

Community Shares

promoting enterprise, equity and engagement through community shares and bonds



Seminar programme

- Introduction
- A short history of community investment
- Practical issues

1-1.45pm Lunch

- Assessing the viability of project proposals
- Getting involved in the programme
- Final questions and answers

3.15pm Finish

Introduction

Community Shares programme

- Two year action research project to March 2011, working with 10 community investment projects
- Funded by Office of Third Sector's Social Enterprise Action Learning Fund
- Led by Department for Communities and Local Government and the Development Trusts Association, in partnership with Co-operatives^{UK} and Social Return on Investment Network



Programme objectives

- To create a robust evidence base on the potential for community share and bonds issues to increase community empowerment, grow social enterprises and support wider Government objectives.
- To test the potential for incentive funding from Government to stimulate funding from non-governmental sources, and inform the next Comprehensive Spending review.

Core Team

Development Trusts Association

- Hugh Rolo, Head of Assets and Investment
- Stephen Rolph, Asset Transfer Unit Officer

Co-operatives^{UK}

- Helen Barber, Head of Legal Services
- Jim Brown, Lead consultant
- Giles Simon, Communications Development Officer
- Petra Morris, Projects and New Ventures Officer
- Helen Seymour, Head of Projects and Development

UK SROI Network

- Jeremy Nicholls

Expert Reference Group

- Community Finance Solutions
- Co-operative & Community Finance
- Co-operative & Mutual Solutions Ltd
- Energy4All
- Key Fund Yorkshire
- Water Power Enterprises
- Wessex Reinvestment Trust

Advisory group

- Office of the Third Sector
- Communities and Local Government
- HM Treasury
- Financial Services Authority
- Development Trusts Association
- Co-operatives^{UK}

A short history of community investment

What is community investment?

- Community investment is the practice of members of a community buying shares or bonds in an enterprise that serves a community purpose.
- It empowers communities by giving members – as part-owners – a direct say in the success of an enterprise, encouraging them to play an active part in its future.
- Members receive a fair return on their investment as well as sharing in the social, environmental or community benefits of the enterprise.

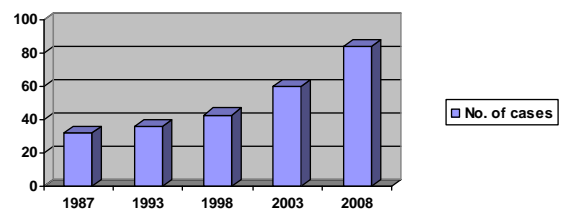
Defining community investment

Our definition of community investment is:

The sale, or offer for sale, of more than £10,000 of shares or bonds to communities of at least twenty people, to finance ventures serving a community purpose.

Growth in community investment

Community investment practices date back to the nineteenth century. There has been a revival of interest in the last ten years.



Basic facts and figures

- At least 84 cases of enterprises with more than £10,000 of community investment
- Total community investment is £298m
- Combined membership over 6 million
- 41 new cases in last 10 years, raising over £45m from 63,400 members
- Median amount raised is £135,000

Trade activities

Trade activities of organisations issuing community shares or bonds since 1999	Number of organisations
Renewable energy	9
Community retail store	8
Community finance	7
Regeneration, land, buildings	5
Transport (heritage railway preservation)	2
Farming	2
Utilities	2
Football	2
Fair trade	1
Other	3

Shared Interest

- Finance for fair trade
- Established 1990 as an IPS community benefit society
- Now has 8,575 members
- £22.7m withdrawable share capital
- £2.8m loan stock
- Interest on shares: Base rate minus 4%



Cafédirect

- Plc share launch in 2004
- Raised £5m from over 4,400 members
- Cost of share issue £472,000
- 45.1% of shares still held by founders and producer co-ops
- Dividend of 2p per share paid in 2008
- Share issue price £1. Now traded at £1.10 per share (matched bargain basis operated by Brewin Dolphin)



Golden Lane Housing

- Registered charity and company limited by guarantee
- Launched £4m bond offer through Triodos Bank in 2003 which raised £1.7m
- Bond issue costs £184,000
- Bonds redeemable after 10 years
- Interest payable: inflation rate plus 1% capped at max of 6.5%



