UNDERSTANDING THE **FINANCIAL IMPACT** OF POWER TO CHANGE'S GRANT FUNDING ON **COMMUNITY BUSINESSES**

Executive summary

Applying the 'Year Zero approach' to understand the financial impact of the Community Business Fund, Trade Up and Bright Ideas programmes on community businesses

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CONTEXT

Power to Change is the independent trust that supports community businesses in England. **Community businesses** can be pubs, libraries, shops, bakeries, swimming pools, solar farms and more. They are locally rooted, community-led, trade for community benefit and aim to make life better for local people.

Power to Change's funding and support includes the following three programmes:

- The **Community Business Fund** (CBF) was funded from 2016 to 2021 to support existing community businesses to progress towards greater self-sufficiency by increasing their trading income, securing an asset and significantly reducing revenue costs. It was delivered initially by UMi and then by the Social Investment Business (SIB).
- The **Trade Up** (TU) programme was designed to support the growth of community businesses and make community businesses more resilient, and was delivered between May 2017 and March 2022 by the School for Social Entrepreneurs (SSE).
- The **Bright Ideas** (BI) programme, was funded from 2016 to 2021 to help community groups develop, test and launch their community business ideas. It was delivered by Locality, Co-operatives UK, Plunkett Foundation and Groundwork UK.

RESEARCH QUESTIONS AND METHODOLOGIES

Main research question

This research paper emerged from the need to better understand the financial impact generated by Power to Change's investment in community businesses. In other words, several years after Power to Change's investment, what has been the financial impact of each programme on its grantees?

Methodologies and related questions

This paper draws on previous work that identified the value of taking a 'Year Zero' reporting approach to financial analysis.[1] We used three different approaches to the data, providing insight from different perspectives to give a comprehensive view of the financial impact of Power to Change's programmes.

Methodology	Description	Purpose
Multi-year trend	Trends in financial data are compared across four years. The purpose of the multi-year trend analysis is to explore patterns in the data over time, identify any linear trends, and explore whether the trend is broadly positive, negative or inconclusive for the cohort as a whole.	The multi-year trend analysis aims to answer the question 'what changed?' overall, and generates findings that apply at the cohort level.
Multi-year key factor	Trends in financial data are compared across several years and segmented against two variables that may influence community businesses' financial performance: (i) their size, and (ii) how they used the Power to Change funds: • purchase building/land or new build • extensions or revenue • refurbishment or redevelopment.	The multi-year key factor analysis aims to answer the question 'what changed?' through a more detailed analysis that looks at certain key variables.

1 Alraie, M. and Thelwall, S. (2022) The 'Year Zero' Reporting Approach: A data reporting approach to better understand the financial impact of funding and investment programmes on community businesses (and other trading organisations). London: Power to Change.

Methodology	Description	Purpose
Growth pre- and post-investment	Trends in financial data are compared between the baseline and endline of the programmes. The baseline is defined as the difference between Year (-1) and Year (0), and the endline as the difference between Year (0) and Year (2). This highlights change over time.	The growth pre- and post-investment analysis aims to answer the question 'how did the change happen?' by slicing the data by financial growth trajectory and by exploring how metrics change in each sub-group. While it provides a more nuanced analysis, it relies on smaller samples which means that it is not always possible to generalise conclusively.

Where possible we explore why certain patterns might have emerged but our analysis was not designed to establish 'why' any change occurred and further qualitative evidence would be required for that purpose.

Financial metrics analysed

We analysed two key financial metrics for this research, to draw conclusions on community businesses' financial sustainability and resilience: **total revenue income** and **earned income as a percentage of turnover**. We also used other complementary financial metrics to explore the financial impact of the three programmes in more detail. They include:

- fixed asset value
- contribution to reserves after interest and tax
- long-term debt
- working capital as a percentage of turnover
- fixed assets to turnover percentage.

This paper analyses total and median values of those metrics.

A positive financial impact on community businesses does not mean that all metrics increase at once. For instance, a community business could acquire a building through Power to Change's funding, meaning its fixed asset value would increase. Earned income would grow later, once the community business starts trading from the newly purchased building. This paper explores the relationship between different metrics.

