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Financial analysis of the Liverpool City Region community business market





Heseltine Institute, University of Liverpool

Helen Heap and Dr Alan Southern

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power to change | business in community hands

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About the authors

Helen Heap

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

Dr Alan Southern

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

Executive summary

- Our research found there were 114 community businesses operating across the Liverpool City Region in 2020 (pre-pandemic) collectively earning £19 million of income, employing 500 staff, owning £27 million of fixed assets, and holding net assets worth £22 million.
- Community businesses in the region were much less likely to fail and had higher five-year survival rates than regional and national averages for all enterprises, but rates of new start-ups were lower.
- A disproportionately high number of the community businesses are in the city of Liverpool with the other five boroughs in the region underrepresented. The skew in favour of the city is even more pronounced for income, assets and employment.
- Over half of all community businesses in the region are in the 10 per cent most deprived areas in England. Three-quarters are in the 30 per cent most deprived areas.
- We found that the distribution of community businesses by sector is similar to the rest of England, but with higher weightings in community transport and credit unions, and lower weightings in retail and pubs.
- Community hubs are the largest sector, accounting for 29 per cent of the total.
- Many community businesses were operating with deficits in the period prior to the Covid-19 crisis and, as a result, unable to build reserves.
- In overall terms, the region's community business market holds around one and a half month's income as free reserves (the amount available to spend).
- This study has focused primarily on looking at financial sustainability, but we found evidence of other factors for community business success in the 2020 cohort – community engagement, the roles and skills of staff and volunteers, strong partnerships and local networks.

We saw several examples of community businesses which had experienced relentless declines in annual income over several years, and some which were struggling to get the best out of properties they were responsible for. We hope that this research will further develop the evidence base for community businesses in the Liverpool City Region and provide a useful benchmark from which to review the impact of Covid-19 in due course.

1. Introduction

This study follows on from research conducted on community businesses in the Liverpool City Region (LCR) described in a report published in March 2019 (Heap et al., 2019). The original work aimed to build a detailed evidence base to demonstrate the size and scope of the community business market in the region, and to provide insight into how growth and financial sustainability can be achieved.

That evidence base is one component of a wider data set covering the region's social economy which has helped to inform and support policymaking by the Liverpool City Region Combined Authority. Recognising the importance and value of the social economy is one element of the region's Building Back Better economic recovery plan, a direct response to the Covid-19 pandemic which aims to reshape the regional economy in a way that is greener, fairer and more inclusive.

In this research we update the region's community business universe using the same selection criteria as the 2019 study. We then conduct a detailed analysis of the publicly available accounts data for the updated universe looking at resilience and failure rates and going on to examine common success factors and barriers to financial sustainability.

The accounts data gathered for this study was published during 2019 and early 2020 and relates to financial years ending in late 2018 and 2019. It therefore provides information on the financial condition of community businesses in the period before the Covid-19 pandemic struck. We hope that this data will provide a benchmark from which it will be possible to assess how well community businesses in the region cope with the Covid-19 crisis, if similar analyses are run in subsequent years once the economic impact of the pandemic becomes clearer.

2. Methodology

Our starting point was the universe of 84 community businesses which we found were operating across the region in our previous study (Heap et al., 2019). Using data from Companies House, the Charity Commission and the Mutuals Public Register, we ran a new search with company type as the primary criterion for selection. The aim was to find any community businesses that had been incorporated since we last ran the data. Improvements in the screening methodology used to search the databases meant that we captured 25 community businesses which we had missed previously and so were not included in the 2019 study.

As in our 2019 report, the methodology did not capture any community businesses that had a 'company limited by shares' legal form, nor did it include unincorporated groups. We estimated last time that these limitations may mean that our methodology underestimated the actual number of community businesses in the region by five or six.

After updating the database from Companies House, we also reviewed the list of Power to Change grantees and added any that had not been included already.

We collected information on key financial variables on all those companies which had up-to-date publicly available annual accounts. We analysed the data to allow comparisons to be made between the 2019 and 2020 cohorts of community businesses and, where relevant, national or regional averages.

