power to change

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

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

June 2022

Sarah Thelwall (MyCake), Mahdy Alraie and Mylene Pacot (Renaisi)

COMMUNITY FUND

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.

CONTENTS

1. INTRODUCTION

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.

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?**

We analysed two key financial metrics for this research, to draw conclusions on community businesses' financial sustainability and resilience:

- **Total revenue income:** all the monies received by an organisation in a single financial year which are not 'capital' in nature. The total revenue income will usually exclude sums which have been accrued into future years.
- **Earned income as a percentage of turnover:** the monies which are not received as grants, donations or investment returns. Earned income is expressed as a percentage of turnover so that the relative importance of these income streams can be compared within the business model as a whole.

We also used other complementary financial metrics to explore the financial impact of the three programmes in more detail. They include:

- **Fixed asset value (£):** the total fixed asset value as expressed on the balance sheet.
- **Contribution to reserves** after interest and tax: total revenue income minus total revenue expenditure.

- **Long-term debt**[1] (£): loans and other forms of finance. This excludes informal arrangements with creditors.
- **Working capital as a percentage of turnover** (%): the total current assets minus total current liabilities expressed as a percentage of total revenue income.
- **Fixed assets to turnover** percentage (%): the total fixed assets divided by total revenue income expressed as a percentage of total revenue income.

This paper analyses **total** and **median** values of those metrics.[2] 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 metrics, drawing on previous work that identified the value of taking a 'Year Zero' reporting approach to financial analysis[3] We used three different approaches to the data, providing insight from different perspectives for a comprehensive view of the financial impact of Power to Change's programmes.

1 Also referred to as total long-term liabilities (excluding defined pension scheme). There is less data available for this financial indicator than for others. It is available for 30 of 56 CBF, 13 of 50 TU and 5 of 35 BI grantees and figures may not include data for all four years included in the analysis.

2 The financial data was sourced from published accounts at the Charity Commission, Companies House and the Mutuals Register. A detailed transcription of income, cost and balance sheet data into a standardised data format delivers consistent data definitions and thus granular and comparable data between organisations.

3 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
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.
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.

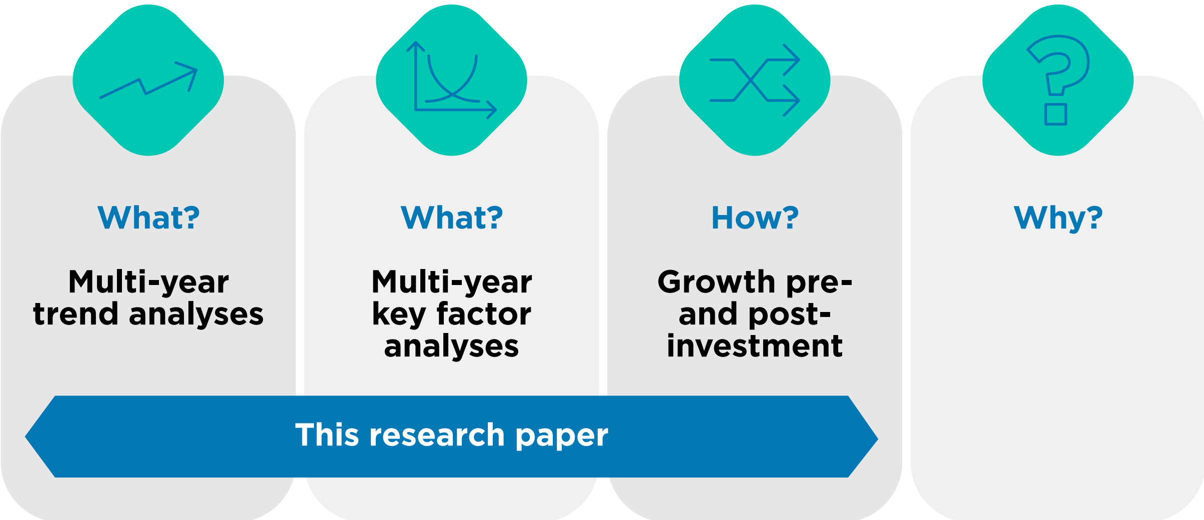
Where possible we explore why certain patterns might have emerged but our analysis was not designed to establish 'why' any change occurred and further qualitative evidence would be required for that purpose.

Our findings were not tested for **statistical significance** – we provide a descriptive analysis that does not seek to establish causality or correlation between variables and we have not sought evidence that results were not due to chance.

The main reason is the small sample size when businesses are segmented by sector, size, and how they use funding.

The Year Zero reporting approach does, however, have the potential to establish causality through research that compares grantees with community businesses that did not receive programme funding.

Figure 1: Scope of the research in this paper



Further information about the limitations of the research can be found in the Appendix.

In summary, our findings are:

- Overall, the **Community Business Fund** programme had a positive impact on turnover growth and assets growth (both in cash terms) and on earned income levels (in cash terms and as a percentage of turnover) – despite some pockets of grantees having sub-optimal growth.

- The **Trade Up** programme had a positive impact on community businesses' capacity to generate earned income, despite some organisations not maintaining their ratios of earned to grant income as they grew.

- The **Bright Ideas** programme had a positive impact on the business models of participants even though some did not quite maintain their earned income as a percentage of their overall business model.

2. THE **COMMUNITY BUSINESS FUND**

2.1 About the programme

Community businesses on the Community Business Fund programme, which ran from 2016 to 2021, could access a grant between £50,000 and £300,000 which could be exclusively capital or revenue funding, or a blend of both. Capital grants could be used to fund the costs of acquiring or refurbishing buildings or land, purchase vehicles or other equipment of significant value. Revenue grants could cover project-specific revenue costs like staff costs, professional fees or volunteer costs. Grantees could also access peer brokerage: business development support delivered by community business peers.

The majority of Community Business Fund grantees already had an existing asset and wanted support from the programme for refurbishment or expansion. Others wanted support with their asset acquisition process. For example, one community business used capital grants to purchase houses to create better housing for community members, while other grantees acquired additional spaces to expand service delivery.

Compared with the Trade Up and Bright Ideas programme, Community Business Fund grants were much larger and thus much more likely to contribute in large part to an organisation's financial trajectory.

2.2 Multi-year trend analysis

To assess the overall trends in financial data across multiple years, several financial metrics were considered in total and median values.[4] This section explores the high-level trends in the Community Business Fund constant cohort.[5] Table 1 shows the evolution between Year (-1) and Year (+2) of the total revenue income, total long-term liabilities and total fixed assets values for the constant cohort of Community Business Fund grantees.

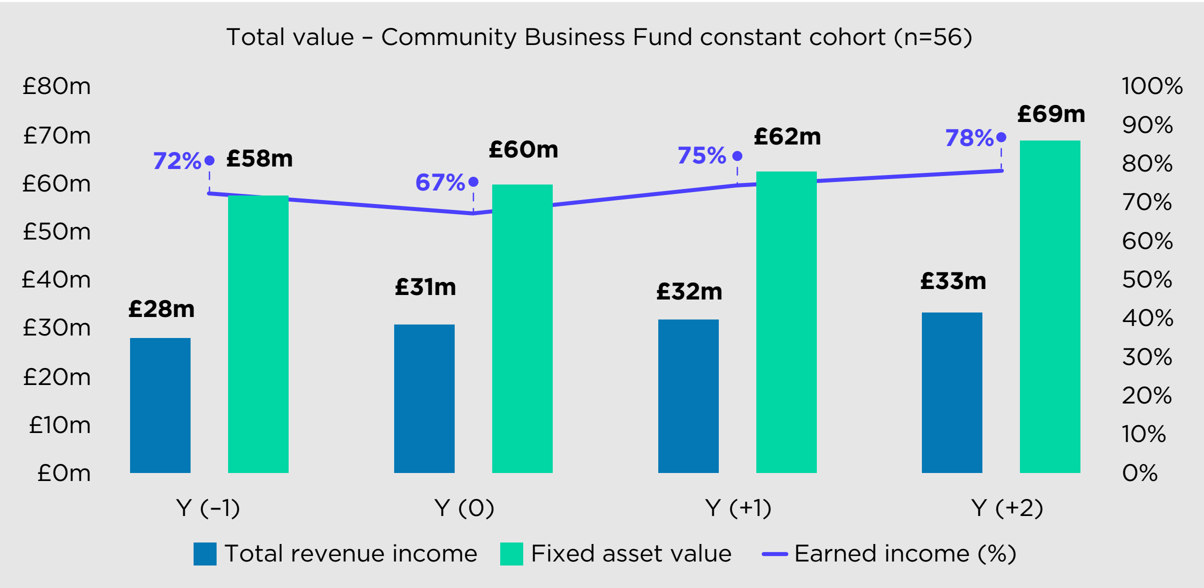
4 We use the median throughout as it is less skewed by outliers and oddities than the mean.

5 The constant cohort is made up of the organisations for which data is available across all years from Year (-1) to Year (+2). This means that observed trends are more likely to be due to changes in business models (rather than being due to comparing data from different organisations each year). The year zero for the constant cohort is 2016 for 3, 2017 for 40, and 2018 for 13 community businesses (see Table 22 in Appendix).

Table 1: Community Business Fund constant cohort financial metrics – median and total

Community Business Fund constant cohort (count=56)				
Median	**Y (-1)**	**Y (0)**	**Y (+1)**	**Y (+2)**
Total revenue income	£314,420	£337,354	£297,995	£295,412
Contribution to reserves[6]	2%	3%	-1%	-2%
Earned income (%)	72%	67%	75%	78%
Working capital (%)[7]	33%	25%	23%	22%
Total long-term liabilities[8]	£154,841	£117,837	£230,058	£119,262
Fixed asset value	£266,667	£251,249	£414,466	£453,171
Fixed asset turnover ratio (FAT) (%)[9]	75%	151%	84%	56%
Community Business Fund constant cohort (count=56)				
Total	**Y (-1)**	**Y (0)**	**Y (+1)**	**Y (+2)**
Total revenue income	£27,920,080	£30,811,443	£31,905,113	£33,353,089
Total long-term liabilities	£23,943,323	£25,159,342	£28,249,832	£33,785,183
Fixed asset value	£57,501,337	£59,807,998	£62,382,214	£68,826,723

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



6 After interests and tax, expressed as a percentage of turnover.
7 Net current assets, expressed as a percentage of turnover.
8 Excluding defined pension scheme.
9 Turnover divided by fixed assets.

Figure 3: Key financial metrics of Community Business Fund constant cohort – median value

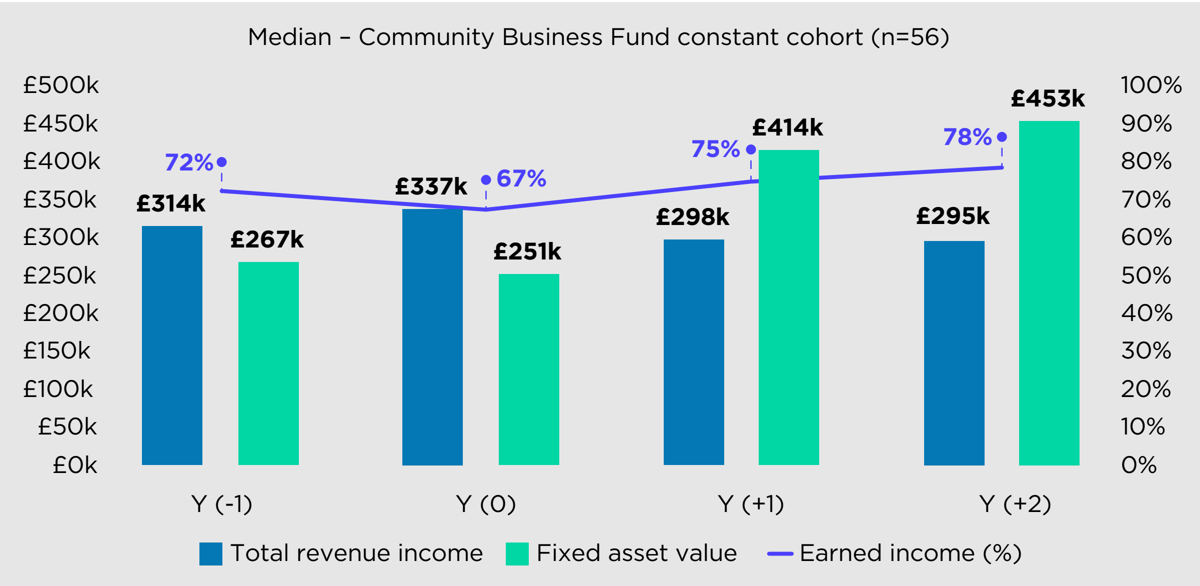
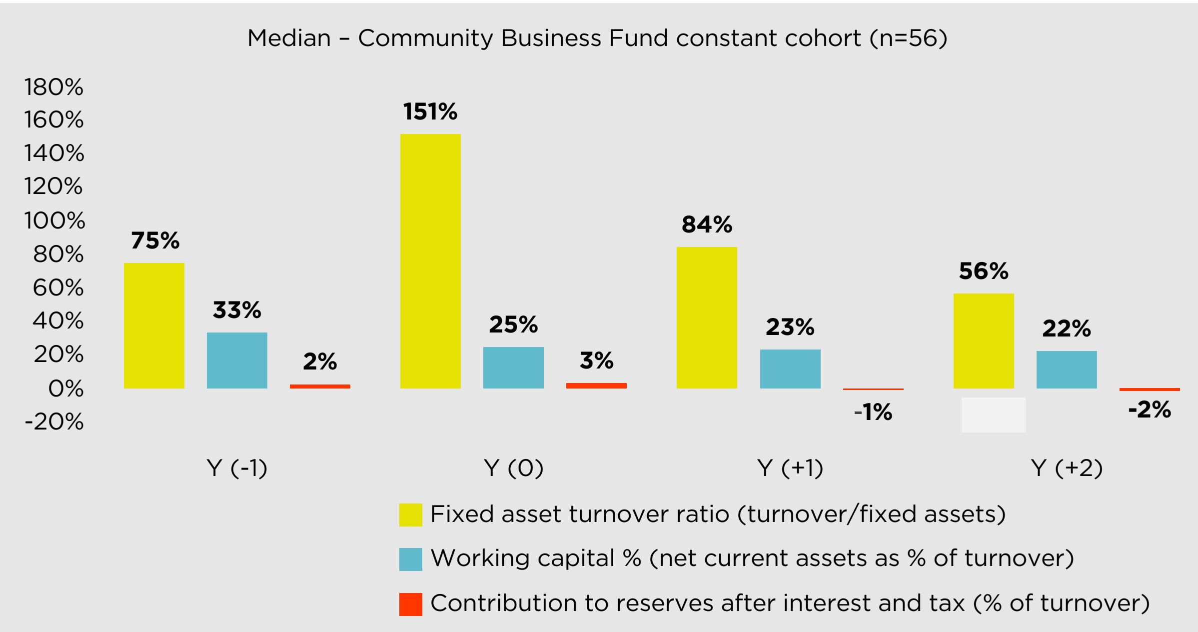


Figure 4: Further key financial metrics of Community Business Fund constant cohort – median value



Key insights from the multi-year trend analysis showing **positive** (+) and **negative** (-) evolution in financial metrics and **uncertain** or inconclusive (?) findings:

+	Table 1 shows an increase in **total revenue income from £28 million to £33 million**, as well as in **total fixed asse**t values (from £58m to £69m) and **total long-term liabilities** (from £24m to £34m) over the period. These are all indicators of financial growth. An increase in long-term liabilities is a particularly positive sign, as it indicates that organisations have met the lending criteria of banks, social investors and individual investors, i.e. they are low enough risk to lend to (Figure 2). Such increases in both **asset values** and **long-term liabilities** are in line with goals for the Community Business Fund. Given that 155 community businesses on the programme engaged in capital asset development, their newly-acquired or improved capital assets are reflected in the balance sheet data. Similarly, the fact that the number of organisations holding fixed assets and/or long-term liabilities increased, is also in line with expectations for the programme.
+	**Earned income as a percentage of turnover** increased across the period in the constant cohort from 72 to 78 per cent, with a decrease between Year (-1) and Year (0) down to 67 per cent.
-	The **median contribution to reserves** decreased over the period from 2 to -2 per cent, which can be a cause for concern. Negative contributions to reserves year on year would indicate that more community businesses are making a loss than previously. Fortunately, the percentage of organisations in this situation is small (Figure 4)
?	The **median revenue income**[10] **decreased from £394,000 to £295,000, median working capital** dropped from 33 to 22 per cent and **median fixed asset turnover ratio (FAT)** decreased from 75 to 56 per cent over the period.[11] The decrease in median FAT alone indicates a productivity or efficiency decrease given that fixed assets increased at the same time. Over the longer term, this could constitute a negative outcome of the programme. This may not be the case over the research period, however, as community businesses may not be fully exploiting their new assets yet, may not have finished a period of change in their business model, or may not have settled into new arrangements (Figure 3).

10 In this cohort, the total revenue increased over the period but the median revenue decreased. There are several possible reasons for this. While we reviewed annual accounts to ensure that capital income was separated out as far as possible, it is still possible that there were some capital monies in the data. Given that many organisations were purchasing buildings in this programme, there may be some in the Year (-1) data even though purchases happened by Year (+2). Detailed analysis of growth before and after investment in following sections explores this further.

11 The fixed assets turnover ratio (FAT) is a metric we use to evaluate the extent to which assets are being leveraged into income. The higher the percentage the greater the efficiency with which assets are exploited. It is worth noting that both turnover and assets may change for a single organisation between years, so this metric needs careful use – change could be due to either figure and reasons for change may be several.

Conclusion

Our findings show that community businesses participating in the Community Business Fund **grew their asset base first**. This is a positive outcome, a sensible business decision and is in line with the objectives of the programme.