MAIN FINDINGS

Community Business Fund:

- The median earned income percentage increased over the period from 72 to 78 per cent.
- The use of long-term liabilities increased over the period, especially in larger organisations (in particular the £500K–£1m and >£1m groups).
- Two-thirds of grantees achieved an increase in total fixed assets of around 40 per cent (from a median £305,000 in Year (0) to £546,000 in Year (+2)) after receiving funding, despite a decrease of about 4 per cent prior to the funding (from median £316,000 in Year (-1) to £304,500 in Year (0)).
- The £200–500K cohort showed a median loss (a negative median contribution to reserves) across all years. Their median revenue income also decreased across the period:
  - £320,000: Year (-1)
  - £355,000: Year (0)
  - £344,000: Year (+1)
  - £295,000: Year (+2).

Despite some pockets of grantees showing sub-optimal growth, the Community Business Fund programme, overall, had a positive impact on earned income growth (in cash terms and as a percentage of turnover), which means that it achieved what it set out to do. Figures 1 and 2 show the evolution of total revenue income, fixed asset value and earned income percentage for the constant cohort of grantees between Year (-1) and Year (+2). The programme also had a positive impact on the growth of turnover and assets (both in cash terms).

Figure 1: Key financial metrics of Community Busness Fund constant cohort – total value

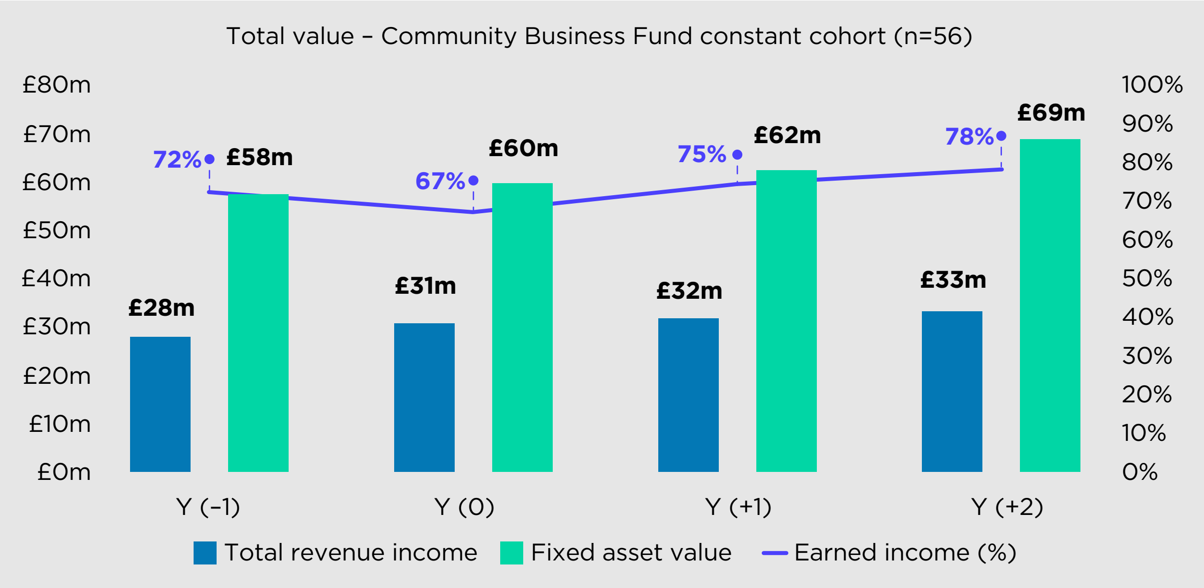
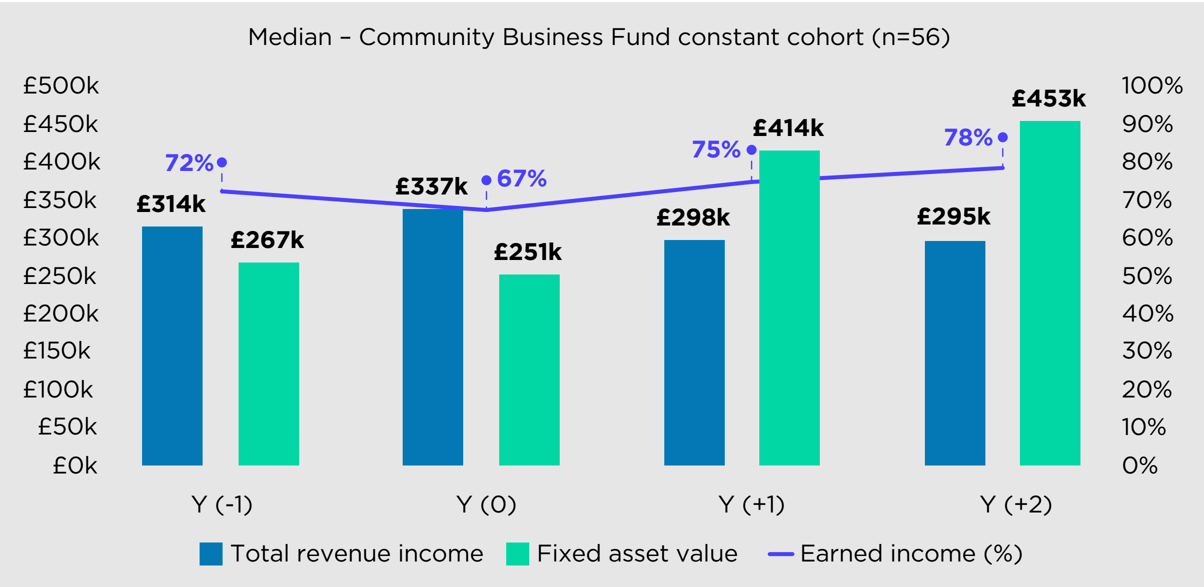