Our previous research highlighted that definitions of community business can be complex. They may share a common purpose and a mission for local intervention, but multiple factors shape a description of what they are, such as legal form, community connectedness and market orientation. To maintain a consistent approach, we again used the following four criteria to generate the 2020 regional cohort of community businesses (Percy et al., 2016):

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

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

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

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

3. Updates to the database

- 84 community businesses were found last time, generating £22 million of annual income, employing 600 staff and holding £31 million of fixed assets, £38 million of net assets. This time we found 114 community businesses, generating £19 million of annual income, employing 500 staff and holding £27 million of fixed assets, £22 million of net assets.
- 10 community businesses were recently formed (and after the data was gathered for the original list) meaning a total of 35 additional community businesses were identified for this data set after including those found by improving our methodology.
- 36 community businesses from the list of 114 are Power to Change grantees – 13 of these were in the original database with 23 added this time.
- Up-to-date accounts were available for 90 of the 114 community businesses on the 2020 list. All 24 organisations for which up-to-date accounts were not available are credit unions or registered societies who report to the Financial Conduct Authority, with information available via the Mutuals Public Register. Not all information on this register is available digitally, hence the gaps in this data set.
- Of the 84 community businesses on the original list, five have been dissolved, liquidated or had their registration cancelled since we collected the data in the first quarter of 2018. That is a community business failure rate[1] of 3 per cent per annum. That compares to a UK business failure rate of 11.2 per cent for 2019 and 12.1 per cent in the north west (the second highest in the country), according to the most recent statistics available from the Office for National Statistics (Office for National Statistics, 2020). Five-year survival rates also compare very favourably with the UK at 42.5 per cent vs LCR community businesses at 83 per cent. So, this group of community businesses displays greater resilience when compared to national and regional averages. Data for the region's cohort of community businesses is consistent with five-year survival rates of 76 per cent for UK co-operatives (Co-operatives UK, 2020).
- New community business births are below national averages for all enterprises at 2–3 per cent for the most recent two years, compared with national averages of around 11 per cent and the north west at 13.3 per cent (Office for National Statistics, 2020; Hopkins, 2019).

1 The number of businesses that have ceased to trade in the period as a proportion of the number of active businesses during the period.

4. The profile of community businesses in the Liverpool city region

4.1 Place

As we found previously, the distribution of community businesses is skewed towards the city of Liverpool with almost six in ten of the 2020 cohort based there, compared with around one-third of the region's population and businesses.

Figure 1: Geographical distribution of LCR community businesses

By borough	Community businesses (no.)	Proportion of community businesses (%)	Proportion of population (%)	Proportion of all businesses (%)
Liverpool	66	57.9	31.9	34.5
Sefton	10	8.8	17.7	18.0
Knowsley	7	6.1	9.7	8.2
Halton	6	5.3	8.3	8.6
St Helens	8	7.0	11.6	10.9
Wirral	17	14.9	20.8	19.9
Total	**114**	**100.0**	**100.0**	**100.0**

The skew is even heavier towards the city of Liverpool for income, net assets and employees.