The Community Business Fund evaluation also showed that the programme not only enabled community businesses to purchase or renovate assets but also c**overed the costs of running their business**, which is particularly useful while resources are diverted to the process of acquiring assets.[12] For example, a community business used funding from different sources to acquire a new asset worth £300,000. Through the programme's blended funding offer, they were able to use one portion of their grant to reach their capital investment target, and another to cover the costs of staff needed to operate their business.

A **growth in trading activities** is also considered positive. The Community Business Fund evaluation showed examples of community businesses strengthening their financial sustainability by creating new revenue streams or changing their business model. For example, one community business used their funding to convert the entrance of their community centre into a café. This created a new revenue stream and also allowed them to have more of an impact on the community.

However, changes in business model – particularly the relationship between trading revenue and grant funding – **may not yet have been completed for all** community businesses across the programme, and there may still be work to do to exploit the additional revenue opportunities of their new assets fully.

Acquiring new assets often involves **risk and uncertainty**, which may also explain why new assets have not always translated into additional revenue. Power to Change adapted various components of its grants over time, to ensure they could better meet the needs of grantees. Variations included project extensions to allow for delays or changes to projects, increases in grant awards and reallocating funds in budgets. Many grantees, for instance, faced unexpected changes in the asking price of assets and estimated budgets due to project delays, increased market competition or unexpected costs.[13]

2.3 Multi-year key factor analysis

A. Segmentation by the size of community businesses

Taking into consideration the basic trends in the multi-year analysis, this section provides more detail and analyses whether differences in the patterns indicate that small organisations behave differently from large ones and, if so, how?

Table 2 shows median financial metrics of the Community Business Fund constant cohort by revenue band.

12 Renaisi, 'Community Business Fund: A short summative evaluation report' (forthcoming).
13 Renaisi (2021), ' Power to Change: Community Business Fund Grant Variations Analysis'.

Table 2: Community Business Fund constant cohort financial metrics (median by revenue bands)

Community Business Fund constant cohort by revenue bands – Median				
	Y (-1)	Y (0)	Y (+1)	Y (+2)
Count=5		**Less than £50K**		
Total revenue income	£14,423	£29,056	£52,205	£19,488
Contribution to reserves[14]	5%	-14%	15%	-13%
Earned income (%)	85%	79%	100%	100%
Working capital (%)[15]	68%	334%	25%	43%
Total long-term liabilities[16]	£437,385	£533,197	£259,092	£147,230
Fixed asset value	£18,902	£318,727	£250,000	£14,997
FAT (%)[17]	64%	119%	128%	122%
Count=7		**£50-100K**		
Total revenue income	£79,286	£68,818	£98,558	£105,080
Contribution to reserves	14%	4%	1%	6%
Earned income (%)	91%	100%	100%	100%
Working capital (%)	14%	12%	20%	15%
Total long-term liabilities			£491,574	£273,455
Fixed asset value	£11,944	£9,614	£7,959	£346,676
FAT (%)	683%	738%	3,678%	47%
Count=6		**£100-200K**		
Total revenue income	£120,665	£139,488	£124,140	£111,089
Contribution to reserves	10%	6%	-6%	10%
Earned income (%)	52%	47%	82%	49%
Working capital (%)	71%	73%	84%	50%

14 After interest and tax expressed as a percentage of turnover.
15 Net current assets expressed as a percentage of turnover.
16 Excluding defined pension scheme.
17 Turnover divided by fixed assets.

Community Business Fund constant cohort by revenue bands – Median				
	Y (-1)	Y (0)	Y (+1)	Y (+2)
Total long-term liabilities	£62,030	£91,700	£110,513	£84,494
Fixed asset value	£117,287	£118,167	£186,879	£455,523
FAT (%)	475%	312%	358%	118%
Count=24		**£200-500K**		
Total revenue income	£319,891	£354,529	£344,303	£295,412
Contribution to reserves	-4%	-6%	-4%	-10%
Earned income (%)	75%	67%	71%	77%
Working capital (%)	40%	34%	24%	28%
Total long-term liabilities	£135,480	£91,791	£128,019	£69,386
Fixed asset value	£455,073	£357,615	£480,330	£498,424
FAT (%)	63%	83%	74%	43%
Count=8		**£500K-£1m**		
Total revenue income	£704,795	£665,376	£724,164	£841,862
Contribution to reserves	2%	4%	2%	0%
Earned income (%)	46%	61%	59%	62%
Working capital (%)	15%	30%	20%	19%
Total long-term liabilities	£330,534	£201,065	£297,305	£219,919
Fixed asset value	£708,308	£809,191	£820,318	£957,777
FAT (%)	102%	80%	90%	93%
Count=6		**More than £1m**		
Total revenue income	£1,889,273	£2,232,813	£2,176,037	£2,705,917
Contribution to reserves	-2%	4%	-11%	-9%
Earned income (%)	76%	75%	74%	81%
Working capital (%)	20%	19%	-1%	-1%
Total long-term liabilities	£481,475	£638,000	£692,889	£333,131
Fixed asset value	£1,681,641	£1,757,670	£1,970,082	£1,912,645
FAT (%)	167%	157%	124%	127%

Key insights from the multi-year trend analysis, segmented by size of community businesses, include:

+	The total revenue income increased across the period for most cohorts (<£50K, £50–100K, £500K–£1m and >£1m), which is a positive financial outcome. The total revenue income decreased for the £100–200K and £200–500K cohorts, yet this is not necessarily a poor outcome given that the growth of earned income was a higher priority for the programme.
+	**Total fixed assets** increased for all revenue bands except the £200–500K cohort.
+	**Long-term liabilities** were almost absent in cohorts below £100K, but became increasingly common as turnover increased – to a point where all (6/6) or almost all (7/8) had long-term liabilities in the >£1m and £500K–£1m cohorts. This is a positive outcome in that it indicates increasing financial management skills in the organisations, and management of financial risk that meets the requirements of external lenders. For those organisations which did have long-term liabilities the **median** decreased over time for all turnover bands beyond £200K, which demonstrates that organisations were successfully paying back debt.
+	All turnover bands except for £100–200K and £200–500K showed an increase in the **median turnover** across the period, which is a positive outcome.
-	The fact that the largest cohort (£200–500K) had a **median loss** across all years in their contribution to reserves figures, and that their total revenue income decreased across the period, is a cause for concern. This cohort also had the lowest **FAT** which suggests the least efficiency or productivity in turning assets into income. **Working capital** levels also dropped over the time period in this cohort, which can suggest business models with less flexibility to respond to changing circumstances than when they started. These organisations are likely to feel financially constricted and risky and they will have limited room to manoeuvre.
?	While all income bands except the £100–200K cohort show an increase in earned income **as a proportion of turnover**, it is neither linear nor is the pattern consistent between income bands. This may reflect the diversity of sectors that programme participants are working in and thus the varying levels of opportunity for growing earned income across the period.

Conclusion

The **volatility in business models** was most clearly seen in the **£200–500K cohort**, which also contained the largest number of organisations. It may be that organisations were still adjusting their business models to make the most of their newly-acquired or refurbished assets; however, this would not explain the loss made in Year (-1), nor would it indicate when long-term sustainability might be achieved (e.g. this could come from a median positive contribution to reserves). With business models which had a median of around three-quarters of trading income, it is also expected that Covid–19 had a significant impact on the financial health of organisations. The 2021 data would be required to see this manifest in end-of-year accounts.

B. Segmentation by use of funds

Another way to split the cohort is by grouping organisations by how they used their grant monies. Table 3 shows financial metrics for the Community Business Fund constant cohort split by the primary use of programme funds:

- purchasing a building or land, or constructing a new building
- building extension or stimulating revenue and trading
- refurbishing, redeveloping or renovating an existing asset.

Table 3: Community Business Fund constant cohort financial metrics – median by use of funds

Community Business Fund constant cohort by use of funds – Median				
	Y (-1)	Y (0)	Y (+1)	Y (+2)
Count=20	**Purchase building/land or new build**			
Total revenue income	£130,928	£195,695	£292,703	£230,580
Contribution to reserves[18]	2%	4%	3%	5%
Earned income (%)	85%	79%	93%	85%
Working capital (%)[19]	33%	25%	28%	27%
Total long-term liabilities[20]	£90,240	£88,058	£142,420	£206,628
Fixed asset value	£77,184	£135,625	£403,614	£475,764
FAT (%)[21]	394%	207%	85%	42%
Count=16	**Extension or revenue**			
Total revenue income	£420,070	£337,354	£356,027	£305,970
Contribution to reserves	-4%	-10%	-3%	-7%
Earned income (%)	74%	73%	76%	79%
Working capital (%)	25%	18%	19%	15%
Total long-term liabilities	£150,751	£140,298	£133,489	£89,053
Fixed asset value	£495,283	£155,553	£414,466	£423,223
FAT (%)	52%	149%	80%	91%
Count=20	**Refurbishment or redevelopment**			
Total revenue income	£403,100	£467,198	£332,443	£353,246
Contribution to reserves	2%	4%	-7%	-1%
Earned income (%)	52%	61%	71%	76%
Working capital (%)	36%	46%	23%	25%
Total long-term liabilities	£280,950	£202,594	£271,142	£111,618
Fixed asset value	£514,524	£414,214	£335,877	£501,585
FAT (%)	75%	153%	117%	57%

18 After interest and tax expressed as a percentage of turnover.
19 Net current assets expressed as a percentage of turnover.
20 Excluding defined pension scheme.
21 Turnover divided by fixed assets.

Key insights from the multi-year trend analysis, segmented by the use of funds, include:

+	**Fixed asset values** were highest in the *extension* cohort and rose from £30 million to £34 million over the period. This was almost treble the total fixed assets value of the land or building purchase cohort. This could be explained by the fact that they already owned land or buildings prior to the start of Community Business Fund. Fixed asset values rose rapidly in the *building purchase* cohort from a median of £77,000 to one of £476,000 by Year (+2). This indicates that the costs of purchase or building have been capitalised onto the balance sheet.
+	The *extension* cohort is the only one of the three which achieved an increase in **FAT** and may indicate that organisations in this cohort were more readily able to turn their new asset into income. When singling out this cohort – as it is relatively uncommon among those we analysed – a decrease in FAT is seen more commonly. This raises interesting questions about the differences that have enabled this cohort to turn assets into income more rapidly than others. However, this needs to be considered against a backdrop of reduced contributions to reserves, i.e. are these organisations focussing on exploiting assets at the expense of contributing to reserves? It is not unreasonable to expect that an organisation cannot make improvements to its business model on all fronts at once so perhaps we are witnessing a trade-off where assets are exploited at the expense of lower profitability.
+	Median **contribution to reserves** increased from 2 to 5 per cent in the *building purchase* cohort.
+	**Long-term liabilities** are highest in the *extension* cohort. This makes sense as this cluster is well-placed to take on debt secured against existing tangible assets.
+	**Earned income** rose as a percentage of turnover in the *purchase* and *extension* cohorts.
+	**Working capital levels** in *purchase* and *refurbishment* were both at healthy levels – over 20 per cent of turnover.
?	Organisations which are *purchasing land or buildings* are significantly smaller in their **total turnover** (and indeed in their median) than the other two groups – £4–6 million versus £10–15 million.
?	Only the *new building purchase* cohort showed growth in the **median revenue income** over the period. In both other cohorts, median income decreased slightly. In contrast, median **fixed asset values** in the other two cohorts decreased over the period, which was likely due to depreciation.
?	**Working capital levels** in the *extension* cohort were at workable levels – ideally they should not drop below 10 per cent of turnover.
?	**Median revenue income** in the *purchase* cluster was the lowest of all three groupings and was also very volatile. This can be expected for young organisations buying tangible assets for the first time. Those community businesses may not have had sufficient resources both to maintain their current revenue-generating activities and take on a building at the same time.
?	**Contribution to reserves** in the *purchase* cluster was volatile, and negative by Year (+2). This cluster may need monitoring to track its progress to a healthy and sustainable financial position.
?	There was a minor decrease in earned income **as a percentage of turnover** in the *refurbishment* cluster. This, along with the minor decrease in total revenue, may indicate the cluster merits exploring to learn why they are not translating capital improvements into growth in revenue or earned income.

Conclusion

As a whole, the cohort **increased total income, total assets** and the use of **long-term liabilities**. The median earned income percentage also increased across the period. These are all **positive outcomes** for the programme at the cohort level. The fact that earned income increased as a proportion of turnover for all turnover bands except £100–200K, for all uses of funds, and for the cohort as a whole is a positive outcome for the programme.

Further research would help to understand what is driving the decrease in median income and whether this is a long-term result or a side effect of business models which are still in flux. The splitting of the cohort into turnover bands shows that the £200–500K cluster, in particular, would benefit from a more in-depth analysis given that median income has decreased and that profitability was negative and worsened over the period.

2.4 Methodological notes – growth pre- and post-investment

To evaluate the financial impact that Power to Change's funding had on grantees, it is important to understand community businesses' financial situation prior to receiving it.[22] Following conclusions in the Year Zero reporting approach paper about the complexity and nonlinearity of grantees' financial growth journey, this analysis further segments data on the growth trajectories of different groups of grantees pre- and post-Power to Change funding.[23] The Year Zero paper also shows how this analysis can reveal insights unavailable through using aggregated figures (such as the median income for all grantees in the cohort).

Therefore, our analysis aims to establish the impact of Power to Change funding on a key assumption that community businesses would have continued on their existing growth trend had they not received it.

For this part of the research, grantees were split into four groups based on their experience of increases or decreases in financial measures before and after receiving Power to Change funding. By using these baseline and endline trajectories, the research uses additional segmentation to assess whether it reduces the heterogeneity of each group. This may capture subtle differences in the routes taken by grantee groups and spot potential correlations between total revenue income, total fixed assets and earned income patterns.

Although this analysis can be conducted using different segmentation and financial metrics, the data was primarily segmented by total revenue income to assess growth (as earned income can only be understood in the context of total revenue income).[24]

22 See the Appendix for more on the caveats that apply to using the term 'impact' and a percentage format.

23 Power to Change 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) (2022).

24 Data for a similar approach of segmentation by earned income instead of total revenue income can be found in Appendix: Growth pre- and post-investment – segmentation by earned income.

The rationale for growth pre- and post- investment analysis

The multi-year analysis presented in previous sections helps summarise overall trends and change in the financial indicators over time into one metric: the median. However, there are two downsides to using median values:

- It can be an oversimplification which does not necessarily reflect the dispersion of the cohort's financial indicators – they could have a broad range of values, and variance might be high and the greater the spread of data, the less well a median can accurately represent it. For instance, the median of total fixed assets of Community Business Fund constant cohort is around £251,000 in Year (0) despite the fact that the value of total fixed assets of the highest 20 per cent of the cohort in assets is more than £2 million, and the value of total fixed assets of the lowest 20 per cent in assets is less than £27,000.
- It may not show the nuances in community businesses' experiences and how their growth trajectory is reflected in their financial indicators over time. For example, the whole cohort's median revenue income may increase from Year (0) to Year (+1). However, it is unlikely that this positive trajectory is shared by all businesses. A sub-group of that cohort may have a decrease in their revenue income while the rest experience an increase in total revenue income.

Further segmentation by growth trajectory can help reveal some of the nuances and also mitigate the first limitation by using median values for smaller groups that share a smaller variance.

Benchmarking limitation

Benchmarking is another limitation not directly related to the multi-year approach, but to the nature of Power to Change programmes and grantees. The cohort of each programme is quite diverse in aspects such as sector, size, business model and, more importantly, growth plans.[25] It might be sensible to assume that an increase in a given financial indicator may indicate a positive outcome. However, without knowing the specific growth objectives of a community business it is difficult to assess whether changes in financial indicators are truly positive. For example, the priority might be to increase asset value, revenue income or earned income in different proportions that are unknown in this analysis. The diversity of grantees compounds the challenge: it would be unreasonable to design a universal set of financial targets to benchmark all businesses of all sizes and sectors. Therefore, when grouping businesses by revenue income trajectory there is an underlying assumption that a group that had positive growth may have had plans to increase revenue income as a priority. In this context, the analysis then explores other trends that may emerge in other financial indicators such as total fixed assets. While our analysis of indicators before and after investment can provide insights even though the pool of grantees is diverse, it cannot clarify how much growth is 'good' nor suggest that the investment achieved its aims.

25 Renaisi: Alraie, M. and Litchfield, A. (2021) Power to Change Fifth Data Visualisation, Characteristics of Community Businesses Grantees and Applicants: Bright Ideas, Trade Up and Community Business Fund.

In light of the challenges inherent in benchmarking such a diverse sector, with a variety of objectives for growth, our analysis does not therefore aim to define 'healthy' growth nor assess the extent to which businesses have succeeded in achieving it with the help of funding. Instead we have used a variety of approaches to segmenting the samples and the data, to reveal what evidence there might be of the impact of programme funding on business performance. We aim to enrich the overall understanding of ways in which funding might help community business, rather than arrive at firm conclusions about the effectiveness of a small selection of individual programmes.

Definition of terms

1. **Baseline growth** is the difference (in a financial measure) between the year of receiving funding and the prior year.

Baseline % = [Y(0)-Y(-1)] / Y(-1)

2. **Endline growth** is the difference between the second year after receiving funding and the year of receiving funding divided by two, to reflect an annual growth that could be comparable with the baseline growth.

Endline % = [[Y(+2)-Y(0)]/2] / Y(Y0)

3. **Impact percentage** is the difference between endline and baseline growth, i.e. impact percentage will be positive where endline growth is larger than baseline growth and negative where endline growth is smaller than baseline growth.