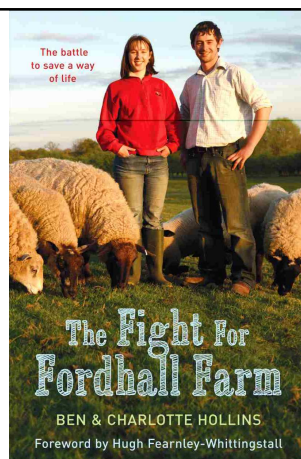
Westmill Wind Farm Co-operative

- IPS co-operative registered in 2004
- Raised £4.4m from 2,382 members buying share capital through a fully authorised share launch (shares withdrawable and transferable)
- Projected interest on capital of 5% pa rising to average of 12% pa over 25 years
- Investors qualified for Enterprise Investment Scheme tax relief
- Cost of share offer £150,000



Fordhall Farm

- Organic farm tenancy and family succession under threat
- Raised £744,500 from 8,000 members to buy freehold in 2005
- IPS community benefit society
- Withdrawable share capital, no interest paid



Headingley Development Trust

- IPS community benefit society registered 2005
- 802 members: min. shareholding £5 (open-ended offer)
- Withdrawal notice six months
- Two time-bound campaigns to raise capital for enterprise and arts centre raised £105,000 in member share capital



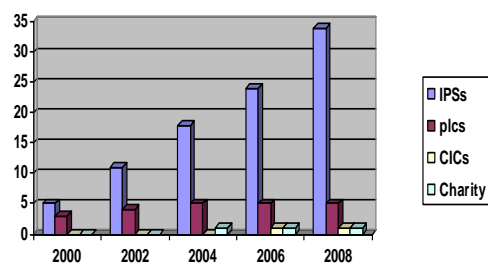
Witherslack Community Shop

- IPS co-operative
- £25,000 withdrawable share capital
- £11,000 gifts and donations
- £100,000 grants
- 30 months in development
- Shop opened September 2008
- Community now planning to raise share capital for community land trust



Practical issues

Investment by legal form since 1999



Unique features of IPS share capital

- Withdrawable and/or transferable
- One-member-one-vote democracy
- Flexible cap on returns
- Upper limit on personal shareholding
- Withdrawable shares exempt from financial promotions regulations

Shares and bonds

	Shares	Bonds
Membership?	Yes, often with voting rights	No
Redemption of capital?	Not required (but see IPS withdrawable shares later)	Redeemable after fixed term
Return on capital?	Variable, set by board	Fixed offer on issue
Tax breaks for investors?	May qualify for EIS tax relief	Does not qualify
Corporation tax?	Interest paid post-tax	Interest paid pre-tax

Investment models

Time-bound offer

- Conventionally called "initial public offering"
- Community invited to invest towards set target amount and time period
- If targets not met then investment project does not go ahead and money returned to investors
- Offer could be underwritten (although none have so far)

Open-ended offers

- Members recruited on continual basis and encouraged to build up investment over time
- Needs to be part of a capital cashflow plan (and projects)
- Could be combined with an IPO
- Could also work for bonds

Capital flows

Need to have long-term capital finance plan which takes into account:

- Withdrawal of share capital and redemption of bonds
- Gearing (ratio of equity to debt) and replacement of loan capital with share capital and vice versa
- Longer-term capital spending plans
- Plans to build up the reserves (retained profit) of the organisation and reduce dependency on other sources of capital

Regulation of financial promotions

- Offering the sale of shares or bonds to the general public is a financial promotion, governed by the Financial Services and Markets Act 2000 (FSMA), and can only be done by authorised persons issuing approved prospectuses, unless the offer is exempt. (see next slide)
- Purpose of this legislation is to make the public aware of the risks and benefits of different types of investment, and to prevent them being misled by financial promotions. This includes all forms of community investment promotions.

FSMA: Exempt offers

Following are exempt:

- Non-transferable securities
- Offer to fewer than 100 people
- Offer exclusive to existing members of a club or association
- Maximum amount being raised is less than €2.5m
- Offer of bonds by registered charities
- Withdrawable share capital in IPSs (and transferable shares in community benefit societies)

Marketing and promotion

- Need to check if the proposal is an exempt offer or requires authorisation
- Even if it is an exempt offer, it is advisable to prepare an offer document as part the marketing campaign
- Define the community and start building a “register of interest” as soon as possible
- Establish a web presence and email communications with interested parties (65% of households have internet access)

The investment offer

- **Purpose of investment:** How will the money be used? Will it be spent on tangible assets?
- **The team:** Credentials of the directors, key staff and advisers
- **Nature of investment:** Time-bound or open-ended? Withdrawable or redeemable? Redemption dates – withdrawal notice? Are divestment mechanisms in place?
- **Minimum and maximum** amount of individual investment?
- **Financial return** on capital? Forecasted amounts? Fixed or variable? Cap on maximum return?
- **Social return** on investment? How measured and communicated?
- **Risk assessment:** Risks associated with the investment. Plans for addressing these risks.
- **Resale value of shares and bonds?** Remain at or below par? Asset locks and policy on distribution of residual assets?
- **Membership** attached to investment? What type of voting rights?
- **Tax incentives** and tax relief?

