net cash flow growth/decline (£s) by sector



5.3 Summary

Although due to the small sample size these results cannot be considered as representative of the three community business sectors overall, the financial sustainability analysis indicates generally positive growth in the community hubs and sports and leisure businesses analysed, with some of these businesses looking to be in a relatively stable period of sustainable growth. Conversely, health and wellbeing businesses in general indicated increased pressure on their sustainable growth, indicating that despite maintaining good control over operating expenses and generating sufficient cash for day to day trading, they are facing greater challenges in maintaining longer term sustainability, driven by increasing pressure on revenues and subsequently gross and net profit margins. It is not possible to comment in detail as to the specific causes relating to these factors for those businesses analysed. However, it can be speculated that due to the nature of the contracts available within the health and wellbeing marketplace, in comparison to the diverse income streams available within the community hub and sports and leisure sectors, securing long term and/or regular income streams is significantly more challenging. Subsequently, those health and wellbeing community businesses analysed are more sensitive to changes in their market, which in turn has an impact on their overall long-term sustainability.

6. Conclusions

6.1 Factors contributing to success

Our desk-based review focused on the growth of community-run businesses, barriers to their success and factors that increases their opportunities for success and sustainability. A set of common themes emerged from the review, including good community engagement and local awareness, availability of asset transfer and contracts, access to additional funding and grants, developing creative and innovative thinking, having access to specialised sector advice/peer networking, and business size. Some of these themes are clearly identified by our research across the three sectors examined in this report, whilst others are only cited in relation to specific sectors. It is reasonable to argue that whilst the desk-based review clearly identifies important aspects of success for individual sectors, some or all of these themes may be relevant across other sectors as well (e.g. creative and innovative thinking).

Financial self-sustainability

Findings from the online survey also indicate clear parallels across all three sectors in terms of how success is measured, with the highest proportion of community businesses identifying being ‘financially self-sustaining’ as the greatest measure. This measure of success is echoed in the case studies, with businesses from across all three sectors highlighting a common theme of needing to develop and achieve financial self-sustainability through the diversification of their income streams, whilst simultaneously reducing the proportion of income derived from grant sources. The financial sustainability analysis also provides some positive indication that this success factor is being achieved, with analysis indicating that at least some community hubs and sports and leisure businesses are in a relatively stable period of sustainable growth.

Community engagement and staff and volunteer skill sets and roles

In terms of the factors that contribute to success, overall, ‘engagement with the community’ was identified as the strongest contributing factor across all three sectors. In addition, the highest proportion of health and wellbeing and sport and leisure community businesses selected ‘well trained volunteers and staff’ as a contributing factor and ranked ‘motivated and engaged volunteers’ as the highest contributing factor. Clearly, having the available resources in place, particularly volunteers, plays a significant role in the successful operations of all three sectors, but these results indicate that health and wellbeing and sport and leisure businesses have a particular requirement for well trained and motivated volunteers, which is perhaps unsurprising skill involved in delivering the services these businesses provide.

Forming strong partnerships and networks

Finally, the formation of strong partnerships and networks was a success factor that was identified across the three sectors, primarily through the development of the case studies (a summary of case studies can be found in Table 1 and on the Power

to Change website). However, it was not ranked as highly as other success factors through the online survey. This was unexpected for the health and wellbeing sector in particular, which, from the desk-based review would suggest a higher proportion of health and wellbeing businesses would select factors related to partnership work and networking (Hull *et al.* 2016). However, this factor was still rated within the top five in terms of importance across all three sectors (see Table 7), and was a theme that was commonly referred to within the case studies, particularly by health and wellbeing businesses. The potential reason why 'motivated and engaged volunteers' was more prominent than strong partnerships and networks for health and wellbeing businesses in the online survey could be considered a response to a higher proportion of community businesses in this sector seeing a decline in their number of registered volunteers compared to the other two sectors.

In addition to reviewing factors that were ranked highly as contributors to success, there were similar trends across the three sectors for those success factors which were selected less frequently or did not appear in the top three ranking. These included 'local authority/government support', 'appropriate legislation' and 'third sector support and/or service'. Although the online survey did not examine why these factors scored lower, it is interesting to note that they are common across all three sectors.

6.2 Barriers to success

Access to funding

When assessing the main barriers to success, all businesses from the online survey indicated access to funding as a key barrier. Specifically, by sector, the main barrier identified by sport and leisure and health and wellbeing businesses was a 'lack of funding opportunities', with community hubs identifying 'limited or no funding for paid staff' as the main barrier. Limited or no funding for paid staff also remained the second most frequently selected barrier for health and wellbeing businesses. This was supported by evidence from the case studies in the health and wellbeing and sport and leisure sectors who reported that competitive access to capital funding was a barrier to business expansion. Case studies also highlighted the challenges businesses face when operating from listed buildings, particularly the operational restrictions and high maintenance and running costs, which act as barriers to generating income.

