Community Businesses in the North of England 2020:

New comparative analysis from the Third Sector Trends study

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power to change
business in community hands

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Photo credits: thanks to Burton Street Foundation (front cover image), provided by Power to Change.

The Third Sector Trends Study

The study was conceived and originally commissioned by Northern Rock Foundation with research conducted by the Universities of Southampton, Teesside and Durham. The Community Foundation Tyne & Wear and Northumberland was a co-funder of the research and is now responsible for its legacy. The Community Foundation is now collaborating with partners including St Chad's College at the University of Durham, Power to Change, Joseph Rowntree Foundation and IPPR North and Garfield Weston to expand and continue the research.

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Acknowledgements

The Third Sector Trends study has been running since 2008. The continued commitment of organisations to this long-term study is vital for its success. Thank you to all the people who completed the surveys in 2019 from across the North of England.

The Third Sector Trends study in 2019 was funded by Community Foundation Tyne & Wear and Northumberland in North East England, by Power to Change and Garfield Weston in North West England – we wish to thank these organisations for their continued support. The Yorkshire and Humber research was funded by Policy&Practice at St Chad's College, Durham University.

I would like to thank Suzanne Perry, Ailbhe McNabola and Amelia Byrne from the Power to Change Research Institute for their helpful comments on the development of the project and drafts of this report.

Foreword

The Power to Change Research Institute is delighted to welcome this comparative analysis of similarities and differences between community businesses and other voluntary and community organisations in the North of England. Community businesses operate at a juncture between the third and private sectors and perform a unique balancing act, marrying enterprise and entrepreneurialism with a goal of making a positive social impact in the places where they are based.

We strongly believe that community businesses represent an alternative way of providing goods and services while also affecting real positive change in communities across England.

This report helps make the case for community business by evidencing their ethos of determination, collaboration, flexibility, innovation and forward planning whilst also taking into account the sheer diversity of the sector. A better understanding of their operating models, needs and barriers to growth will help us to better support community businesses.

Ailbhe McNabola
Head of Research and Policy at Power to Change

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Executive summary

This report presents key findings from the Third Sector Trends study in 2019 from across the North of England. The longitudinal study, which began in 2008, was designed to explore the structure and dynamics of the third sector and to examine how individual third sector organisations (TSOs) fare over time in the context of change.

Power to Change Research Institute contributed to the funding of the survey in 2019 in the North of England. Funding was also provided to update statistics from the 2016 report on community business in the North of England[1] and also to explore new areas, including patterns of trading activity and perceptions of community impact. This report presents that analysis.

[1] Chapman, T. and Gray, T. (2018) *How do community businesses differ from other voluntary and community organisations? New comparative analysis from the Third Sector Trends study in the North of England*, Durham, Policy&Practice: https://www.stchads.ac.uk/research/research-news/how-do-community-businesses-compare-with-other-voluntary-and-community-organisations/

Methodology and sample size

The survey was undertaken between June and December 2019 using an online questionnaire hosted by Online Surveys. The questionnaire was based on previous rounds of the study in North East England, Yorkshire and Humber and North West England.

The survey collected 3,158 responses, including: 1,212 from North West England, 852 from Yorkshire and the Humber and 1,094 in North East England. This represents a 7.5% response rate for all TSOs across the North of England.

Third Sector Trends data is a broadly-based survey questionnaire which can be completed by organisations or groups of any type. So, data can be recategorised to align with Power to Change's definition of community businesses.

Locally rooted	They are rooted in a particular geographical place and respond to its needs. For example, that could be high levels of urban deprivation or rural isolation.
Trading for the benefit of the local community	They are businesses. Their income comes from activities such as renting out space in their buildings, trading as cafés, selling produce they grow or generating energy.
Accountable to the local community	They are accountable to local people. This can mean very different things depending on the community business. For example, a community share offer can create members who have a voice in the business's direction, or a membership-based organisation may have local people who are active in decision-making.
Broad community impact	They benefit and impact their local community as a whole. They often morph into the hub of a neighbourhood, where all types of local groups gather.

A variable was created with three categories of third sector organisation to distinguish between:

- TSOs which operate as or in a similar way to community businesses (n=658 in 2019 and 612 in 2016)
- Other general TSOs which earn income (n=1,138 in 2019 and 1,044 in 2016)
- Other general TSOs which earn no income (n=962 in 2019 and 900 in 2016).

General characteristics of community businesses

- Community businesses tend to have a higher level of income than other general TSOs: 63% have income over £100,000 compared with 36% of general TSOs that earn income and only 12% of general TSOs that earn no income.
- Community businesses tend to have been established more recently than general TSOs. Only 10% were established before 1970 compared with around 28% of other TSOs. About 45% of community businesses have been established since 2000 compared with just 35% of general TSOs which earn income and 45% of general TSOs which do not earn income.
- Community businesses are more likely be concentrated in areas of relative deprivation: 52% of larger community businesses work in such areas compared with about a third of other TSOs.

Financial wellbeing

The general picture in 2019, when compared with 2016, was positive.

- Just over a quarter (26%) of community businesses substantially increased income in the last two years (compared with 19% in 2016).
- Community businesses were less likely to report substantially falling income in 2019 (15% compared with 23% in 2016).

A second indicator of financial wellbeing is the extent to which community businesses have drawn upon reserves to invest in their future development or to pay for essential costs.

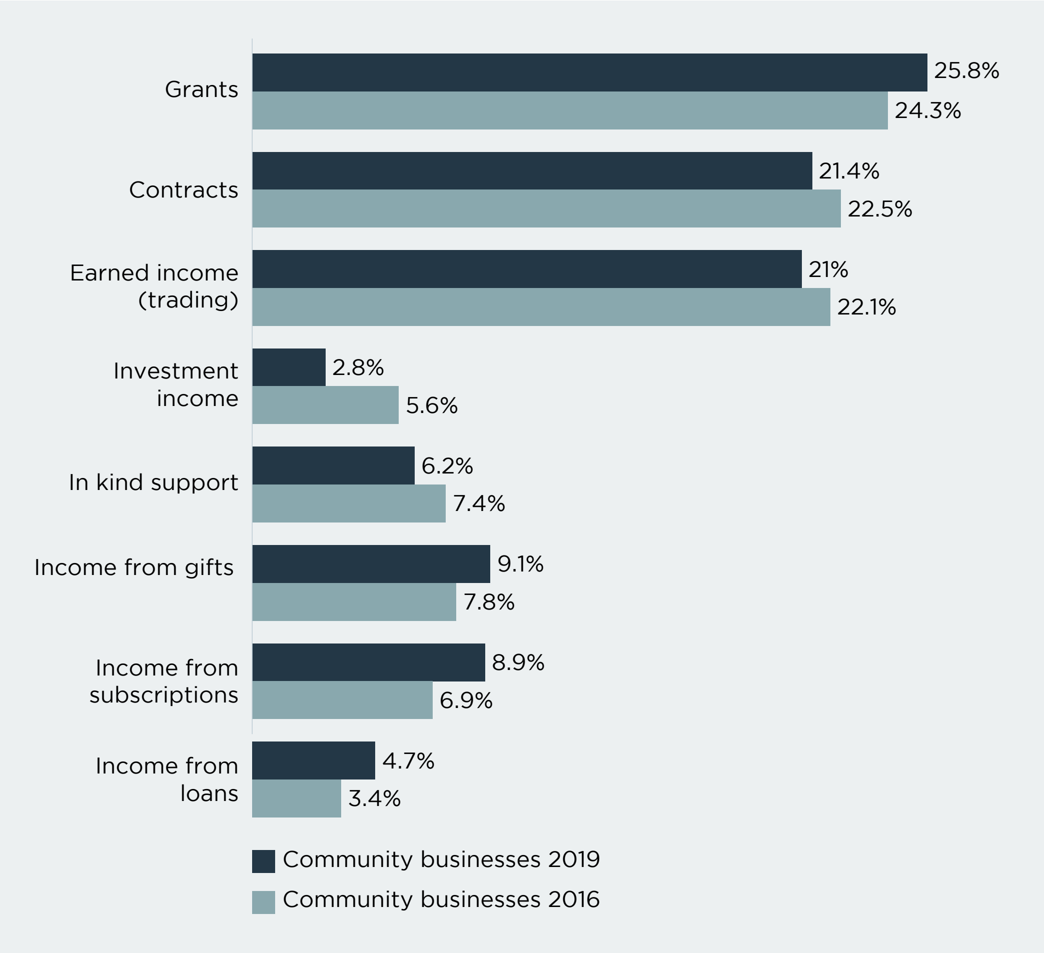
- Community businesses were much more likely to have used reserves to invest in new activities such as buying property, developing a new service or employing a development worker (17%), when compared with general TSOs (10%).

- Larger community businesses were more likely to invest in their development (19%) than their smaller counterparts (12%).
- Use of reserves to pay for essential costs indicates that organisations may be under financial pressure: 23% of community businesses have done so compared with only 13% of general TSOs.
- Larger community businesses are much more likely to have drawn on reserves for essential costs (27%) when compared with smaller community businesses (16%).

Sources of income

Most community businesses rely on funding from a wide variety of sources. Community businesses' principal sources of funding by sector have not changed a great deal over the last three years (Figure 1).

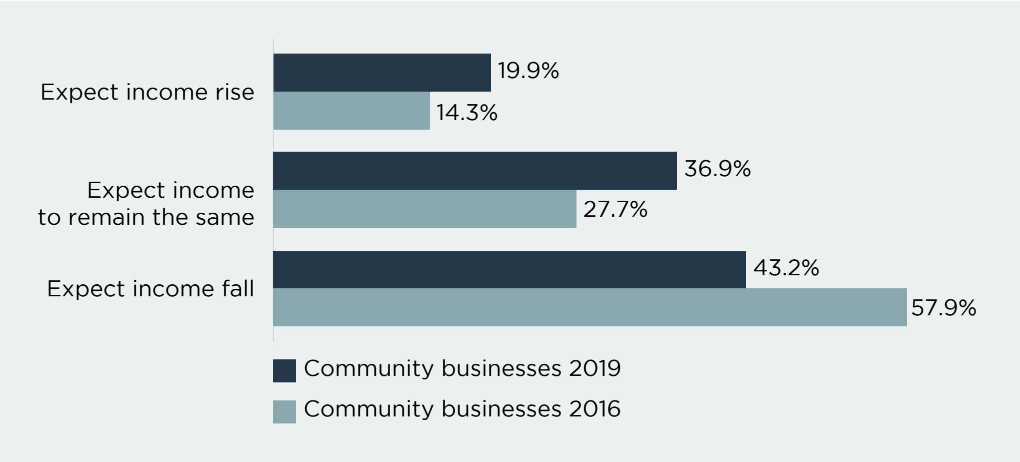
Figure 1: Relative importance of income sources for community businesses in 2016 and 2019 (row percentages, base n=2,758)



Public sector service delivery contracts

- The proportion of community businesses taking on public sector contracts has risen from 23% in 2016 to 29% in 2019.
- Larger community businesses (with income above £100,000) are much more likely to take on contracts: rising from 36% in 2016 to 40% in 2019.
- Expectations about future funding from the public sector is relatively pessimistic. Only 20% of community businesses expected income to rise, while 43% expected that public sector income would fall. But, as shown in Figure 2, the situation seems to have improved since 2016.

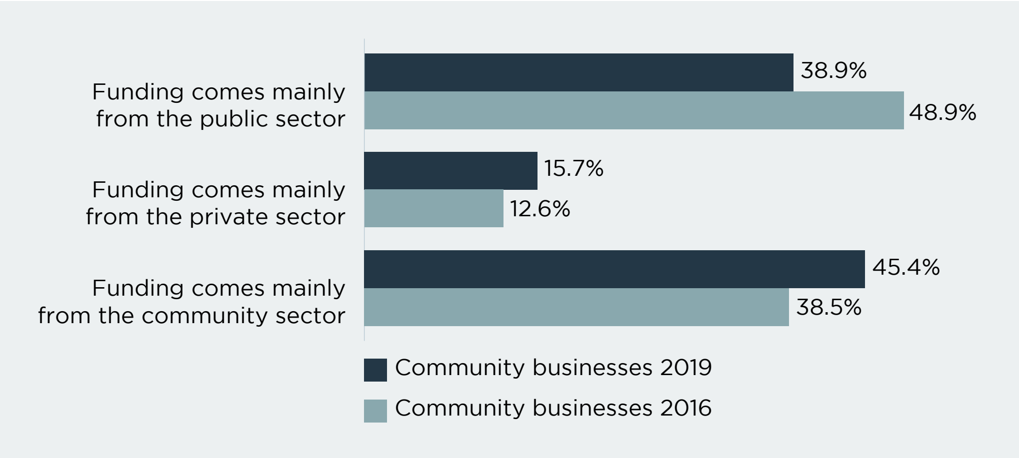
Figure 2: Community businesses expectations about future funding from public sector sources (row percentages, base 2016 n=585, 2019 n=653)



Community businesses source income from the public, private or community sectors. Primary sources of income have changed since 2016.

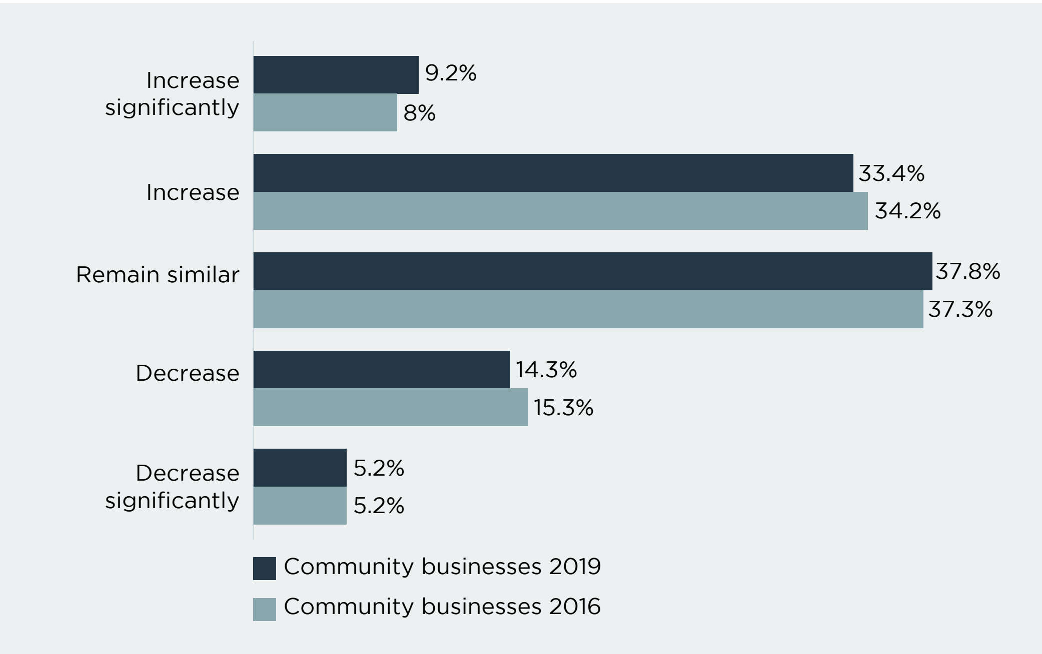
- The proportion of community business which rely primarily on public sector sources has fallen from 49% to 39%.
- Those organisations which rely primarily upon private sector funding has risen from 13% to 16%.
- Community sector funding (such as grants from charitable trusts and foundations) has become more important as a principal source of income to community businesses – rising from 39% in 2016 to 45% in 2019.