Impact % = Endline % - Baseline %

Groups based on growth trajectory:

1. **Group #1:** Baseline (-), Endline (+)
Negative growth from Y(-1) to Y(0), and positive growth from Y(-1) and Y(0)

2. **Group #2:** Baseline (+), Endline (+)
Positive growth from Y(-1) to Y(0), and positive growth from Y(-1) and Y(0)

3. **Group #3:** Baseline (-), Endline (-)
Negative growth from Y(-1) to Y(0), and negative growth from Y(-1) and Y(0)

4. **Group #4:** Baseline (+), Endline (-)
Positive growth from Y(-1) to Y(0), and negative growth from Y(-1) and Y(0)

2.5 Growth pre- and post- investment

This section compares the endline and baseline growth in total revenue income, total fixed assets, and earned income.[26] For this analysis, community businesses are segmented into four groups, depending on their total revenue income growth trajectory between baseline and endline (see Tables 4, 5 and 6).[27]

Key findings for this pre- and post- comparison for Community Business Fund grantees include:

- half achieved an increase in **total fixed assets** between 20 and 26 per cent on average after receiving funding despite a decrease of about 16 per cent prior to the funding (groups #3 and #4)
- a third achieved 169 per cent growth in total fixed assets and 10 per cent growth in total revenue income whilst maintaining a relatively high rate of earned income (71%–79%) similar to their pre-funding rate (group #2)
- a fifth achieved an 18 per cent increase in earned income, reaching 95 per cent of their total revenue income after receiving funding, despite a 3 per cent drop prior to the funding (group #1).

Table 4 shows:

- around a fifth were experiencing negative total revenue income growth before receiving funding yet experienced positive growth after receiving funding (group #1)
- nearly a third were experiencing positive growth before receiving Power to Change funding and continued afterwards (group #2)
- 16 per cent were experiencing negative growth before receiving the funding and continued afterwards (group #3)
- 36 per cent were experiencing positive growth and shifted to experiencing negative growth after receiving funding (group #4).

26 See Appendix for more information about the methodology and definitions.
27 See Appendix: 'Growth pre- and post-investment – segmentation by earned income' for additional analysis.

Table 4: Median total revenue income – Community Business Fund segmentation by total revenue income growth trajectory between baseline and endline

Median total revenue income								
Groups[28]	**N**	**Y (-1)**	**Y (0)**	**Y (+1)**	**Y (+2)**	**B %**	**E %**	**Im %**
#1 B - E+	11	£419,789	£343,245	£356,027	£358,244	-18%	2%	20%
#2 B+ E+	16	£367,416	£468,047	£658,984	£558,449	27%	10%	-18%
#3 B - E -	9	£550,698	£293,522	£245,044	£159,115	-47%	-23%	24%
#4 B+ E -	20	£199,594	£254,368	£275,198	£165,151	27%	-18%	-45%

Table 5: Median earned income –Community Business Fund segmentation by total revenue income growth trajectory between baseline and endline

Median earned income (%)								
Groups	**N**	**Y (-1)**	**Y (0)**	**Y (+1)**	**Y (+2)**	**B %**	**E %**	**Im %**
#1 B - E+	11	62%	59%	59%	95%	-3%	18%	21%
#2 B+ E+	16	79%	75%	74%	71%	-4%	-2%	1%
#3 B - E -	9	35%	67%	100%	100%	32%	17%	-15%
#4 B+ E -	20	80%	65%	71%	74%	-15%	4%	19%

Table 6: Median total fixed assets – Community Business Fund segmentation by total revenue income growth trajectory between baseline and endline

Median total fixed assets								
Groups	**N[29]**	**Y (-1)**	**Y (0)**	**Y (+1)**	**Y (+2)**	**B %**	**E %**	**Im %**
#1 B - E+	9	£514,524	£810,915	£414,466	£413,234	58%	-25%	-82%
#2 B+ E+	14	£40,173	£108,403	£385,035	£475,764	170%	169%	0%
#3 B - E -	8	£327,129	£273,210	£451,261	£417,367	-16%	26%	43%
#4 B+ E -	15	£430,423	£357,615	£360,121	£500,776	-17%	20%	37%

28 B: baseline, E: endline, Im: impact

29 Missing data means that count numbers decreased slightly compared with the previous tables of total revenue income and earned income, i.e. groups in all tables are the same except some missing assets figures.

Group #1

Community businesses from the first group (n=11) experienced a positive impact shown by endline growth in total revenue income larger than the corresponding negative baseline growth. This group also experienced a positive impact on earned income which reached 95 per cent in Year (+2). The impact on total fixed assets, however, was less clear.

When organisations undergo a substantial increase in their total fixed assets values it is most commonly associated with the acquisition of land and/or buildings. This may or may not be accompanied by a capital refurbishment. In either case, it is also common for such organisations to have a drop in total revenue income, between Y(-1) and Y(0), as the management team would often be small and cannot both oversee the acquisition or refurbishment and maintain focus on revenue-generating activities.

Figure 5: Community Business Fund group #1 financial metrics – segmentation by total revenue income baseline and endline trajectory

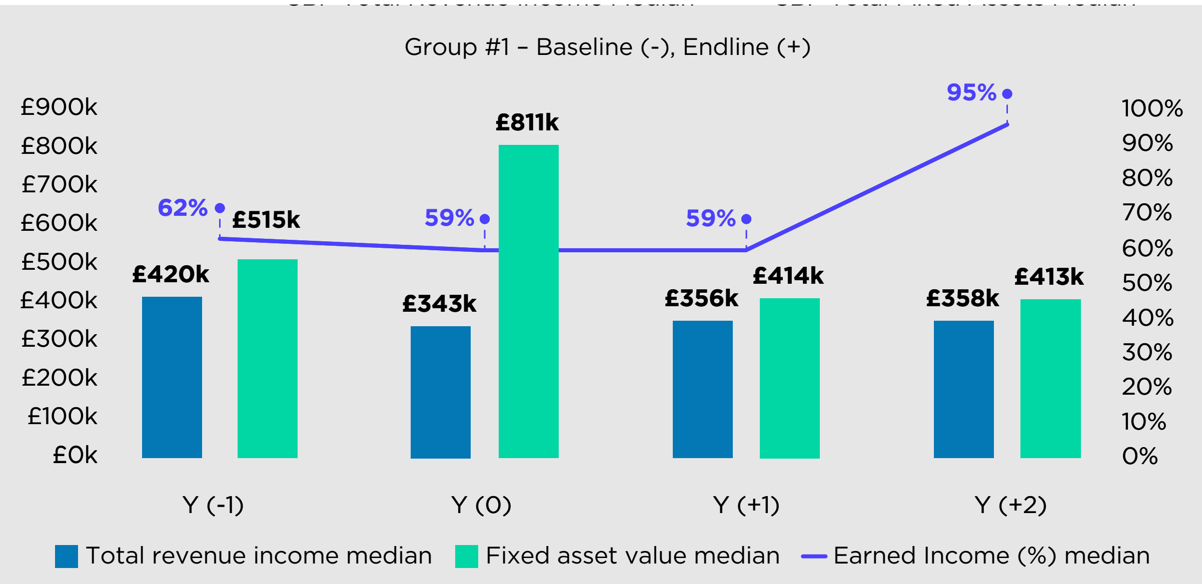


Figure 5 description

- Total revenue income decreased by 18 per cent before receiving funding and increased by 2 per cent after receiving funding: from £343,245 Y(0) to £358,244 Y(+2) (a 20% impact).
- Earned income baseline growth ratio was negative (-3%) before receiving funding, but increased to 18 per cent after receiving funding to reach 59 per cent in Y(1) and 95 per cent in Y(+2) (a 21% impact).
- Total fixed assets increased before receiving Community Business Fund funding by 58 per cent and decreased after funding by 25 per cent (a negative impact of -82%).

When there is an influx of capital funds into an organisation, a drop in revenue income can be masked by the capital funds in the organisation's bank accounts and cash flow. This may be the case for this group and could explain why total revenue income is lower in Y(0), Y(+1), Y(+2) than in Y(-1). It could also be that the new assets are taking several years to be fully exploited, and explain why total revenue income has not returned to Y(-1) levels.

Similarly, there may be capital monies in the total revenue income data which could not be fully isolated and are thus skewing the total revenue income figures upwards in Y(-1) prior to asset purchase between Y(0), Y(+1), and Y(+2).

It is not clear why the total fixed assets value is lower in Y(+1) and Y(+2) compared with prior years. Nonetheless, the number of grantees with tangible assets with a value greater than £100,000 increased from six in Y(-1) to eight in Y(+2) which could indicate that buildings or land have been purchased.

The change in median earned income is, however, clearer and suggests that the exploitation of assets into earned income is occurring from Y(+1) onwards, which can be considered a positive outcome for the programme and participants. It is reasonable to suggest that it will take some time to develop earned income streams fully, and that there is a lag when the capital asset is acquired.

Overall, the success of this group could be primarily captured by the increasing levels of earned income, and the increase of total revenue income between Y(0) and Y(+2). However, further analysis may explain the decrease in median total fixed assets.

Group #2

Community businesses from the second group (n=16) experienced a significant increase in their absolute total fixed assets value after receiving programme funding; nearly 3.5 times in Y(+2) compared with Y(0). However, this group did not experience a positive impact on their total revenue income, despite growth in absolute value by 20 per cent in Y(+2) compared with Y(0) (i.e. 10% yearly).

Figure 6: Community Business Fund group #2 financial metrics – segmentation by total revenue income baseline and endline trajectory

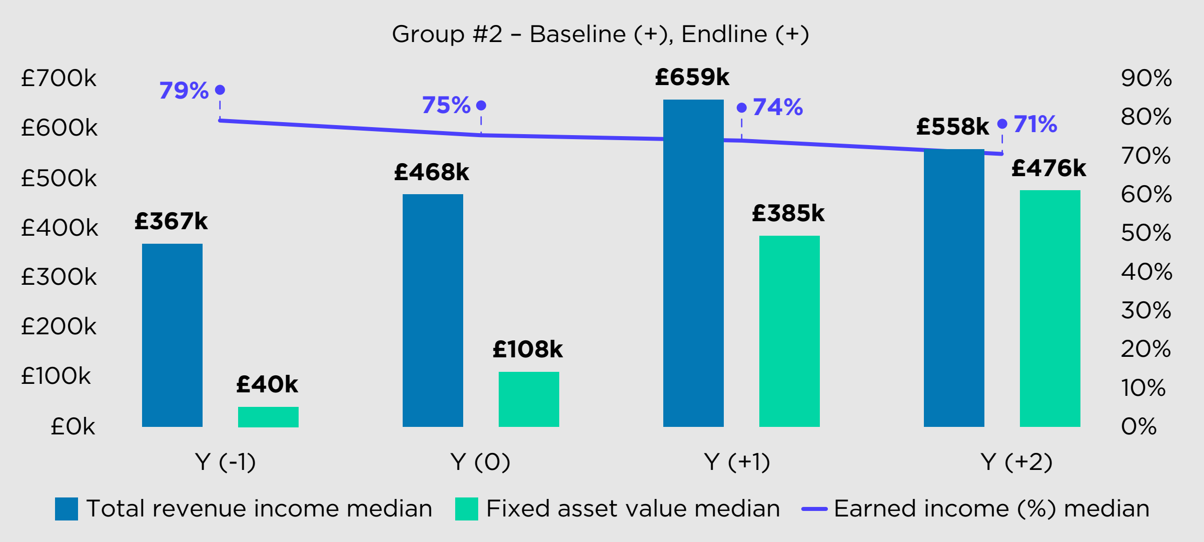


Figure 6 description

- Total fixed assets value increased by 170 per cent before receiving Community Business Fund funding and increased by 169 per cent after receiving funding which makes the impact ratio almost zero given the relatively small value of total fixed assets in Y(-1). However, the absolute value in Y(+2) reached £475,764, i.e. growth was nearly 3.5 compared with £40,173 in Y(0).
- Earned income baseline growth ratio was negative (-4%) before receiving funding, but it increased slightly to -2 per cent after receiving funding (a 1% impact).
- Total revenue income increased by 27 per cent before funding and by 10 per cent after receiving funding, from £468,047 Y(0) to £558,449 Y(+2) (a negative impact of -18%).

This is the group that demonstrated the clearest success across the three metrics. Total revenue income levels rose substantially over the period, and total fixed asset levels rose at a rate that usually corresponds to buildings or land acquisition. And while earned income levels decreased in percentage terms across the period, they rose in absolute cash terms – meaning that although earned income has not risen as fast as total revenue income, they are evolving broadly in concert.

It is not entirely clear why the median total revenue income in Y(+1) was higher than in Y(+2); some capital monies could still be recorded in the revenue profit and loss data.

Group #3

Community businesses from the third group (n=9) experienced a positive impact shown by endline growth in total fixed assets larger than the corresponding negative baseline growth. Furthermore, its earned income percentage increased to reach 100 per cent in Y(+2). However, until Y(+2) it did not experience a clear impact on total revenue income, hence the increase in earned income percentage was not coupled with an increase in earned income absolute value (cash). Then in Y(+3) total revenue income has increased again to reach £234,000.

Figure 7: Community Business Fund group #3 financial metrics – segmentation by total revenue income baseline and endline trajectory

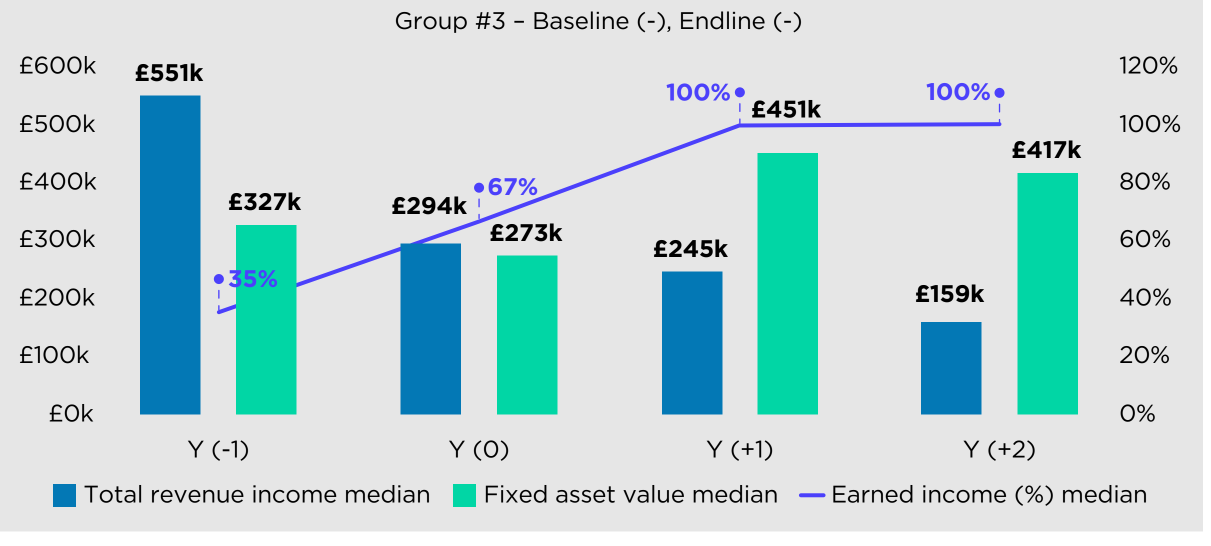


Figure 7 description

- Total fixed assets decreased by 16 per cent before receiving funding and increased by 26 per cent after funding (iimpact 43%).
- Earned income ratio was 35 per cent before receiving funding Y(-1), and reached 100 in Y(+1) and Y(+2).
- Total revenue income decreased by 47 per cent before receiving funding and by 23 per cent after funding, from £293,522 Y(0) to £159,115 Y(+2) (impact 24%).

The most notable change for this group is that assets were increasing while revenue was decreasing, which is not ideal. The expectation is that, with asset values rising, organisations will increase their revenue. However, absolute growth in total revenue income is in theory a lower-level priority than an increase in earned income as a proportion of the overall business model which this group clearly achieves.

Overall, the data across all groups is running up to 2020 and the most common year-end month is March. On that basis it is reasonable to suggest that there should not be a significant influence of the Covid-19 pandemic visible in the data, although organisations with higher levels of earned income were often the hardest hit, especially in the 2020/21 financial year.

We could not entirely answer the question about why this group showed a combination of a decrease in median total revenue income while also showing a large increase in levels of median earned income.

On one hand, the increase in median earned income indicates successful completion of the programme and, on the other, the reducing median total revenue income is cause for concern in terms of overall sustainability. Nonetheless, Y(+3) median total revenue income is £234,000 with a median earned income of 91 per cent, which could potentially suggest that organisations in this group are likely to be taking longer than two years to adjust to a 'new normal' financial position.

Group #4

Community businesses from the fourth group (n=20) experienced a positive impact shown by endline growth in total fixed assets larger than the corresponding negative baseline growth. Furthermore, it experienced a positive impact in earned income, especially where it had a negative baseline ratio. However, it did not experience a positive impact on total revenue income.