Figure 2: Annual income and net assets by borough

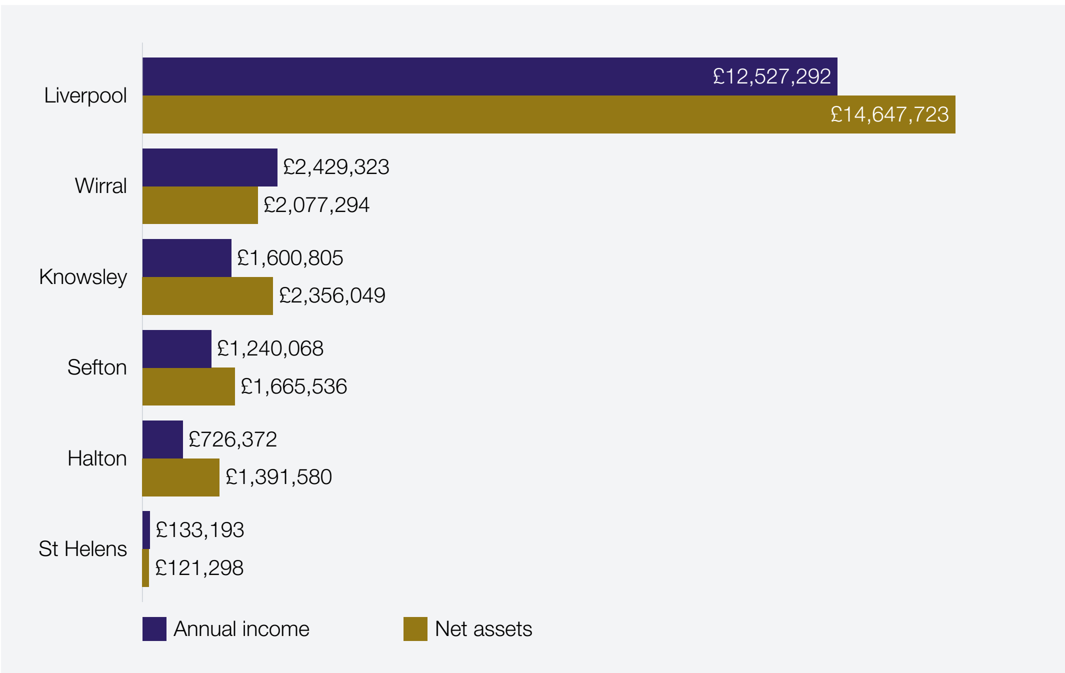
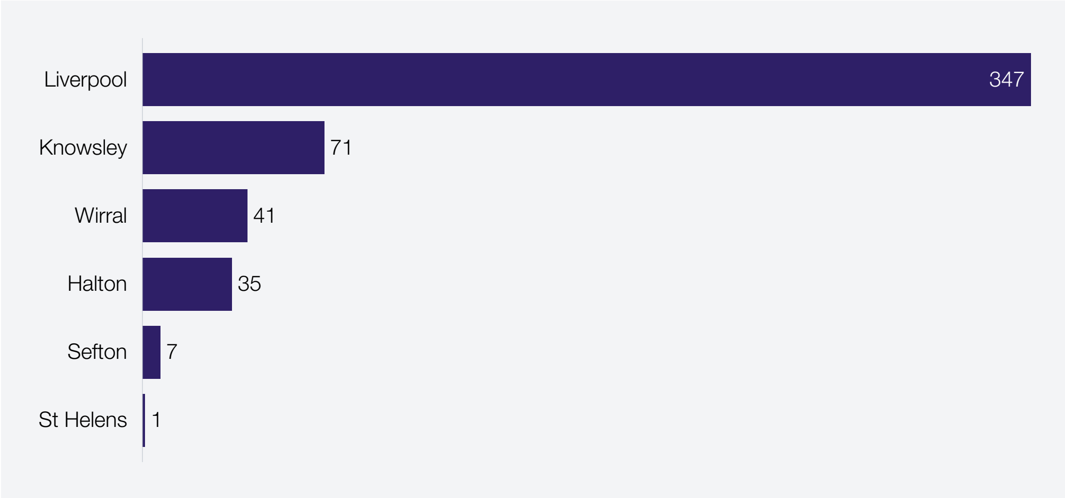