Figure 3: Changing patterns of reliance on principal sources of finance (row percentages, base 2016, n=585, 2019 n=643)



Expectations about future funding were optimistic at the time of study (see Figure 4). However, as this study was undertaken just before the beginning of the Covid-19 pandemic, expectations are likely to have changed substantially.

Figure 4: Expectations of future income levels (row percentages, base 2016 n=600, 2019 n=643)



Self-generated trading income

The report examines the extent to which community businesses generate income from different aspects of trading activity. The principal areas of focus are:

– running a community building (43%): e.g. hiring rooms for events, rent space to other organisations

– providing 'paid-for' services for individuals (39%): e.g. sport training, craft classes, work-related tuition, ticketed events

– running a retail or hospitality business (25%): e.g. a community café, pub or shop.

Those community businesses which are planning to get involved in new activities tend to be focused in areas where most trading is happening now (such as running a community building where 6% of community businesses are planning to do this) or the provision of paid-for services or running a retail or hospitality outlet (9% and 6% respectively).

Some other areas or trading seem to be capturing the imagination of some community businesses: for example, around 9% of community businesses are planning to or vaguely considering getting involved in craft manufacturing and digital services. But there is virtually no firm interest in some areas such as transport, industrial manufacture, and financial support services.

All community businesses in this study engaged in trading. But many other third sector organisations get involved in trading too.[2] The research shows that most of these organisations engage in several types of trading. Some kinds of trading tend to go together more often.

Retail and hospitality

Amongst organisations that engage in retailing and hospitality activities, 67% also manage a community building and 43% offer paid-for services. But very few of these organisations get involved with activities such as digital services or industrial manufacture.

[2] To maintain sample sizes, this analysis included community businesses and other general TSOs which engage in trading.

Running community buildings

Running community buildings is the most common form of trading activity (864 cases or about 28% of the whole sample). Nearly 38% of these organisations also get involved in the delivery of paid-for services and 34% have retailing or hospitality trading activities.

Craft production

Relatively few organisations get involved in craft production (102 cases) but they provide an interesting example. Around 40% of these organisations also have a community building, do retailing/hospitality and offer paid-for services. This suggests that craft production is integral to many of the other services they offer.

Business support

Infrastructure organisations or anchor organisations are most likely to offer business support (135 cases). Of these, 16% also offer financial support but, perhaps surprisingly, only 1% get involved in digital services. However, amongst the 41 organisations which do offer digital services, 29% also offer business support.

Digital services

Very few organisations in the sample are providing digital services (n=41). Those which are, are most likely also to be involved in running a community building (48%) or providing paid-for services (50%). It is perhaps surprising that so few organisations are working in this area, given the current emphasis in the sector on building digital capability.

While findings are not conclusive, community businesses that work across two or more aspects of trading are more likely to enjoy financial security than those which put all their eggs in one basket.

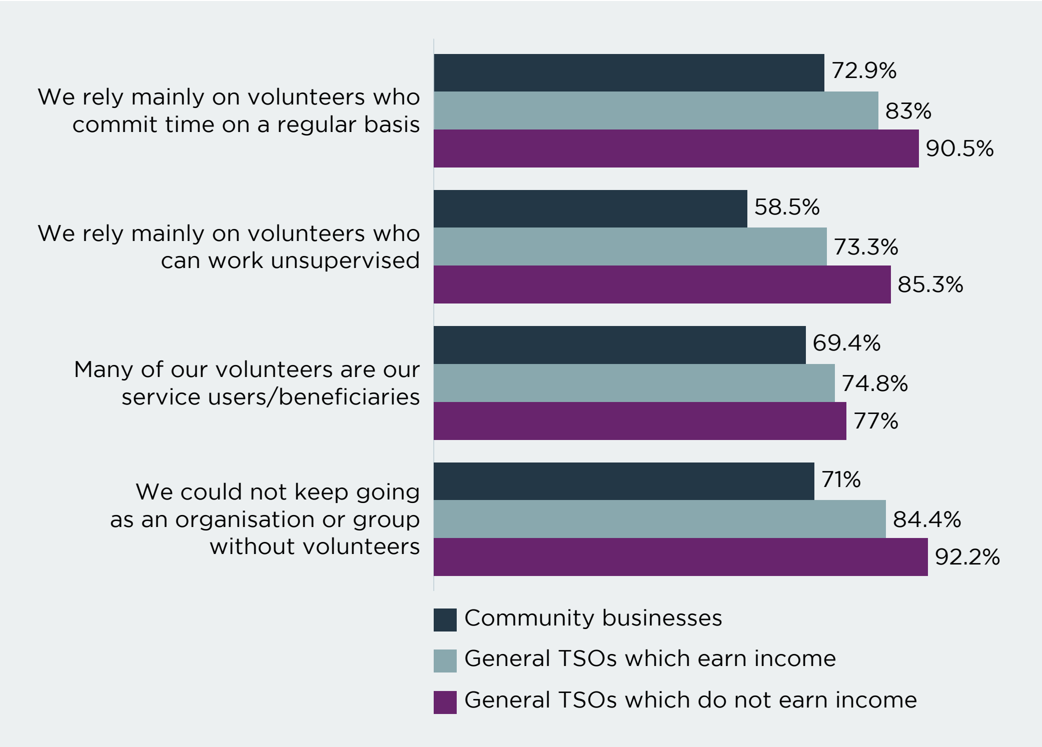
People resources

Employment in many community businesses has risen over the last two years, with 29% reporting a rise in full-time staff and 43% reporting rising numbers of part-time staff. However, some community businesses had falling staff numbers: 22% reported falling numbers of full-time and 18% reported falling numbers of part-time staff.

Volunteers are an important resource in community businesses – 41% of community businesses stated that the number of volunteers working for them had risen compared with just 14% saying that numbers had fallen in the last two years.

Reliance on volunteers is less strong than in general TSOs – which on average have fewer employees – but remains a vital component of a community business's resource (see Figure 5).

Figure 5: Reliance on volunteers (percentage of TSOs which agree or strongly agree with each statement, 2019. Excludes organisations with no volunteers, base n=2,356)



Community orientation, commitment and accountability

Power to Change argues that having a purposeful and productive community orientation is a key characteristic of community business. But it also recognises that community involvement, engagement and accountability can happen in many different ways, depending on organisational mission and practice and the local circumstances.

Community businesses make a strong commitment to their localities – but not necessarily to a greater extent than general TSOs.

'We devote most of our time to help the local area where we are based'

It is clear that differences between community businesses and general TSOs are minimal – 61% of community businesses strongly agree with this statement compared with 64% of general TSOs which earn income.

'We strive to get bigger as an organisation to achieve more'

There has been quite a dramatic change here as confidence appears to have risen about growing the size of organisations – almost twice as many community businesses wanted to get bigger as an organisation in 2019 (45%) compared with 2016 (24%).

'We want to influence local decision makers so that more is achieved in our area'

Having an impact on local policymakers appears to have become more important to community businesses since 2016 – 60% now strongly agree with this statement compared with 52% in 2016. There has been a general shift in this direction amongst all TSOs (rising from 37% in 2016 to 43% in 2019).

'We try to go to relevant meetings/events which relate to our kind of work'

Community businesses are much more likely to strongly agree that they do so (54%) when compared with general TSOs (29–34%). Only 4% of community businesses state that they do not attend such meetings compared with 16% of general TSOs which do not earn income.

Perceptions of community impact

During early 2020 there has been a growing debate on how to assess the overall contribution that the third sector makes to social and economic life. This is difficult to achieve because most evaluation work is focused on individual organisations or areas of practice rather than for the sector as a whole.

New questions devised for Power to Change in the Third Sector Trends survey compare the impact of community businesses with general TSOs.

Table 1: Community impact – proportion of TSOs which claim to 'have a very strong impact' on their community (%)

	Community businesses (n=658)	General TSOs which earn income from trading (n=1,136)	General TSOs which do not earn income from trading (n=962)
We improve health and wellbeing	44.4	35.5	24.7
We give people confidence to manage their lives	41.9	30.2	20.3
We reduce social isolation	40.0	30.8	21.6
We empower people in the community	35.4	26.4	18.6
We promote community cohesion	29.4	25.9	19.3
We improve people's access to basic services	21.5	15.8	11.4
We increase people's pride in their community	20.8	19.5	16.6
We enhance the cultural and artistic life of the community	18.6	21.1	13.7
We tackle the consequences of poverty	15.2	9.6	9.0
We help people to lift themselves out of poverty	15.1	9.3	7.2
We increase employability	14.5	8.0	6.2
We improve the local environment	13.0	10.6	12.6

The research also explored the ‘depth’ of impact that community businesses feel that they have on their local communities.

A clear majority of community businesses feel that they make a ‘strong’ or ‘good’ contribution to: ‘improving health and wellbeing’ (81%), ‘reducing social isolation’ (79%), ‘empowering people in the community’ (73%), ‘giving people confidence to manage their lives’ (72%) and ‘promoting community cohesion’ (68%).

The research also examined how aspects of community impact interact with each other.

– Some aspects of impact are shared throughout the sector. These include: ‘reducing social isolation’, ‘improving health and wellbeing’, ‘promoting community cohesion’ and ‘empowering people in the community’.
– The outcomes on which there is much less focus from the community business sector as a whole include: ‘enhancing the cultural and artistic life of the community’, ‘improving the local environment’ and ‘increasing employability’.
– In some areas of activity, aspects of impact appear to be complementary. For example, ‘reducing social isolation’ and ‘improving health and wellbeing’.
– Areas of activity that aim to deliver primarily either social or economic outcomes, tend not have such a broad impact on the other. For example, community businesses which feel that they make a strong contribution to the artistic and cultural life of the community, are unlikely to think that they make a strong contribution to ‘increasing employability’, ‘tackling the consequences of poverty, ‘improving access to services’ or ‘improving the local environment’.

Future trends

The Third Sector Trends study data indicate that community businesses have a strong entrepreneurial outlook and are adaptable and flexible so that they can capitalise on new opportunities. Furthermore, this research indicates that things might have been looking up for community businesses and that their leaders had become more optimistic about the future. But in the spring of 2020, the Covid-19 pandemic changed the landscape.

The rising optimism reported here on the future ambitions of community businesses will surely have been dented in many community businesses, and in some demolished. This does not mean that all community businesses will face adversity. Some may flourish in the aftermath – but the hard part is predicting which ones they will be.

The full value of the data collected in Third Sector Trends will not be fully realised until it is repeated for a sixth time in 2022, when it will be possible to look back and make a measured assessment of the impact of Covid-19.

Perhaps people will come out of this crisis with a stronger sense of commitment to communities and more of a willingness to value local assets. Travel and work patterns will change, leisure and shopping habits may be transformed too as people start to 'think locally'. So we cannot assume that Covid-19 will be an unmitigated disaster for the whole community business sector.

Showing what aspects of trading go well together in this report will help to build an understanding of why community businesses generally do not put all their eggs in one basket. This could prove vital in future.

It has also been shown that community businesses may make a much bigger collective contribution to their localities than might have been expected. The report reveals that it is not just a question of assessing which organisations deliver discrete services, but rather how community businesses add layers of value to the community through that process of generating community business activity.

1. Introduction

This research was carried out when, for the first time in quite a long while, things were looking up for the Third Sector in general and community businesses in particular. The ten year recovery from the 2008 global financial crash had finally been achieved and sector finances were stronger than they had been for many years.

There were uncertainties ahead. The survey closed in December 2019, just a week before a General Election and concerns about the potential impact of Brexit hinged on the result. A landslide majority for Conservative prime minister, Boris Johnson led to claims Brexit was 'done' by the end of January and that everyone should embrace the opportunities.

After years of government austerity policies, the new government promised to turn on the taps of public spending and invest in the nation's social and economic future. Optimism was, at last, taking hold. Then in the spring came the Covid-19 pandemic which turned the world upside down – the political, social, cultural and economic impact is impossible to predict.

With this tumult in mind, the value of the data collected in Third Sector Trends may well prove greater than ever when the sixth repeat of the longitudinal study in 2022 enables a measured assessment of the impact of Covid-19 and Brexit.

Some of the findings from this study are already, inevitably, out of date. Any rising optimism it reports on the future ambitions of community businesses will have been dented and, for some, entirely demolished. But this does not mean that all community businesses will face similar adversity – the hard part is predicting which ones they will be.

In many ways, Covid-19 may have brought the nation together and perhaps we will emerge with a stronger interest in our communities and more of a willingness to value local assets. Travel and work patterns will change, leisure and shopping habits may be transformed too as more people start to 'think locally'. We cannot assume that Covid-19 will be an unmitigated disaster for the whole community business sector.

The analysis in this report may help community businesses (and those who support them financially or by using their services) by showing how they work individually and at a collective level. It will do this by presenting new data on how different aspects of trading interact. Revealing and understanding what works together well in trading terms will help to build vital insights for the future.

The report also has something new to say about the social value produced by community businesses. A new approach to analysis shows how community businesses make a much bigger contribution to their localities than might be expected. It is not just a question of delivering discrete services, but a case of adding other kinds of value to the community through that process of generating community business activity.

2. Methodology

This report presents key findings from the Third Sector Trends study in 2019 from across the North of England. The Third Sector Trends study was conceived and originally commissioned by Northern Rock Foundation with research conducted by the universities of Durham, Teesside and Southampton.

The Community Foundation Tyne & Wear and Northumberland was a co-funder of the research and is now responsible for its legacy. In the current round of the research the Community Foundation has been collaborating with partners including St Chad's College at the University of Durham, Power to Change, Garfield Weston Foundation and IPPR North, to expand and continue the research.

The Third Sector Trends survey was designed to explore the structure and dynamics of the third sector and to examine how individual TSOs fare over time in the context of change.

Survey work in the study has been complemented by several related research projects including a long-term qualitative research project with 50 TSOs across North East England and Cumbria.[3] A range of other projects have widened the scope of the exploration of third sector activity by researching the interactions between the public and private sectors and the third sector.[4]

The survey was undertaken between June and December 2019 using an online questionnaire hosted by Online Surveys. The questionnaire was based on previous rounds of the study in North East England, Yorkshire and the Humber and North West England. An identical questionnaire was used in all three regions.

[3] This element of the study has been incorporated in two ESRC Impact Acceleration Account awards, which looked at the relationships local authorities and health authorities in North East England have with local third sector organisations: see Chapman, T. *et al.* (2017) How to work effectively with the third sector, Durham: Institute for Local Governance. https://www.stchads.ac.uk/research/research-news/work-effectively-third-sector/

[4] Studies have been undertaken for the Institute for Local Governance, Sunderland City Council, Northumberland County Council, Stockton Borough Council, Garfield Weston Foundation, Joseph Rowntree Foundation, Lloyds Bank Foundation, The Economic and Social Research Council, Charity Bank and Involve Yorkshire & Humber.