Figure 8: Community Business Fund group #4 financial metrics – segmentation by total revenue income baseline and endline trajectory

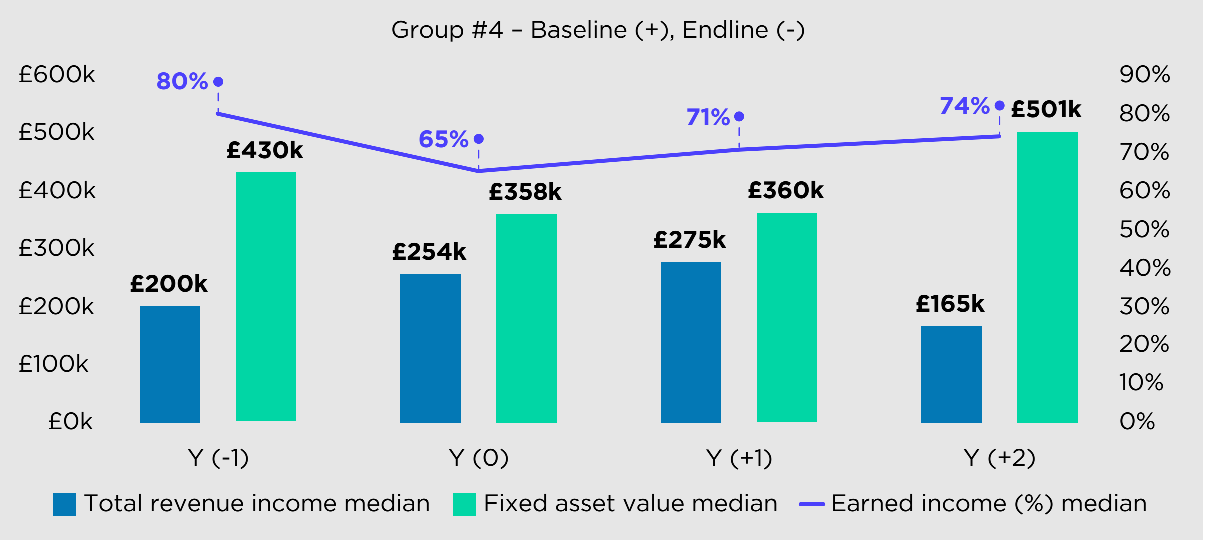


Figure 8 description

- Total fixed assets decreased by 17 per cent before receiving funding and increased by 20 per cent after funding (impact 37%).
- Earned income decreased by 15 per cent before receiving funding and increased by 4 per cent after funding (impact 19%).
- Total revenue income increased by 27 per cent before receiving funding, but decreased by 18 per cent after funding, from £254,368 Y(0) to £165,151 Y(+2) (impact -45%).

As we saw in group #3, although the median total fixed assets has increased substantially between Y(0) to Y(+2) the available data is not entirely sufficient to explain the decrease in total revenue income after receiving Community Business Fund support. It is reasonable, however, for an organisation to take a year or two after building works are complete to settle into a 'new normal', attract new customer groups and bed in a new business model – hence the absence of total revenue income increase.

However, median earned income has increased since funding was received and this, especially given the drop in total revenue income, means that trading activities are a larger part of the business model than before participating in the programme. The increase in earned income could cautiously be considered a success for this group. From a long-term sustainability perspective, however, the drop in total revenue income could be concerning if the pattern continues in future years.

Unfortunately, Y(+3) data was only available for 10 of the 20 organisations in this group. For those 10, the median total revenue income increased from £168,000 Y(+2) to £195,000 Y(+3) which is positive. However, we cannot assume that would be the case for the other 10 organisations.

2.6 Conclusion on the Community Business Fund

The multi-year trend analysis shows that community businesses saw a growth in their trading activity after receiving Community Business Fund grants. By 2021, there was still a lot of volatility in their financial performance, and community businesses still seemed to be in the process of making the most of their newly acquired or refurbished assets. We would need the 2021 data to see if greater efficiencies materialised in the longer term. We can also expect the pandemic to have had a significant impact on the financial health of these organisations.

The analysis of pre- and post-investment growth shows that:

- half of grantees achieved an increase in total fixed assets between 20 and 26 per cent on average after receiving funding despite a decrease of about 16 per cent prior to the funding (groups #3 and #4)
- a third of grantees achieved 169 per cent growth in total fixed assets and 10 per cent growth in total revenue income, while maintaining a relatively high rate of earned income (71%–79%) similar to their pre-programme rate (group #2)
- a fifth of grantees achieved an 18 per cent increase in earned income, reaching 95 per cent of their total revenue income after receiving funding, despite a 3 per cent drop prior to the funding (group #1).

Overall, the Community Business Fund had a positive impact on turnover growth (in cash terms), assets growth (in cash terms) and earned income levels (both in cash terms and as a percentage of turnover). The metrics have been developed to enable longitudinal monitoring of progress and present a baseline (both in terms of data and the metrics themselves) for key performance indicators that could be applied to other funding programmes.

There are several pockets of grantees whose performance merits careful monitoring as their growth would appear to be sub-optimal. The corollary is that it may also be valuable to analyse the high performers in more depth to understand the factors that contribute to their success.

3.
TRADE UP

3.1 About the programme

The Community Business Trade Up Programme (referred to as 'Trade Up' in this report) supported the growth of community businesses with a focus on increasing their sales and income from trading. The businesses targeted by this programme are either early-stage businesses planning to increase trading, or established businesses who are making significant changes to their business plan to refocus on trading or develop a new or additional trading income stream.

Businesses on Trade Up were provided with:

- an action learning programme over a nine-month period
- a grant – a small group of grantees received a traditional grant of £10,000 (control group) and the remaining received a matched trading grant between £2,000 and £10,000 (matched group) depending on their trading income growth
- access to a support network of other community businesses.

Around a quarter (27%) of community businesses on Trade Up owned an asset but needed investment to bring it up to standard. Other community businesses were renting buildings which required refurbishment, including some which were on short-term lease agreements.

Given the substantial variation in data availability for this programme, the analysis focuses on the 'constant cohort' of 50 organisations (out of a total of 333 grantees) for which data is available in all years from Year (-1) to (+2).[30] The year zero of the constant cohort is in 2017 for eight community businesses, and 2018 for 42.

Thirty-six of the 50 organisations were in match trading groups, and the rest were in the control groups.

3.2 Multi-year trend analysis

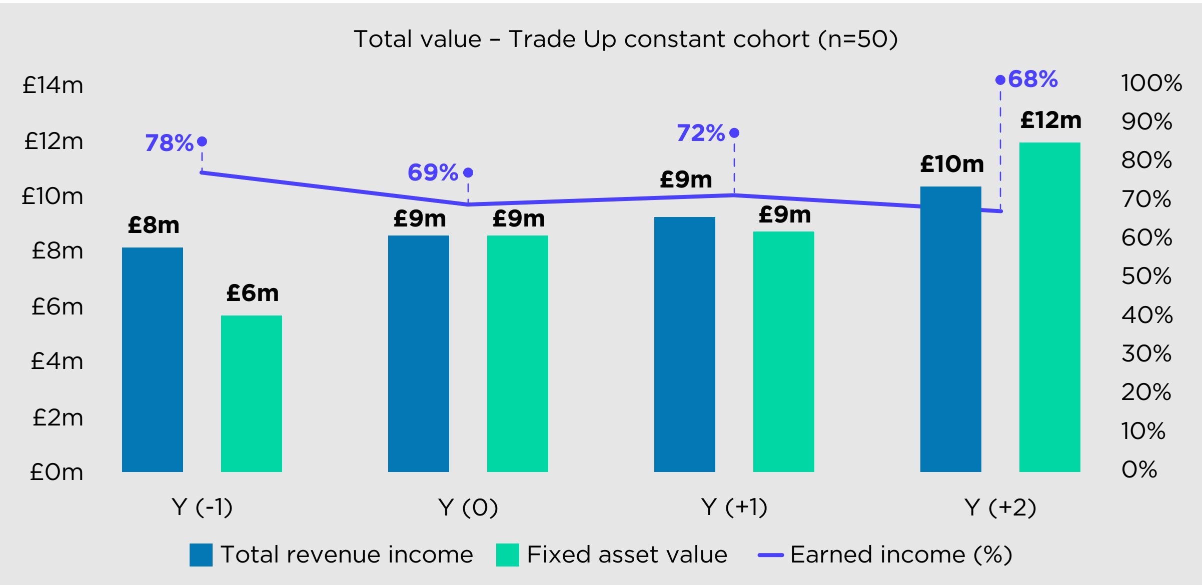
To assess the overall trends in financial data across multiple years, several financial metrics were considered in total and median values. This section explores high-level trends for the constant cohort. Table 7 shows the evolution between Year (-1) and Year (+2) of the total revenue income, total long-term liabilities and total fixed asset values for the constant cohort.

30 See further explanations in Appendix. See Table 22 for constant cohort year zero expressed in financial year.

Table 7: Trade Up constant cohort financial metrics – median and total

Trade Up constant cohort (count=50)				
Median	**Y (-1)**	**Y (0)**	**Y (+1)**	**Y (+2)**
Total revenue income	£92,330	£111,055	£120,954	£139,563
Contribution to reserves[31]	4%	1%	8%	5%
Earned income (%)	78%	69%	72%	68%
Working capital (%)[32]	17%	19%	21%	29%
Total long-term liabilities[33]	£110,000	£73,100	£40,273	£71,975
Fixed asset value	£12,762	£17,214	£31,930	£50,107
FAT (%)[34]	992%	733%	432%	271%
Trade Up constant cohort (count=50)				
Total	**Y (-1)**	**Y (0)**	**Y (+1)**	**Y (+2)**
Total revenue income	£8,117,389	£8,590,644	£9,255,968	£10,341,027
Total long-term liabilities	£2,804,709	£3,744,399	£1,760,723	£3,815,961
Fixed asset value	£5,680,562	£8,561,117	£8,727,196	£11,942,382

Figure 9: Key financial metrics of Trade Up constant cohort – total value



31 After interest and tax expressed as a percentage of turnover.
32 Net current assets expressed as a percentage of turnover.
33 Excluding defined pension scheme.
34 Turnover divided by fixed assets.

Figure 10: Key financial metrics of Trade Up constant cohort – median value

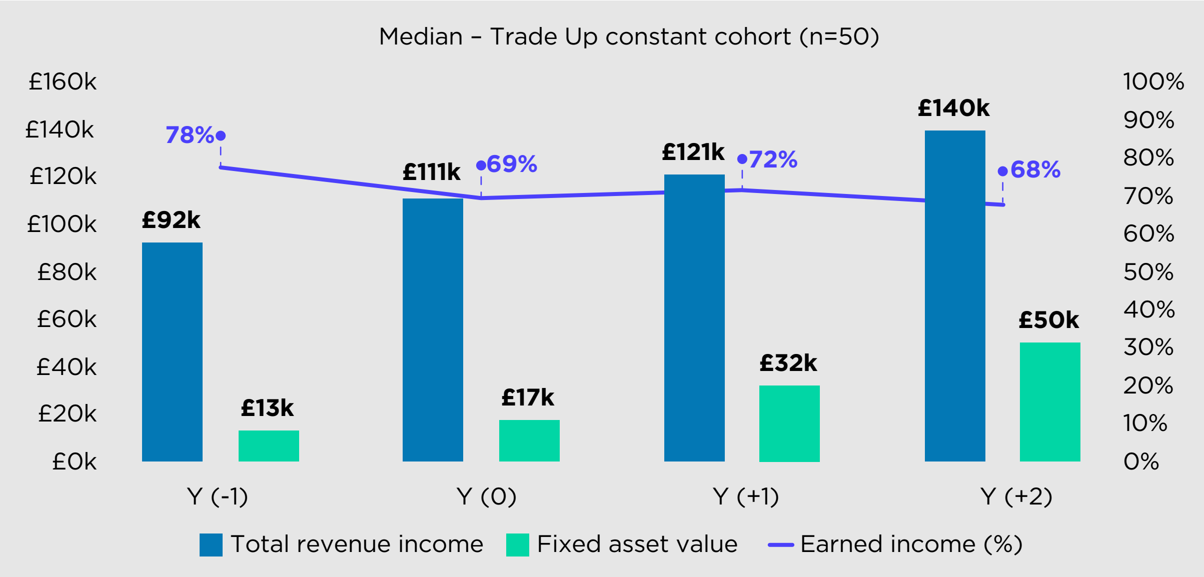
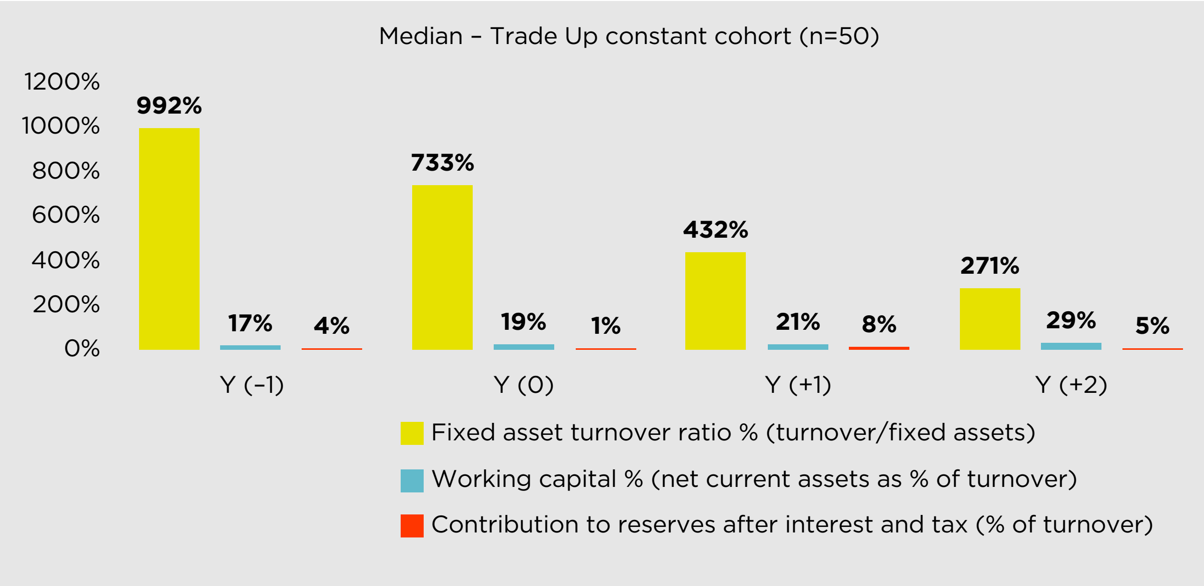


Figure 11: Further key financial metrics of Trade Up constant cohort – median value



Key insights from the multi-year trend analysis include:

+	**Total revenue income** grew across the period from £8.6 million to £10.3 million – approximately 20 per cent.
+	**Fixed asset values** rose over the period from £5.7 million to £11.9 million – approximately 110 per cent.
+	**Total long-term liabilities** rose from £2.8 million to £3.8 million – approximately 35 per cent (Table 7).
+	The **median total revenue income** rose across the period from £92,000 to £140,000, corresponding to an increase of more than 50 per cent (Figure 10).
+	**Median fixed asset values** rose from £13,000 to £50,000 – almost four times higher at the start of the programme than before the programme. It is also worth noting that only 36 organisations had any fixed assets at the start of the period whereas 44 have fixed assets by the end (Figure 10).
+	While the number of organisations with **long-term liabilities** doubled over the period (from 9 to 18), the median level of long-term liabilities decreased from £100,000 to £72,000.
+	While **contribution to reserves** fluctuated over the time period between 1 and 8 per cent of turnover, they ended up marginally higher at the end than at the start (5% compared with 4%).
+	**Median working capital** increased from 17 to 29 per cent – an improvement of 70 per cent over the period.
-	The **median earned income** dropped over the period from 78 to 68 per cent (Figure 10).
-	The **median fixed asset turnover ratio** (FAT) decreased from 992 to 271 per cent – although this indicates that assets were not being as efficiently leveraged into income as previously, this is a minor matter given the very low levels of fixed assets at the outset. It is not a cause for concern.

Conclusion

Given that both median fixed asset values and median revenue income rose for the cohort as a whole, it would be reasonable to expect an increase in median fixed asset turnover ratio rather than a decrease.

This view of the cohort as a whole **may be obscuring differences**, either between turnover bands or for different uses of funds. Our segmentation explores this further.

As it was anticipated that the organisations would use their time as participants in Trade Up to expand their earned income generating activities, the decrease in median earned income merits further exploration. Fixed assets have increased, mainly in relation to equipment purchases rather than major capital works, which is likely to produce a growth in earned income rather than a decrease.

3.3 Multi-year key factor analysis

A. Segmentation by the size of community business

Taking into consideration the basic trends in the multi-year analysis, this section provides more detail and analyses whether differences in the patterns indicate that small organisations behave differently from large ones and, if so, how?

In contrast with the Community Business Fund cohort, there are a large number of Trade Up grantees with a turnover below £50,000 and very few organisations in the upper turnover bands. With that in mind, the analysis focuses on organisations with a turnover under £500,00, as there is insufficient data to report on the turnover bands over £500,000.

Table 8 shows financial metrics of the Trade Up constant cohort by revenue band.

Table 8: Trade Up constant cohort financial metrics (median by revenue bands)

Trade Up constant cohort by revenue bands – Median				
	Y (-1)	Y (0)	Y (+1)	Y (+2)
Count=12	Less than £50K			
Total revenue income	£18,154	£29,918	£53,259	£52,730
Contribution to reserves[35]	11%	14%	8%	9%
Earned income (%)	92%	87%	100%	100%
Working capital (%)[36]	39%	46%	32%	40%
Total long-term liabilities[37]	£110,000	£95,541	£3,524	£45,596
Fixed asset value	£6,672	£8,361	£13,289	£14,968
FAT (%)[38]	515%	383%	409%	368%
Count=10	£50-100K			
Total revenue income	£55,694	£81,621	£84,431	£106,453
Contribution to reserves	6%	1%	4%	0%
Earned income (%)	95%	78%	100%	100%
Working capital (%)	3%	7%	4%	4%
Total long-term liabilities	£17,713	£13,448	£14,184	£20,383
Fixed asset value	£2,086	£1,643	£4,981	£3,235
FAT (%)	2,621%	4,694%	2,768%	3,860%
Count=15	£100-200K			
Total revenue income	£134,165	£131,301	£135,347	£176,940
Contribution to reserves	3%	1%	8%	2%
Earned income (%)	79%	70%	63%	60%
Working capital (%)	10%	11%	19%	24%
Total long-term liabilities	£362,635	£268,639	£163,238	£100,965
Fixed asset value	£8,931	£24,433	£64,573	£254,601
FAT (%)	3,882%	461%	111%	68%

35 After interest and tax expressed as a percentage of turnover.
36 Net current assets expressed as a percentage of turnover.
37 Excluding defined pension scheme.
38 Turnover divided by fixed assets.