Figure 3: Number of employees by borough



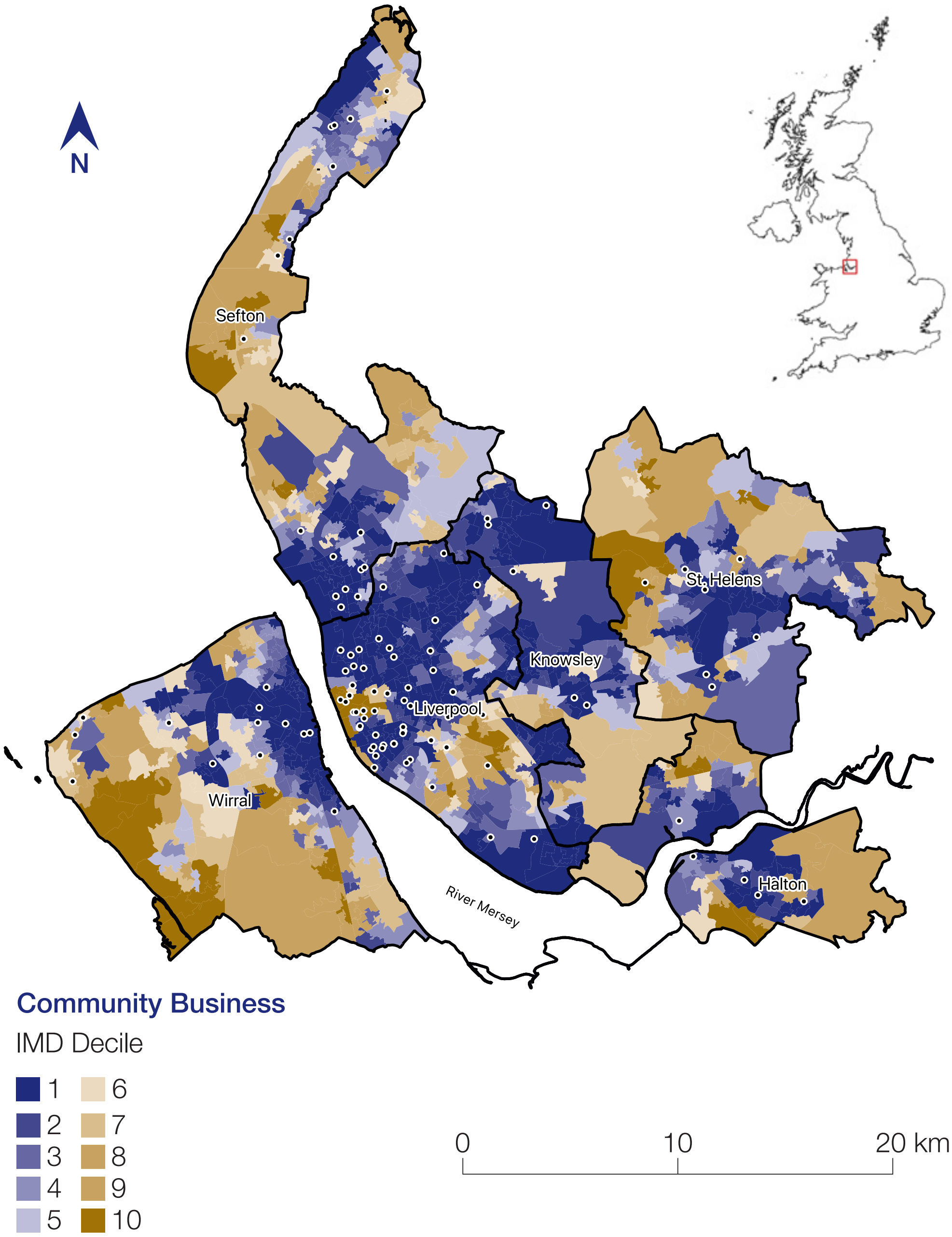
As before, according to the Indices of Multiple Deprivation,[2] we found that well over half of the region's community businesses are in the top 10 per cent 'most deprived' postcodes in the country, and there are none in those described as 'least deprived' – the most affluent areas. Figure 4 shows three-quarters of the community businesses are in areas ranked as the 30 per cent most deprived (where 1 on the IMD scale is most deprived).

Figure 4: LCR community businesses and Indices of Multiple Deprivation

2019 IMD decile	Community businesses in decile	
	Number	Per cent
1	65	57.0
2	14	12.3
3	7	6.1
4	6	5.3
5	6	5.3
6	3	2.6
7	6	5.3
8	4	3.5
9	3	2.6
10	0	0.0
Total	**114**	**100.0**

[2] The Index of Multiple Deprivation (IMD), produced by the Office for National Statistics, is the official measure of relative deprivation for small areas in England.