A total of 3,158 responses were gained from the survey including: 1,212 from North West England, 852 from Yorkshire and the Humber and 1,094 in North East England. This represents a 7.5% response rate for the North of England.[5]

The findings presented in this report are based on a robust research methodology which has evolved over the last ten years to produce comparable time-series data. The sample structure has been checked against comparable national studies to ensure that findings are as reliable as possible.

2.1 What is the third sector?

The terms 'third sector' and 'third sector organisation' are widely recognised internationally by academics and policymakers and are therefore adopted in this study.[6]

The term 'third sector' is not always well known, accepted or understood by people who work or volunteer within civil society (or what is more commonly known as the voluntary and community sector). So, it is useful to define which organisations are included.

The National Audit Office (NAO) defines the third sector as follows:

The third sector is the term used to describe the range of organisations which are neither state nor the private sector. Third sector organisations (TSOs) include small local community organisations, and large, established, national and international voluntary or charitable organisations. Some rely solely on the efforts of volunteers; others employ paid professional staff and have management structures and processes similar to those of businesses, large or small; many are registered charities whilst others operate as co-operatives, 'social enterprises' or companies limited by guarantee … All share some common characteristics in the social, environmental or cultural objectives they pursue; their independence from government; and the reinvestment of surpluses for those same objectives.[7]

As this indicates, there are several categories of TSO. The following categories are usefully distinguished by the National Audit Office.

5 For full details of the sample, see Chapman, T. (2019) Third Sector Trends in North East England: a digest of findings, Newcastle upon Tyne: Community Foundation serving Tyne & Wear and Northumberland: https://www.communityfoundation.org.uk/knowledge-and-leadership/third-sector-trends-research/

6 Salamon, L. and Sokolowski, S. (2016) 'Beyond nonprofits: reconceptualising the third sector', *Voluntas*, 27:1515–1545.

7 Bourne, J. (2005) *Working with the Third Sector*, London: National Audit Office.

Voluntary and community sector

Includes registered charities, as well as non-charitable non-profit organisations, associations, self-help groups and community groups. Most involve some aspect of voluntary activity, though many are also professional organisations with paid staff. 'Community organisations' tend to be focused on localities or groups within the community; many are dependent entirely or almost entirely on voluntary activity.

General charities

Charities registered with the Charity Commission except those considered part of the government apparatus, such as universities, and those financial institutions considered part of the corporate sector.

Social enterprises

A business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners.

Mutuals and co-operatives

Membership-based organisations run on a democratic basis for the benefit of their members. Members may be their employees or their consumers or be drawn from the wider community. Some employee co-operatives may be essentially private businesses but many mutuals and co-operatives consider themselves part of the social enterprise sector.

This study includes all these organisations within its definition of the third sector. As is the case in the NAO definition, financial institutions, hospital trusts, for-profit co-operatives, private schools and universities are also excluded from this study of the third sector.

The NAO did not include community businesses in its discussion of sector composition, so the next section will therefore consider how such organisations are defined and can be identified empirically.

2.2 Defining community business

The purpose of this report is to examine the contribution that community businesses make to social and economic wellbeing in the North of England. To do this effectively, it is necessary first to show what aspects of the work of community businesses is distinctive by comparing with other types of TSOs. This is a challenging objective because, even though the Third Sector Trends study asked respondents whether they associated themselves with the title 'community business', very few actually do.[8]

Bailey *et al.* (2018) have adopted a different term in a Power to Change Research Institute publication: 'Community Based Social Enterprise' (CBSE).[9] It is tempting to adopt this term because 'social enterprise' has been adopted by many TSOs to reflect their disposition to work in business-like ways whilst still serving a social purpose. Combining this with locality therefore makes a good deal of sense.

However, the term social enterprise is also contested and has its detractors. Contention surrounding the term has even, arguably, been produced to some extent by its advocates when arguing that social enterprises are sufficiently different from other TSOs to warrant the title of a separate social enterprise sector or, as some define it, the 'fourth sector'.[10]

Over-claiming the differences between social enterprises and conventional charities can be counterproductive and particularly so when arguing that social enterprises can become sustainable through trading alone. Third Sector Trends evidence shows many organisations which do not use the term social enterprise operate in similarly 'business-like' ways – sometimes to a greater extent than those organisations which do self-identify as social enterprises.

This section of the report, therefore, reviews the empirical problems associated with *categorising* community businesses and then defines how they will be distinguished from other TSOs in the Third Sector Trends dataset. The methodology was based upon Power to Change's definition of community businesses, which includes the following criteria: [11]

8 Only 26 (4%) of organisations which have the characteristics of community businesses defined in this study actually use this title to describe themselves, 71 (11%) describe themselves as 'social enterprises, 15 (2%) as 'leisure trusts', 3 as 'development trusts'. By legal form 474 (72%) were companies limited by guarantee, 122 (19%) community interest companies, 22 community businesses (3%) were co-operatives and community benefit companies, 19 (3%) charitable incorporated organisations, 5 (1%) companies limited by shares and 5 (1%) community amateur sport clubs. 438 community businesses were also registered as charities with the Charity Commission.

9 Bailey, N., Kleinhams, R. and Lindbergh, J. (2018) *An assessment of community-based social enterprises in three European countries*, London: Power to Change Research Institute.

10 See for example: https://www.fourthsector.net/for-benefit-corporations.

11 Perry, S., McNabola, A. and Harries, R. (2018) *Community business in England: learning from the Power to Change Research Institute 2016–17*, London: Power to Change Research Institute Report No. 17, p. 4.

Locally rooted	They are rooted in a particular geographical place and respond to its needs. For example, that could be high levels of urban deprivation or rural isolation.
Trading for the benefit of the local community	They are businesses. Their income comes from activities such as renting out space in their buildings, trading as cafés, selling produce they grow or generating energy.
Accountable to the local community	They are accountable to local people. This can mean very different things depending on the community business. For example, a community share offer can create members who have a voice in the business's direction, or a membership-based organisation may have local people who are active in decision-making.
Broad community impact	They benefit and impact their local community as a whole. They often morph into the hub of a neighbourhood, where all types of local groups gather.

This definition stipulates, in broad terms, how and where community businesses operate, what they do and to whom they are accountable. Power to Change recognises that 'There is a huge variation in the type, stage, age and scope of community businesses but they all share some key, central characteristics'.[12]

Research funded by the Power to Change Research Institute recognises that identifying community businesses which match these criteria is challenging empirically. Useful analysis has been undertaken on finding community businesses from national datasets held by, for example, Companies House and the Charity Commission. Questions remain, however, about the efficacy of listings when a diverse range of organisations operate within specific legal forms.[13]

Similarly, as Higton *et al.* (2019) have shown, community businesses work across a wide range of sectors including, for example, employment support, training and education/business support, housing, health and social care, transport, sports and leisure, arts, libraries, pubs, shops, catering and food production, energy, craft and manufacturing, finance and environment/nature conservation.[14]

12 Perry *et al.* (2018) ibid., p. 4,
13 Roper, S. and Bonner, K. (2017) *Identifying Community Businesses in National Datasets*, London: Power to Change.
14 Higton, J., Archer, F., Steer, R., Mulla, I. and Hicklin, A. (2019) *The Community Business Market in 2019*, Bristol: Power to Change Research Institute Report No. 24, p. 37.

2.3 Categorising community businesses

Third Sector Trends is a broadly-based survey questionnaire which can be completed by organisations or groups of any type. So data can be recategorised to align with Power to Change's definition of community businesses.

A variable was created with three categories of third sector organisation to distinguish between:

1. 'TSOs which operate as or in a similar way to community businesses'
2. 'General TSOs which earn income'
3. 'General TSOs which do not earn income'.

The variable was created using data from three separate questions in the Third Sector Trends survey.

Where does the TSO operate?

All TSOs which operated at a neighbourhood or village level were selected together with those which worked within a single-tiered unitary local authority area (or a two-tiered local authority district or former district). Additionally, TSOs were included if they agreed that 'we devote most of our time to the local area where we are based'. TSOs which work at a wider geographical level were removed from the dataset.

What is the legal form of the TSO?

TSOs which reported their legal form as a community interest company (CIC), company limited by guarantee (CLG), company limited by shares (CLS) and co-operative and community benefit societies (CCBS)[15] were recoded as community businesses together with those organisations which self-identified as a 'social enterprise' or 'community business', providing that they earned a proportion of their income. TSOs which were registered charities (but not also companies limited by guarantee), charitable incorporated organisations or unregistered informal organisations or groups were recoded as general TSOs.

[15] The term industrial and provident society (IPS) became redundant following the *Co-operative and Community Benefit Societies Act 2014* in Great Britain (but not Northern Ireland). IPSs are now known as 'co-operative' or 'community benefit societies'. In the Third Sector Trends study, such societies are included providing that they invest profits wholly towards social purposes rather than private personal benefit.

What was the approximate proportion of income which TSOs earned in the last year? (e.g. from selling products and services and/or contracts to deliver services).

To be defined as community businesses, TSOs must earn a proportion of their income from trading activity although this newly created variable does not stipulate the percentage of income earned.

The recoded categories of TSOs were defined as follows:

- **TSOs which operate as or in a similar way to community businesses** (n=658 in 2019 and 612 in 2016).
- **Other general TSOs which earn income** (n=1,138 in 2019 and 1,044 in 2019).
- **Other general TSOs which earn no income** (n=962 in 2019 and 900 in 2016).

The community business variable was further re-categorised into smaller (less than £100,000 income) and larger organisations (above £100,000 income) for comparative purposes. Larger TSOs in the community business category (n=434 in 2019 and 363 in 2016) represent about 10% of the whole sample.

In the 2019 sample of community businesses, only 26 organisations which have the characteristics of community businesses as defined in this study actually used this title to describe themselves, 71 (11%) described themselves as ‘social enterprises, 15 (2%) as ‘leisure trusts’ and 3 as ‘development trusts’.

In the sample of 658 organisations which work as or in a similar way to community businesses, the legal form of organisations was defined as follows:[16]

- 474 (72%) companies limited by guarantee
- 122 (19%) community interest companies
- 22 (3%) co-operatives and community benefit companies
- 5 (1%) companies limited by shares
- 5 (1%) community amateur sport clubs.

A total of 438 community businesses in the sample were also registered as charities with the Charity Commission – 412 of which were also companies limited by guarantee and three companies limited by shares.

[16] Additionally, 30 community businesses did not respond to the question or assigned themselves as ‘other’.

3. Characteristics of the sample

This section provides basic descriptive data on the sample to aid interpretation in subsequent sections of the report.

3.1 Organisational characteristics

Table 3.1 shows the size of organisations by category of community business/general TSOs. It is clear that community businesses in the sample tend to be larger: 63% had income above £100,000 in the previous financial year compared with 36% of general TSOs working locally which earn income and just 12% of general TSOs which do not earn income.

This has a bearing on the interpretation of data in the remainder of the report. As community businesses tend to be larger organisations, they have more formal structures, employ more staff and engage in larger-scale activities when compared with general TSOs which tend to be smaller – and especially so if they earn no income. The purpose of the exercise is not, however, to compare 'like with like', but to disaggregate different types of organisations which do not have similar features.

Percentages of organisations in size categories are broadly similar in the 2016 and 2019 samples which provides room for comparative analysis.

Table 3.1: Size of third sector organisations (row percentages*)

	Micro TSOs (income £0–10,000)	Smaller TSOs (income £10,001–100,000)	Larger TSOs (income £100,001 or more)	Number
Community businesses, working locally and earning income	8.4 (10.2)	29.1 (29.8)	62.5 (60.0)	656 (605)
General TSOs working locally and earning income	24.8 (31.3)	39.0 (41.7)	36.2 (27.0)	1,130 (1,037)
General TSOs working locally which do not earn income	50.1 (56.1)	37.8 (32.5)	12.1 (11.4)	939 (887)
All TSOs working locally	29.5 (35.0)	36.2 (35.6)	34.2 (29.4)	2,725 (2,529)

*2016 data in parentheses

Table 3.2 shows how long TSOs have been established.

– Community businesses tend to have been established more recently than general TSOs: only 10% were established before 1970 compared with 26–29% of general TSOs.
– About 45% of community businesses have been established since 2000 compared with just 35% of general TSOs which earn income and 45% of general TSOs which do not earn income.
– Sample structures are broadly similar in 2016 and 2019 suggesting that comparisons by organisational age is possible.

Smaller community businesses (with income below £100,000) are much more likely than larger community businesses (with income above £100,000) to have been established recently. Indeed, 69% of smaller community businesses were established since 2000, compared with only 33% of larger community businesses. That stated, larger community businesses are much less likely to have been established before 1970 (12%) than general TSOs (26–28%).

Table 3.2: Date of establishment of TSOs (column percentages*)

	Community businesses, working locally and earning income n=639 (592)	Smaller community businesses: income below £100,000 n=213 (231)	Larger community businesses: income above £100,000 n=426 (355)	General TSOs working locally and earning income n=1,105 (1,004)	General TSOs working locally which do not earn income n=918 (832)	All TSOs working locally n=2,662 (2,428)
Before 1970	10.3 (11.1)	7.5 (9.5)	11.7 (12.1)	28.8 (29.2)	25.6 (28.4)	23.3 (24.5)
1970–1989	18.1 (21.6)	11.3 (17.3)	22.5 (24.2)	19.7 (20.2)	18.0 (15.9)	18.9 (19.1)
1990–1999	25.8 (21.3)	12.2 (10.8)	32.6 (28.5)	16.1 (15.3)	10.9 (14.1)	16.6 (16.4)
2000–2009	21.3 (26.5)	21.1 (30.7)	21.4 (23.7)	17.3 (22.1)	18.6 (21.6)	18.7 (23.0)
Since 2010	23.8 (19.4)	47.9 (31.6)	11.7 (11.5)	18.1 (13.1)	26.7 (20.1)	22.4 (17.1)

*2016 data in parentheses

The 2016 report demonstrated that the level of affluence of the areas where TSOs work has a bearing upon interpretation of findings. As Table 3.3 shows, community businesses are much more likely to be situated in poorer areas (51%) compared with general TSOs which earn income (38%) and general TSOs which do not earn income (31%). Furthermore, only 16% of community businesses are based in the most affluent areas compared with 23% of general TSOs which earn income and 30% of general TSOs which earn no income. Over 52% of larger community businesses are based in the poorest areas compared with 47% of smaller community businesses.