Trade Up constant cohort by revenue bands – Median				
	Y (-1)	Y (0)	Y (+1)	Y (+2)
Count=9	£200-500K			
Total revenue income	£240,456	£284,037	£295,854	£302,851
Contribution to reserves	4%	-2%	4%	11%
Earned income (%)	56%	54%	42%	48%
Working capital (%)	25%	31%	26%	35%
Total long-term liabilities	£5,064	£375,720	£352,026	£318,797
Fixed asset value	£61,541	£26,304	£50,453	£45,274
FAT (%)	524%	1,094%	311%	1,013%
Count=3	£500K-£1m			
Total revenue income	£456,923	£550,127	£570,387	£467,213
Contribution to reserves	11%	6%	8%	5%
Earned income (%)	43%	51%	51%	52%
Working capital (%)	24%	16%	27%	28%
Total long-term liabilities	£4,389	£1,711	£55,410	£55,410
Fixed asset value	£30,841	£75,701	£77,823	£79,622
FAT (%)	1,988%	684%	733%	676%

Key insights from the multi-year trend analysis, segmented by size of community businesses, include:

+	**Total income** rose across the period for the cohort with a turnover of <£50K or in the £200–500K band.
+	The number of organisations carrying **long-term liabilities** was too low in any one cohort to put any weight on the data either as totals or medians. The fact that long-term liabilities are largely absent in this cohort is, however, a finding in itself.
+	**Total fixed assets** values increased in all turnover bands with growth rates ranging from 15 per cent (£100–200K) to 95 per cent (£200–500K).
+	**Median turnover** rose for all turnover bands across the time period. The scale of growth is greatest in the <£50K cohort where median turnover roughly trebled over the four-year period. The scale of growth diminished as the median turnover increased.
+	**Median fixed asset values** rose in the first three cohorts up to £200K. In the £200–500K cohort fixed asset values dropped slightly. The decrease in asset values is likely to have been caused by depreciation and is therefore not a cause for concern.
+	**FAT** would be expected to drop rather than rise during a period of business model change and asset acquisition. Uncommonly, the £50–100K and £200–500K cohorts bucked this trend. In the case of the £200–500K cohort, this can be explained by a decrease in median asset values over the period while turnover rose. What is perhaps more interesting is the £50–100K cohort where the median income doubled and median fixed asset values only increased by 50 per cent.
+	**Median contribution to reserves** increased in the £200–500K band (from 4% to 11%).
+	**Median earned income** as a proportion of total turnover rose in the lower two income bands and in both cases hits 100 per cent.
+	The **median working capital** levels in the <£50K and £200–500K were healthy and those in the £100–200K improved to a healthier level.
-	The **median contribution to reserves** dropped over the time period for all income bands up to £200K.
-	**Median earned income** decreased in the £100–200K (79% to 60%) and £200–500K bands (56% to 48%).
-	**Median working capital** levels varied considerably between the income bands with levels in the £50–100K band being particularly low and consistently under 10 per cent.
?	**Total income** was broadly flat for the 25 organisations in the middle two bands.

Conclusion:
Looking at the income growth metric on its own, trends in the data could suggest that the **greatest impact** on business models was achieved in **organisations with the lowest turnover**.

Looking at the metrics on turnover, fixed asset values and fixed asset turnover ratio, trends in the data show an **increase in the exploitation of assets** into a turnover in the £50–100K turnover band. This could suggest that grantees turned equipment purchases into turnover quicker than building purchases or redevelopment.

When looking at **contribution to reserves** as well, it is notable that while smaller organisations (<£100K) managed to leverage new assets into income, larger organisations (£200–500K) both leveraged assets into income and improved their net profit margin (and thus their financial resilience).

Organisations may be increasing their turnover by **developing multiple income streams** and achieving a workable balance between grant subsidy and earned income from products and services. This would be one explanation for the very high levels of earned income generation in the smallest organisations (and indeed a focus of this programme on generating earned income) while those organisations in the higher income brackets have a greater emphasis on grant-based income.

The levels of **working capital** are very low in the £50–100K band; this could be related to cashflow issues. In contrast, as organisations increase in size beyond this pinch point, working capital levels are healthier.

B. Segmentation by use of funds

When data was segmented by the use of funds, there was a clear split between projects where the monies were mainly spent on salary costs versus those where monies were spent on materials, equipment and other costs related to setting up or growing trading activities.

Table 9 shows financial metrics for the Trade Up constant cohort by use of funds i.e., breakdown of community businesses that mainly used the funding for salaries, and other purposes which could include: marketing, refurbishment, rent and running cost, IT and equipment, consulting, licencing and other services, training, travel, event, volunteers, or a mix.

Table 9: Trade Up constant cohort financial metrics median by use of funds

Trade Up constant cohort by use of funds – Median				
	Y (-1)	Y (0)	Y (+1)	Y (+2)
Count=16	**Salaries**			
Total revenue income	£157,411	£220,159	£227,295	£241,312
Contribution to reserves[39]	4%	0%	9%	10%
Earned income (%)	61%	50%	46%	51%
Working capital (%)[40]	23%	14%	19%	28%
Total long-term liabilities[41]	£5,064	£31,128	£55,410	£55,410
Fixed asset value	£6,239	£14,131	£27,251	£50,107
FAT (%)[42]	1,835%	1,348%	1,101%	565%
Count=16	**Other**			
Total revenue income	£92,330	£96,585	£105,563	£89,082
Contribution to reserves	9%	6%	6%	1%
Earned income (%)	77%	71%	91%	70%
Working capital (%)	16%	39%	14%	47%
Total long-term liabilities	£193,951	£81,081	£67,100	£91,443
Fixed asset value	£32,449	£37,466	£53,636	£81,319
FAT (%)	394%	250%	203%	100%

39 After interest and tax expressed as a percentage of turnover.
40 Net current assets expressed as a percentage of turnover.
41 Excluding defined pension scheme.
42 Turnover divided by fixed assets.

Key insights from the multi-year trend analysis, segmented by the use of Trade Up funds include:

+	Organisations which spent the grant on *salary costs* saw a growth in revenue income over the period – total revenue income for the cohort of 16 organisations grew from £4.2 million to £5.5 million (28%) and the median rose from £157,000 to £241,000 (53%).
+	Those who spent funds on *other costs* saw the total revenue income for the group rise from £768,000 to just over £1 million (33%).
+	**Total fixed asset** values have increased over the period in both groups: Those who spent the funds on *salaries* nearly trebled their total asset value from £1.2 million to £3.4 million. It is unlikely that this is all due to activities related to Trade Up. The median total asset value rose from £6,000 to £50,000. This suggests that a few organisations had large capital projects running alongside Trade Up but that, in the main, the organisations involved in the programme are not generally capital-heavy at the beginning or end of the time period under review. It may be worth exploring what factors lead to the substantial increase in fixed asset values in this cohort if it is not Trade Up activities driving them. Those who spent funds on *other costs* had a higher total asset value at the start of the time period (£3.7m) than those who spent funds on salaries. The total asset value rose to £4.3 million by Year (+2) (*c.*15%). Perhaps unsurprisingly this cohort also had a higher median fixed asset value across the period. This too rose, from £32,000 to £81,000.
+	**Median working capital** levels have risen faster in the *other costs* group versus the salary spend cohort. It is however good to see that both have risen and are generally healthy for both groups in Year (+2). As a broad rule of thumb, under 10 per cent working capital can be considered low and over 20 per cent can be considered healthier.
-	Those who spent funds on *other costs* saw the **median income** fall slightly from £92,000 to £89,000 (4%).
?	**Total long-term liabilities** dropped slightly in the cohort which spent funds on salaries from £835,000 to £802,000. By contrast, total long-term liabilities rose by around 25 per cent in the cohort which spent grant monies on other costs (£768K to £1m). These patterns were not matched by those seen in the medians, which rose in the salaries cohort and dropped in the 'other spend' cohort. For both groups, however, the number of organisations with long-term liabilities rose over the period (from three to five in the salaries group and from four to eight in the other spend group).
?	The **median percentage of turnover** earned from trading activities dropped in both cohorts by 8–10 percentage points. This is noteworthy given the focus of the programme on the development of trading activities and could indicate that community businesses did not simply focus on trading income growth, but also engaged in other activities.
?	Given the substantial rise in **median fixed asset** values in both cohorts it is not surprising therefore that the fixed asset turnover ratio (FAT) dropped in both groups. This indicates that assets have grown faster than revenue over the period and suggests that the new assets are not yet being fully leveraged into revenue streams. An analysis over a longer period could show that the FAT would start to rise again as the organisation becomes more expert in leveraging assets into income.

Conclusion

The split between the salary and other costs cohorts brings out a difference in the changes in contribution to reserves. The salary spend group shows a rise from 4 to 10 per cent over the period whereas the other costs cohort shows a drop from 9 to 1 per cent. This shows a significant difference between the two cohorts and demonstrates the **utility of this data segmentation**.

Additionally, the Trade Up evaluation showed that **some grantees** have been able to exploit the programme's support to **catalyse further growth** through additional grant funding.[43] This could seem counter to the overarching aim of Trade Up, which is to increase income from trade to reduce reliance on grant income. These organisations, however, often applied for funding to buy capital equipment or to sustain salaries and overheads for long enough to develop areas of their business, with the aim of diversifying their income streams and ultimately funding growth in revenue income in the long run.

This is also a reminder, as outlined in the Trade Up evaluation, that community businesses **may not experience growth in all financial metrics at the same time**, and that the impact of the programme on a community business's financial situation is not straightforward. This is likely driven by the varying financial strategies they adopt, and that both the financial and learning support provided were short-term, leaving participating organisations open to be influenced by external factors.

3.4 Growth pre- and post-investment[44]

This section compares the endline and baseline growth in total revenue income, total fixed assets, and earned income. For this analysis, community businesses are segmented into four groups, depending on their total revenue income growth trajectory between baseline and endline (see Tables 10, 11 and 12).

Key findings for this pre- and post-comparison include:

- half of Trade Up grantees maintained a high rate of earned income (80%) and achieved growth in total fixed assets of 94 per cent after receiving funding despite the 10 per cent drop experienced before funding (group #2)
- a third achieved growth in total revenue income and total fixed assets by 29 and 62 per cent respectively after funding, despite the drop they experienced in total revenue income prior to receiving funding (group #1)
- a fifth of Trade Up grantees achieved 6 per cent growth in earned income after funding despite the 22 per cent drop in earned income they experienced prior to receiving it (group #4).

43 Renaisi, 'Can the Trade Up programme make community businesses more resilient? Short summative evaluation report' (forthcoming).
44 See discussion in the section on methodology for the Community Business Fund.

Table 10: Median total revenue income – Trade Up segmentation by total revenue income growth trajectory between baseline and endline

Median total revenue income								
Groups[45]	N	Y (-1)	Y (0)	Y (+1)	Y (+2)	B %	E %	Im %
#1 B - E+	13	£138,562	£109,404	£128,589	£173,185	-21%	29%	50%
#2 B+ E+	25	£84,503	£108,034	£110,716	£138,668	28%	14%	-14%
#3 B - E -	3	£538,671	£229,444	£290,645	£186,041	-57%	-9%	48%
#4 B+ E -	9	£52,391	£112,705	£98,548	£69,728	115%	-19%	-134%

Table 11: Median earned income – Trade Up segmentation by total revenue income growth trajectory between baseline and endline

Median earned income (%)								
Groups	N	Y (-1)	Y (0)	Y (+1)	Y (+2)	B %	E %	Im %
#1 B - E+	13	43%	58%	60%	58%	15%	0%	-15%
#2 B+ E+	25	85%	86%	80%	80%	1%	-3%	-3%
#3 B - E -	3	44%	60%	61%	48%	16%	-6%	-22%
#4 B+ E -	9	81%	59%	70%	71%	-22%	6%	28%

Table 12: Median total fixed assets – Trade Up segmentation by total revenue income growth trajectory between baseline and endline

Median total fixed assets								
Groups	N[46]	Y (-1)	Y (0)	Y (+1)	Y (+2)	B %	E %	Im %
#1 B - E+	9	£5,463	£8,062	£13,168	£25,777	48%	110%	62%
#2 B+ E+	16	£15,665	£14,131	£34,977	£40,716	-10%	94%	104%
#3 B - E -	2	£171,073	£165,681	£149,653	£143,159	-3%	-7%	-4%
#4 B+ E -	6	£6,742	£26,870	£33,880	£250,457	299%	416%	118%

45 B: baseline, E: endline, Im: impact.
46 Missing data means that count numbers decreased slightly compared with the previous tables of total revenue income and earned income, i.e. groups in all tables are the same except some missing assets figures.

Table 10 shows that across groups #1, #2 and #4, the median total revenue income is higher in Y(+2) than in Y(-1). The differences between the groups relate to the trends between Y(-1) and Y(+2): down then up; up and up; and up then down respectively.

About a third experienced negative total revenue income growth before receiving funding yet shifted to experiencing positive growth after receiving funding (group #1). Half experienced positive growth before receiving Trade Up funding and continued that way afterwards (group #2). About a fifth were experiencing positive growth and shifted to negative growth after funding (group #4). Further analysis shows that such trajectories can be understood more clearly when other financial metrics and absolute values are taken into account.

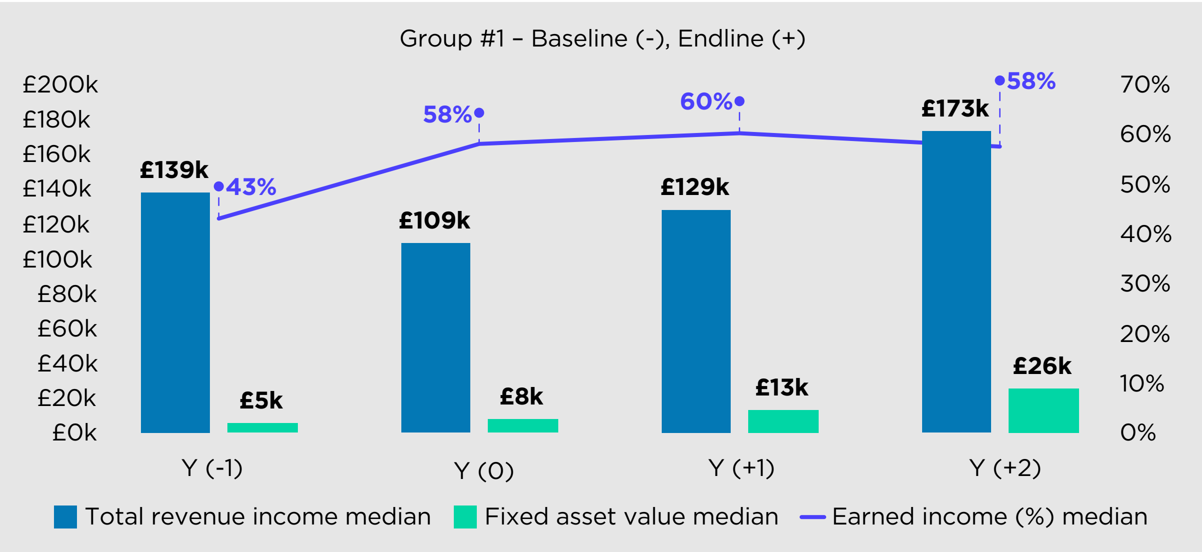
Group #1

Community businesses from the first group (n=13) experienced a positive impact shown by endline growth in total revenue income larger than the corresponding baseline growth. However, the impact on total fixed assets and earned income for this group is less clear.

Figure 5 description

- Total revenue income decreased by 21 per cent before receiving a grant and increased by 29 per cent after funding, from £109,404 in Y(0) to £173,185 in Y(+2) (an impact of 50%).
- Total fixed asset value continued to grow, by 48 per cent (from a £8,062 median in Y(0) to a £25,777 median of Y(+2)), similarly to baseline growth of 110 per cent (an impact of 62%).
- Earned income did not increase considerably after funding and remained rather steady for two years (58%), while baseline earned income was 15 per cent and endline was 0 per cent (a negative impact of -15%).

Figure 12: Trade Up group #1 financial metrics – segmentation by total revenue income baseline and endline trajectory



While the total revenue income dropped between Y(-1) and Y(0), overall the cohort in group #1 demonstrated growth on the three metrics. Therefore, the analysis indicates that grantees in this group have a healthier and more sustainable business model by Y(+2) than before they participated in Trade Up. These businesses can be expected to have achieved a 'new normal' whereby the increase in assets has been translated into an increase in revenue – by Y(+2) they are exploiting their assets more (as they have more to exploit) and more efficiently (as their skills have increased). This is a successful outcome for the grantees and the programme.

