Written evidence submitted by Power to Change

Department for Culture Media and Sport
Impact of Covid-19 on DCMS sectors

Response to the call for evidence

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About Power to Change

Power to Change is an independent trust that supports and develops community businesses in England, set up with an initial grant of £150 million from The National Lottery Community Fund.

Community businesses are enterprises that are:

- Locally rooted: They are rooted in a particular geographical place and respond to its needs.
- Businesses trading for the benefit of the local community. Their income comes from things like renting out space in their buildings, trading as cafes, selling produce they grow or generating energy.
- Accountable to the local community: They are accountable to local people, for example through a community shares offer that creates members who have a voice in the business's direction.
- Offering broad community impact: They benefit and impact their local community as a whole.

We provide practical and financial support to them as they help their whole community and recycle money back into the local area; reviving local assets, protecting the services they rely on, and addressing local needs.

They strengthen civil society, engaging an estimated 205,000 volunteers in England and form a key part of the social enterprise sector, with an estimated total market income of £890m.

We estimate there are 9,000 community businesses in England, with 34,000 staff and over 200,000 volunteers. They are primarily based in the most deprived communities. In fact in the last 5 years, 68% of our 958 grantees were based in the 30% most deprived areas in England.

We are grateful to the Committee for the opportunity to feed into this Call for Evidence on the impact of Covid-19 on the community business sector and the extent to which the support offered by Government has address sector needs.

Scope of this submission

In preparing this response to the Call for Evidence, we have drawn on evidence from our research into the community business sector, our rapid research into Covid-19's impact on the sector, some external reports (e.g. from Pro Bono Economics) and our strategic partner's evidence bases. The latter include The Plunkett Foundation, Coops UK, the Ubele Initiative, Locality and others.

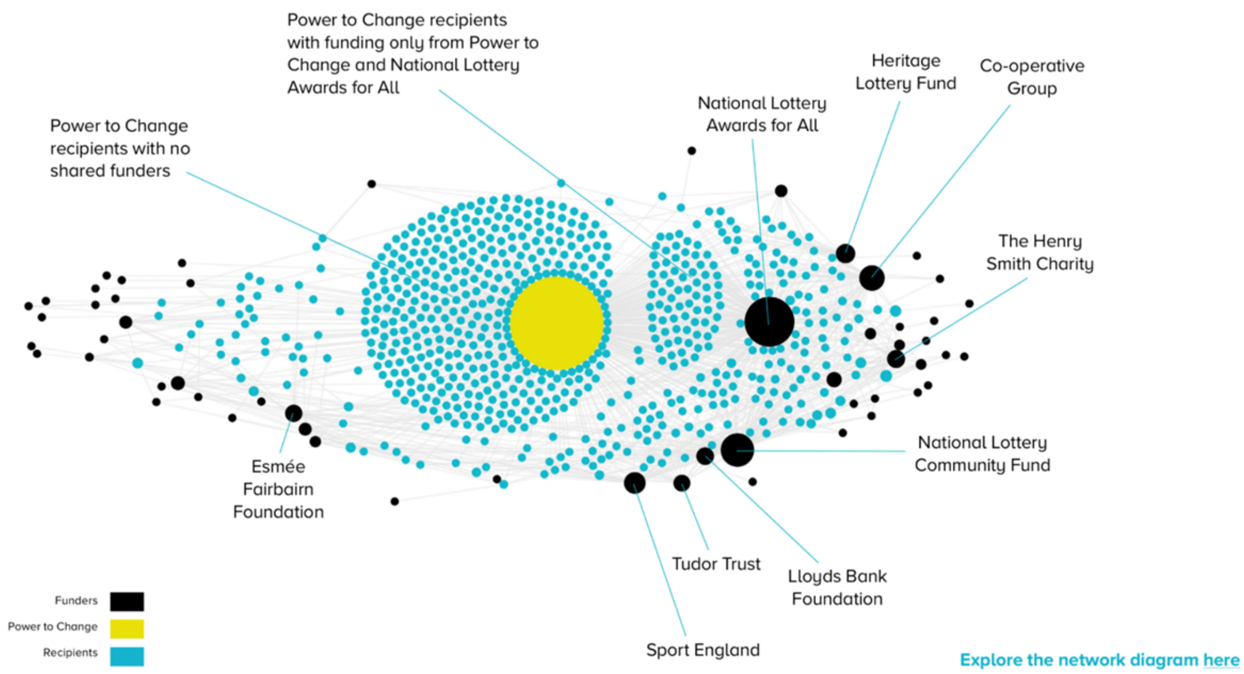
Our focus is primarily on community businesses operating in England and as such we mainly answer about the departmental response under its aegis of Responsible Business and Social Enterprise. We also cover the important contribution community businesses make to community cohesion, community spaces and civic participation: areas sitting under the Office for Civil Society's policy portfolio. As such, the "sector" below is taken to mean the community business sector.