Table 3.3: Relative levels of affluence in areas where TSOs are based[17] (row percentages*)

	TSOs based in the least affluent areas (EID 1–2)	TSOs in areas of intermediate affluence (EID 3–6)	TSOs based in the most affluent areas (EID 7–10)	Number
Community businesses	50.6 (49.2)	33.3 (36.1)	16.1 (14.7)	634 (592)
Smaller community businesses: income below £100,000	47.4 (38.9)	35.2 (44.8)	17.4 (16.3)	213 (239)
Larger community businesses: income above £100,000	52.3 (55.8)	32.3 (30.3)	15.4 (13.9)	421 (346)
General TSOs which earn income	38.0 (33.5)	38.6 (43.7)	23.4 (22.8)	1,073 (1,000)
General TSOs which do not earn income	30.8 (30.9)	38.9 (41.6)	30.3 (27.5)	900 (851)
All TSOs working locally	38.6 (36.4)	37.4 (41.1)	24.0 (22.5)	2,607 (2,443)

*2016 data in parentheses

17 The location of TSOs is defined by its principal English Indices of Deprivation (EID) score – i.e. to incorporate all aspects of relative deprivation/affluence rather than just economic deprivation. Ministry of Housing, Communities and Local Government (2019) *The English Indices of Deprivation 2019*, London: DHCLG: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/835115/IoD2019_Statistical_Release.pdf

3.2 Indicators of financial wellbeing

The general financial situation of community businesses over the last two years is shown in Table 3.4. The general picture, when compared with 2016, is positive: 20% of all TSOs increased income significantly in the last two years compared with 14% in 2016.

Just over a quarter (26%) of community businesses significantly increased income in the last two years (compared with 19% in 2016). When compared with general TSOs which earn income 21% significantly increased income (13% in 2016). Community businesses were less likely to report significantly falling income in 2019 (15% compared with 23% in 2016).

Only 15% of general TSOs which earn none of their income increased income significantly (11% in 2016) but income stability is much more likely amongst these TSOs (73% compared with 59% of community businesses). This is mainly because they are smaller organisations and groups which depend mainly on support from volunteers.

Table 3.4: Financial situation of TSOs in the last two years (row percentages*)

	Income† has risen significantly in last 2 years	Income has remained about the same in last 2 years	Income has fallen significantly in last 2 years	Number
Community businesses	25.8 (19.0)	59.0 (58.3)	15.2 (22.8)	655 (606)
Smaller community businesses: income below £100,000	28.9 (20.2)	56.5 (60.1)	14.7 (19.7)	221 (238)
Larger community businesses: income above £100,000	24.2 (18.2)	60.4 (56.9)	15.4 (24.9)	434 (362)
General TSOs which earn income	21.0 (13.3)	65.2 (68.9)	13.8 (17.9)	1,138 (1,041)
General TSOs earning no income	15.3 (10.5)	73.1 (75.1)	11.6 (14.4)	962 (885)
All TSOs working locally	20.2 (13.7)	66.4 (68.5)	13.4 (17.8)	2,755 (2,532)

*2016 data in parentheses
†Refers to all sources of income, not just earned income

A second indicator of financial wellbeing is the extent to which community businesses have drawn upon reserves to invest in their future development or to pay for essential costs (see Table 3.5).

- Community businesses are much more likely to have used reserves to invest in new activities such as buying property, developing a new service or employing a development worker (17%) when compared with general TSOs which earn none of their income (10%).
- Larger community businesses are much more likely to invest in their development (19%) than their smaller counterparts (12%).
- Use of reserves to pay for essential costs indicates that organisations may be under financial pressure: 23% of community businesses have done so compared with only 13% of general TSOs which earn no income.
- Larger community businesses are much more likely to have drawn on reserves for essential costs (27%) when compared with smaller community businesses (16%).

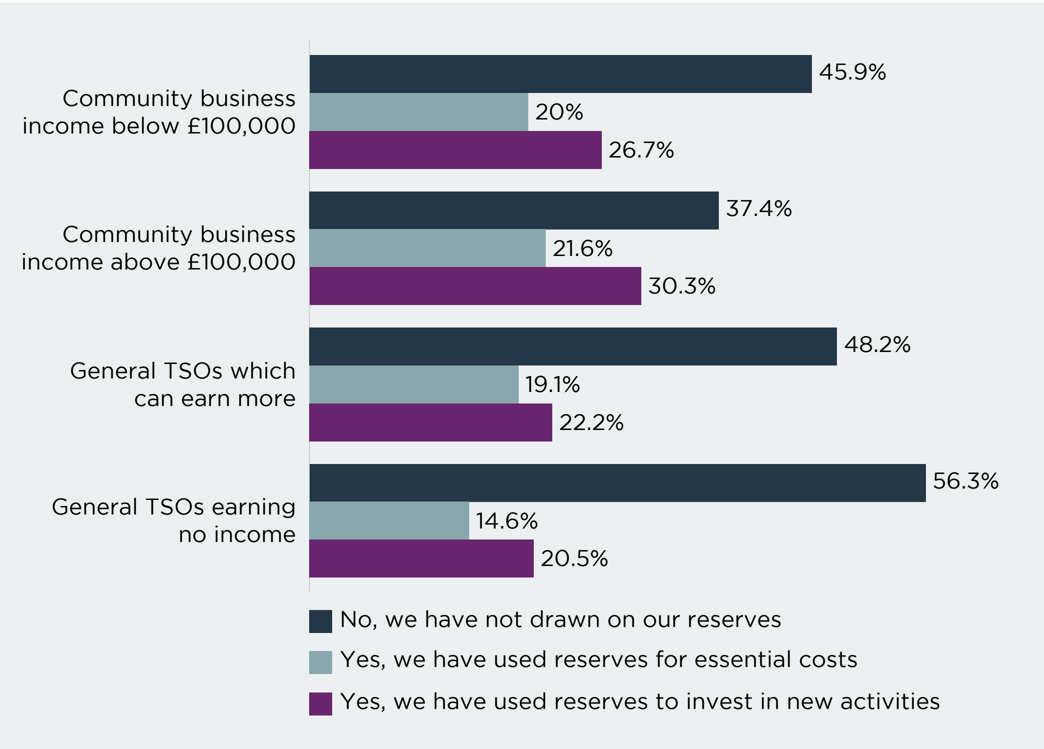
Table 3.5: Use of reserves by community businesses (row percentages, North of England, 2019)

	No, we don't have any reserves	No, we have not drawn on our reserves	Yes, we have used reserves to invest in new activities	Yes, we have used reserves for essential costs	Used reserves for mixed purposes	Number
Community businesses	20.8	31.2	16.8	23.1	8.1	654
Smaller community businesses: income below £100,000	38.9	28.1	12.2	16.3	4.5	221
Larger community businesses: income above £100,000	11.6	33.0	19.1	26.7	9.5	430
General TSOs which earn income	17.7	39.7	15.7	18.3	8.7	1,132
General TSOs earning no income	35.2	36.5	9.5	13.3	5.6	950
All TSOs working locally	24.5	36.6	13.8	17.7	7.4	2,733

When those organisations which have no reserves are removed from the analysis a clearer picture emerges (see Figure 3.1).

- Smaller community businesses, in income terms, were much more likely not to have drawn on reserves (46%) than larger community businesses (37%). General TSOs which earn no income were most likely not to have drawn on reserves (56%).
- Larger and smaller community businesses were more or less equally likely to have drawn on reserves for essential costs (20–22%) compared with 19% of TSOs which earn income and just 15% of general TSOs which earn no income.
- Large community businesses were the most likely to invest in their development (30%) compared with 27% of smaller community businesses and just 21% of general TSOs which earn no income.

Figure 3.1: Proportion of community businesses which have drawn on reserves for essential costs or investment purposes (%) (only includes TSOs which have reserves, 2019, North of England, base n=2,064)



The analysis compared sample structures in the Third Sector Trends studies in 2016 and 2019. The samples are similar which provides room for confidence for comparative analysis.

Community businesses tend to be larger than other general TSOs: 63% have income over £100,000 compared with 36% of general TSOs that earn income and only 12% of general TSOs that earn no income. Community businesses tend to have been established more recently than general TSOs. Only 10% were established before 1970 compared with around 28% of other TSOs.

Community businesses are more likely be concentrated in areas of relative deprivation: 52% of larger community businesses work in such areas compared with about a third of other TSOs.

Financially, there are signs that more community businesses have fared well between 2017–19 than was the case from 2014–16. They are more likely to have experienced significantly rising income than other TSOs in the last two years.

4. Organisational resources

Third sector organisations compete with each other for resources of people, money and ideas to do their work successfully and to meet demand for their services in the locality. In this section, several aspects of organisational resource are briefly considered:

- people resources
- assets and reserves
- relative importance of income sources
- public sector service delivery contracts
- self-generated trading activities
- expectations about future income levels.

4.1 People resources

The capability and capacity of community businesses to achieve their full potential hinges upon their people resources.[18] While the term 'community business' implies that they are likely to be staffed entirely by paid employees – this is not the case. Higton *et al.* (2019) estimate that there are about 9,000 community businesses operating in England. These organisations have an estimated 33,900 paid employees and 205,600 volunteers – a ratio of 6:1 volunteers for each paid staff member.[19]

Higton *et al.* (2019) show that proportions vary depending on the area of trading activity within which community businesses operate. As shown in Table 4.1. the ratio of volunteers to employees is 44:1 in community libraries and 21:1 in village halls. Volunteers also substantially outnumber paid staff in other areas of activity including, cafés and shops (8:1), arts centres or facilities (7:1) and community hubs (5:1). In other sectors where services are subject to statutory regulation, such as the health and social care sector, the ratio is much lower at 2:1.

18 See Davies, M., Miscampbell, G., Barnard, M. and Hughes, S. (2017) *What works: successful community pubs*, London: Power to Change Research Institute; and Plunkett Foundation (2017) *Community shops: a better form of business*, London: Power to Change Research Institute.

19 Higton *et al.* (2019) ibid., p. 4.

Table 4.1: Market size estimates for community businesses, 2019[20]

Trading activity	Number of community businesses	Paid employees	Volunteers	Ratio of volunteers to employees
Village halls	2,100	3,200	66,300	20.7
Community hubs	2,000	7,900	39,500	5.0
Business support	900	4,600	11,600	2.5
Arts centre or facilities	400	1,800	11,900	6.6
Cafés and shops	400	1,300	10,500	8.1
Health, social care and wellbeing	400	4,900	8,200	1.7
Libraries	400	400	17,600	44.0
Sports and leisure	400	3,700	9,400	2.5

The extent to which employment and volunteering numbers in community businesses differ from other TSOs can be demonstrated by comparing levels of employment of paid staff and reliance on volunteers using Third Sector Trends evidence.

As shown in Table 4.2, larger community businesses are by far the biggest employers of full-time staff: 20% of such organisations have more than 20 full-time staff. As would be expected, most community businesses with income below £100,000 report that they have few or no staff. Differences between community businesses and other general TSOs are less pronounced when comparing employment of part-time staff.

There are some indications that, in 2019, larger community businesses may be employing larger numbers of part-time and full-time staff than in 2016. However, at the other end of the spectrum, more community businesses appear to be employing none or very small numbers of staff. As noted, these differences may be accounted for by the sample including 47 community businesses established since 2016.

Volunteer support (excluding trustees, directors or other board/committee members) is prevalent across all types of TSOs – although community businesses are more likely to enjoy volunteer support than general TSOs. This finding is perhaps surprising, given that reliance on staff is higher. The number of volunteers organisations have may not, however, equate directly with the extent to which they are 'dependent on volunteers to undertake core activities'.

[20] Adapted from Higton, *et al.* (2019) p. 37. Only includes categories of community business activity with more than 400 organisations in each category.

Table 4.2: TSOs' employee and volunteer resources 2019 and 2016 (row percentages)

	None		1 to 5		6 to 20		Over 20		Number	
Full-time employees	2019	2016	2019	2016	2019	2016	2019	2016	2019	2016
Community businesses	27.9	25.9	39.6	46.2	18.5	19.2	14.0	8.7	616	541
Smaller community businesses: income below £100,000	60.5	61.5	37.4	38.4	0.0	0.0	0.0	0.0	195	195
Larger community businesses: income above £100,000	12.8	5.3	40.6	51.8	26.8	29.5	19.7	13.5	421	342
General TSOs which earn income	56.1	60.8	26.1	27.4	9.4	7.1	8.3	4.7	1019	915
General TSOs no earned income	80.2	79.4	15.8	15.7	3.4	3.6	0.6	1.3	844	783
All TSOs working locally	57.3	58.9	25.9	27.9	9.6	8.8	7.1	4.5	2479	2239
Part-time employees										
Community businesses	17.6	13.8	39.5	47.4	30.3	30.1	12.5	8.7	630	572
Smaller community businesses: income below £100,000	37.0	34.9	54.3	56.5	8.2	8.6	0.0	0.0	208	209
Larger community businesses: income above £100,000	8.1	1.4	32.2	41.6	41.2	43.0	18.5	14.0	422	356
General TSOs which earn income	37.5	44.6	38.4	37.6	15.6	13.8	8.6	4.0	1086	984
General TSOs no earned income	67.9	67.5	25.9	26.8	5.2	4.8	1.0	0.9	882	806
All TSOs working locally	43.0	45.0	34.4	36.3	15.6	14.7	7.0	4.1	2598	2362
Volunteers (excluding trustees/directors/committee members)										
Community businesses	8.5	5.7	22.2	25.3	34.3	33.7	35.1	35.3	639	578
Smaller community businesses: income below £100,000	9.4	6.6	26.8	32.8	44.1	40.2	19.7	20.5	213	229
Larger community businesses: income above £100,000	8.0	5.3	20.0	20.5	29.3	28.9	42.7	45.3	426	342
General TSOs which earn income	7.5	9.7	17.8	20.3	38.0	41.7	36.8	28.3	1104	990
General TSOs no earned income	17.5	19.2	20.8	25.6	33.8	32.8	28.0	22.4	930	854
All TSOs working locally	11.2	12.1	19.9	23.4	35.6	36.7	33.3	27.9	2673	2422

Table 4.3 shows how employment and volunteer numbers have changed over the last two years. It is clear that growth in both full-time and part-time employees in the community business sector offset the number of community businesses reporting a fall in the number of employees. Larger community businesses were more likely to have increased their full-time employee workforce (32%) than smaller community businesses (21%). This is also the case for part-time workers (47% and 33% respectively).

When the situation of general TSOs which earn income and community businesses are compared, it is apparent that the proportions of organisations with rising numbers of full-time staff are similar (28–29%). Community businesses were more likely to have increased their numbers of part-time staff however (43% and 34% respectively).

There are also clear signs that the numbers of volunteers working in community businesses increased substantively between 2017–19. Around two-fifths (42%) of community businesses reported rising numbers compared with 14% which stated that numbers of volunteers fell. Changes in volunteer numbers are similar in community businesses and general TSOs.