It is therefore clear that financial constraints present a common key barrier to community businesses across the three sectors. However, concerns regarding funding opportunities were less prominent for community hubs when compared to the other two sectors. It also appears that a greater amount of health and wellbeing and sport and leisure businesses have a higher proportion of their income derived from grant funding. Moreover, a higher proportion of businesses from these sectors also indicated that their future funding would continue to come from grants. However, all three sectors gave clear indication for the need to move from reliance on grant funding to being more financially self-sustaining, with the majority of community

businesses from each sector seeing this as a key enabler for success. Therefore, the results of the survey provide a positive indication of the three sector's recognition of the need to diversify income streams and reduce reliance on grant income.

Notwithstanding this, findings from the financial sustainability analysis indicate that despite generally positive growth in the community hubs and sports and leisure businesses, health and wellbeing businesses in general indicated increased pressure on their sustainable growth, indicating that they are facing greater challenges in maintaining longer term sustainability, driven by increasing pressure on revenues and subsequently profit margins. Although it is not possible from the research to comment in detail as to the specific causes relating to this finding, it can be speculated that due to the nature of the contracts available within the health and wellbeing marketplace, in comparison to the diverse income streams available within the community hub and sports and leisure sectors, securing long term and/or regular income streams is significantly more challenging. Subsequently, health and wellbeing businesses are more sensitive to changes in their market, which in turn has an impact on their overall long-term sustainability.

Asset transfer

Secondly, a review of previous research indicates that issues surrounding the transfer of assets to community-run businesses may be a particularly pertinent barrier for both the community hub and sport and leisure sectors, given the increase of support for the use of heritage assets by community hubs, and the rapid growth in the sport and leisure sector being in part due to the increasing number of asset transfers by the local authority for such purposes. However, despite a strong finance and support environment designed to accelerate growth in this area, a gap in funding for major capital projects e.g. refurbishment or rebuild where other funding streams are insufficient was identified. This is also echoed in themes arising from case studies in the health and wellbeing and sport and leisure sectors regarding competitive access to capital funding.

Whilst research undertaken as part of this report did not find any directly quotable evidence of 'asset transfer' issues within the online survey responses or case study businesses, findings from the online survey (Section 4) and assessment of case study themes found that a 'lack of funding opportunities', 'local authority/government support' and 'limited people with relevant funding/business expertise' were all highly rated barriers/themes to success. Although not directly comparable to the asset transfer issues outlined above, it is reasonable to infer that the barriers cited in the course of this research could be considered as contributing factors to difficulties regarding the successful transfer of assets.

6.3 Recommendations for further research

Following on from the findings of this research, a number of recommendations for further investigation have been identified.

- 1.** Further research is required to determine exactly how sector specific each common success theme is to community businesses within the three sectors examined within this report, and those from other sectors. These success themes being: good community engagement and local awareness, availability of asset transfer and contracts, access to additional funding and grants, developing creative and innovative thinking, having access to specialised sector advice/peer networking, and business size. The rationale for this research would be to better understand where themes overlap, so support and funding can be better focused on a wider cross section of the community business market.
- 2.** It was found during this research that specific literature that addresses and investigates community-run businesses that exactly fit the Power to Change definition cited in the introduction to this report is relatively sparse. Thus, further primary research would be warranted to determine whether the key themes identified in the desk-based literature review are directly relevant to businesses that fit the definition to which this report adheres.
- 3.** This report was commissioned when available sector data was relatively sparse, necessitating primary research. Findings from this research has indicated that detailed analysis of financial sustainability, combined with in-depth case study development has been able to provide a greater depth of understanding as to the business models, challenges and solutions that community businesses employ. Therefore, it is recommended that future research methodologies look to examine a greater cross-section of community business models, organisational processes and secondary data in greater depth in order to provide increased granularity as to the factors that contribute to the success of community businesses.
- 4.** Research findings indicate that the majority of businesses in the online survey have good levels of social connectivity. It is reasonable to assume that this level of connectivity could assist in the promotion of activities and thereby be a contributing success factor. This point was highlighted in a case study which recognised the importance of having a strong online profile to increase visibility. However, the research did not examine the impact or benefits of social media as a success factor for community businesses. Therefore, it is recommended that this may be an area for further investigation in the future.
- 5.** In addition to reviewing factors that were ranked as the top contributors to success for a community business, there are similar trends across the three sectors for those factors which were selected less frequently or did not appear in the top three. These included 'local authority/government support', 'appropriate legislation' and 'third sector support and/or service'. Although it is not clear from the research why these factors scored lower, it is interesting to note that they are common across all three sectors and therefore it is recommended that this may be an area for further investigation in the future.

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Appendix A: Call for evidence

Research into factors that contribute to community business success within the 'community hub', 'sport and leisure' and health and wellbeing' sectors.

Context

Power to Change is an independent trust, whose funding is used to strengthen community businesses across England. At a time when many parts of the UK face cuts, neglect and social problems, Power to Change are helping local people come together to take control, and make sure their local areas survive and stay vibrant. You can find out more about Power to Change at www.powertochange.org.uk

Power to Change has commissioned SERIO, an applied research unit within the University of Plymouth, to help understand the make-up of successful community businesses, the socio-economic factors that have contributed to their development, and the life-cycle of community businesses within the following three sectors:

- Community hubs
- Sport and leisure
- Health and wellbeing.