However, because our community businesses are often structured as both charities and social enterprises, we also take into consideration some measures that are specifically focussed on those two types of organisation.

Q1. what has been the immediate impact of Covid-19 on the sector?

In terms of the immediate impact of COVID on community businesses, we first need to set out the risk profile of the sector. Before the crisis, for the average community businesses that Power to Change funds:

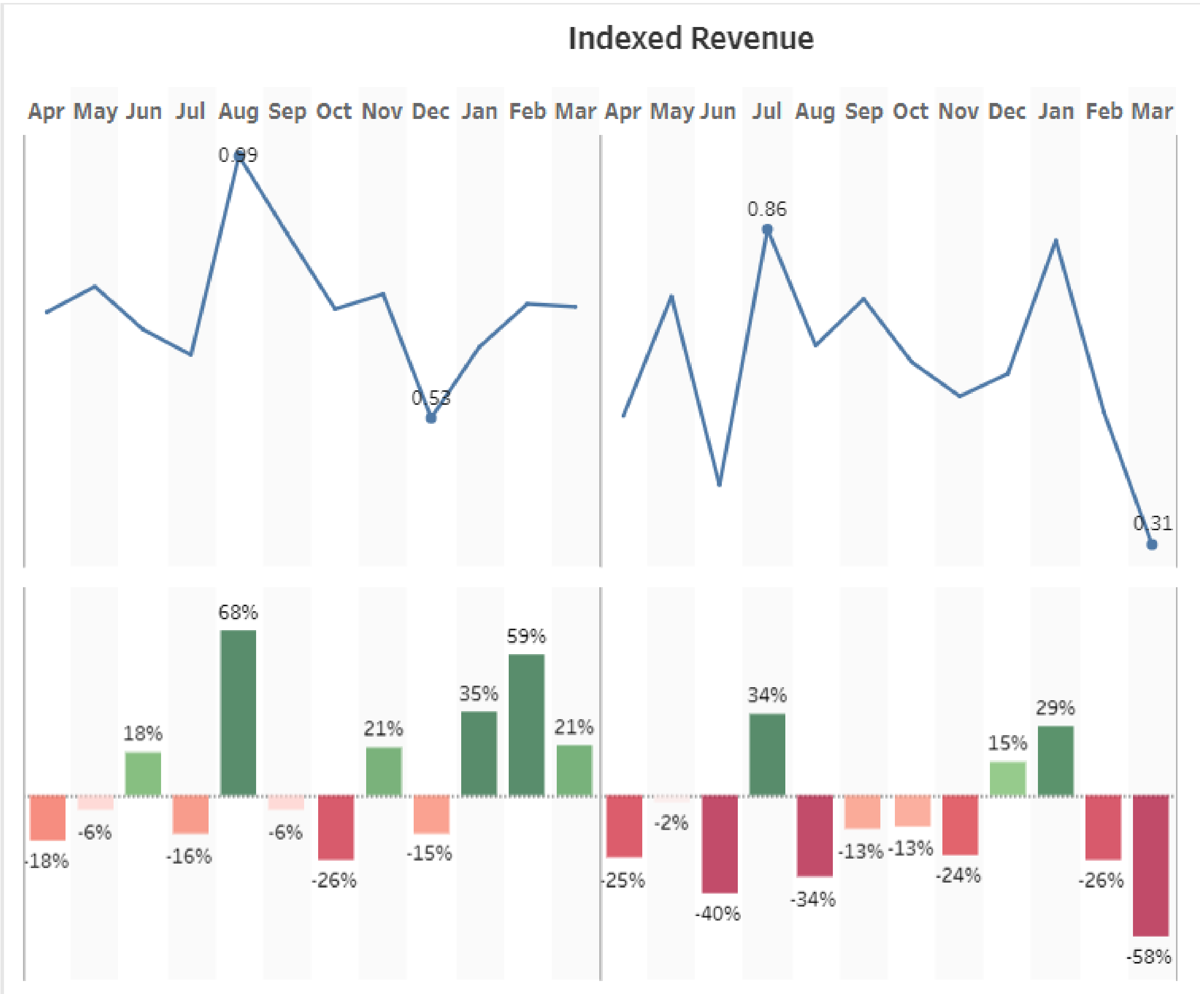
- 62% relied on trading income
- 43% of their income came from venue-based activities (e.g. cafe, shop and meeting spaces)
- 40% had not been contributing to their reserves
- 58% of their income came from one source
- Similarly, 83% of community businesses generate at least some of their income from grants but only 33% generate most of it this way
- As we can see from the data visualisation below 55% of community businesses were not in receipt of grant funding from anyone else other than Power to Change:



Taking into account the income and funding profile of the community business sector, the COVID crisis has caused a precipitous drop in their total income. It is unsurprising then that in our qualitative research into COVID-19, fears of an imminent or already existing cashflow crisis was explicitly referred to often (the highest number of explicit mentions in our early report to April 17th).

Some sectors were likely hit harder than others. Community pubs for example generate 97% of their total income from trading. As such, they had very high income concentration from one source.

We can see the impact of the lockdown using credit and debit card transaction data. The chart below shows the significant reduction in trading income for one community pub. In contrast to the usual peaks and troughs it experiences over a year, the data shows a significant reduction in income between January to March 2020.



Many of our community businesses have been directly involved in community responses. Alongside making physical (and virtual) arrangements to respond to the crisis, the impact on staff and volunteers in relation to COVID-19 situation was marked. Our evidence shows:

- Some community businesses making staff redundancies
- Community businesses managing COVID-19 cases and self-isolation in staff and volunteers but also in some instances project leads or key volunteers (managers)
- A need to restructure staff roles or recruit additional volunteers or staff to meet increased demand for essential services

- Because Boards and project leads are often from an older demographic, fears that their efforts to respond to the pandemic would be hampered

In summary, many of our community businesses have been directly involved in community responses to Covid-19. Many too have been impacted by the lockdown restrictions. Overall there was a large loss of income leading to a cashflow crisis (for the majority) or a dependence on reserves (for a minority). This was coupled with a difficulty in managing staff and volunteer arrangements during the early stage of the crisis.

Q2. How effectively has the support provided by DCMS, other Government departments and arms-length bodies addressed the sector's needs?

We provide above an overview of the sector's loss of income with regards to the crisis. A more detailed discussion in terms of financial resilience and trading income is outlined below to illustrate the sector's needs.

As noted, most community businesses (62%) earn most of their income from trading. On average, trading income accounts for 57% of their total income. Much of this income stopped as people stayed home in line with government advice.

To illustrate this point, of the 9,000 community businesses in England, we estimate, on average, 43% of their income comes from venue-based activities (e.g. cafés, shops, hiring out meeting space); income they lost during lockdown. This vulnerability is also illustrated by the sector size estimate from our The Community Business Market in 2019 by type of community business. The most prevalent types, as the table below shows, are:

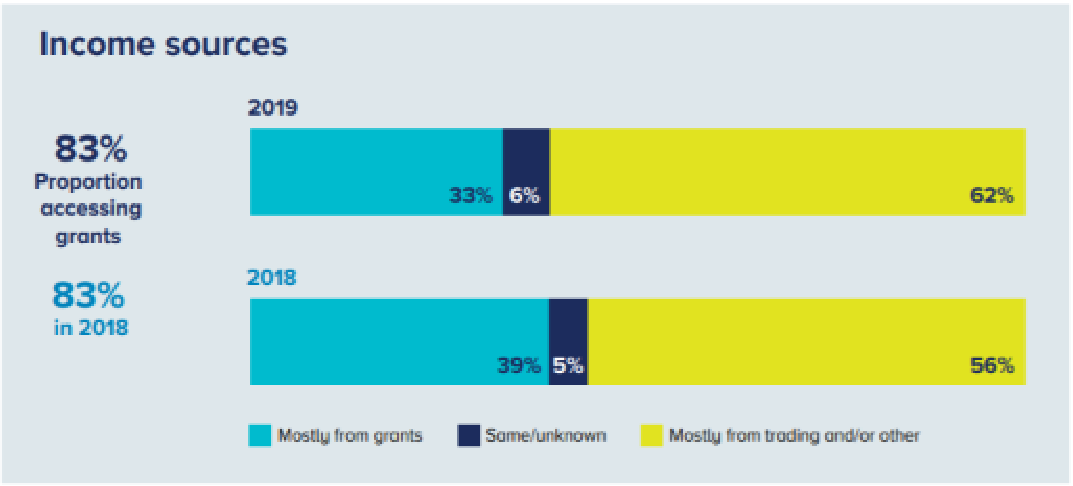
- community hubs and village halls
- businesses offering employment, training and education or business support
- cafés and shops
- business offering health, social care and wellbeing
- community libraries
- sports and leisure businesses