Defining community

Three main types of community:

- **Geographic communities:** People who live or work in a geographic area with clear boundaries
- **Communities of interest:** People who share a common interest or common purpose
- **Communities of identity:** People who share an identity, be it through birth, belief, or allegiance

Many community investment projects appeal to communities that are combinations of two or more of the above

Community engagement

Community investment is powerful tool for community engagement: it gives people a stake in the enterprise and a first step on the ladder of participation, as members, customers, service users, volunteers and board members.

Changing public attitudes

- Most people are savers not investors, (and some people aren't even savers)
- Most people donate to good causes, rather than invest in them
- But most people can invest more than they can afford to donate
- Shift from purely philanthropic to community investment proposition

Assessing the viability of project proposals

Starting points

- Start with the community and its needs, interests, ambitions and aspirations
- Can these needs, interests, ambitions and aspirations be met through a social business model, or would a charitable model be better?
- If the business model is appropriate, and the venture needs capital, then community investment might be an ideal way of building community involvement in the venture

A viable proposal?

Four key elements:

- **A proposal team** with the track record and competencies to lead the community investment process through to fruition
- **Social objectives** capable of winning the interest, enthusiasm, and financial support of a target community
- **A viable business model** capable of generating sufficient profit to pay a return on the community investment
- **A capital finance plan** that is affordable, balanced, realistic and achievable

Viable proposal teams?

- Does the team have the requisite skills and experience?
- Does the team have the time and resources to develop the proposal?
- Do team members have a track record in this area of activity ?
- Does the team have strong links to the target community?
- Does the team have the backing of development partners?
- Is the lead partner or sponsoring organisation able to invest its own capital in the new venture?

Viable social objectives?

- Does the idea address an acknowledged community need, interest, ambition or aspiration?
- Has there already been positive media coverage of this issue and/or the proposals?
- Have other communities elsewhere already invested in similar initiatives?
- Has the target community been defined and measured?
- What plans are there for contacting and communicating with the target community?

Viable business model?

- Is the proposal based on a robust business model capable of generating long-term profit and returns on investment?
- Are there other businesses that are successfully trading in the same area of activity?
- What evidence is there that the proposed trading activity will generate sufficient profit to pay a return to investors?
- Do any of the partner organisations have a proven track record of trading in the proposed area of activity?
- Is there evidence of sufficient demand for the product or service to justify this further investment?

Viable capital finance plan?

- Is the scale of community investment sought consistent with the size of the target community?
- Is the proposed return on community investment consistent with the expectations of the target community?
- Have other sources of capital been identified as part of the capital finance plan?
- Will the investment capital mainly be spent on tangible assets that will provide some security for investors?
- Do the capital finance plans address the cashflow needs of the business plan, including allowances for the future withdrawal or redemption of capital?

Getting involved in the programme

Proposal selection criteria

Selection criteria include:

- Viability based on the strengths of the proposal team, social objectives, business model and capital finance plan
- Community demography
- Range of trading activities
- Spread of geographical locations (England only)
- Range of community investment models (not involving transferable securities)

Programme support

Selected ventures will receive the following support:

- Flexible package of small grants and consultancy time worth in the region of £5,000 per organisation
- As part of this package, organisations can draw on a pool of consultants, including expert reference group members
- Modest amount of money available for direct investment into enterprises in poorer communities, possibly through an intermediary support agency
- Invitations to four learning exchange workshops, to be held every six months between Sep 2009 and Mar 2011
- Contact with action researchers, capturing the learning and measuring the social impact of community investment

Action research agenda

- Scope for extending community investment to new areas of trading activity and new types of community demography
- Identify key characteristics of successful community investment initiatives and translate this into feasibility study methodologies
- Understand the determinants of the most appropriate investment vehicle (shares or bonds) and legal forms
- Assess the need for, and design of, Government financial incentives to support community investment practices
- Develop a code of good practice covering a range of areas associated with community investment
- Identify the social return on community investment and the best ways of reporting on this to investors

Next steps

- Application form available beginning May 2009
- Email petra.morris@cooperatives-uk.coop
- Deadline for applications: **31st May 2009**
- Round 1 - short-listed applicants will be invited to attend orientation workshop on **Wednesday 17th June 2009 in Birmingham**
- Round 2 - September 2009 dates to be confirmed
- Factsheets now available on website www.communityshares.org.uk

Final questions and answers