Figure 5: Map of LCR community businesses and Indices of Multiple Deprivation



4.2 Legal structure

Power to Change identifies the key legal structures for community businesses as (Byrne et al., 2020: 16):

Charitable incorporated organisation (CIO) – This legal structure was launched in 2013 and it offers limited liability protection, and accounts for which only need to be filed with the Charity Commission and not Companies House.

Community benefit society – These are set up to serve the interests of the community, must be registered with the Financial Conduct Authority and can have shareholders.

Community interest company (CIC) – Limited by shares or by guarantee – this was a legal structure launched in 2005 for a business with social objectives, is particularly for social enterprises to use their profits and assets for social good, and it has an asset lock.

Co-operative – A structure with a long tradition, where a business is owned and run by its members to serve their interests.

Company limited by guarantee – This is the structure most popular with non-profit organisations. The company is owned by guarantors who have a limited liability and do not receive any profits as they are re-invested into the business.

Company limited by shares – This is the most popular company structure in the UK and offers the owners limited liability.

Registered charity – This is for organisations registered with the Charity Commission for England and Wales, Office of the Scottish Charity Regulator or The Charity Commission for Northern Ireland, who must fulfil charitable objectives and work for the public benefit.

We found a similar distribution across these types of legal form in the 2020 cohort to that found in 2019. Our improved methodology enabled us to find more CICs, so the proportion of these is slightly higher than last time (22 per cent vs 13 per cent in 2019), with that of charities slightly lower (38 per cent vs 43 per cent in 2019).

Figure 6: Number of LCR community businesses by company type

4.3 Sector

We found that the distribution of community businesses by sector in the region is similar to that elsewhere in England – the notable exceptions are the higher weightings of community transport and credit unions in the region, and the lower weighting of retail and pubs.

As previously, the largest sector by far is community hubs. These account for 29 per cent of the number of community businesses in the region – higher than the 20 per cent average for England (Higton et al., 2021) – but 40 per cent of total income and almost half of total fixed assets. They are also more well-established – only two out of 33 community hubs (6 per cent) in the 2020 cohort have been formed within the last five years, compared with over 20 per cent for all community businesses; two-thirds of the region's community hubs have existed for 11 years or more, compared with just over half of the wider cohort.

The largest employers in absolute terms are the community hubs, accounting for 125 of the 502 employees that are reported for the full 2020 cohort (not all companies provide data on the number of staff they employ). However, at an average of six employees per community hub this is exactly in line with all community businesses in the region. Community transport businesses are the area's second largest employer in overall terms with 125 members of paid staff, which is 14 per company.