Figure 2: Key financial metrics of Community Business Fund constant cohort – median value



In some cases, this seemed to have been at the cost of community businesses' profitability – for some organisations there was an increase in earned income but their contribution to reserves dropped. This shows that, realistically, you should not expect all financial metrics to grow at once after accessing funding and support through a programme like the Community Business Fund. How long it would take community businesses to achieve a new sustainable 'normal' (i.e. how long it would take for all financial metrics to grow) remains unclear.

Trade Up:

- Median earned income dropped from 78 per cent of turnover to 68 per cent across the period, however median revenue income increased by more than 50 per cent. This means that earned income grew in cash terms but represented a smaller proportion of the overall business model, i.e. did not keep pace with the growth of other income types.
- Half of Trade Up grantees maintained a high rate of earned income (80%) and achieved growth in total fixed assets by 94 per cent after receiving funding, despite the drop of 10 per cent they experienced beforehand.
- Median revenue income rose from £92,000 to £140,000 (an increase of over 50%).
- Median fixed asset values were almost four times higher by Year (+2) (rising from £13,000 to £50,000) with a greater proportion of the cohort owning fixed assets. Growth in fixed assets was seen in all turnover bands and across both uses of funds.

Overall, the Trade Up programme had a positive impact on community businesses' capacity to generate earned income and on their fixed asset values, despite some organisations not maintaining their ratios of earned to grant income as they grew. Figures 3 and 4 show the evolution of key metrics for the Trade Up constant cohort. Given that the programme focused on earned Income growth in cash terms, rather than as a proportion of the overall business model, it can be said to have achieved its goals.