Table 1: The Community Business Market in 2019 by type of community business

Sector	Number of organisations	Income (£m)	Assets (£m)	Income (£m median)	Assets (£m median)	Staff	Volunteers
Village halls	2,100	17	642	0.01	0.30	3,200	66,300
Community hubs	2,000	247	98	0.13	0.05	7,900	39,500
Business support; employment; IAG; training and education	900	148	40	0.16	0.04	4,600	11,600
Arts centre or facility	400	50	9	0.13	0.02	1,800	11,900
Cafés and shops	400	63	19	0.15	0.05	1,300	10,500
Health, social care and wellbeing	400	123	47	0.30	0.11	4,900	8,200
Libraries	400	7	-	0.02	-	400	17,600
Sports and leisure	400	118	62	0.29	0.15	3,700	9,400

Our strategic partner, Co-operatives UK, estimates that its "Catalysts", for instance, may lose up to 25% of their projected rental income for the year during lockdown. Another strategic partner, Locality, warns that for larger organisations with a turnover of £1m or more and complex business models that make them strongly dependent on social enterprise income the potential losses are likely to amount to hundreds of thousands of pounds over the next six months.

As noted, although trading income has been lost (and in our own response to the crisis we have focussed on an emergency fund to address this, independent from any government grant scheme) grant funding is also important to their business models. 83% of community businesses generate at least some of their income from grants and 33% of community businesses generate most of their income from grants. (Indeed several community businesses covered by the data analysed for this submission referred to a potential danger of becoming more grant dependent as a result of having to address immediate cashflow issues in light of Covid-19.)



This means that many were not only sensitive to loss of trading income but are vulnerable to depletion in grants as well. This is compounded by the fact that on average, community businesses generate 58% of their income from one source, making them prone to shocks regardless of income type (grant vs. trading income).

In summary, our evidence shows that many community businesses are in danger of closure. We can see that larger, more diversified and developed community businesses are most subject to risk of closure even though they have deleveraged from grants. Ironically, this is likely to particularly affect those community businesses that are highly dependent on rental and other trading income, most notably community hubs, including larger community anchor organisations.

It is in this context that we can see the applicability of recent research from Pro Bono Economics (PBE)[1]. Their work concludes that nine-in-ten (88 per cent) charities say they expect Covid-19 to reduce their income over the coming six months relative to pre-crisis plans, and well over half (59 per cent) say they have had to "significantly" reduce their activity in response. We believe it is reasonably conceivable that one-in-ten (12 per cent) of charities who say they "expect" to cease operating altogether before the start of December could do so.

[1] See https://www.probonoeconomics.com/news/charities-facing-%C2%A3101-billion-funding-gap-over-next-six-months

PBE points out that half (50 per cent) of their own respondents say they've applied for emergency support from non-government sources and more than one-in-three (37 per cent) applying for a share of support earmarked for the sector by the government.

Our own research suggests that community businesses have taken a variety of steps to mitigate the worst effects of the crisis. Many claimed government grant supports made available to alleviate the economic shock of the COVID-19 pandemic. Their experience of two grant schemes are outlined below.

Business Rate Relief and Grants scheme

In respect of the Business Rate Relief and Grants scheme, initially there was an issue around eligibility where either community businesses that appeared to be eligible did not receive business rate relief and/or any grants due to flawed administration in their Local Authority.

The major problem, however, emerged soon after the scheme was announced, regarding the inapplicability of the scheme to those in receipt of Charitable Rate Relief (as opposed to small business rate or rural rate relief). The effect of the link between the government grants and the business rates system was therefore highly problematic. This latter point presented a serious problem for those with low reserves experiencing cash flow difficulties who had registered for CRR.

A specific analysis of this link in a particular shared workspace, Make Liverpool, shows how sub tenants in shared workspaces were only able to access the grants if the rates reliefs were passed onto them in their tenancy agreements. In the example, one third of tenants were eligible for the £10k grant, whilst two thirds were not, as rates were collected differently across Make's three sites. In the assessment of Make, having access to the grants would have stabilised and saved almost everyone at risk. However, in the first two months of the lockdown this looked like it was not going to be the case.