Figure 7: Average number of employees per LCR community business by sector

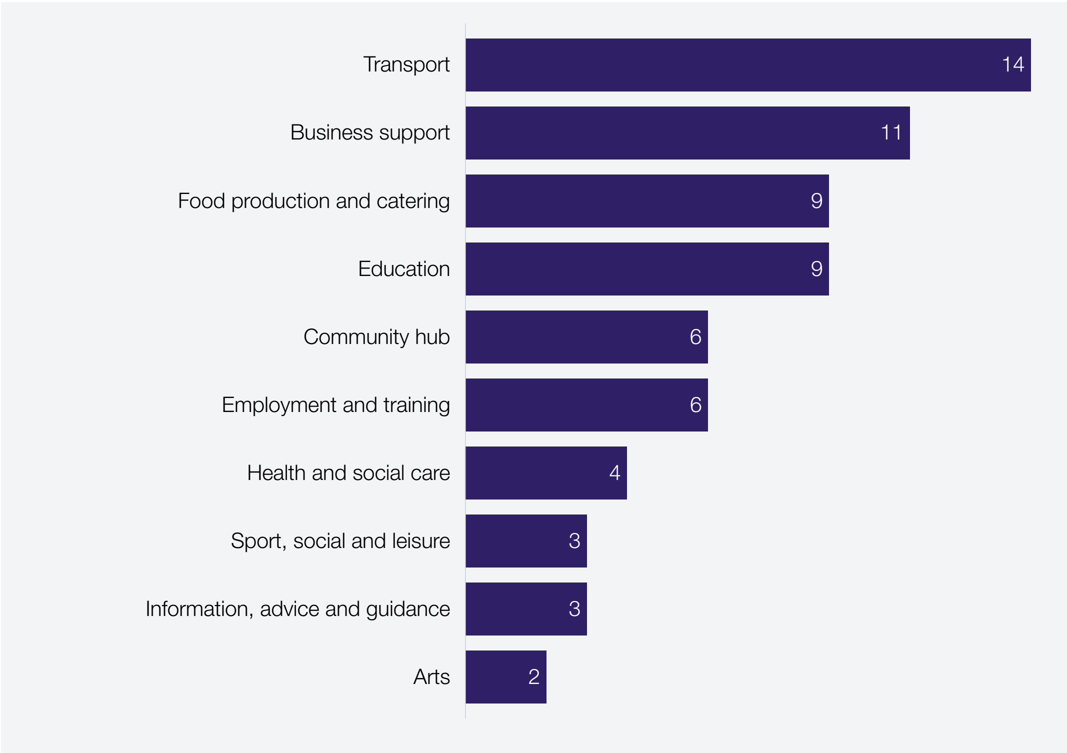


Figure 8 shows how the region's community business 2020 cohort is distributed across sectors, and compares this with the average for England (in Power to Change data (2021)).

Figure 8: LCR community businesses by sector

	LCR data set		Power to Change 2021*
Sector	**Number**	**Per cent**	**Per cent**
Housing and property	7	6.1	2.7
Sport, social and leisure	8	7.0	5.3
Business support**	3	2.6	2.7
Retail	3	2.6	3.5
Credit union and finance	13	11.4	0.9
Pub	0	0.0	0.9
Transport	10	8.8	4.4
Energy	2	1.8	2.7
Arts	7	6.1	5.3
Health and social care	8	7.0	6.2
Food production and catering	6	5.3	2.7
Information, advice and guidance**	2	1.8	2.7
Education**	4	3.5	2.7
Community hub	33	28.9	20.4
Employment and training**	3	2.6	2.7
Environment/nature conservation	1	0.9	3.5
Library	1	0.9	3.5
Craft, industry and production	3	2.6	0.9
Village halls and other	0	0.0	26.5
Total	**114**	**100.0**	**100.0**

*Stated primary activity.

** Estimate based on equal split across four sectors which form a single category in Power to Change, 2021

4.4 Age

Figure 9: Age profile of LCR community businesses

Age	Number	Per cent
3 years or less	11	9.6
4 to 5 years	13	11.4
6 to 10 years	30	26.3
11 to 20 years	25	21.9
over 20 years	35	30.7
Total	**114**	**100.0**

The mean age for the 2020 cohort is 15 years, while the median is 11 years. This compares to 16 and 14 years respectively for the 2019 cohort. Almost half of community businesses in the region have existed for up to 10 years. This is an increase from 40 per cent for the 2019 cohort and considerably more than the 19.4 per cent reported for community businesses in the North of England, according to analysis of the Third Sector Trends study (Chapman, 2020).

Sectors where 80 per cent of the community businesses have existed for more than 10 years are: business support, credit unions, transport and community hubs. In contrast, those involved in craft industry and production, environment and libraries have formed within the last five years.