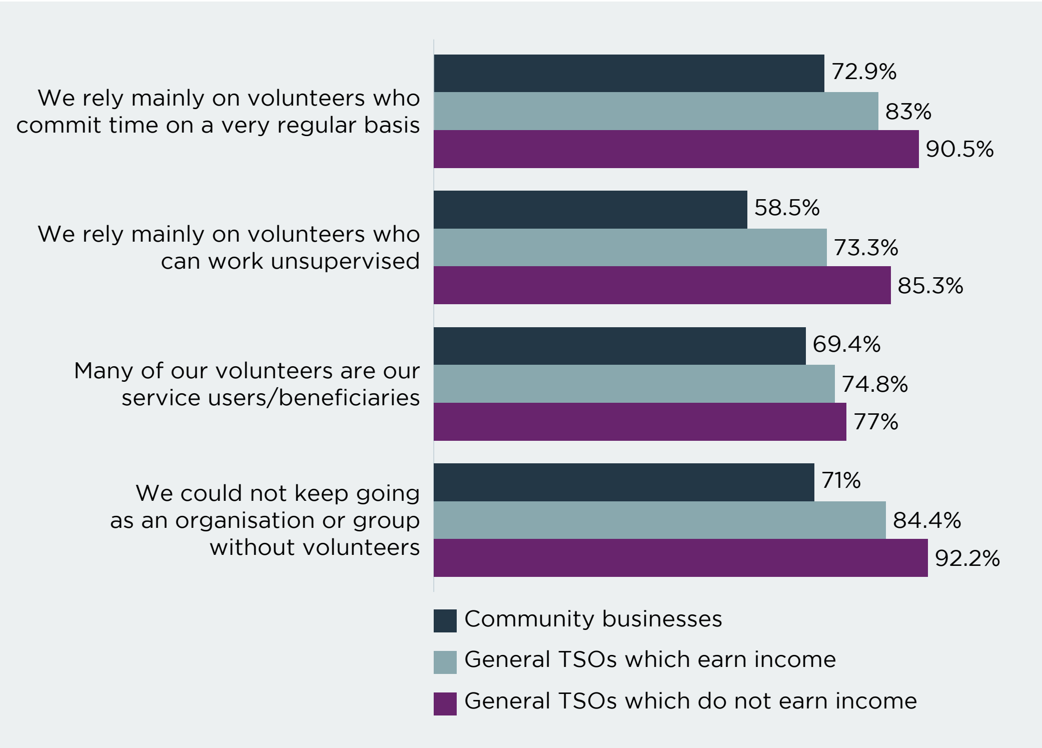
Table 4.3: Change in the number of employees and volunteers in last two years (row percentages, 2019)

	Increased	Stayed the same	Decreased	Number
Full-time employees				
Community businesses	29.3	48.3	22.4	495
Smaller community businesses: income below £100,000	21.4	60.7	17.9	112
Larger community businesses: income above £100,000	31.6	44.6	23.8	383
General TSOs which earn income	27.8	56.3	15.9	561
General TSOs no earned income	16.1	73.9	10.0	249
All TSOs working locally	26.1	56.6	17.2	1305
Part-time employees				
Community businesses	42.9	38.9	18.3	553
Smaller community businesses: income below £100,000	32.7	49.7	17.6	153
Larger community businesses: income above £100,000	46.8	34.8	18.5	400
General TSOs which earn income	34.4	52.1	13.5	727
General TSOs no earned income	28.5	62.6	8.9	361
All TSOs	36.0	50.0	14.1	1,641
Volunteers (excluding trustees/directors/committee members)				
Community businesses	41.6	44.7	13.7	604
Smaller community businesses: income below £100,000	46.0	40.9	13.1	198
Larger community businesses: income above £100,000	39.4	46.6	14.0	406
General TSOs which earn income	39.3	46.5	14.2	1,047
General TSOs no earned income	33.2	51.9	14.9	783
All TSOs working locally	37.9	47.8	14.3	2,434

It is clear that community businesses tend to rely more heavily upon employees to deliver their work than general TSOs (and especially so in those smaller organisations which do not earn income). This does not mean that volunteers do not perform an important role in many community businesses, as shown in Figure 4.1.

- 73% of community businesses rely mainly on volunteers who commit time on a regular basis compared with 91% of general TSOs which earn no income.
- 59% of community businesses rely on volunteers who can work unsupervised, compared with 85% of general TSOs which earn no income.
- Amongst organisations whose volunteers are service users or beneficiaries, percentage differences are smaller (69% of community businesses compared with 77% of general TSOs which do not earn income).
- Fundamental dependence on volunteers is high for all TSOs, but in community businesses is considerably lower than other types of organisations: 71% of community businesses could not survive without volunteers compared with 92% of general TSOs which earn no income. The reason for this is that many general TSOs are entirely volunteer led and run (see Table 4.2).

Figure 4.1 Reliance on volunteers (percentage agreeing or strongly agreeing 2019, excludes organisations with no volunteers, n=2,356)



4.2 Assets and reserves

The Power to Change Research Institute has shown that holding assets is an important element in the success of community businesses.[21] It is useful to examine the extent to which community businesses hold such assets when compared with other TSOs.

It is clear from Table 4.4 that community businesses tend to have a stronger asset base than other TSOs.

- Over half of community businesses have property assets, but only 20% have assets valued above £250,000. The asset base of general TSOs which earn income are similar. Only 29% of general TSOs which do not earn income have property assets.
- Larger community businesses are much more likely to have a stronger property asset base: 27% have assets valued above £250,000 compared with just 7% of smaller community businesses.[22]
- Just under 60% of community businesses have investment assets, but only 10% have investment assets valued over £250,000. Slightly fewer general TSOs which earn income have investment assets, but the differences are marginal.
- General TSOs which do not earn income are less likely to have investment assets (38%). Larger community businesses have a stronger investment asset base – but only 14% have investments above £250,000.
- Community businesses are the most likely to have substantial cash in hand reserves: 31% have over £50,000 cash in hand and 26% have between £10,000 and £50,000.
- General TSOs which earn income have lower levels of cash reserves – 56% have less than £10,000 cash in hand and only 16% have over £50,000). Almost three quarters of general TSOs which earn no income have less than £10,000 cash in hand and only 7% have over £50,000.
- Nearly three quarters of smaller community businesses have less than £10,000 cash in hand compared with just 28% of larger community businesses. Indeed 45% of larger community businesses have over £250,000 cash in hand.

[21] Gilbert, A. (2016) *A common interest: the role of asset transfer in developing the community business market*, London: Power to Change Research Institute. Hull, T., Davies, T. and Swersky, A. (2016) *The Community Business Market in 2016*, London: Power to Change Research Institute. Bailey, N., Kleinhans, R. and Lindbergh, J. (2018) *An assessment of community-based social enterprises in three European Countries*, London: Power to Change Research Institute.

[22] These data indicate a fall in levels of investment assets in smaller community businesses between 2016 and 2019, most of this change is accounted for by the entry of 47 newly established organisations into the sample since 2016.

The higher levels of assets held by larger community businesses is likely to be a relevant factor when considering their capability and interest in investing in the development of their business interests.

Table 4.4: Property and investment assets of TSOs, 2019 (row percentages*)

Property assets	None	Below £250,000	Above £250,000	Number
Community businesses	53.6 (50.3)	26.6 (30.6)	19.8 (19.2)	631 (599)
Smaller: income below £100,000	63.0 (57.4)	30.6 (32.9)	6.5 (9.7)	216 (237)
Larger: income above £100,000	48.7 (45.8)	24.6 (28.7)	26.7 (25.6)	415 (356)
General TSOs which earn income	54.7 (55.7)	28.1 (27.3)	17.2 (17.0)	1,086 (1,017)
General TSOs no earned income	71.2 (71.6)	20.4 (22.3)	8.5 (6.1)	898 (867)
All TSOs working locally	10.1 (59.9)	25.1 (26.3)	14.8 (13.7)	2,615 (2,483)
Investment assets	**None**	**Below £250,000**	**Above £250,001**	**Number**
Community businesses	59.6 (54.5)	30.9 (38.3)	9.6 (7.2)	596 (595)
Smaller: income below £100,000	72.3 (67.8)	26.2 (31.4)	1.5 (0.8)	195 (236)
Larger: income above £100,000	53.4 (45.6)	33.2 (42.8)	13.5 (11.6)	401 (353)
General TSOs which earn income	58.5 (59.9)	35.9 (35.6)	5.6 (4.5)	1,062 (1,010)
General TSOs no earned income	71.6 (67.1)	24.0 (30.1)	4.4 (2.8)	880 (858)
All TSOs working locally	63.3 (61.1)	30.6 (34.3)	6.1 (4.5)	2,538 (2,463)
Cash-in-hand reserves	**Below £10,000**	**£10,000 – £49,999**	**Above £50,000**	**Number**
Community businesses	42.7 (42.4)	26.3 (32.9)	31.0 (24.7)	632 (595)
Smaller: income below £100,000	73.2 (69.8)	24.6 (25.2)	1.9 (5.0)	207 (242)
Larger: income above £100,000	27.8 (22.4)	27.1 (37.3)	45.2 (40.3)	425 (357)
General TSOs which earn income	55.5 (63.2)	28.1 (26.0)	16.4 (10.8)	1,100 (1,011)
General TSOs no earned income	73.6 (79.0)	19.9 (16.4)	6.5 (4.6)	919 (865)
All TSOs working locally	58.7 (63.7)	24.8 (24.3)	16.4 (12.0)	2,651 (2,471)

*2016 data in parentheses

4.3 Relative importance of income sources

Community businesses generally depend on a variety of income sources, including *earned, given* and *borrowed money*, in addition to valuable in-kind support (such as peppercorn rents, pro bono advice from professionals and time given by volunteers, which would otherwise result in higher financial costs of running an organisation).

Many TSOs identify themselves as being 'business-like' in their practices but very few can survive on the basis of earned income alone. Third Sector Trends research consistently shows that profits from business-like activity usually need to be bolstered by grants (or other sources of income such as gifts or fundraising) because the marketplace within which TSOs operate is not strong enough to sustain profitable activity. If that were the case, then the likelihood is that conventional private sector businesses would be present and competing with TSOs.[23]

That stated, a minority of TSOs do make strong surpluses from their trading activities. In-depth qualitative research for Power to Change in Bradford, Middlesbrough and Hartlepool helped to show that some community businesses are even in a position effectively to subsidise public sector contracts to ensure that provision is retained in their communities. They do this by producing financial surpluses from other aspects of their trading but also from grants.[24]

23 Chapman, T. (2017) *Third Sector Trends in North East England 2016*, Newcastle: Community Foundation Tyne & Wear and Northumberland, p. 75–6. https://www.communityfoundation.org.uk/wordpress/wp-content/uploads/2017/09/Third-Sector-Trends-in-North-East-England-2017-1.pdf

24 Chapman, T. and Gray, T. (2019) *Striking a balance: how community businesses build effective working relationships with public, private and third sector organisations*, London: Power to Change Trust. https://www.powertochange.org.uk/research/striking-balance-study-community-businesses-bradford-hartlepool-middlesborough-build-working-relationships-public-private-third-sector/

It is useful to show the extent to which community businesses rely on different sources of income when compared with general TSOs. The Third Sector Trends study does not collect data on 'actual' levels of income TSOs receive from different sources.[25] But this is a valuable source of information as it provides a clear understanding of how the perceived 'balance' of reliance on different income sources changes over time.

Figure 4.2 shows the 'relative' importance of a range of income or in-kind resources to TSOs. It is clear that community businesses and general TSOs which earn income are more or less equally reliant on grant funding, but community businesses are more than twice as reliant upon contracts. Similarly, community businesses tend to be more reliant on other sources of trading income than general TSOs which earn income.

Community businesses are much less likely to rely, in relative terms, on investment income, in-kind support, income from gifts or subscriptions than general TSOs, and especially those which earn none of their income.

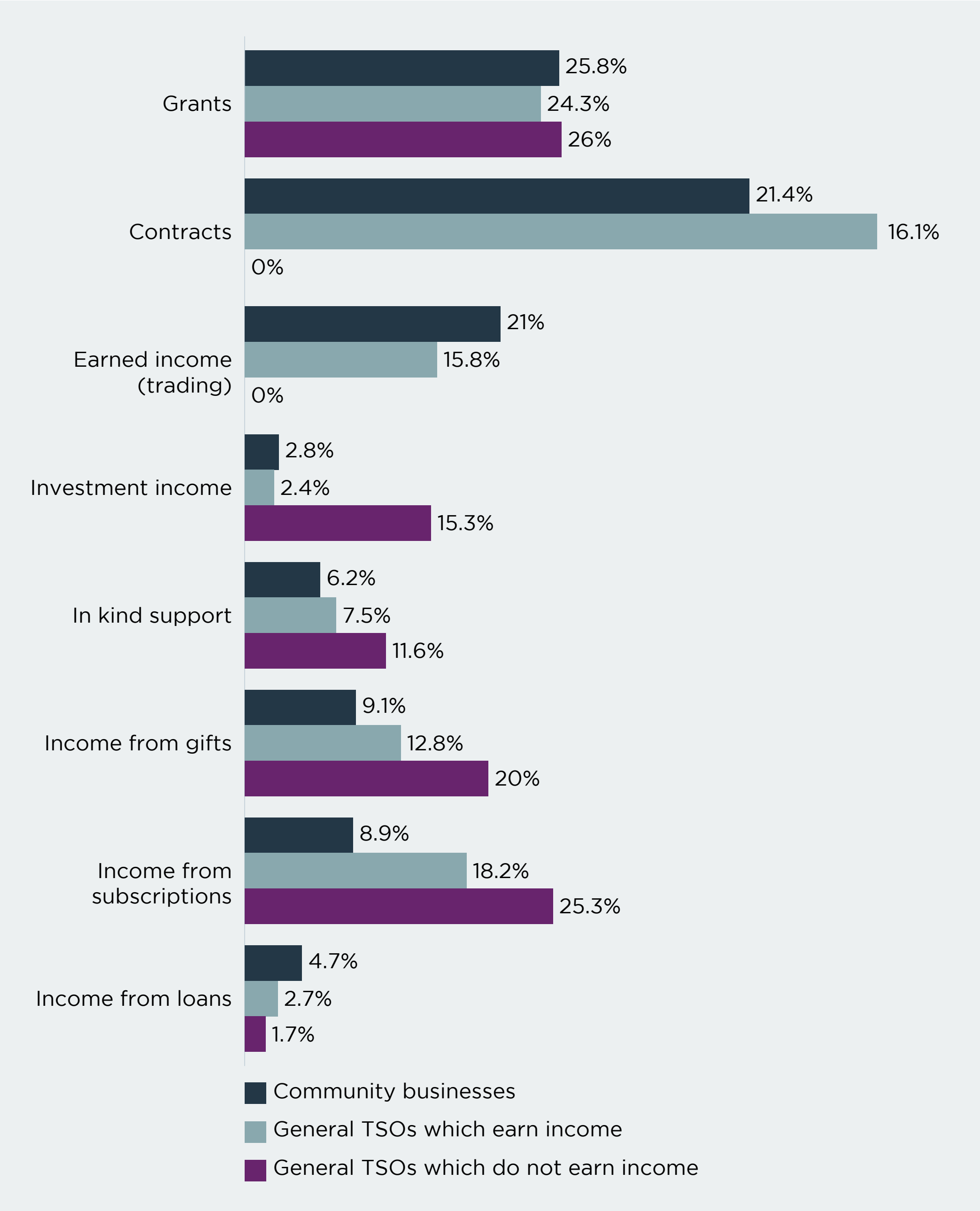
It is notable that the relative importance of income from loans is negligible, irrespective of organisational type. As Third Sector Trends research has shown, most TSOs refuse to consider the option of borrowing money. Indeed, there is often reluctance to consider borrowing money even for purposes which make sound economic sense in business-planning terms if it is felt that a grant might be accessed instead.[26] This is not to say that there is *no* market for conventional loans, mortgages or social investment – but rather that it is something that only a minority of organisations will contemplate.