Figure 3: Key financial metrics of Trade Up constant cohort – total value

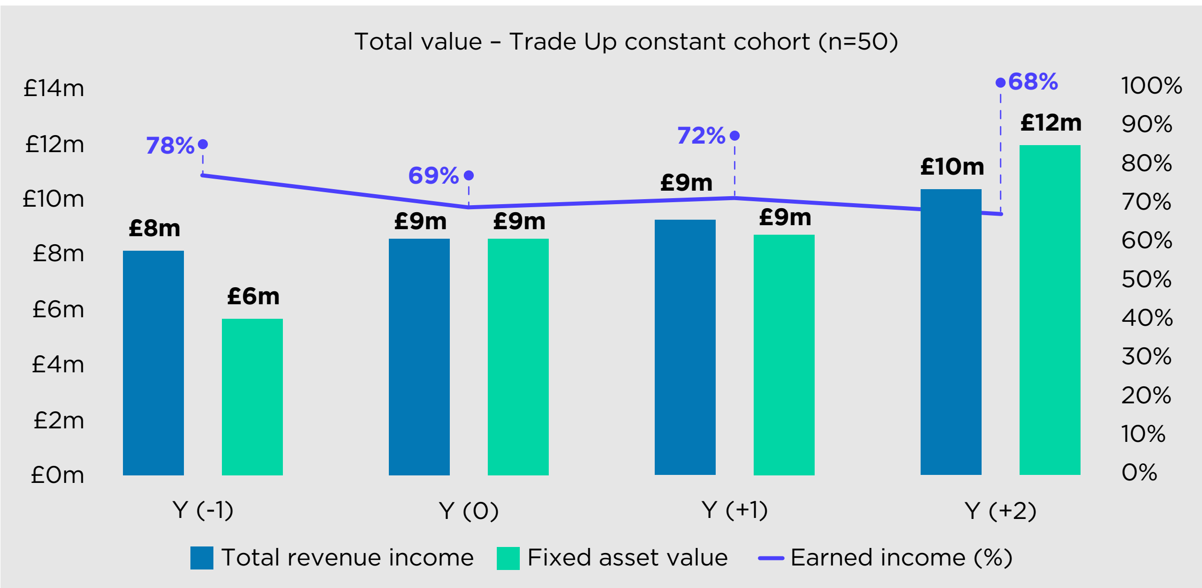
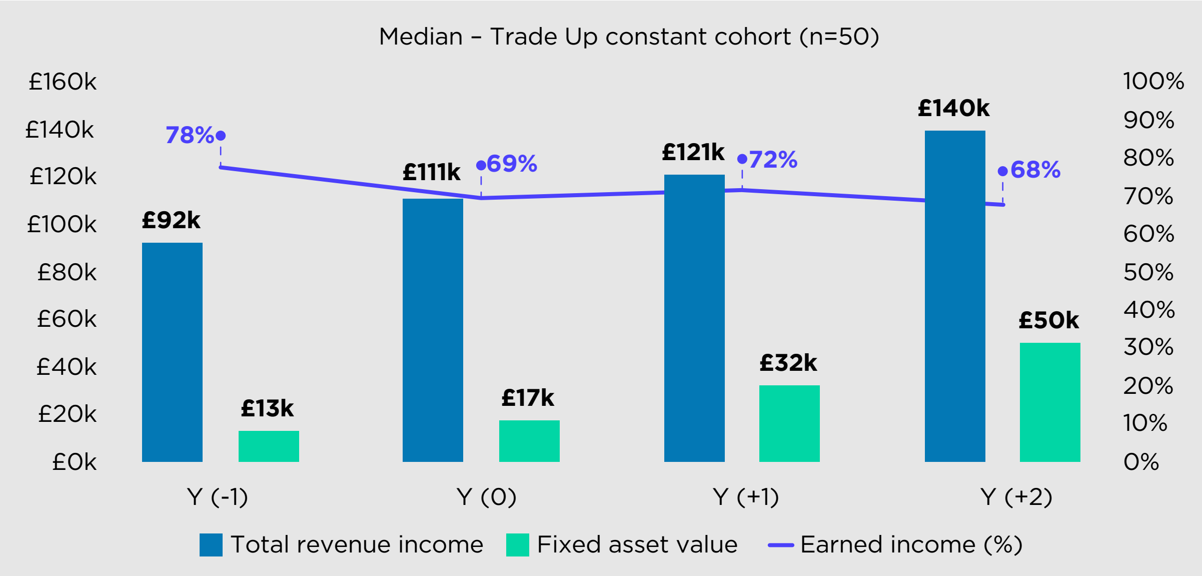


Figure 4: Key financial metrics of Trade Up constant cohort – median value



Given that this research did not explore why any change happened, questions about certain cases remain unanswered without **qualitative data**:

- Why did total revenue income decline in the years following Power to Change funding instead of increasing for Community Business Fund groups #3 and #4 and Trade Up group #4? Was it because the new assets were taking several years to be fully exploited?
- Why was total fixed asset value lower in the years after receiving Power to Change funding for Community Business Fund group #1?
- When receiving capital funding, why did total revenue income decline for Community Business Fund group #1? Was it due to a lack of capacity while management was busy with land or buildings?
- Why was the growth in total revenue income slower for Trade Up group #2 after receiving funding? Was it because it was hard to maintain the growth rate while building assets or adjusting the balance between earned income and grant funding?