This research will specifically help the community business sector and Power to Change by:

- **Identifying what is working** in three specific sectors, supporting further growth of community business in these sectors
- **Enabling others to learn from**, and be inspired by, the case study examples identified by the research
- **Contributing new, robust evidence** to the knowledge base around the economic models of community business and pathways to becoming established and successful
- **Informing Power to Change forward planning** for further investment, in particular for activities relating to these sectors.

This call for evidence is taking place between 17 May 2017 and 31 May 2017

Evidence call for grey literature: part of a literature review of the factors that contribute to community business success within the 'community hub', 'sport and leisure' and health and wellbeing' sectors.

We anticipate that much of the research in this area has been produced in report form rather than academic journals and therefore might not be readily available. Therefore, if you are an organisation that has an evaluation, or report, in relation to the effectiveness and sustainability of community businesses within the 'community hub', sport and leisure' or health and wellbeing' sectors, we would

appreciate it if you submit it to our literature review and help us build an evidence base to inform the research. We will share the findings of the literature review with your organisation as soon as the review is published. An outline scope of the three community business sectors within the research can be found in Annex 1 of this call for evidence.

What do you need to do?

Please email us any evaluations or reports, or links to evaluations or reports. We will then use it as part of the grey literature review of the study. By grey literature, we mean “literature that is not formally published in sources such as books or journal articles”. This may be produced by charities, government departments, businesses, community groups and others.

What are the criteria?

Documents fulfilling the following criteria will be accepted and reviewed for potential inclusion in our literature review:

- Submissions can be both evaluation and research reports
- Reports submitted must be completed in the past five years (2012-2017) and include author details (individuals, groups or organisations)
- Evaluation and research methods may include qualitative, quantitative methods or mixed methods.
- The central report objective must be an investigation into the contextual and/or comparative data as to what makes a successful community business within one or all of the three sectors identified

Please note that the following material is not eligible for consideration:

- Promotional material
- Undocumented assertions of effectiveness
- Opinion pieces.

Commercial and/or in-confidence material

If you wish to submit commercial or in-confidence material (i.e. internal documentation), please could you highlight which sections are confidential, for example by using the highlighter function in Word, or providing a narrative of commercial or in-confidence sections of your submitted evaluation or report. Such content will not be made public. If you have any questions regarding this call for evidence, or would like to further discuss the research being undertaken by SERIO on behalf of Power to Change, please contact:

Donna Vascott
SERIO,
Research and Innovation, University of Plymouth,
Plymouth Science Park,
9 Research Way,
Derriford, Plymouth, PL6 8BT

Web: www.serio.ac.uk

We look forward to receiving information on this and thank you in advance for your help.

Annex 1 – Outline scope of community business sectors

Community hubs or centres

Community hubs and centres are an important part of the community business sector overall, with a long history. There appears to be increasing opportunity for enterprising local groups to come together to take over management of local buildings and convert them into hubs for the delivery of local services, driven by a number of factors, including local authority cost (and service) reductions, and interest in reducing building maintenance costs by transferring management to community groups. There is also particular interest in developing community hubs within heritage buildings which are at risk of dereliction or destruction. The heritage sector has a particularly strong finance and support environment (Heritage Lottery Fund, Architectural Heritage Fund, DCMS).

Sport and leisure

There is a growing community sports business sector, made up of clubs which are trading and operating on something more akin to a social enterprise model, but still primarily for the benefit of members or the sport. The steady increase in the number of community (sports) businesses is being driven by local authorities selling off, or transferring out management of assets (everything from cricket pavilions to leisure centres), the reduction in grant funding from local authorities and National Governing Bodies, pushing more organisations to seek ways to become more financially self-supporting, and a growing emphasis from central government (DCMS, Sport England) on how sport can be used to generate positive social impact.

Health and wellbeing

Many community businesses, by the nature of their activities, provide health and wellbeing benefits to their customers/users and their wider communities. However, we wish to focus on those community businesses that provide a particular health or wellbeing intervention – such as health coaching, self-management support, or peer support aimed at health issues. As part of understanding their economic models, we are also interested in whether these organisations are being commissioned (e.g. by Clinical Commissioning Groups, local authorities or public health) and the extent of formal relationships with primary care or other services.

Appendix B: Desk-based review search strategy

As the study of community run businesses is still relatively new, there is some variation in the particular terminology used. The desk based review sought academic and grey literature using search terms including:

Literature search terms
Networks in community run businesses
Success factors in community run businesses
Barriers in community sports and leisure businesses
Adaptation in community business
Health and wellbeing community businesses
Potential of social enterprise to enhance health and wellbeing
Visibility in community business
Barriers in sports and leisure businesses
Obstacles to community businesses
Sports and leisure business visibility
Community hubs
Barriers for community Hubs
Volunteers and diversity in community run business
Sustainability of community run businesses

Note: Variations of different terminology (e.g. Social enterprises, community interest companies) were included in the search terms listed in this table.

Database searches were made in:

- Wiley Online Library
- Google Scholar
- Primo
- Science Direct

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