Background analysis from Third Sector Trends indicates that smaller community businesses tend to rely more heavily on grants and self-generated earned income from trading, but they are much less reliant on contracts than larger community businesses. Similarly, smaller community businesses tend to be much more reliant on in-kind support, gift income and subscription income than larger community businesses.

[25] With the exception of NCVO's UK Civil Society Almanac (https://almanac.fc.production.ncvocloud.net/executive-summary/)research which is based on published financial accounts of a sample of TSOs from across the UK, previous attempts to collect such information have generally failed to present a convincing picture of third sector income, including work by the major government funded England National Survey of Third Sector Organisations Study in 2008 and 2010 (https://data.gov.uk/dataset/714eddc9-2e53-4d6c-8b64-4b2362edd865/england-national-survey-of-third-sector-organisations). The reason for this is largely to do with respondents not being willing to provide such information. This may be due to lack of easy access to such information or worries about divulging data. In the Third Sector Trends study, a simpler approach was adopted, by asking TSOs the extent to which they valued different sources of income. Data do not therefore refer to the sum of income, but the extent of relative reliance on income sources.

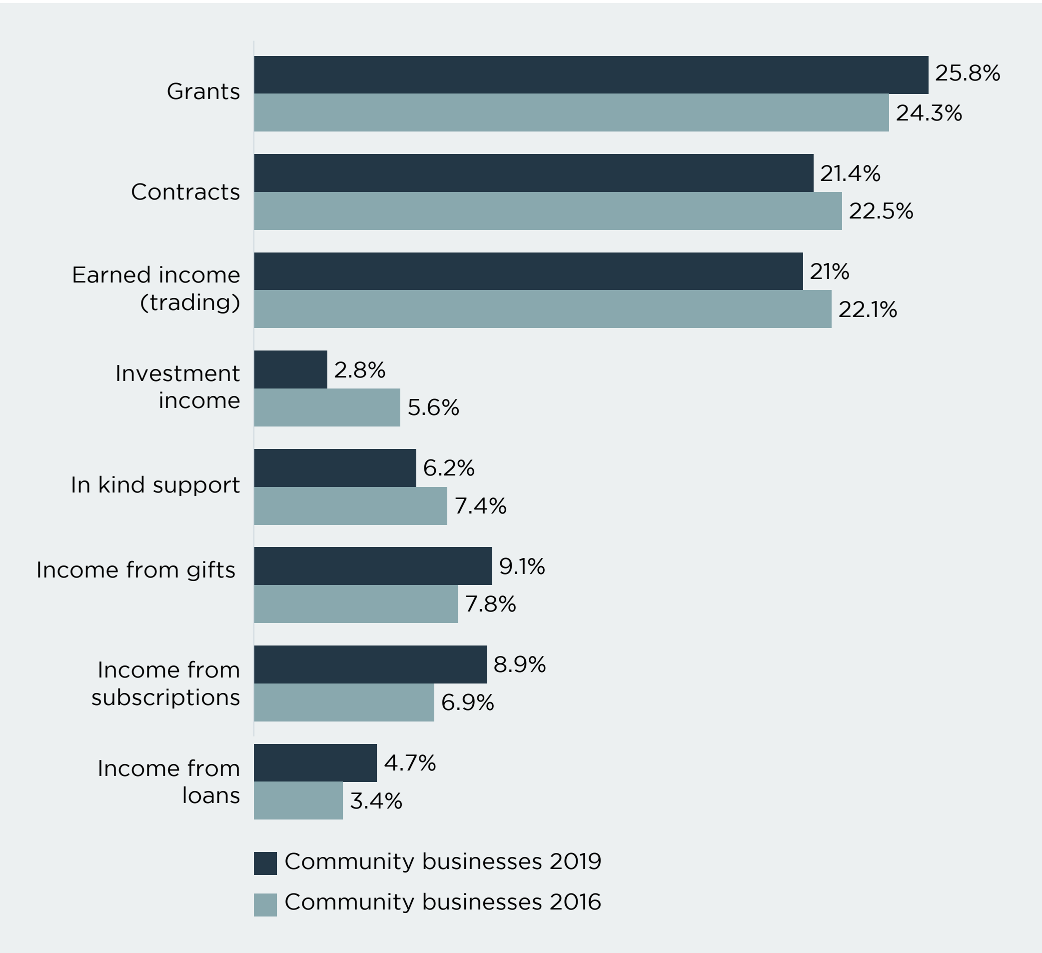
[26] Chapman, T. (2017) 'The propensity of third sector organisations to borrow money in the UK', *Policy Studies*, vol. 38, no. 2, pp. 185–204.

Figure 4.2: Relative levels of importance of income sources, 2019 (%) (base n=2,758)



There are some indications of change since 2016 in the balance of reliance on income sources in relative terms (Figure 4.3). It appears that grants were valued more highly by community businesses in 2019 than in 2016 while the relative importance of contracts has fallen. Reliance on income from gifts and subscriptions also seem to have increased – while the value of investment income has clearly fallen. Borrowing money, in relative terms, remains unimportant to most community businesses but there is some indication that reliance on loan finance may have increased since 2016.

Figure 4.3:Relative reliance on sources of income for community businesses in 2016 and 2019 (%) (base n=658)



4.4 Public sector service delivery contracts

The analysis suggests that the delivery of public sector services under contract is perceived to have become slightly less important to community businesses in relative terms. This section looks at *actual* levels of participation in the delivery of contracts.

Table 4.5 compares the proportion of organisations which were engaged in public sector contracts in 2016 and 2019.

- Very few community businesses were unaware of opportunities to deliver public sector services under contract (only 9% compared with 11% in 2016). General TSOs which earn no income were most likely to be unaware of such opportunities (29%) compared with 18% of general TSOs which do earn income.
- Larger community businesses were less likely to be unaware of such opportunities (5%) than small community businesses (17%). Awareness has increased for both larger and smaller community businesses since 2016.
- 31% of community businesses were aware of contract opportunities in 2019, but were not interested in this option. This percentage has increased since 2016 (24%). Over 55% of general TSOs which earn no income are not interested in contracts – this is unchanged since 2016.[27]
- Many TSOs identified barriers to engaging in contracts or felt that they needed more information or support – but fewer community businesses considered this to be the case in 2019 than in 2016. Smaller community businesses were more likely to perceive these kinds of barriers to engagement.
- A third of community businesses were bidding for or working under contracts in 2019 compared with 30% in 2016. It is puzzling that about 4% of general TSOs which earn no income claim to be in this situation, although it is possible that they play a minor part in contracts held by other larger organisations.
- Small community businesses were much less likely to be bidding for or delivering contracts (11% in 2019, 9% in 2016) than larger community businesses (45% in 2019 and 2016).

[27] As shown in Chapman and Gray (2018), ibid., pp. 41–47), some community businesses have become less enthusiastic about working on public sector service contracts because costs were continually being driven down. But some community businesses continued to deliver contracts, even if delivered at a financial loss, to maintain services to their local communities.

Table 4.5: Policy and practice preferences on the delivery of public sector contracts (column percentages)

	Community businesses		Smaller community businesses: income below £100,000		Larger community businesses: income above £100,000		General TSOs which earn income		General TSOs which do not earn income	
	2019	2016	2019	2016	2019	2016	2019	2016	2019	2016
We are not aware of these opportunities	8.7	11.2	*16.8*	*19.9*	*4.6*	*5.3*	18.2	20.7	28.7	25.5
We are aware of these opportunities, but they are not relevant to our organisation's objectives	30.8	23.8	*37.3*	*34.0*	*27.5*	*17.2*	44.3	40.9	54.8	55.9
We are aware of these opportunities but need more information	4.1	7.4	*7.7*	*6.6*	*2.3*	*7.5*	4.7	5.7	2.4	3.5
We are interested in this option but would need extra support to do this	8.9	11.3	*13.2*	*14.5*	*6.7*	*9.2*	8.2	9.1	4.9	5.2
We are interested in this option but feel there are barriers in the tendering process	13.8	15.8	*14.1*	*16.2*	*13.6*	*15.3*	8.9	8.4	5.5	4.4
We are already bidding to deliver public sector services	5.1	7.2	*3.6*	*3.7*	*5.8*	*9.7*	2.7	3.4	1.3	1.6
We are already delivering public sector services for which we have tendered	28.6	23.2	*7.3*	*5.0*	*39.5*	*35.8*	13.0	11.8	2.4	3.9
Number	653	608	*220*	*241*	*433*	*360*	1131	1,028	951	869

Table 4.6 assesses expectations about levels of public sector funding over the next two years. At the time of study, there were signs of rising optimism.

– In 2019, 20% of community businesses expected that income from public sector sources would increase over the next two years compared with 14% in 2016. Amongst other TSOs, expectations are largely unchanged and generally less optimistic (about 16–18%).

– 37% of community businesses felt that income from the public sector will remain about the same over the next two years (compared with 28% in 2016).

– Pessimism about maintaining income from public sector sources was more common than optimism amongst community businesses in 2019 (43%) but its extent fell substantially from 60% in 2016.

Table 4.6: Expectations about funding from the public sector in the next two years (row percentages)

	Expect income to increase		Expect income to remain the same		Expect income to fall		Number	
	2019	2016	2019	2016	2019	2016	2016	2019
Community businesses	19.9	14.3	36.9	27.7	43.2	57.9	569	494
General TSOs which earn income	17.8	16.4	45.8	36.8	36.4	46.8	797	709
General TSOs which do not earn income	17.6	16.7	50.1	42.6	32.3	40.7	483	467
All TSOs working locally	18.4	15.9	44.2	35.7	37.4	48.4	1,849	1,670

Delivering public sector contracts is an important source of income for many community businesses. The extent to which community businesses rely on public sector sources of income in comparison with private sector or voluntary sector income is explored in Table 4.7. The evidence indicates that there has been some realignment in principal sources of funding since 2016.

- Community businesses are much more likely to rely mainly upon public sector funding than other TSOs. But the extent of this reliance has fallen from 49% of community businesses in 2016 to 39% in 2019. Amongst general TSOs there is virtually no change in this respect.
- Larger community businesses were less likely to report heavy reliance on public sector funds (47%) than was the case in 2016 (64%).
- Heavy reliance on private sector sources of income still remains relatively unusual amongst community businesses (16%), but this has risen from 13% in 2016. Increasing reliance on private sector funding is more prominent amongst smaller community businesses.
- Reliance on community sector funding (such as grants from charitable foundations) has increased amongst community businesses (rising from 39% in 2016 to 45% in 2019). This shift in emphasis is stronger amongst larger community businesses (where reliance has risen from 25% to 40% of organisations).

Table 4.7: Extent to which TSOs rely on public, private and community sector funding (row percentages*)

	Funding comes mainly from the public sector	Funding comes mainly from the private sector	Funding comes mainly from the community sector	Number
Community businesses	38.9 (48.9)	15.7 (12.6)	45.4 (38.5)	643 (585)
Smaller: income below £100,000	23.7 (27.5)	20.1 (15.0)	56.2 (57.5)	219 (233)
Larger: income above £100,000	46.7 (63.6)	13.4 (11.0)	39.9 (25.4)	424 (346)
General TSOs which earn income	28.5 (27.4)	18.7 (11.0)	52.8 (61.6)	1,101 (1,001)
General TSOs which do not earn income	22.3 (22.3)	19.7 (10.3)	58.1 (67.5)	894 (800)
All TSOs working locally	28.9 (30.9)	18.3 (11.1)	52.7 (57.9)	2,638 (2,386)

*2016 data in parentheses

4.5 Self-generated trading income

So far, analysis has focused on finance generated from external sources by community businesses. This section looks at the extent to which community businesses generate income from trading compared with general TSOs. Table 4.8 lists a wide range of trading activities and ranks the extent to which community businesses get involved.

The first key finding is that community businesses are more likely to engage in all but one of the listed trading activities than general TSOs which earn income (the exception is craft manufacturing). The margins of difference vary considerably. For example, a similar percentage of community businesses and general TSOs provide paid-for services (such as sport training, craft classes, work-related tuition, ticketed events) (43% and 41% respectively).

Where business support is provided to other organisations, by contrast, about three times as many community businesses do this work when compared with general TSOs (14% and 4% respectively).

The extent to which community businesses get involved in different types of trading activities varies considerably.

- The most common trading activities are the provision of paid-for services for individuals (43%), running a retail or hospitality business (39%) and running a community building (25%).
- Other quite common forms of trading include the provision of business support to other organisations (14%), providing domestic accommodation (11%) and the provisions of personal services (9%).
- While few community businesses get involved in a range of other trading activities, it is useful to take note of the breadth of activity – ranging from transport services (7%), craft manufacture (5%) financial services (5%) and digital services (3%) to industrial manufacture (1%).

Table 4.8: Trading activities of community businesses and general TSOs, 2019 – proportion participating in each category (%)

	Community businesses (n=631)	General TSOs which earn income (n=1,073)
Provide 'paid-for' services for individuals (e.g. sport training, craft classes, work-related tuition, ticketed events)	42.8	41.0
Run a retail or hospitality business (e.g. a community café, pub or shop)	39.0	33.1
Run a community building (e.g. hiring rooms for events, rent space to other organisations)	25.2	23.8
Business support for other organisations (e.g. payroll, printing, accounts, grant writing, staff training)	13.7	4.1
A place to live (e.g. rented accommodation, homelessness hostel)	11.4	3.5
Provide personal services (e.g. home care services, sport injury clinic)	9.4	5.4
Transport (e.g. dial-a-ride service, bike hire, community transport)	7.2	6.0
Financial support (e.g. a credit union, money skills training, low-cost loans)	5.1	2.4
Craft manufacturing (e.g. micro-brewery, cheese maker, greetings cards)	4.6	5.8
Digital services (e.g. creating websites, social media consultancy)	3.0	1.4
Industrial manufacturing (e.g. mobility scooters, food processing)	1.3	0.2

It is also useful to look at the potential for community businesses to get involved in trading in the future. Table 4.9 shows the extent to which community businesses are actively planning to move into new areas of trading and those vaguely considering such options.

Those community businesses planning new activities tend to be focused in areas where most trading is happening now (such as running a community building where 6% of community businesses are planning to do this) or the provision of paid-for services or running a retail or hospitality outlet (9% and 6% respectively).

Other areas or trading seem to be capturing the imagination of some community businesses: for example, around 9% of community businesses are planning to or vaguely considering getting involved in craft manufacturing and digital services. But there is virtually no firm interest in some areas such as transport, industrial manufacture and financial support services.