5. Changes in the region since 2019

Figure 10: Key finance and staffing metrics for LCR community businesses by age

2020 LCR community business cohort			
Age (years since foundation)	**Median annual income**	**Median net assets**	**Median number of employees**
<3	£15,287	£23	4
4–5	£11,793	£18,761	1
6–10	£75,597	£11,816	4
11–20	£279,740	£100,761	6
21+	£294,465	£227,139	9
Total	**£156,365**	**£46,343**	**6**

There has been a marked decline in both median income and median net assets between the 2019 and 2020 cohorts. Median income for the 90-strong 2020 cohort has fallen by 25 per cent to £156,365 and median net assets has halved to £46,343. This may reflect a reduction in the median age of the later cohort – there is a clear positive relationship between age and both income and net assets; older companies have had longer to develop sources of income and to build assets. Our figure compares with median income of £110,000 for all community businesses in 2020 in England, suggested by Higton et al. (2021).

A direct comparison of the 55 community businesses that appear in both cohorts, and for whom up-to-date financial data are available for both periods, shows that total income is 12 per cent higher, but total net assets have decreased by 16 per cent. This erosion of net assets suggests that many community businesses in the area were operating with deficits in the period prior to the Covid-19 crisis and, as a result, unable to build reserves.

6. The financial strength of the community business market in Liverpool City Region

A closer look at the reserves position for the 61 community businesses in the 2020 cohort for whom up-to-date accounts are available and where information on annual income is provided, shows a slightly improved situation compared with 2019.

We assessed the financial strength of community businesses in the region using data on assets and annual income. By comparing the value of easily realisable assets with annual income it is possible to determine which organisations are financially strong and which are more challenged. For this purpose, we define free assets as net assets minus fixed assets. Fixed assets include land, buildings and equipment which cannot easily be converted into cash. We focus on free assets, also known as free reserves, because they can be realised quickly if needed.

Any community business which reported free reserves worth six months or more of annual income, according to Companies House, Mutuals Public Register or Charity Commission data, was included in the 'high free reserves' group. Those with between two and five months of free funds are in the 'mid free reserves' category, and less than two months of income places them in the 'low free reserves' group.

When we performed a similar analysis on the 2019 cohort we found that over half fell into the low free reserves group, with approximately 20 per cent each in the high and mid free reserves categories. This time the distribution is much more even with roughly a third in each category.

In overall terms, the region's community business market holds around one and a half month's income as free reserves, the same as we found last time. However, the addition of younger companies to the cohort, most of whom own little or no fixed assets, has altered the distribution of free reserves for the 2020 cohort versus 2019. Almost half of all community business jobs in the region may be at risk in a severe economic downturn.

Figure 11: Reserves position for LCR community businesses

Financial strength	Annual income	Fixed assets	Net assets	Number of employees	Number of community businesses	Mean age
High free reserves (> 6 months of turnover)	£3,328,041	£3,075,387	£5,757,834	76	20	17
Mid free reserves (2 to 5 months of turnover)	£7,744,000	£2,856,376	£4,722,829	144	18	16
Low free reserves (< 2 months of turnover)	£7,585,012	£9,243,870	£6,964,992	195	23	15
Total	**£18,657,053**	**£15,175,633**	**£17,445,655**	**415**	**61**	**16**

Those in the low free reserves group would be vulnerable if they were to suffer from a material reduction in income, and so may be especially at risk because of Covid-19. However, two-thirds of the region's community business market would have entered 2020 with adequate or strong reserves, and so should be better placed to face the kind of sudden drop in income that occurred for many organisations during the pandemic. As we write this, the region is subject to a third national lockdown with tight restrictions on personal and business activity, as attempts are made to limit the impact of the coronavirus. This follows the national lockdowns in place between March and June and during November of 2020, and the tight tier 3 restrictions on personal and business activity imposed on the region during December. It is too early for the impact of the pandemic to be seen in the financial results of community businesses. We will follow with interest the progress of the 2020 cohort as the data becomes available.

In addition to the low free reserves group, there are six community businesses from the 2020 cohort with negative net assets – no reserves at all. This is a much smaller proportion of the total (7 per cent) when compared with the North of England, where 21 per cent of community businesses were found to have no reserves (Chapman, 2020, p. 30). In all cases for the 2020 cohort, these are recently established businesses (average age six years) which have not had time to offset the cumulative losses which naturally occur during the start-up phase of any business. It will be especially interesting to follow these organisations through the coronavirus pandemic and beyond.