Bright Ideas:

- Earned Income levels dropped slightly from 54 to 51 per cent, although median revenue income increased by almost 50 per cent. This means that, in cash terms, earned income also rose, albeit not at the same pace as overall growth.

- Total and median fixed asset values rose in all sectoral groups with the exception of employment and education.

- Median contribution to reserves dropped substantially from 19 to 3 per cent. This is likely to reflect the volume of very young and very small businesses in this programme.

- Median revenue income rose from £75,000 to £111,000.

Overall, the Bright Ideas programme had a positive impact on the business models of participants even though some did not quite maintain the earned income proportion of their overall business model over time. Figures 5 and 6 show the evolution of key metrics for the Bright Ideas constant cohort. Given that many of these organisations were established as legal entities during the course of their participation in Bright Ideas, this is a promising start.

Figure 5: Key financial metrics of Bright Ideas constant cohort – total value

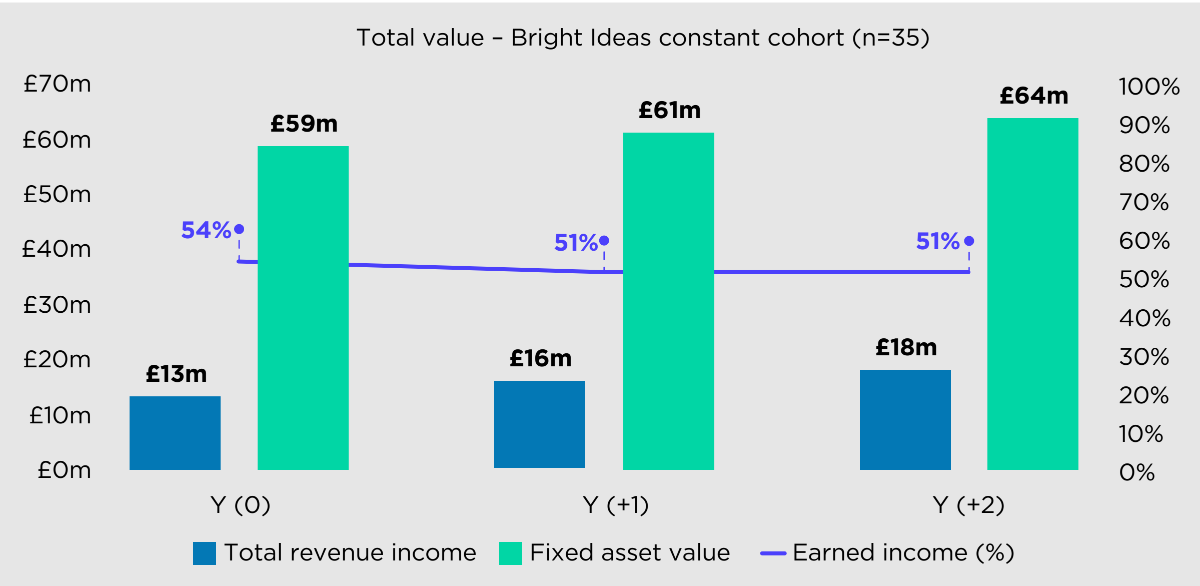
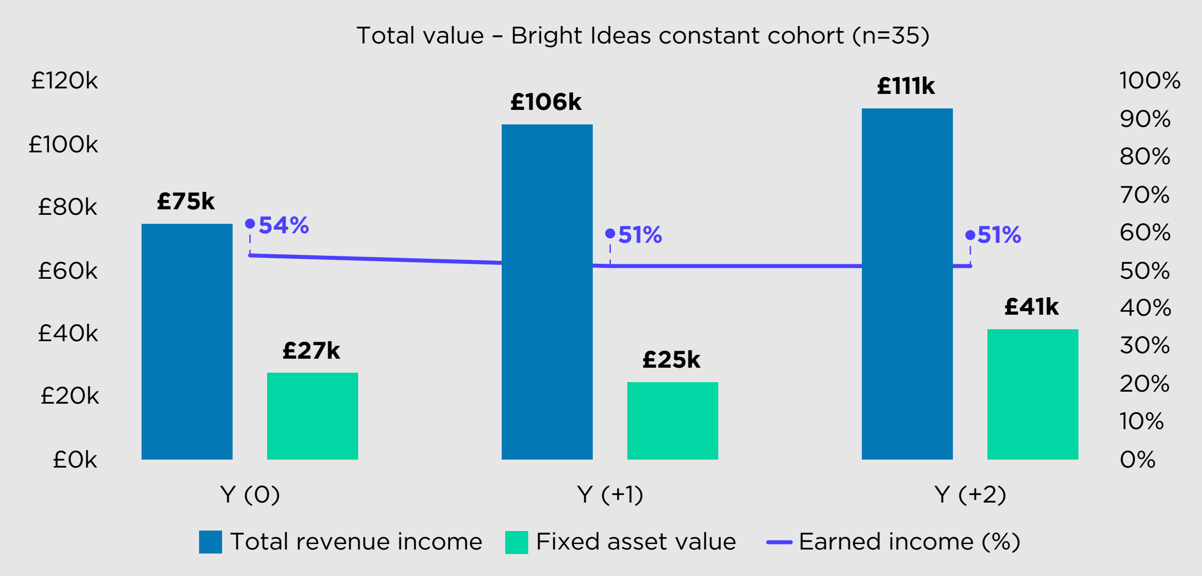