Table 4.9: Attitudes towards getting involved in trading by community businesses (row percentages)

(Community businesses, base n=639)	We are doing this now	We're planning to do this	It's a vague possibility	No, we don't do this
Run a community building (e.g. hiring rooms for events, rent space to other organisations)	42.8	6.4	8.7	41.8
Provide 'paid-for' services for individuals (e.g. sport training, craft classes, work-related tuition, ticketed events)	39.0	9.2	9.6	41.9
Run a retail or hospitality business (e.g. a community café, pub or shop)	25.2	5.7	6.8	62.0
Business support for other organisations (e.g. payroll, printing, accounts, grant writing, staff training)	13.7	4.9	9.6	71.2
A place to live (e.g. rented accommodation, homelessness hostel)	11.4	2.2	2.9	83.4
Provide personal services (e.g. home care services, sport injury clinic)	9.4	2.2	2.9	83.4
Transport (e.g. dial-a-ride service, bike hire, community transport)	7.2	1.1	3.0	88.4
Craft manufacturing (e.g. micro-brewery, cheese maker, greetings cards)	4.6	3.7	5.8	85.6
Financial support (e.g. a credit union, money skills training, low-cost loans)	5.1	1.4	3.0	90.5
Digital services (e.g. creating websites, social media consultancy)	3.0	3.2	5.6	88.1
Industrial manufacturing (e.g. mobility scooters, food processing)	1.3	0.3	1.7	96.6

One impression from the analysis is that trading activity is focused on discrete areas of activity. But this is not actually the case. Instead, as Table 4.10 shows, community businesses generally get involved in a range of trading activities.[28] Furthermore, the analysis reveals which kinds of trading tend to go together more often. There's a wealth of data to explore but just five examples are identified for discussion here.

28 For this analysis it has been necessary to include all TSOs which are actively involved in trading to maintain cell sizes and ensure accuracy of the findings. However, as it has already been shown that the range of trading activities community businesses and general TSOs get involved with is similar – the analysis should be generally applicable to the community business sector.

Retail and hospitality

Amongst TSOs which engage in retailing and hospitality activities, 67% also manage a community building and 43% offer paid-for services. But very few of these TSOs get involved with activities such as digital services or industrial manufacture.

Running community buildings

Running community buildings is the most common form of trading activity (n=864 cases or about 28% of the whole sample). Nearly 38% of these TSOs also get involved in the delivery of paid-for services and 34% have retailing or hospitality trading activities.

Craft production

Relatively few TSOs get involved in craft production (102 cases) but they provide an interesting example. Around 40% of these organisations also have a community building, do retailing/hospitality and offer paid-for services. This suggests that craft production is integral to many of the other services they offer.

Business support

Infrastructure organisations or anchor organisations are most likely to offer business support (135 cases). Of these TSOs, 16% also offer financial support but, perhaps surprisingly, only 1% get involved in digital services. However, amongst the 41 TSOs which do offer digital services, 29% also offer business support.

Digital services

Very few organisations in the sample are providing digital services (n=41). Those which are, are most likely also to be involved in running a community building (48%) or providing paid-for services (50%). It is perhaps surprising that so few organisations are working in this area, given the current emphasis in the sector on building digital capability.[29]

[29] Most studies have only included small scale samples to date – the following publications offer useful overviews on the extent of digital use and capability in the third sector: Lloyds Bank (2019) *UK Charity Digital Index 2019*: London, Lloyds Bank: https://resources.lloydsbank.com/businessdigitalindex/; Coffyn, A. and Hale, E. (2019) *Start Somewhere: an exploratory study into making technology imaginable and usable for small voluntary organisations*, London: IVAR; and Amar, Z. and Clough, L. (2019) *Charity Digital Skills Report 2019*, Bristol: Skills Platform.

Table 4.10: Extent to which TSOs integrate trading activities (%)
(base n=1,796)

	Retail/ hospitality	Community building	Paid-for services	Home care services	Financial support	A place to live	Community transport	Craft manufacture	Industrial manufacture	Digital services	Business support
Retail/hospitality	N=438	66.7	42.5	7.3	5.0	8.7	8.2	9.8	1.4	1.8	6.2
Community Building	33.8	N=864	37.6	6.4	4.3	5.7	5.8	5.3	0.7	1.9	7.5
Paid-for services	27.4	47.9	N=679	9.3	4.7	3.7	8.1	6.2	0.9	2.4	10.0
Home care services	25.0	43.0	49.2	N=128	7.0	13.3	11.7	10.2	2.3	3.9	15.6
Financial support	30.6	51.4	44.4	12.5	N=72	13.9	18.1	8.3	1.4	5.6	29.2
A place to live	28.8	37.1	18.9	12.9	7.6	N=132	6.8	9.8	4.5	2.3	8.3
Community transport	29.0	40.3	44.4	12.1	10.5	7.3	N=124	7.3	2.4	4.8	12.9
Craft production	42.2	45.1	41.2	12.7	5.9	12.7	8.8	N=102	6.9	4.9	9.8
Industrial manufacture	46.2	46.2	46.2	23.1	7.7	46.2	23.1	53.8	N=13	15.4	15.4
Digital services	19.5	39.0	39.0	12.2	7.3	9.8	14.6	12.2	14.6	N=41	29.3
Business support	20.0	48.1	50.4	14.8	15.6	8.1	11.9	7.4	1.5	1.0	N=135

As Table 4.11 indicates, community businesses are considerably more likely to make general use of digital tools in their day to day work. To some extent this reflects the larger size of community businesses when compared with general TSOs which do not earn income.

- 79% of community businesses make regular use of their own website and only 7% do not have a website compared with 15% of general TSOs involved in trading activities.
- 84% of community businesses regularly use social media compared with 71% of general TSOs engaged in trading. Only 6% of community businesses do not use social media.

– 66% of community businesses engage in online research regularly compared with 48% of general TSOs which trade. Only 10% of community businesses do not do research online.
– The regular use of online financial management tools (such as accounting applications) is relatively uncommon amongst community businesses at 42% but this is much higher than for general TSOs which trade (25%). Almost half of community businesses do not use online financial management applications (47%).

Table 4.11: Extent to which TSOs use digital technology in their work (row percentages)

	Yes, we use this quite a lot	We use this occasionally	No, we don't do this	Number
Own website				
Community businesses	78.8	14.3	6.9	651
General TSOs which earn income	67.7	17.8	14.5	1,130
General TSO which earn no income	50.2	18.8	31.1	943
Social media				
Community businesses	83.8	10.5	5.7	650
General TSOs which earn income	71.4	15.2	13.4	1,126
General TSO which earn no income	50.1	18.9	31.0	941
Online research				
Community businesses	65.5	25.0	9.4	647
General TSOs which earn income	48.1	32.6	19.3	1,127
General TSO which earn no income	32.7	33.8	33.5	938
Online financial management tools				
Community businesses	42.2	11.1	46.7	642
General TSOs which earn income	24.9	8.5	66.6	1,114
General TSO which earn no income	10.2	7.4	82.3	929

Although this analysis provides some insights into the way organisations get involved in several aspects of trading, it does not indicate whether such involvement brings additional benefits in terms of financial wellbeing.

One way of exploring this is to look at community businesses which are involved in all three of the most popular types of trading activity and comparing them with organisations which are involved in only one or two. Table 4.12 considers ‘retailing and hospitality’, ‘running a community building’ and ‘providing paid-for services’.[30]

Interpreting the findings can be complicated. The first point to make is that community businesses, overall, tend to have been more successful than general TSOs in raising their income significantly over the last two years (26% and 21% respectively). However, community businesses were slightly more likely to have had significantly falling income (15%) when compared with other TSOs involved with trading (14%).

Amongst general TSOs, it is clear that those involved in all three areas of trading activity were slightly more likely to have had substantially rising income (26%) than those involved in two activities (24%) or just one (19%). This suggests that general TSOs are in a stronger financial position if they integrate several trading activities.

In community businesses, it is less clear cut. Fairly similar percentages of organisations have increased income significantly irrespective of the number of activities with which they were involved (24–26%). At the other end of the spectrum, however, where community businesses have had significantly falling income, those working in three areas of activity are the least likely to have experienced significant income decline (5%) compared with organisations involved in just one or two trading activities (17–18%).[31]

While these findings are not conclusive, it appears that community businesses that work across two or more aspects of trading are more likely to enjoy financial security than those which put all their eggs in one basket.

30 As shown in Table 4.7, these are the three most popular areas of activity and have been chosen to ensure the largest sub-sample for analysis.

31 This finding is not replicated for general TSOs which trade – where the percentage of organisations with falling income is very similar (10–13%).

Table 4.12: Financial wellbeing of TSOs involved in one or more key areas of trading activity

	Significantly rising income in last 2 years		Income remained about the same in last 2 years		Significantly falling income in last 2 years	
(Row percentages, 2019, community businesses n=654, general TSOs = 1,127)	Community businesses	General TSOs which earn income	Community businesses	General TSOs which earn income	Community businesses	General TSOs which earn income
Work in all three areas of trading	25.4	26.0	69.8	63.0	4.8	11.0
Work in two of three areas of trading	26.2	23.7	57.1	66.2	16.7	10.1
Work in one of three areas of trading	23.8	18.7	58.0	68.4	18.2	12.9
All TSOs	25.8	21.0	59.0	65.2	15.1	13.8

4.6 Expectations about future income levels

Income seems to have risen over the last two years in many community businesses and there is good evidence to suggest that many are investing in future development. Signs of optimism are shown in Table 4.12 which provides an indication of anticipated levels of income over the next two years.

These observations were made in 2019, prior to the general election in December and before the Covid-19 pandemic began to take hold. The longer-term impact is not yet known, but Third Sector Trends research has shown that the sector managed the impact of the 2008 financial crisis quite effectively, as they did the long period of austerity driven by successive governments since 2010.[32]

In late 2019, community businesses were the most optimistic – 42% expected income would increase or increase significantly compared with 37% of general TSOs which earn income, and 26% of general TSOs which earn no income. A relatively small proportion of TSOs, of any type, expected income to decrease (between 16–20%). There was only a slight indication that TSOs had become more optimistic than in 2016.

32 Chapman, T. (2020) Third Sector Trends in North East England 2020: A digest of findings, Newcastle: Community Foundation serving Tyne & Wear and Northumberland: https://www.communityfoundation.org.uk/knowledge-and-leadership/third-sector-trends-research/

Attitudes are likely to be very different now, in view of the anticipated social and economic impacts of the Covid-19 pandemic.

Table 4.12: Expectations about income changes in the next two years (row percentages*)

	Increase significantly	Increase	Remain similar	Decrease	Decrease significantly	Number
Community businesses	9.2 (8.0)	33.4 (34.2)	37.8 (37.3)	14.3 (15.3)	5.2 (5.2)	643 (600)
General TSOs which earn income	5.2 (5.2)	27.9 (31.8)	51.0 (47.1)	12.5 (12.2)	3.4 (3.7)	1,103 (1,022)
General TSOs which do not earn income	5.3 (3.1)	20.2 (23.1)	58.9 (57.2)	12.2 (12.3)	3.5 (4.3)	895 (832)
All TSOs working locally	6.2 (5.2)	26.7 (29.4)	50.4 (48.1)	12.8 (13.0)	3.9 (4.3)	2,641 (2,454)

*2016 data in parentheses

5. Community impact

5.1 Community orientation

Power to Change argues that having a purposeful and productive community orientation is a key characteristic of community business. But in so doing, it recognises that community involvement, engagement and accountability can happen in many different ways, depending on organisational mission and practice and upon the local circumstances within which community businesses work.

In some cases, as Bailey *et al.* (2018)[33] have argued, community accountability is built into the core operational activities of community businesses through their approach to governance and community/ beneficiary involvement in defining and appraising practice. In other community businesses community engagement may be undertaken with a lighter touch involving, for example, opportunities to give feedback on services and events, or by simply recording the extent of community engagement in services and activities.

Buckley *et al.*(2017) have shown how organisational articulation of, and commitment to, the principle of community accountability varies substantially.[34] In some community businesses, community accountability sits at the core of their value systems, while others take a more pragmatic approach. For example, some community businesses may consider that an ability to *demonstrate* the level of accountability may position them well when seeking grant support – by lending credibility to claims about community embeddedness. In other cases, community engagement may be the principal route to access volunteers.

Third Sector Trends provides some clues about the extent to which community businesses seek to have a positive impact on the community compared with other types of TSOs.[35] The analysis begins with comparisons between community businesses and general TSOs.

Table 5.1 suggests that there are broad similarities amongst TSOs in some areas of practice but wider disparities in others.

33 Bailey, N., Kleinhams, R. and Lindbergh, J. (2018) *An assessment of community-based social enterprises in three European countries*, London: Power to Change Research Institute.

34 Buckley, E., Aitken, M., Baker, L., Davis, H. and Usher, R. (2017) *Community accountability in community businesses*, London: Power to Change Research Institute.

35 It is not currently possible to explore the extent to which TSOs are 'accountable' to their communities in a specific way – ways of exploring this are being considered for the next round of the survey.

‘We devote most of our time to help the local area where we are based’:

It is clear that differences between community businesses and general TSOs are minimal. Around 64% of all TSOs strongly agree that this is their principal focus and only 3% disagree. While fewer TSOs disagreed with this statement in 2019 than in 2016, strong agreement has fallen to some extent (from 67% to 64%).

‘We strive to get bigger as an organisation to achieve more’:

There has been quite a dramatic change here as confidence appears to have risen about growing organisations. Almost twice as many community businesses wanted to get bigger as an organisation in 2019 (45%) compared with 2016 (24%). This finding is similar for general TSOs, although to a lesser degree.

‘We want to influence local decision makers so that more is achieved in our area’:

Having an impact on local policymakers appears to have become more important to community businesses since 2016 – 60% now strongly agree with this statement compared with 52% in 2016 (88% agreed or strongly agreed in 2019 compared with 70% in 2016). There has been a less pronounced general shift in this direction amongst all TSOs (rising from 77% in 2016 to 82% in 2019).

‘We try to go to relevant meetings/events which relate to our kind of work’:

This question was introduced in 2019 to find out whether or not TSOs were actively engaged in community debates. The evidence indicates that community businesses are much more likely to strongly agree that they do so (54%) when compared with general TSOs (29–34%) – 96% of community businesses agreed or strongly agreed with this statement compared with 90% of all TSOs working locally. Only 4% of community businesses state that they do not try to attend such meetings compared with 16% of general TSOs which do not earn income.

Table 5.1: Organisation policy and practice preferences when working locally (row percentages*)

	Strongly agree	Agree	Disagree/strongly disagree	Number
We devote most of our time to help the local area where we are based				
Community businesses	61.4 (67.7)	34.3 (25.0)	4.3 (7.2)	647 (607)
General TSOs which earn income	64.6 (67.1)	32.4 (27.0)	2.9 (5.9)	1,123 (1,027)
General TSOs which do not earn income	65.7 (65.8)	32.7 (28.1)	1.6 (6.1)	941 (868)
All TSOs working locally	64.2 (66.8)	33.0 (26.9)	2.8 (6.3)	2,711 (2,502)
We strive to get bigger as an organisation so that we can achieve more				
Community businesses	44.6 (24.2)	43.5 (45.9)	11.8 (29.9)	643 (586)
General TSOs which earn income	38.5 (22.2)	46.0 (42.8)	15.4 (34.9)	1.101 (990)
General TSOs which do not earn income	31.6 (19.3)	47.3 (38.7)	21.1 (42.0)	918 (819)
All TSOs working locally	37.6 (21.7)	45.9 (42.2)	16.5 (36.1)	2,662 (2,395)
We want to influence local decision makers in the public sector so that more is achieved in our area				
Community businesses	60.3 (51.9)	32.6 (38.0)	7.1 (10.1)	643 (592)
General TSOs which earn income	42.2 (33.5)	40.0 (42.1)	17.7 (24.4)	1,101 (988)
General TSOs which do not earn income	32.3 (28.9)	41.4 (38.6)	26.3 (32.6)	918 (814)
All TSOs working locally	43.3 (36.5)	38.7 (39.9)	18.0 (23.6)	2,662 (2,394)
We try to go to relevant meetings/events which relate to our kind of work (2019 only)				
Community businesses	54.1	41.9	4.0	651
General TSOs which earn income	39.9	51.4	8.7	1,108
General TSOs which do not earn income	32.7	50.9	16.4	917
All TSOs working locally	40.9	49.0	10.2	2,676

*2016 data in parentheses

5.2 Perceptions of community impact

There has been a growing debate on how to assess the overall contribution that the third sector makes to social and economic life.[36] This is difficult to achieve because most evaluation is focused on individual organisations or areas of practice rather than on the sector as a whole.