As such the discretionary grant fund scheme was welcome and has substantially eased some of the initial cash flow difficulties for some in the sector, including in the example above.

Coronavirus Community Support Fund

The Coronavirus Community Support Fund has been useful in broadening targeted COVID support to charities and social enterprise. We particularly welcomed its extension to social enterprises to help steady the sector. Similarly the Fund has a good focus on income disruption and/or increased demand and a focus on smaller, local VCSEs. These will all help to allocate the fund to community businesses across the country and we are delighted to play a part in making that happen as are in the final stages of an agreement with DCMS and the National Lottery Community Fund to distribute £10 million of the Coronavirus Community Support Fund to community-led organisations, with a particular focus on BAME-led and BAME-supporting organisations.

However, there still remains a funding gap of a significant magnitude in the government's package so far. This is partly because of the vital work that community businesses are playing and will play in the recovery phase. Our COVID-19 report shows very active community businesses in the midst of the pandemic (see below). A considerable increase in demand is explicitly reported by many covered by the data.

This partly relates to increases in their core activities, typically central to the provision of essential goods and services (most notably in the provision of food) and partly to community businesses delivering for their communities outside of their ordinary core activities. (Moreover according to a survey by our strategic partner, Black South West Network, 70% of social enterprise and community organisations identified as BAME reported a significant increase in community needs during this time).

The PBE survey also shows that 72 per cent of charities and social enterprises expect demand to rise over the next six months in response to the crisis. To meet this surge in demand PBE estimates that the sector would require an additional £3.4 billion of resource.

We want now to work closely with Government to shape more extensive proposals for community businesses, social enterprises and charities to meet this challenge in the recovery phase.

The operation of the Coronavirus Job Retention Scheme.

Briefly on the operation of the Coronavirus Job Retention Scheme, the challenge of a surge in demand has been compounded because many community businesses can't furlough staff as they still need them in new or diversified service delivery. This means that wage bills have been detrimental to their survival in the long run. The alternative is that some have furloughed to survive and so cannot operate at full capacity.

Feedback from peer brokerage exchanges run by Power to Change further suggests that the high degree of uncertainty regarding the funding landscape post government support and the job retention scheme and furloughing of staff also creates a challenging situation for community businesses.

In this respect we fully support the Committee's recommendation on the Scheme in the Committee's First Report of Session 2019–21. We wait to see what the proposals are for the Furlough scheme in July and beyond from Government. However, the response to the Committee's suggestion for a separate Coronavirus Job Retention Scheme seems to close off the proposal needed most to solve this problem, which is concerning.

Q2. What will the likely long-term impacts of Covid-19 be on the sector, and what support is needed to deal with those?

There is evidence of delays to various types of asset-related, business development and turnaround projects which will have a longer-term impact on the financial performance of community businesses. This is due to the understandable constraints within Local Authority capacity.

However, crucially, this includes early stage community businesses whose activities are being stalled at a crucial time in their development. More generally, our strategic partner, Locality warns that hard-pressed community businesses, focused on fighting for their survival now, may abandon longer term planning (e.g. securing new contracts or grant funding) with potentially dire effects for their longer-term sustainability.

Indeed, several strategic partners and contributors to the peer brokerage scheme also urged caution about finding a balance between short and medium term cash flow issues with the need to tailor finance for short, medium and longer term needs. For instance, they pointed out that debts that were mounting during the initial crisis (e.g. VAT bills, additional loans taken out) need to balance against repurposing costs over the next few months. VAT deferrals are likewise of concern.

As such, we expect to see a contracted community business sector and some closures as a result.

One measure that may help concerns VAT. Many community businesses are impacted by partial exemption which often means they can only recover part of the VAT they incur on costs. We recommend a 100% recovery rate for 12 months.

We are also calling for a national register of community assets, including Assets of Community Value (ACVs). ACVs and community-owned places and spaces constitute a vitally important and rapidly growing economic force in the UK, adding nearly £220 million to the UK economy every year. In 2018, mySociety launched Keep It In The Community (KIITC), supported by MHCLG, as a prototype of such a service that could aid in the growth and monitoring of this sector. Now, with COVID-19 placing unprecedented stress on local communities, and significantly impacting community businesses' income from trading and the use of their spaces, it's more important than ever that we have a clear picture of the scale and texture of the community asset sector, to deliver financial and operational support where it's needed.

In wider terms, a tailored package of support and business development for the social enterprise sector as a part of an increased social sector package would also be effective in returning the sector to its growth trajectory before the crisis.