Figure 6: Key financial metrics of Bright Ideas constant cohort – median value



Key learning for the future

- It is **not sufficient** to evaluate growth by looking at **one or two metrics** on their own. A single financial indicator such as revenue income is often contextualised by the other metrics in the suite, such as earned income, and changes in one should be evaluated in the context of changes in others.

- Some financial indicators should be assessed in **absolute values** and expressed in **percentages** at the same time. For example, a decrease in earned income percentage may not be a negative outcome in light of growth in total revenue income, as this may still mean an increase in earned income in cash terms (absolute value).

- Baseline and endline growth should be assessed in the **context of initial values**. For instance, earned income growth baseline could be relatively high due to an extremely low initial value, and a relatively low earned income endline might reflect a high initial percentage, which may not get much higher as it approaches 100 per cent. In this case, an endline growth lower than baseline growth may not mean a negative outcome.

- Post-investment growth should be assessed in the context of a business's **financial situation prior to the investment**.

- Slicing businesses' financial data by their growth trajectories **pre- and post-** investment can help more **nuanced** analysis, but conclusions are **less** likely to be **generalised**.

- Financial analysis of a group of community businesses should **take into account the differences** in their growth strategies, business models, size, sector, and other characteristics that would distinguish the definition of success for each individual business.

ABOUT **POWER TO CHANGE**

Power to Change is the independent trust that supports community businesses in England.

Community businesses are locally rooted, community-led, trade for community benefit and make life better for local people. The sector owns assets worth £870m and comprises 11,300 community businesses across England who employ more than 37,000 people. (Source: Community Business Market 2020).

From pubs to libraries; shops to bakeries; swimming pools to solar farms; community businesses are creating great products and services, providing employment and training and transforming lives. Power to Change received an original endowment from the National Lottery Community Fund in 2015.

ABOUT **RENAISI**

We're passionate about creating the conditions for strong, inclusive communities to thrive.

We're constantly learning from the different perspectives we see working directly with communities, with the providers of services and the investors in communities. It gives us a unique perspective on how systems work and how to improve places equitably.

The combination of our research and evaluation consultancy with employment & advice programme delivery, makes Renaisi a uniquely well-rounded learning partner for the voluntary and community sector.

ABOUT **MYCAKE**

MyCake specialises in financial benchmarking, especially for third sector organisations. Our core skill is finding and analysing organisational and financial data from organisations across a sector, and interpreting it. The point of doing so is to create actionable insights. We go through data meticulously, line by line, learning from what others have done. From that, we create powerful insights, relevant insights and flexible products and services. We marry up data sourced via the API's of large national datasets with manually acquired highly nuanced, detailed and often heterogeneous data on individual organisations. The benchmarks we create help funders and policy experts to make decisions, and help organisations to be more successful. To be resilient. Even to innovate.

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