In response to these concerns, new questions were devised for Third Sector Trends so that it would be possible to experiment with new ways of assessing how impact is perceived from the perspective of TSO leaders. The following analysis starts the process by looking at the impact that community businesses feel that they make in comparison with general TSOs.

Table 5.2 presents comparative evidence on areas of activity where the achievement of 'very strong impact' is claimed by community businesses and general TSOs. The data are presented in descending order of strong impact by community businesses – 'improving health and wellbeing' is the area where most community businesses claim strong impact (44%), while 'improving the local environment' is the area where the smallest proportion claims it (13%).

Because the data refer to 'perceptions' of impact, interpretation is challenging. Community businesses are much more likely to claim that they achieve strong impact in several areas of activity than general TSOs which earn or do not earn income. For example, community businesses are twice as likely to claim that they 'give people confidence to manage their lives' (42%) than general TSOs which do not earn income (20%).

Making sense of these differences will involve further analysis in subsequent reports. But there is room for speculation that because community businesses tend to be larger organisations than general TSOs, they may be in a position to make a stronger impact due to their scale. However, it may also be the case that they are better acquainted with the 'language' surrounding the reporting of impact. Smaller general TSOs may be more reticent about making strong claims – or may not have taken time to consider the variety of ways that their work makes a difference.

But this does not explain everything because community businesses are more or less equally likely to claim strong impact as general TSOs in relation to other areas of impact. For example, in relation to 'improve the local environment', 11–13% of TSOs claim strong impact irrespective of type. Similarly, when looking at 'increasing pride in the community', 17–21% of organisations claim to make a strong impact.

[36] See, for example, Stowell, T. and O'Donnell, G. (2019) T*he Value of the Charity Sector: an overview*, London: Charity Commission and Frontier Economics; Haldane, A. (2019) 'The benefits of measuring productivity of the charity sector with the right tools', *Charity Finance*, December; Mulgan, G., Breckon, J., Tarrega, M., Bakhshi, H., Davies, J., Khan, H. and Finnis, A. (2019) *Public value: how can it be measured, managed and grown?* London: Nesta.

Table 5.2: TSOs claiming to 'have a very strong impact' on their community – proportion participating in each category (%)

	Community businesses	General TSOs which trade	General TSOs which do not trade
We improve health and wellbeing	44.4	35.5	24.7
We give people confidence to manage their lives	41.9	30.2	20.3
We reduce social isolation	40.0	30.8	21.6
We empower people in the community	35.4	26.4	18.6
We promote community cohesion	29.4	25.9	19.3
We improve people's access to basic services	21.5	15.8	11.4
We increase people's pride in their community	20.8	19.5	16.6
We enhance the cultural and artistic life of the community	18.6	21.1	13.7
We tackle the consequences of poverty	15.2	9.6	9.0
We help people to lift themselves out of poverty	15.1	9.3	7.2
We increase employability	14.5	8.0	6.2
We improve the local environment	13.0	10.6	12.6
Number	658	1,136	962

Table 5.3 shows the 'depth' of impact that community businesses feel that they have on their local communities. The factors are arranged in descending order according to 'strong impact'. The most revealing aspects emerge when looking at outcomes which community businesses do *not* consider a focus for their activity (or on which they claim a minimal impact).

For example, 'improving the local environment' is an area of impact that 31% of community businesses do not claim as a key outcome (and a further 35% feel that they feel they have only a minor impact). Indeed, a majority of community businesses consider their work has a minor impact on several other areas, including ‘increasing employability’ and ‘enhancing cultural and artistic life of the community’. Perhaps most surprisingly, given that a majority of community businesses work in poorer areas, less than 40% claim their activities ‘help people to lift themselves out of poverty’.

By contrast, a substantial majority of community businesses feel that they make a ‘strong’ or ‘good’ contribution to ‘improving health and wellbeing’ (81%), ‘reducing social isolation’ (79%), ‘empowering people in the community’ (73%) ‘giving people confidence to manage their lives’ (72%) and ‘promoting community cohesion’ (68%).

Table 5.3: Strength of community impact claimed by community businesses (row percentages)

	We have a very strong impact	We make a good contribution	We make some difference	We do not try to do this	Number
We improve health and wellbeing	44.4	36.9	15.4	3.3	642
We give people confidence to manage their lives	41.9	30.5	16.1	11.5	633
We reduce social isolation	40.0	38.9	16.3	4.8	643
We empower people in the community	35.4	37.9	19.2	7.5	636
We promote community cohesion	29.4	38.2	23.2	9.2	629
We improve people’s access to basic services	21.5	31.1	24.7	22.7	620
We increase people’s pride in their community	20.8	33.8	30.0	15.4	630
We enhance cultural & artistic life of community	18.6	24.5	30.6	26.3	624
We tackle the consequences of poverty	15.2	27.9	29.5	27.4	613
We help people to lift themselves out of poverty	15.1	22.7	30.8	31.3	616
We increase employability	14.5	33.7	33.7	18.1	620
We improve the local environment	13.0	21.0	34.6	31.4	615

5.3 The accumulation of impact

Table 5.4 examines how the outcomes of community business activity may interact with each other. It looks at how far community businesses that prioritise the delivery of a particular benefit to the community also share an understanding of the strength of impact they have on other outcomes.

Around 70% of the 257 community businesses claiming a priority focus on tackling social isolation, for example, also feel they make a strong contribution to 'improving health and wellbeing' and more than half make a strong claim to 'empower people in the community'.

Presented in this way, the data provides an opportunity to learn more about the relationships between a community business's primary activity and the range and strength of complementary outcomes it might deliver. Some key points:

- Businesses involved in some areas of activity typically share a similar range of strong impacts, including 'reducing social isolation', 'improving health and wellbeing', 'promoting community cohesion' and 'empowering people in the community'.
- Some outcomes appear to be more commonly complementary, like 'reducing social isolation' and 'improving health and wellbeing'.
- The areas of focus that have a strong impact on a narrower range of outcomes include 'enhancing the cultural and artistic life of the community', 'improving the local environment' and 'increasing employability'.
- Businesses working to deliver primarily either a social or an economic benefit are less likely to consider their activity as delivering strong outcomes in both areas. Those making a strong contribution to the artistic and cultural life of the community, for example, are less likely to think that they make a comparably strong contribution to 'increasing employability', 'tackling the consequences of poverty, 'improving access to services' or 'improving the local environment'.

Table 5.4: Interactions between different elements of community impact

Community businesses base n=658	Reduce social isolation	Improve health and wellbeing	Increase employability	Tackle consequences of poverty	Improve access to services	Enhance cultural and artistic life of community	Improve the local environment	Promote community cohesion	Empower people in the community	Increase peoples pride in their community
Reduce social isolation	N=257	69.6	17.5	35.4	35.4	20.2	15.6	47.1	53.7	29.1
Improve health and wellbeing	62.8	N=285	18.6	21.4	33.7	16.5	13.3	37.9	51.2	23.3
Increase employability	50.0	58.9	N=90	35.6	27.8	17.8	17.8	44.4	54.4	25.6
Tackle consequences of poverty	55.9	65.5	34.4	N=93	52.7	12.9	13.9	45.2	54.9	29.0
Improve access to services	68.4	72.2	19.9	36.8	N=133	16.5	12.8	48.1	60.9	25.6
Enhance cultural and artistic life of community	44.8	40.5	13.6	10.3	19.0	N=116	20.7	40.5	43.1	44.0
Improve the local environment	50.0	47.5	18.8	16.3	21.3	30.0	N=80	57.5	53.6	55.0
Promote community cohesion	65.4	58.4	21.6	22.7	34.6	25.4	24.9	N=185	76.2	49.2
Empower people in the community	61.3	64.9	21.8	22.7	36.0	22.2	19.1	62.7	N=225	43.1
Increase people's pride in their community	57.3	50.4	17.6	20.6	26.0	39.9	33.6	69.5	74.0	N=131

This analysis provides a starting point for future work on the relationship between the primary focus of a community business's activity and the likely strength and range of social and economic outcomes it delivers.

6. Discussion

The cumulative social impact of community business

When community business leaders completed their Third Sector Trends surveys in 2019, there appeared to be some optimism in the sector. That optimism has surely been undermined by the Covid-19 crisis and there will undoubtedly be community businesses that suffer as the economy falls into recession. There are already alarming reports from sector representative bodies and think tanks on the potential calamity for the third sector as a whole, albeit inevitably based on partial samples at a time of unprecedented uncertainty for organisations and leaders.[37] The full, long-term impact is unlikely to be clear before the next Third Sector Trends survey is due in mid-2022.

This does not mean, though, that the future for all community businesses will inevitably be bleak. The pandemic may help change the way communities think and act. It may be that people will feel a stronger sense of commitment to community and to the organisations that champion and service it, such as community businesses. Many charitable trusts and foundations and community foundations are already supporting third sector organisations in responding to the Covid-19 crisis. Government has provided substantive emergency support to the third sector and, it is hoped, will also recognise and invest in the contribution civil society can make to recovery in the longer term.

This report shows that community businesses are resilient, driven by strong social commitment and financed at least in part through self-generated trading activity. And while community businesses cannot be said to be *more* committed to their communities than charities in general, this report shows that community businesses tend to have more capacity to deliver support because they tend to be larger. Community businesses also tend to be more ambitious to grow, are keener to engage with local policymakers, and invest more energy in events and meetings that inform policy and action to improve community life.

[37] There has been a proliferation of small scale surveys undertaken in response to the Covid-19 crisis which have been widely reported in the charity press. See for example. https://www.civilsociety.co.uk/ and https://www.thirdsector.co.uk/.

Resilience is underpinned by the agility and flexibility of community businesses to spread financial risks. Usually they do this by engaging in more than one form of self-generated trading activity, although relatively few can keep going solely on the trading surpluses they produce. Most also rely on a variety of other income such as contracts, grants, fundraising and subscriptions, in addition to volunteers and in-kind support from other organisations.

Community businesses, in sum, generally prefer not to keep all their eggs in one basket. It helps them to limit the financial risks they might otherwise face if, for example, a contract upon which they heavily relied was not renewed or if a grant-making foundation decided to stop providing core funding.

Most community businesses rely on grants for at least some of their income. One consequence is that they must be able to articulate and demonstrate the impact of their work. In recent years there has been much debate on how to assess the impact of third sector organisations such as community businesses. To some extent, these debates have shaped the way funding organisations think about how to invest in communities. It is common, for example, for funders to require evidence that demonstrates how their investment produced specific outcomes for particular groups of beneficiaries.

It is evident that a majority of community businesses feel that they make either a 'good contribution' or have a 'very strong impact' on a whole range of social issues. It is commonplace for community businesses to claim impact on improving health and wellbeing, giving people confidence to manage their lives, reducing social isolation, empowering people in the community, engendering community cohesion and enhancing people's pride in their community. They can achieve these objectives in all kinds of ways – by running a shop, pub, library or swimming pool, by delivering public services under contract or under a grant programme, by hosting community activities within their village hall or community centre.

Disaggregating these different elements of impact, as some funding organisations demand, can be challenging for an individual community business. An organisation may have been given a grant to attend to one issue (such as social isolation) and a contract to attend to another (such as health and wellbeing). But the reality is that the impact of these can rarely be disaggregated and, as a consequence, attribution of impact is inevitably shared.

Many funding organisations are, of course, already aware of this. In a recent Third Sector Trends study on the role of charitable trusts and foundations supporting the third sector, one grant-making organisation which had been heavily involved in promoting the use of complex approaches to impact assessment, was seriously rethinking its strategy.[38] This shift in policy was led by a recognition that attributing impact was much harder than expected, and that this could have sector-wide consequences:

'We're at risk of producing a competitive environment for grant givers. Part of that behaviour is about claiming of achievement. If you've got one voluntary organisation and you've got five different funders all of which are contributing to its overall goal … your chances of getting attributed reporting are very slim. What you've got, basically, although we don't know it, is five funders sharing the same outcomes and deliverables.'[39]

It is important to pay more attention to sector-wide impact because community businesses do not work in isolation – they make a collective contribution to communities alongside other TSOs, businesses and public sector bodies. Through their individual and collective effort, social and community impact can accumulate – providing that organisations work in complementary ways or, at least, are good neighbours to one another.

The findings presented in this report indicate that investment in communities is a particularly complex phenomenon, and that demanding evidence of what can separately be seen to contribute to positive change will generally be difficult. And so (with the exception, perhaps, of very large programmes of work) it would be helpful if more funding bodies relaxed their demands for evidence of outcomes that can be directly and separately attributed to their support, and looked more holistically at the overall impact of community businesses they support. This may be especially important when distributing relatively small grant awards. As the director of one charitable foundation remarked in a related report:

38 Chapman, T. (2020) *The strength of weak ties: how charitable foundations and trusts effectively contribute to civil society in North East England,* Newcastle: Community Foundations serving Tyne & Wear and Northumberland. https://www.stchads.ac.uk/category/research/research-news/

39 Ibid., p. 27.

'When you look at an award of £10,000 and £1 million, you're talking about a huge space between them in terms of what you can expect in terms of impact or about them defining KPIs. So while we're always talking about how we can be more 'joined-up' with things, you realise that some gaps can't be bridged. But that doesn't mean that putting £10,000 into a village hall is irrelevant – it's huge for them – but we're not the experts on this, we just have to trust them to do the best they can with it. To be honest, that's how most of our money goes out of the door. So we're not always in the game of measuring impact, it's more about influence.' [40]

Many funders that engage in place-based funding already resist the temptation to focus too closely on one aspect of change but look at the bigger picture – to consider the contribution their investment may make to the general accumulation of impact achieved by all funders in an area.

Developing a systematic approach to assessing the complexity of community business impact might seem helpful for funders. But it could prove counterproductive for those they support, if it led to additional reporting expectations that time-pressed community businesses would find hard to meet, alongside making a difference for the communities they were established to serve.

Recognising the broad impact of community businesses on the communities they serve, and the cumulative contribution they make alongside other organisations, should help funding bodies see the benefits of investing trust at an organisational level instead of finding ways to justify their contribution on the basis of evidence that is unlikely to be available.

This is not to suggest that funders work on 'blind trust' and assume that all community businesses are equally effective. Instead, it should be a process where funding bodies and investors, once they've understood more about the capacity and capability of community businesses, allow themselves to value, and evaluate, their contribution where it most has an impact – in the context of the communities they serve.

[40] ibid, p.31.

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