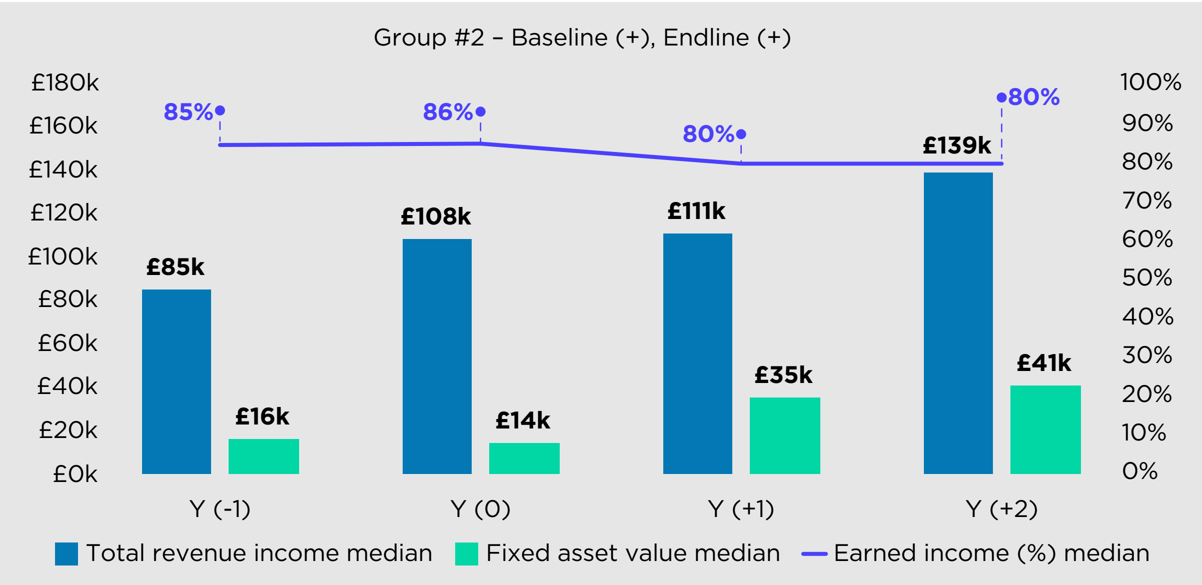
Group #2

The total fixed assets of the second group (n=25) experienced a positive impact shown by endline growth in total fixed assets larger than the corresponding baseline negative growth ratio.

Figure 6 description

- Total fixed assets decreased by 10 per cent before receiving funding and increased by 94 per cent after funding, from £14,131 Y(0) to £40,716 Y(+2) (an impact of 104%).
- Total revenue income increased by 28 per cent before receiving funding and kept increasing after the funding, albeit by a lower ratio of 14 per cent (a negative impact of -14%).
- Earned income was almost steady between Y(-1) (85%) and Y(0) (86%) before receiving funding, and decreased slightly to 80 per cent in Y(+1) and Y(+2) (a negative impact of -3%).

Figure 13: Trade Up group #2 financial metrics – segmentation by total revenue income baseline and endline trajectory



The results for this group show a mixed picture. In the simplest terms total revenue income and total fixed assets both increased over the period, which is a positive outcome. However, the endline rate of total revenue income growth (14%) is slower than the baseline rate (28%); i.e. the grantees are growing at a slower rate at the end than they were before participating in Trade Up. Although the reason is not entirely captured in the data, it might simply be because maintaining a growth rate of 28 per cent per annum is challenging, or that it is not feasible to maintain such a growth rate while building the fixed asset base or when adjusting the balance between the grant funding and earned income. Similarly, grantees may not have been able to increase their earned income percentage over the period, because they were already at a relatively high rate (85%) before taking part in the programme.

Trade Up grantees could also be receiving funding from other funders or programmes. With a median turnover of around £100,000, grants in the £10–20,000 range would adjust the earned income ratio by 5–10 per cent and could account for the changes seen here.

Additionally, it is not uncommon for organisations to struggle to maintain a growth rate in turnover while undergoing a change in business model or assets, especially those small organisations with few paid staff.

Despite the drop in earned income and the slower rate of growth of total revenue income, the analysis indicates **a successful outcome for this group – their growth in total revenue income and total fixed assets is expected to make their business model more resilient in the long run**. This is **in the context of a minor drop in earned income** (and the median earned income remaining high).

We did not analyse Group 3 in detail, given the small sample (n=3).

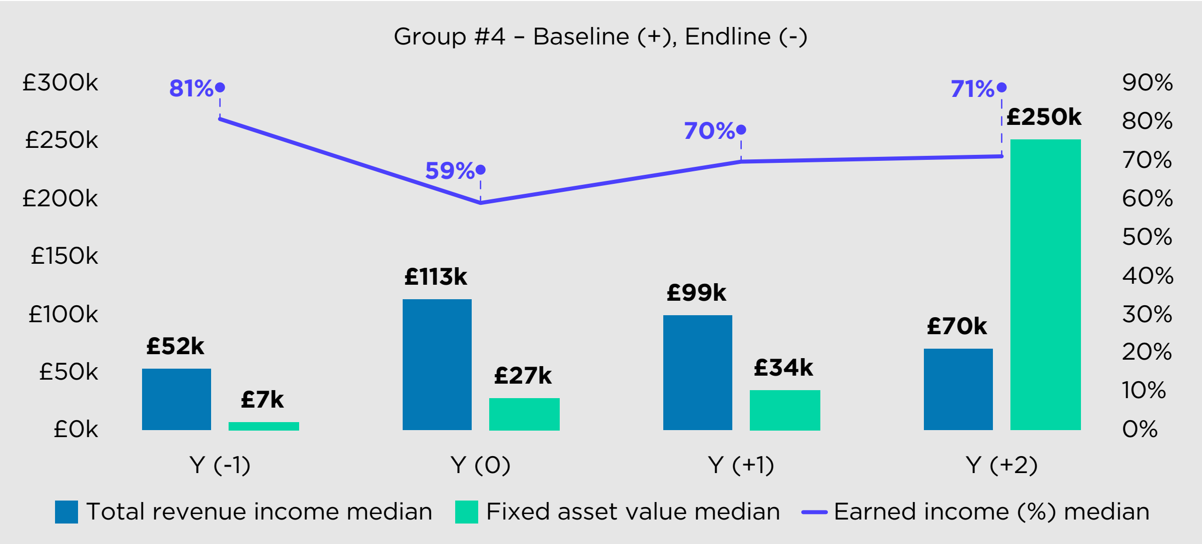
Group #4

The earned income of the fourth group (n=9) experienced a positive impact shown by endline growth greater than the corresponding baseline negative growth ratio. In addition, the absolute total fixed asset value increased significantly, by nearly eight times in Y(+2) compared with Y(0). However, this group did not experience a positive impact on total revenue income: the absolute value decreased by nearly 38 per cent from Y(0) to Y(+2) (i.e. 19% per year).

Figure 7 description

- Earned income decreased by 22 per cent before receiving funding and increased by 6 per cent after the funding from 59 per cent in Y(0) to 71 per cent in Y(+2) (an impact of 28%).
- Total fixed assets increased by 299 per cent before funding, and continued to increase by a higher ratio after the funding, by 416 per cent (an impact of 118%); the absolute value of total fixed assets increased considerably from £26,870 in Y(0) to £250,457 in Y(+2): an eightfold growth in asset value during the period (equivalent to fourfold growth per year).
- Total revenue income increased by 115 per cent before funding and decreased by 19 per cent after the funding, from £112,705 in Y(0) to £69,728 in Y(+2) (an impact of -134%).

Figure 14: Trade Up group #4 financial metrics – segmentation by total revenue income baseline and endline trajectory



The most notable change for this group is the substantial growth in median total fixed assets which could be due to the purchase of a building but not to participating in Trade Up alone. Furthermore, the median total fixed assets is skewed by two grantees, including one which received Community Business Fund support in Y(+2). Therefore, the increase in total fixed assets may not be generalised to all in this group.

It is reasonable to expect that grantees undergoing such a large change in underlying assets may also experience at least temporary shifts in their business model while arriving at a 'new normal' which utilises the additional assets. The volatility in all three metrics is therefore expected and may well indicate broader changes than those associated with Trade Up alone.

On this data alone it is hard to determine the extent to which participation in Trade Up has led to successful financial outcomes – trading-related changes may well be minor compared with wider organisational change. Despite that, whilst there was a drop in the median earned income percentage from 81 per cent in Y(-1) to 71 per cent in Y(+2) with growth in median total revenue income from £52,000 in Y(-1) to £70,000 in Y(+2), earned income **has increased in cash terms which should be considered as a positive outcome**.

3.5 Conclusion on Trade Up

The pre- and post- comparison shows that:

- half of grantees maintained a high rate of earned income (80%) and achieved growth in total fixed assets of 94 per cent after receiving funding, despite the 10 per cent drop they experienced before receiving the fund (group #2)
- a third achieved growth in total revenue income and total fixed assets by 29 and 62 per cent respectively after funding, despite the drop they experienced in total revenue income prior to receiving the grant (group #1)
- a fifth of grantees achieved growth in earned income of 6 per cent after funding despite the 22 per cent in earned income drop they experienced prior to receiving funds (group #4).

In addition, segmentation by size of community business in the multi-year trend analysis shows that smaller organisations (<£100K) successfully leveraged new assets into income, while larger organisations (£200–500K) both leveraged assets into income and improved their net profit margin (thus contributing to their financial resilience).

Segmentation by the use of funds in the trend analysis shows that community businesses that spent funding on salaries nearly trebled their total asset value (suggesting that a few organisations had capital projects running alongside Trade Up), and increased contributions to reserves. Community businesses that funded other costs had a higher total asset value at the start of the period, and their contributions to reserves decreased.

The segmentation by turnover bands shows earned income increasing in cash terms in all groups, and in percentage terms in all except those in the £100–200K and £200–500K bands.

The use of funds segmentation shows earned income increasing as a percentage in the 'other' cluster and falling in the cluster whose focus was on salaries. However, as earned income rose in cash terms in both groups, analysis shows that **overall, the programme had a positive impact on community businesses' capacity to generate earned income, with the caveat that some organisations did not quite maintain their ratios of earned to grant income as they grew**.

4. BRIGHT IDEAS

4.1 About the programme

Bright Ideas was primarily offered to community groups exploring a community business idea and, to a lesser extent, to existing organisations with a new idea. It offered:

- one-to-one business development support from a specialist advisor
- grant application support for funding of up to £15,000
- learning opportunities such as visits to other community businesses, access to online resources and grantee networking.

Most of the community business ideas supported by Bright Ideas involved assets (85%).[47] Many participants were community groups with existing assets who wanted to diversify or implement new ideas, or community interest groups aspiring to establish a community hub. Several groups sought asset ownership but required business planning support first.

As with the Community Business Fund and Trade Up, there is considerable variation in the availability of data across the years, which is why the analysis focuses on the constant cohort.[48] The year zero for the constant cohort is in 2017 for 21 community businesses, in 2018 for 12, and in 2019 for two.

4.2 Multi-year trend analysis

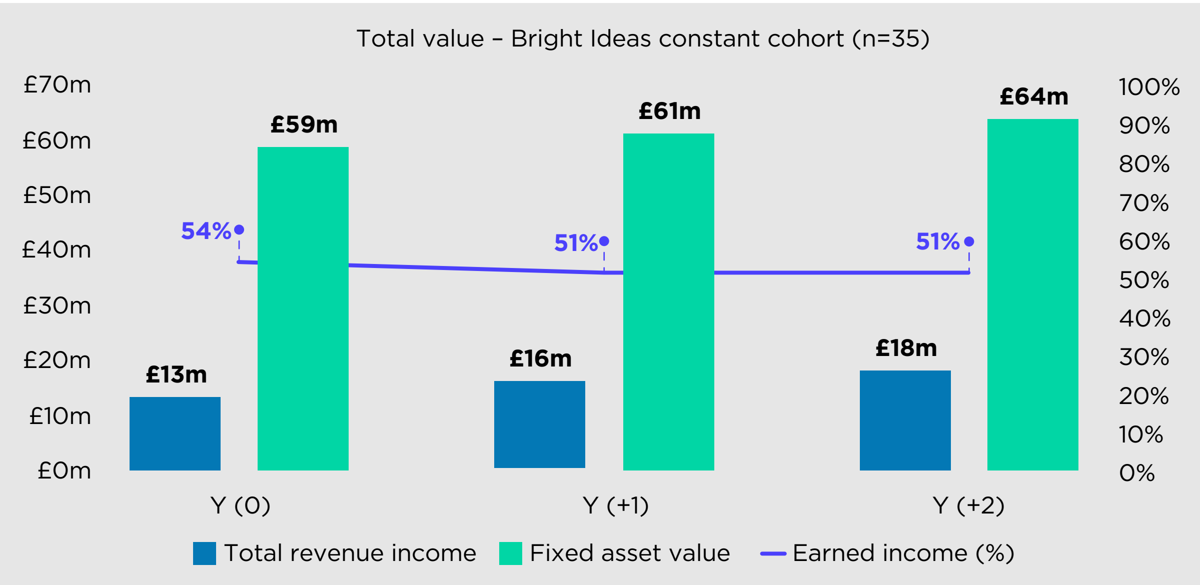
To assess the overall trends in financial data across multiple years, several financial metrics were considered in total and median values. This section explores the high-level trends for the Bright Ideas constant cohort. Table 13 shows the evolution between Year (0) and Year (+2) of the total revenue income, total long-term liabilities and total fixed assets values for this cohort.

47 Archer, T. et al. (2019) Our assets, our future: the economics, outcomes and sustainability of assets in community ownership, Power to Change Research Institute Report No. 21, p. 3.
48 See Appendix for further details. See Table 22 for constant cohort year zero expressed in financial year.

Table 13: Bright Ideas constant cohort financial metrics – median and total

Bright Ideas constant cohort (count=35)				
Median	**Y (-1)**	**Y (0)**	**Y (+1)**	**Y (+2)**
Total revenue income	N/A	£74,861	£106,305	£111,373
Contribution to reserves49	N/A	19%	9%	3%
Earned income (%)	N/A	54%	51%	51%
Working capital (%)50	N/A	45%	41%	37%
Total long-term liabilities51	N/A	£13,977	£2,671	£3,206
Fixed asset value	N/A	£27,401	£24,642	£41,409
Fixed asset turnover ratio (FAT) (%)52	N/A	739%	428%	549%
Bright Ideas constant cohort (count=35)				
Total	**Y (-1)**	**Y (0)**	**Y (+1)**	**Y (+2)**
Total revenue income	N/A	£13,432,764	£15,857,265	£18,093,290
Total long-term liabilities	N/A	£219,285	£149,306	£229,059
Fixed asset value	N/A	£58,701,019	£61,286,935	£63,766,040

Figure 15: Key financial metrics of Bright Ideas constant cohort – total value



49 After interest and tax expressed as a percentage of turnover.
50 Net current assets expressed as a percentage of turnover.
51 Excluding defined pension scheme.
52 Turnover divided by fixed assets.

Figure 16: Key financial metrics of Bright Ideas constant cohort – median value

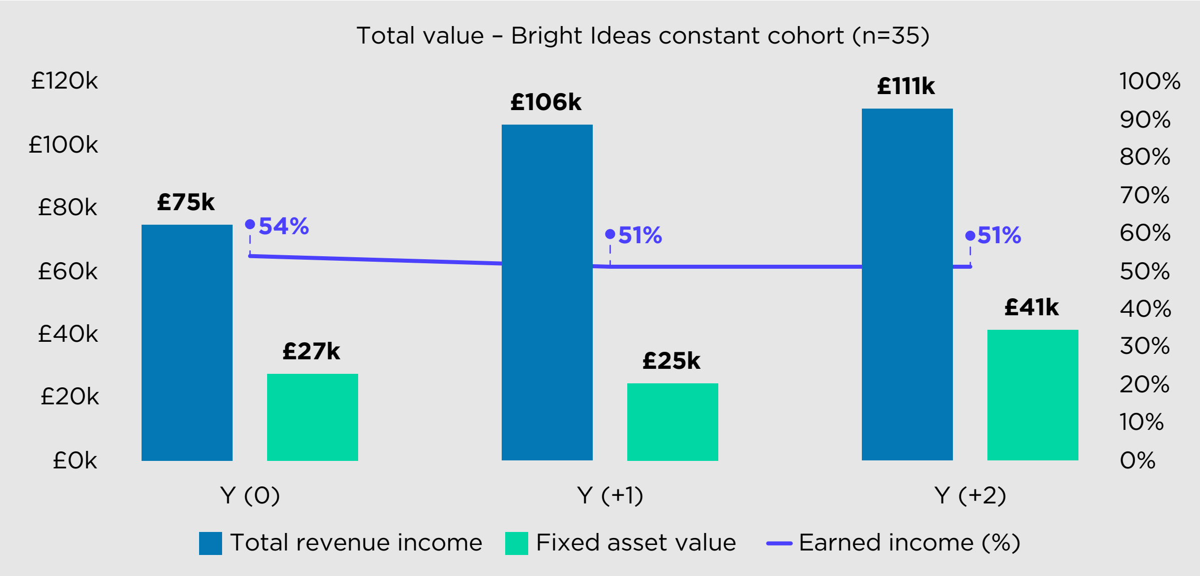
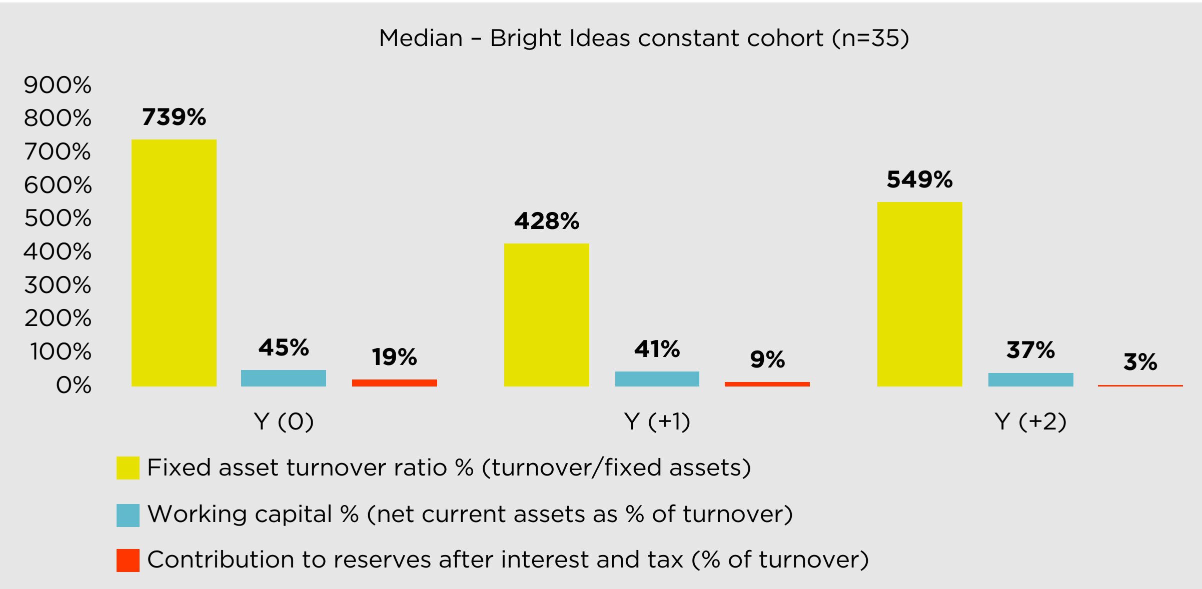


Figure 17: Further key financial metrics of Bright Ideas constant cohort – median value



Key insights from the multi-year trend analysis include:

+	**Total revenue income** increased across the time period from £13 million to £18.1 million.
+	**Total fixed assets** values also rose from £59 million to £64 million (Figure 15).
+	**Total long-term liabilities** rose from £219,000 to £229,000 although it is worth noting that only a very small proportion of this cohort have any long-term liabilities at all and that the count dropped from five to three across the period. However, this is too small a number of organisations to enable substantial conclusions to be drawn regarding patterns in the data.
+	**Median revenue income** increased in the constant cohort from £75,000 to £111,000 – almost a 50 per cent increase over two years (Figure 16).
+	**Median fixed asset values** rose from £27,000 to £41,000 – again an increase of approximately 50 per cent (Figure 16).
-	**Contribution to reserves** dropped substantially from 19 to 3 per cent.
-	**Earned income** levels decreased slightly from 54 to 51 per cent but might be considered to be fairly constant (Figure 16).
-	**Working capital** remained high at 37 per cent but decreased from a median of 45 per cent in Year (0).