Q3. What lessons can be learnt from how DCMS, arms-length bodies and the sector have dealt with Covid-19?

There is a lesson in terms of government response in the above about the speed and breadth of support from Government and the Department. Both needed to be more in evidence.

However a further pertinent lesson is how the sector and its role during Covid-19 has had a transformative effect in relation to the governmental response itself. This is both in relation to local services where community businesses have filled gaps where local authorities and national players were seen to be absent or inaccessible or where they have been full strategic partners with statutory agencies.

Larger community businesses, with a role as an anchor organisation, have been directly called upon by public sector partners to take on a role of coordinating volunteer support and help them effectively reach into communities (in some cases with additional financial support). For example, interviews within our research highlight how, in some cases, community businesses are being called upon to backfill technological capabilities for Local Authorities who may not be set up for virtual coordination and the remote provision of services. Whatever the case, our research shows that community businesses have been essential in helping Government get through the first phase of this crisis.

One lesson would be to attempt to replicate the depth of a strategic partnership between the state and community organisations as we enter the recovery phase. This could mean requiring community representation on the governing committees of all agencies involved with the recovery, including Local Enterprise Partnerships, Integrated Care Systems, Town Boards and Health and Wellbeing Boards; or requiring councils to establish high-level strategic oversight boards for the recovery which include representatives from community organisations. Government should also bring forward new legislation to enable community organisations to take greater responsibility for public budgets at the neighbourhood level.

This is further buttressed by the upsurge in community and voluntary activity seen in the crisis: described in our research by one participant as 'a moment of opportunity for the ascendancy of the local'. The scale of volunteering and dedication within community businesses, charities and social enterprises shows an extraordinary wave of social solidarity that could now be harnessed for future resilience.

To capitalise on this moment we are calling for a £300m Community Heroes Fund to reward the people and organisations that have led the community fight against Covid-19, and to rebuild our social fabric as we come out of the crisis. It would provide £50m of start-up grants to mutual aid groups which want to become permanent organisations, working to meet the needs of their communities for the long term.

Q4. How might the sector evolve after Covid-19, and how can DCMS support such innovation to deal with future challenges?

In our research a large number of community businesses highlight that they have changed their routes to market to accommodate additional or changed demand, most notably offering delivery services and/ or adopting a different position in the supply chain (e.g. aggregating products from several local providers in food boxes or deliveries and servicing food banks). Community businesses offered a wide variety of diversification, ranging from developing new products (e.g. soap being produced by a care farm) to rapidly progressing the digitisation of key services (e.g. a community Wifi network being established by a community anchor organisation, social prescribing being set on a digital footing by a health and care community business).

Similarly, the way in which community businesses are stepping up to the task of securing provision of essential goods and services on behalf of local government will strengthen community businesses' role in key sectors such as social care and localised food production in the future.

As the challenge involved in ramping up activities to the required level is considerable, the sector needs support from within Government within commissioning and procurement. For example, the Social Value Act still represents an incomplete revolution which would be transformational if implemented more fully.

Similarly, more in-depth interviews with food and farming community businesses suggest that community businesses are forming networks locally to meet demand through new offers (e.g. delivery service and ready meals). There is also evidence of increased levels of volunteering and mutual support between community businesses that could potentially change the longer-term model for them. In short, the potential for a more collaborative economic model is germinating within social orientated and values driven organisations like community businesses.

In terms of support from DCMS of such developments, we would suggest a directory of social businesses, seeking collaboration within supply chains, or a brokerage role along the lines of some of the Business Councils in the Department for International Trade. Less ambitiously a simple champion role within government on "local and social" supply chains would be welcome.

Finally, the digitisation of services is a clear opportunity for community businesses to increase their technological capabilities and continue to make effective use of virtual provision after the immediate COVID-19 crisis. As many do, we also anticipate a legacy of more work being done remotely in community businesses in future, also creating an opportunity to more effectively roll out 'tech for good' initiatives.

However digital exclusion is affecting community businesses' ability to innovate in this way. (see Appendix A). This is highlighted in the results from a survey of BAME community businesses from our strategic partner the Ubele Initiative, which identified that their staff and target groups are not sufficiently IT literate to switch to remote delivery during the response phase.

As such, within DCMS' Digital Skills Partnership, we would recommend a particular focus and targeting of community businesses across the UK to help them upskill in digital for the recovery phase of the crisis.

Appendix A: skills deficiencies in relation to the workforce in community businesses from the Community Business Market in 2019.