As enterprises at the earliest stages of development, these community businesses may have greater flexibility to adapt to a changing economic environment and customer needs. However, the lack of any reserves may limit their capacity to get through a prolonged period of economic downturn.

Growth in annual income is another factor in determining the financial strength of any business. Of the 41 community businesses that disclosed annual income data, we found that half of them experienced positive growth over the most recent three-year period, while half had seen reductions in annual income over the same time frame. Income grew very substantially for 24 per cent of the cohort (a three-year compound annual growth rate of over 10 per cent), while 20 per cent saw declines in income of the same magnitude over the period. These are similar proportions to the data gathered for community businesses in the North of England where income had risen (19 per cent) or fallen (22.8 per cent) ‘significantly’ (Chapman, 2020).

7. Success factors and barriers

Previous work by Power to Change has highlighted some common success factors for community businesses (Richards et al., 2018):

– financial self-sustainability – including service diversification

– community engagement – including volunteer engagement

– staff and volunteer skill sets and roles

– strong partnerships and local networks.

This study has focused primarily on looking at financial sustainability, but we found evidence of all these factors to varying degrees in the 2020 cohort.

7.1 Barriers to success

Access to funding and lack of capital for refurbishing and maintaining buildings have previously been highlighted as barriers to success for community businesses (Richards et al., 2018).

There were certainly several examples of organisations which had experienced relentless declines in annual income over many years in the 2020 cohort. The period following the financial crisis of 2007–2009 has proved to be very difficult for many social organisations, particularly those which rely on contracts from local authorities and other community groups. We found 11 organisations that had reported reductions in income for each of the previous five years, with half of them experiencing double digit declines. There are three community businesses in the cohort that had suffered 10 years of declines in annual income, two of which are close to exhausting their reserves and so are in a very difficult position.

While owning a building can provide security of tenure and an asset from which to generate income, we found examples of community businesses which were struggling to get the best out of the properties they had responsibility for. A lack of sufficient funds to maintain and refurbish the building properly can quickly turn into a downward spiral, with lost tenants and other income generating opportunities leading to further shortages of the capital required for the proper upkeep of assets. This in turn leads to depletion of reserves. There are a few in the 2020 cohort who find themselves in this situation.

8. Conclusion

We have updated the database of community businesses operating within the region. We found 114 community businesses generating £19 million of annual income, employing 500 staff, holding £27 million of fixed assets, and £22 million of net assets.

Community businesses tend to operate in the most deprived parts of the region, especially in and around the city of Liverpool. In common with the national picture, the largest sector is community hubs but the region has a higher share of credit unions and community transport operators than is the case elsewhere in England.

While the number of community businesses is higher than in the 2019 cohort, a lower average age for the 2020 group means that median income and assets are lower, as organisations have had less time to build sources of income and develop their business models.

For those community businesses that appear in both cohorts, and for whom financial data is available for both periods, we can see that annual income has increased but net assets have fallen. This is evidence that many community businesses have had to do more with less in recent years, with surpluses harder to achieve and financial deficits now a fact of life for some.

With strong community engagement, the skills and commitment of staff and volunteers, good partnerships and local networks, community businesses may be better placed than most to provide what is needed during difficult times such as those currently being experienced in the coronavirus pandemic. Our evidence shows that community businesses as a group have historically displayed greater financial resilience than the wider business community, and we find that two-thirds of the region's community businesses entered 2020 with adequate or good reserves. That will have hopefully stood them in good stead to weather the difficult times ahead. However, we should note that we have also found examples of organisations in the region who have already endured long periods of economic hardship and who are now running out of options as a result. Some of them may not survive much longer.

We hope that this research will further develop the evidence base for community businesses in the region and provide a useful benchmark from which to review the impact of Covid-19 in due course.

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

020 3857 7270

info@powertochange.org.uk

powertochange.org.uk

@peoplesbiz