Conclusion

Trends in the data suggest that debt was not widely used by participants in Bright Ideas. This can be expected for organisations at this early stage in their life or with this level of annual turnover.

The reduction in the contribution to reserves may be related to the fact that turnover is much lower in this programme than in Trade Up or the Community Business Fund and it is common to see large variations in contributions to reserves in small organisations – both between organisations and between years.

This in turn could be down to the volatility in business models at this scale of activity or to a lack of accrual accounting in small organisations. Indeed, as Bright Ideas evaluation has shown, grantees set a wide range of objectives for their time on the programme, depending on the nature of their organisation or group, and their maturity.[53] Community groups or new organisations tended to aim for incorporation, while established organisations incubating new ideas often aimed to progress towards trading. Goals also varied from raising capital funds to signing a lease, achieving planning permission and trading.

While fixed assets and turnover have grown in both totals and medians, the fixed asset to turnover ratio (FAT) has decreased over the period. Comparing the ratio of assets to income prior to the grant award Year (–1) suggests that newly acquired assets have not all been fully exploited yet. It is true that Year (+2) is better than Year (+1) so it would appear that the ability to translate the new assets into income is improving.

4.3 Multi-year key factor analysis

A. Segmentation by the size of community business

Taking into consideration the overall trends in the multi-year analysis, this section provides more detail and explores whether turnover patterns indicate that small organisations behave differently from large ones and, if so, how?

This analysis covers the turnover bands up to £500,000 as there are only two organisations with an annual turnover exceeding this.

It should also be noted that there are only four organisations in the £100–200,000 segment, meaning that these results may be less robust than others and, as a result, were not analysed separately.

Table 14 shows financial metrics of the Bright Ideas constant cohort by revenue bands.

53 Renaisi, 'Bright Ideas: A short summative evaluation report' (forthcoming).

Table 14: Bright Ideas constant cohort financial metrics median by revenue bands

Bright Ideas constant cohort by revenue bands – Median				
	Y (-1)	Y (0)	Y (+1)	Y (+2)
Count=12	Less than £50K			
Total revenue income	N/A	£27,872	£31,597	£35,913
Contribution to reserves[54]	N/A	27%	4%	-7%
Earned income (%)	N/A	35%	69%	52%
Working capital (%)[55]	N/A	123%	111%	98%
Total long-term liabilities[56]	N/A	£15,773	£3,206	£3,206
Fixed asset value	N/A	£2,551	£5,366	£5,668
FAT %[57]	N/A	1076%	428%	837%
Count=9	£50-100K			
Total revenue income	N/A	£73,865	£82,494	£121,950
Contribution to reserves	N/A	36%	9%	3%
Earned income (%)	N/A	60%	36%	21%
Working capital (%)	N/A	39%	27%	32%
Total long-term liabilities	N/A	£7,508	£2,136	£1,853
Fixed asset value	N/A	£182,501	£178,727	£161,054
FAT (%)	N/A	383%	240%	425%
Count=4	£100-200K			
Total revenue income	N/A	£116,960	£131,685	£184,384
Contribution to reserves	N/A	43%	29%	24%
Earned income (%)	N/A	11%	26%	24%
Working capital (%)	N/A	32%	37%	30%
Total long-term liabilities	N/A			
Fixed asset value	N/A	£14,961	£81,338	£183,990
FAT %	N/A	1,346%	265%	134%

54 After interests and tax expressed as a percentage of turnover.
55 Net current assets expressed as a percentage of turnover.
56 Excluding defined pension scheme.
57 Turnover divided by fixed assets.

Bright Ideas constant cohort by revenue bands – Median				
	Y (-1)	Y (0)	Y (+1)	Y (+2)
Count=8	£200–500K			
Total revenue income	N/A	£451,008	£463,361	£512,019
Contribution to reserves	N/A	8%	1%	7%
Earned income (%)	N/A	52%	55%	53%
Working capital (%)	N/A	32%	39%	33%
Total long-term liabilities	N/A	£11,496	£1,963	
Fixed asset value	N/A	£72,585	£95,352	£84,596
FAT (%)	N/A	574%	509%	549%

Key insights from the multi-year trend analysis, segmented by size of community businesses, include:

+	All turnover bands show an increase in **total turnover** for their cohort over the three years. The growth rate is most pronounced in the £50–100K band where it rose from a total of £651,000 (nine organisations) to £1.7 million in Year (+2).
+	**Total fixed assets** values rose for the three groups under £200,000.
+	**Median revenue income** rose over the period for all turnover bands. The fastest growth was seen in the £50–100K band (65%) and the slowest growth in the £200–500K cohort (13.5%).
+	**Median fixed asset** values rose for all cohorts except the £50–100K where we suspect that the decrease was a result of depreciation. Care needs to be taken when reading the data for the £100–200K band as there are only four organisations in this group. The dramatic rise in the median here could be due to the acquisition of a building by one of the four.
+	**Working capital** levels are broadly healthy across all income bands with medians not dropping below 25 per cent.
-	The **FAT** decreased in all groups except the £50–100K group. The decrease, however, was small in the <£50K or £200–500K cohorts which indicates that organisations are successfully turning new assets into new earned income.
-	**Median contribution to reserves** decreases in all cohorts. The greatest decrease was in the <£50K cohort: from 27 to -7 per cent over the period. This suggests that while income growth was being achieved, there was still work to do on the business model overall and in particular on the allocation of costs. The pattern in the £200–500K cohort suggests that, while changes were made to the business model in Year (+1) that impacted on the contribution to reserves, the organisations had largely recovered by Year (+2).
-	The changes in earned income levels varied considerably between the cohorts with perhaps the most dramatic change being seen in the £50–100K cohort where it dropped from a median of 60 per cent to one of 21 per cent. There could be several reasons for this including the possibility that organisations were growing both their earned income-generating abilities and their skills in raising grant funds or donations.

Conclusion

This view of the constant cohort raises interesting questions about how organisations are **balancing** the pace of revenue **income growth** (e.g. £50–100K organisations growing faster than £200–500K ones) with the ability to ensure that changes to the business model can be **sustainable** in the long-term (see median contribution to reserves and earned income to grant ratios). This is likely to be influenced by the kinds of challenges that early-stage community businesses can experience: e.g. taking on staff for the first time, moving from a single main income source to several, and considering the pros and cons of grant-funded projects versus longer-term commitments to delivering services.

The patterns in median FAT percentage raise interesting questions about whether slightly l**arger organisations** (£50–100K or £200–500K) are better placed than the smallest organisations (<£50K) to **turn assets into income** more rapidly.

The **£200–500K cohort seems to have managed to balance** income growth, asset growth and exploitation of assets and generated income without a significant reduction in the contribution to reserves or diminished working capital.

A. Segmentation by primary sector of activities

Use of funds data was not available for the Bright Ideas cohort. This analysis rather segments the data by community businesses' primary sector of activity. Out of all sector categories, the following three have sufficient data for analysis:

- community hub, facility or space (21)
- education and employment (7)
- health, sports and leisure (4) – the sample size is small for this category and findings should be used carefully.

Table 15 shows the financial metrics of the Bright Ideas constant cohort across all primary sectors.

Table 15: Bright Ideas constant cohort financial metrics median by sector

Bright Ideas constant cohort by sector – Median				
	Y (-1)	Y (0)	Y (+1)	Y (+2)
Count=21	Community hub, facility or space			
Total revenue income	N/A	£86,232	£106,305	£111,373
Contribution to reserves[58]	N/A	35%	9%	5%
Earned income (%)	N/A	51%	49%	43%
Working capital (%)[59]	N/A	49%	64%	49%
Total long-term liabilities[60]	N/A	£13,635	£25,982	
Fixed asset value	N/A	£33,928	£81,338	£134,293
FAT (%)[61]	N/A	497%	265%	128%
Count=1	Community pub, shop or café			
Total revenue income	N/A	£73,179	£256,879	£271,927
Contribution to reserves	N/A	65%	9%	4%
Earned income (%)	N/A	88%	99%	100%
Working capital (%)	N/A	86%	33%	36%
Total long-term liabilities	N/A	£1,039	£2,136	£1,853
Fixed asset value	N/A	£8,580	£13,709	£11,574
FAT (%)	N/A	853%	1,874%	2,350%
Count=4	Health, sports and leisure			
Total revenue income	N/A	£45,032	£86,518	£107,387
Contribution to reserves	N/A	25%	8%	-3%
Earned income (%)	N/A	27%	26%	31%
Working capital (%)	N/A	84%	42%	23%
Total long-term liabilities	N/A		£1,604	£3,206
Fixed asset value	N/A	£1,554	£2,773	£9,843
FAT (%)	N/A	236,211%	3,873%	943%
Count=7	Education and employment			
Total revenue income	N/A	£407,996	£473,779	£687,904
Contribution to reserves	N/A	2%	1%	1%

58 After interest and tax expressed as a percentage of turnover.
59 Net current assets expressed as a percentage of turnover.
60 Excluding defined pension scheme.
61 Turnover divided by fixed assets.

Bright Ideas constant cohort by sector – Median				
	Y (-1)	Y (0)	Y (+1)	Y (+2)
Earned income (%)	N/A	90%	88%	85%
Working capital (%)	N/A	26%	29%	18%
Total long-term liabilities	N/A	£95,489	£92,000	£224,000
Fixed asset value	N/A	£100,000	£73,047	£20,078
FAT (%)	N/A	408%	1,548%	3,426%

Key insights from the multi-year trend analysis, segmented by sector of community businesses, include:

+

Both total revenue income and median revenue income increased in all three sectors.

- Community hubs – total revenue income rose from £3 million to £3.9 million over the three-year period (28%). The median income rose by 29 per cent over the period, from £86,000 to £111,000.
- Health, sports and leisure – total revenue income almost doubled over the period and the median income more than doubled from £45,000 to £107,000.
- Education and employment – total revenue income rose by 16 per cent (£7.5m to £8.7m) and the median rises by 68 per cent (£407K to £687K).

+

With one exception, both total fixed asset values and median fixed asset values rose in all groups. The exception was the median fixed asset values in the employment and education cohort. Furthermore, the sectors with organisations with a higher turnover level also had higher fixed asset values.

- Community hubs – total fixed assets values rose from £2.2 million to £3.9 million over the three-year period. This was a growth of 74 per cent. Median fixed asset values rose from £34,000 to £134,000 – almost quadrupling.
- Health, sports and leisure – even though there were only four organisations in this group, the total fixed asset values were very low at both the start and end of the period (£3,107 to £111,590). This suggests no ownership of buildings in this cohort. Median fixed asset values increased from £1,554 to £9,843.
- Education and employment – the total fixed asset value increased slightly from £56 million to £58 million. However, as there are only seven organisations in this cohort and the median did not exceed £100,000 in any year, this must be due to a single large organisation.

-	Contribution to reserves decreased in all three sectors: • Community hubs – some organisations may have been building reserves in order to make capital asset purchases given that the median contribution to reserves in Year (0) was 35 per cent and dropped to 5 per cent in Year (2). This would fit with patterns in fixed asset growth. Given that the median turnover did not exceed £120,000 in any year, this substantial change could be due to the greater volatility that can be seen in the income and expenditure patterns of small organisations. • Health, sports and leisure – similarly, we need to bear in mind that there are only four organisations in this group. It is interesting to note that the median contribution to reserves was also very high in Year (0) in this group (25%) and that it dropped over the period (to -3%). • Education and employment – as these organisations had a higher median turnover than the other two sector groups, it seems normal and sustainable to see median contributions to reserves of 1–2 per cent.
-	Median earned income percentages decreased in two out of three sector groups over the period: • Community hubs – this dropped by 8 percentage points from 51 to 43 per cent. It is worth bearing in mind that the median total income increased by 29 per cent over the period, i.e. the total income was growing faster than earned income, which explains why the median dropped. Care needs to be taken when making comparisons between these metrics as they are not calculated in quite the same way, nevertheless, the overall finding holds. • Health, sports and leisure – median earned income rose from 27 to 31 per cent. This is the sector with a positive outcome. As this is in the context of total revenue more than doubling, earned income was rising in absolute terms and proportionally. • Education and employment – the median decreased from 90 to 85 per cent. As with community hubs, there was a growth in the median total turnover, i.e. it is likely that trading income was growing in absolute terms even if it was a slightly smaller proportion of the business model. Given that trading ratios were high, however, there is no cause for concern in terms of the sustainability of the business models overall.
?	Median working capital levels were not worryingly low in any cohort. They were lower in the education and employment group but, given that this was the group with the highest median turnover, this was to be expected (as larger organisations tend to carry lower levels of working capital). • Community hubs – median working capital levels were high; between 49 and 64 per cent. This may indicate that grant funding was utilised over more than one financial year, that monies were being held towards capital asset purchase or that small organisations were holding a larger level of working capital than larger organisations would. • Health, sports and leisure – this drop from 84 to 23 per cent was very large but it is difficult to draw conclusions with a cohort of only four organisations. • Education and employment – there was a notable drop, yet turnover increases could help explain the change.

?	There were little **long-term liabilities** in these sectors with only one or two per cohort having any at all. • Community hubs – given the median income levels, it is not surprising to see almost no long-term liabilities in this cohort. • Health, sports and leisure – because of the very small number of organisations as well as because of the low turnover levels, it is not surprising to see almost no use of long-term liabilities in this group. • Education and employment – as the group with the highest median turnover, it makes sense to see a higher level of long-term liabilities even if the number of organisations using them is low in absolute terms.
?	The **fixed assets turnover ratio (FAT)** decreased in community hubs and health, sports and leisure but rose in education and employment. For community hubs, both median assets and median revenue increased, while the FAT dropped (from 497% to 128%). This indicates that assets have grown faster than income for the cohort overall (i.e. assets are not fully exploited yet). Care needs to be taken in health sports and leisure and in education and employment as the cohorts are very small, so large changes in a single organisation will have a greater effect upon the medians than would be the case in a larger cohort.

Conclusion

We continue to see distinct **differences by sector** in the scale of operations of Bright Ideas participants. This suggests that this data segmentation offers insight into the different patterns in business evolution which might not be visible when analysing data for the programme as a whole.

Assets were involved in 85 per cent of community businesses on Bright Ideas. Further than that, there would be value in understanding **which sectors tend to have building-based assets** and which do not, as it is likely to influence the growth and development patterns of business models. The data on assets is also important when comparing the growth rate in assets with the growth rate in revenue (FAT); it can show the extent to which new assets are being exploited into additional revenue.

4.4 Conclusion on Bright Ideas

It would appear that **community businesses' ability to translate the new assets into income is improving, although the newly acquired assets have not all been fully exploited yet**.

Total and median turnover increased across the period for the cohort as a whole, as did total and median fixed assets. Total long-term liabilities also increased. Median earned income percentages decreased slightly yet were increasing in cash terms. We conclude that the programme had a **positive impact** on the business models of participants even though some did not quite maintain their earned income as a percentage of their overall business model.

The turnover bands that demonstrated this **challenge** most clearly were the **£50–100K and £100–200K clusters**, where earned income dropped as a percentage of total revenue. The sectors that demonstrated this challenge were **community hubs, and education and employment**.

5. CONCLUSION

5.1 Main findings

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?** The research specifically explored 'what' changed and 'how', rather than 'why' it happened.

The most notable findings include:

For the Community Business Fund:

- The median earned income percentage increased over the time period from 72 to 78 per cent.
- The use of long-term liabilities increased over the time 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)).[62]
- 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. It also had a positive impact on the growth of turnover and assets (both in cash terms).

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.

62 Based on growth pre- and post-investment analysis combining groups 2, 3 and 4 and excluding any businesses that have more than one missing data point across the years analysed.

For 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 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. 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.

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?

For 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. 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.

5.2 The future

Considering the research journey

There has been a steep learning curve during this research. At the beginning, there were no pre-agreed sets of financial goals for grantees or key metrics that could be used to evaluate change over time. As this type of in-depth analysis of change is uncommon in the sector, it was difficult to find similar approaches to learn from or adopt.

We made several of our own innovations in methodology and drew on simultaneous developments in the work of Social Investment Business (with Future builders England and the financial resilience dashboard)[63] and Big Society Capital (with its investees). Researchers tackling similar challenges seem to have developed solutions which share several common features.

This paper contributes to developing research on the financial impact of grant-funded programmes on grantees by:

- agreeing on a small suite of key financial metrics for reporting that cover changes in revenue, income types, profitability, cashflow, use of debt and assets
- developing the Year Zero approach so that the pre-funding year can be used as a baseline for comparison, in the absence of either a wider sector baseline or a control group
- using a constant cohort across multiple years of data to reduce the heterogeneity, even if this means working with a smaller data cohort overall
- enabling analysis of patterns across multiple years, thus starting to set expectations about how business models shift after investment and the time it takes to arrive at a robust and sustainable new 'normal'
- using the Year Zero approach to enable more in-depth analysis than can be achieved from tracking medians, e.g. the balance of those faring better or worse on key metrics within a cohort.

Key learning for similar research

- 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 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, which may still mean an increase in earned income in cash terms (absolute value).

63 https://socialeconomydatalab.org/resources/futurebuilders-financial-resilience-dashboard/

- 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.

Developing research methodology

Although some developments can be achieved with the data used in this research, others will need evaluation to be built differently from the start:

- The need for **baselines** against which to measure change – ideally, a series would be available as reference points for the level of change that we might expect without grant or debt-based investment. This would provide the nearest practical equivalent of a 'control group' and could include:

  - the baseline growth in annual revenue across the community business sector as a whole with analysis of how this varies by sub-sector, turnover band, tangible asset values and the extent to which a building or land is used as the underpinning asset of the business (versus a service or skill-based organisation)

  - a similar analysis of the current earned to grant income ratios (separate from the Charity Commission definitions of income in the Statement of Recommended Practice (SORP) which do not look at the income source)

  - a related analysis of the baseline of asset values and how this changes by sector and turnover band

  - a baseline of the closure rate of organisations in order to better understand the 'natural' failure rate and how this varies by sector.

  This would provide a clearer view of the extent to which Power to Change funding has contributed to the growth of grantee businesses compared with those that did not receive funding.

- Following this is the ability to **benchmark** the changes occurring in a cohort of grantees or investees against the underlying rate of change in the sector. While we want to track changes in a cohort following investment, it is also useful to benchmark these against the change they might have achieved without it, so we can understand the real value of funding in fast-tracking change, growth and improvement.

- The next stage is **defining the scale of change we expect to see** for each metric at the start of a programme. For instance, a set of percentages for the growth expected in metrics such as total revenue income, total fixed assets, and earned income within a specific timeframe. While it may remain challenging to set expectations for a large number of diverse businesses, such analysis would enable goal setting at an individual level that takes each community business's plans and models into account, e.g. whether they aim to prioritise growth in assets or in earned income over a given period. Also, given that community businesses often need to evolve and adapt, success measures should be similarly flexible and revised as required.

- To do this at scale across multiple programmes and funders requires agreement on key financial metrics and what they tell the sector. A **forum** for this discussion would be valuable, gathering a selection of representative stakeholders – funders, investors, research agencies and consultancies with appropriate expertise – to set standards and methods which could be more widely adopted.

- Further research is required to consider relationship between the key metrics and, by using larger volumes of data, establish connections and norms for the process and sequence of change. Questions could include:

    - Which contributes more to accelerating financial sustainability – growing revenue first or focussing on asset growth?

    - Where are the crunch points? If we assume that not all metrics can improve simultaneously, where are the trade-offs between revenue growth, income type balance, reserves contributions, cash flow, liabilities and asset growth?

However much data might be needed to address those analytical challenges, demonstrating utility in the approach might fast-track the process of embedding some key financial metrics across multiple grant funding and social investment programmes.

6. APPENDIX

Limitations

Prog.	Section	Limitations
Community Business Fund	**Multi-year trend analysis**	Data is held on a total of 182 organisations in the Community Business Fund cohort. However, profit and loss (P & L) data is not available on a small proportion of the organisations which are registered as community interest companies (CIC) and who have chosen not to make their P & L data publicly available. It is also worth noting that financial information is not available for every organisation every year. The maximum count across the data set reported is 128. As the availability of data on the whole cohort is variable, we have created a constant cohort for the set of organisations for which we have data in all years from Y(-1) to Y(+2). The maximum count, therefore, is 56. We do not expect to see data points for all of the key metrics for all organisations as some, e.g. levels of long-term debt, will not apply to all organisations.
	Multi-year key factor analysis/size of community businesses	The density of programme participants sits in the £200–500K turnover band. Outside of this, the count in the constant cohort is low in all bands: at 5–8 organisations. We are assuming that the homogeneity in turnover to some extent offsets the heterogeneity by sector in that it is common to find fairly similar financial profiles for organisations with a similar level of turnover irrespective of the sector in which they operate in the non-profit and social impact economy. The organisations in the smallest two turnover bands are likely to have the most heterogeneous business models and the greatest volatility between years as they are often too small to have achieved a consistent business model year on year. Particular care must be taken when analysing the data on these cohorts.
Trade Up	**Multi-year trend analysis**	The data volumes in the 'available data' vary quite considerably between the years with the greatest volume of available data in Y(-1) and Y(0). We hold data on some 332 Trade Up grantees. However, profit and loss (P & L) data is not available for all organisations. Legal forms such as community interest companies which report to Companies House are not required to publish their P & L if their turnover is below £10 million or the employees below 50. It is also the case that this cohort contains quite a few organisations which were set up as new legal entities during the funding period. This means that there will be no Y(-1) data in these cases. Our maximum count in the available data is 162. Data volumes are considerably lower in Y(+1) and Y(+2). These numbers will increase as 2020 data is submitted to Companies House, the Charity Commission and the Mutuals Register. Given the substantial variation in data availability for this programme, we are therefore focussing our analysis on the 'constant cohort' of 50 organisations for which we have data in all years from Y(-1) to Y(+2).
	Multi-year key factor analysis/use of funds	The context in which we suggest these figures on assets and liabilities should be considered is the extent to which Trade Up participants have the capacity in their organisation above and beyond that which is directly due to the programme participation or grants related to it.

Prog.	Section	Limitations
Bright Ideas	Multi-year trend analysis	As the Bright Ideas programme contains a substantial quantity of organisations which were registered as new legal entities once they were awarded Bright Ideas funds, it is not possible to run a constant cohort for Y(-1). We are therefore only running Y(0) to Y(+2) for the constant cohort. However, the advantage of this high volume of new starts is that it is easier to attribute the growth to the Bright Ideas programme. We can reasonably say that participation in the programme was the catalyst for the registration of the entity. As with both Community Business Fund and Trade Up, there is considerable variation in the availability of data across the years. We are, therefore, focussing our analysis on the constant cohort so that variations driven by the availability of data are reduced as far as possible.

Caveats applying to the analysis of pre- and post-investment growth

Although we use the term 'impact' in the analysis of pre- and post- investment growth, any indicators, value and trajectory of any impact should be considered with caution:

- It does not take into account causality or attribution, and factors outside Power to Change's funding are not controlled.
- Baseline and/or endline growth could be negative, but this is not clearly captured by the trajectory of the impact percentage. The impact percentage should therefore be considered alongside endline and baseline values and trajectories.
- The Year Zero reporting approach paper demonstrated how it is unlikely for grantees to show constant growth in all financial metrics: a negative impact in one financial metric could be due to a positive impact in others and may not be considered as a negative outcome.
- It is not necessarily realistic to assume that businesses achieve constant growth in all cases. For instance, it would be unrealistic to assume that a community business with a high earned income percentage in Y(-1) will continue growing constantly in the following years, especially if it reached 100 per cent.

Given the caveats, negative impact is not necessarily considered a negative outcome of the programme.

Other useful publications

- Alraie, M. and Litchfield, A. (2021) Power to Change Fifth Data Visualisation: Characteristics of Community Businesses Grantees and Applicants – Bright Ideas, Trade Up and Community Business Fund
- 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)
- Chan, J., Meghjee, W., Pacot, M. and Alraie, M. (2022) Thematic Paper: Assets and Community Businesses, What is the impact of asset ownership on community businesses? And how can funders support community businesses to acquire and manage assets? Lessons from the Bright Ideas, Trade Up and Community Business Fund programmes
- Meghjee, W., Pacot, P., Alraie, M. and Sturgis, R. (2022) Thematic Paper: Sector and Community Businesses, How can the concept of the sector be useful to understand and support community businesses?

Growth pre- and post- investment – segmentation by earned income

In a similar format to other analysis in the report, this section presents the data of endline and baseline growth in total revenue income, total fixed assets, and earned income. However, here the community businesses are segmented into four groups, depending on their earned income growth trajectory between baseline and endline rather than the total revenue income. This allows similar analysis through different analytical lenses. The rationale of exploring this segmentation would be if earned income was considered more important in long-term resilience and sustainability than total revenue income. The analysis in the report assumed that growth is primarily assessed by total revenue income However, removing that assumption and placing more importance on earned income regardless of total revenue growth, this segmentation could be an alternative to further analysis.

A. Community Business Fund

Table 16: Median earned income – segmentation by earned growth trajectory between baseline and endline

Groups	N	Y (-1)	Y (0)	Y (+1)	Y (+2)	B %	E %	Im %
#1 B - E+	13	85%	63%	76%	96%	-22%	16%	38%
#2 B+ E+	20	41%	55%	61%	72%	14%	9%	-6%
#3 B - E -	8	92%	86%	74%	44%	-7%	-21%	-14%
#4 B+ E -	8	70%	87%	82%	78%	17%	-5%	-22%

Table 17: Median total fixed assets – segmentation by earned growth trajectory between baseline and endline

Groups	N	Y (-1)	Y (0)	Y (+1)	Y (+2)	B %	E %	Im %
#1 B - E+	10	£576,282	£806,403	£797,268	£1,059,512	40%	16%	-24%
#2 B+ E+	17	£123,575	£106,812	£173,191	£271,017	-14%	77%	90%
#3 B - E -	7	£500,660	£613,551	£480,330	£475,764	23%	-11%	-34%
#4 B+ E -	7	£601,518	£810,915	£835,316	£864,571	35%	3%	-32%

Table 18: Median total revenue income – segmentation by earned growth trajectory between baseline and endline

Groups	N	Y (-1)	Y (0)	Y (+1)	Y (+2)	B %	E %	Im %
#1 B - E+	13	£205,550	£405,799	£297,995	£307,051	97%	-12%	-110%
#2 B+ E+	20	£373,982	£361,934	£350,165	£373,010	-3%	2%	5%
#3 B - E -	8	£240,144	£260,355	£259,643	£241,699	8%	-4%	-12%
#4 B+ E -	8	£630,745	£528,833	£571,989	£489,962	-16%	-4%	12%

Trade Up

Table 19: Median earned income – segmentation by earned growth trajectory between baseline and endline

Groups	N	Y (-1)	Y (0)	Y (+1)	Y (+2)	B %	E %	Im %
#1 B - E+	8	89%	62%	75%	88%	-27%	13%	39%
#2 B+ E+	13	31%	58%	60%	71%	27%	6%	-21%
#3 B - E -	9	79%	52%	42%	30%	-27%	-11%	16%
#4 B+ E -	12	63%	87%	88%	59%	24%	-14%	-38%

Table 20: Median total fixed assets – segmentation by earned growth trajectory between baseline and endline

Groups	N	Y (-1)	Y (0)	Y (+1)	Y (+2)	B %	E %	Im %
#1 B - E+	6	£1,658	£14,292	£26,810	£134,470	762%	420%	-342%
#2 B+ E+	7	£6,672	£16,237	£29,980	£33,987	143%	55%	-89%
#3 B - E -	8	£15,281	£24,643	£39,974	£54,940	61%	61%	0%
#4 B+ E -	7	£42,684	£15,656	£27,667	£88,114	-63%	231%	295%

Table 21: Median total revenue income – segmentation by earned growth trajectory between baseline and endline

Groups	N	Y (-1)	Y (0)	Y (+1)	Y (+2)	B %	E %	Im %
#1 B - E+	8	£50,801	£86,652	£84,138	£70,113	71%	-10%	-80%
#2 B+ E+	13	£167,975	£109,404	£137,851	£219,051	-35%	50%	85%
#3 B - E -	9	£172,925	£224,425	£274,471	£300,308	30%	17%	-13%
#4 B+ E -	12	£133,944	£128,304	£120,954	£184,249	-4%	22%	26%

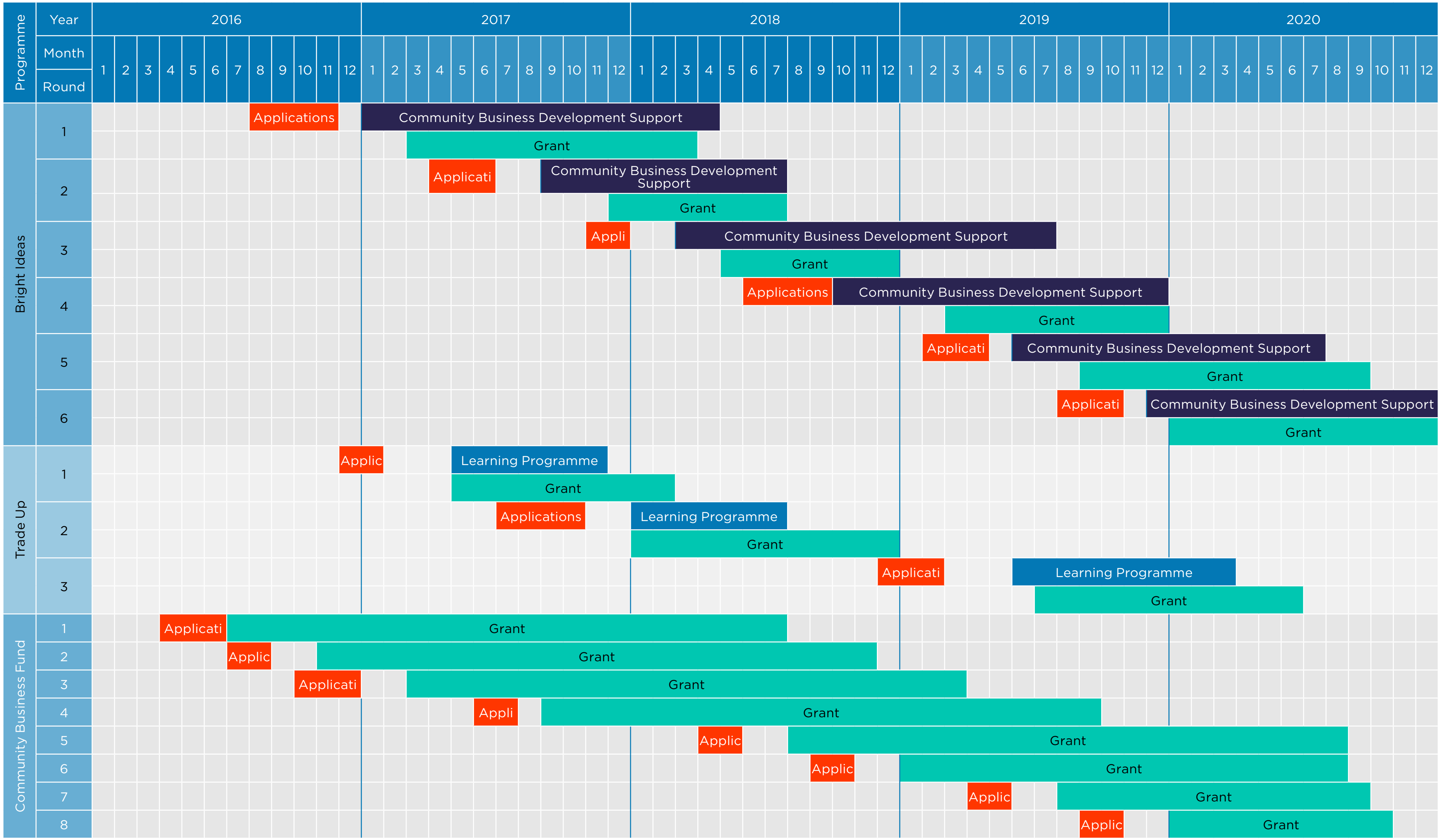
Constant cohort year zero

Table 22: count of the constant cohort by year zero and calendar/financial year

		2015	2016	2017	2018	2019	2020	2021
Community Business Fund (n=56)	3	Y -1	Y 0	Y +1	Y +2			
	40		Y -1	Y 0	Y +1	Y +2		
	13			Y -1	Y 0	Y +1	Y +2	
Trade up (n=50)	8		Y -1	Y 0	Y +1	Y +2		
	42			Y -1	Y 0	Y +1	Y +2	
Bright Ideas (n=35)	21		Y -1	Y 0	Y +1	Y +2		
	12			Y -1	Y 0	Y +1	Y +2	
	2				Y -1	Y 0	Y +1	Y +2

Community Business Fund, Trade Up and Bright Ideas timeline

Timeline showing different start for each cohort



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

020 3857 7270

info@powertochange.org.uk
powertochange.org.uk

@peoplesbiz

Registered charity no.
1159982

COMMUNITY
FUND