

Community Shares

promoting enterprise, equity and engagement through community shares and bonds

Community Shares Programme

Two-year action research programme, working with 10 organisations raising community investment:

- **Ashington Minors** – childcare nursery
- **Cybermoor** – rural broadband services
- **Brixton Green** – community land trust and urban regeneration
- **FC United of Manchester** – building new stadium
- **Hastings Pier & white Rock Trust** – development trust
- **Hurst Green Village Shop & Centre**
- **Oxford Cycle Workshop Training**
- **Sheffield Renewables** – urban renewable energy schemes
- **Slaithwaite Co-operative** – community-owned greengrocers
- **Tutbury Hydro Electric Project**

From “fundraising” to “investment”

- Recognition that some community services are best delivered through a business model
- Growing public appreciation that businesses can be run for a social purpose, not private profit
- Historic shift in financing community enterprises: from fundraising approach (events, gifts, donations) to investment in community shares
- Greater autonomy for communities

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

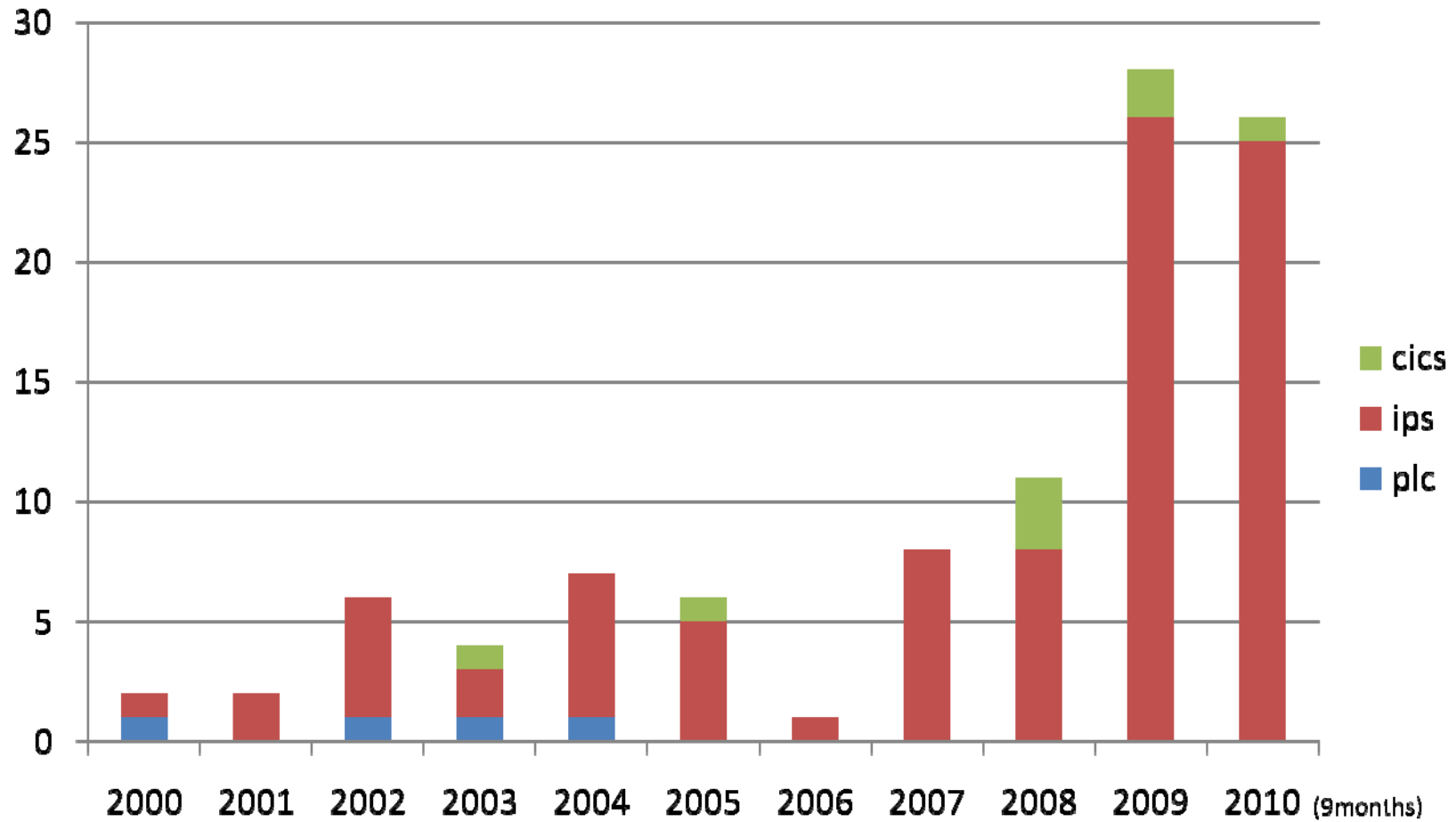
Community shares summary

- Defined as community enterprises with more than 20 members with combined investment of more than £10,000
- Oldest surviving example is Lincolnshire Co-operative Society est. 1861: 161,000 members, £9.6m share capital
- Currently 142 enterprises fit this definition, 40% of which have been established in the last 30 months
- Combined community investment of over £300m+ and combined membership of nearly 6 million
- In last ten years total community investment of £30.5m from combined membership of 60,000

Community shares by trade activity

Trade activity	Number orgns.	Share capital	Members
Renewable energy	28	32,191,000	11,687
Regeneration, land and buildings	22	13,516,000	2,947
Consumer co-operatives	19	182,455,000	5,843,000
Community retail stores	18	571,000	2,561
Transport (inc historic railways)	18	20,809,000	n/a
Finance and investment	10	7,489,000	1,858
Food production and farming	6	886,000	9,539
Fair trade products	5	33,409,000	18,705
Pubs and breweries	5	575,000	388
Football	4	1,231,000	31,704
Other	6	8,849,000	39,084

Growth in community share offers



Why are societies the preferred format?

Unique attributes include:

- Withdrawable share capital
- One-member-one-vote
- Upper limit on individual member investment
- Flexibly capped interest, not dividends, on share capital
- Dividends on transactions
- Optional statutory asset lock
- Currently exempt from costly regulation

CICs and community shares

- Shares in Community Interest Companies (limited by shares) are **transferable**. This means the enterprise does not have to buy back the shares, and members have to find a willing buyer if they want their money back.
- Investment offers in CICs are subject to regulation. All communications must be vetted by FSA approved adviser, unless the offer is exempt.

Recent community share offers

	Share capital £	No. of member	Av. £ per member
The Cochabamba Project	623,003	89	7,000
Sustainable Hockerton	167,550	41	4,100
Ecological Land Co-operative	123,000	38	3,200
Hudswell Community Pub	219,100	151	1,450
Go! Co-operative	58,006	70	830
Motcombe Community Shop	70,000	100	700
Topsham Ales	35,000	55	640
Busy Bee Toyshop Co-operative	32,250	102	300
Fairtraders Co-operative	85,000	370	230
Slaithwaite Co-operative	15,000	121	120
Dunbar Community Bakery	23,000	230	100

Is it the right option?

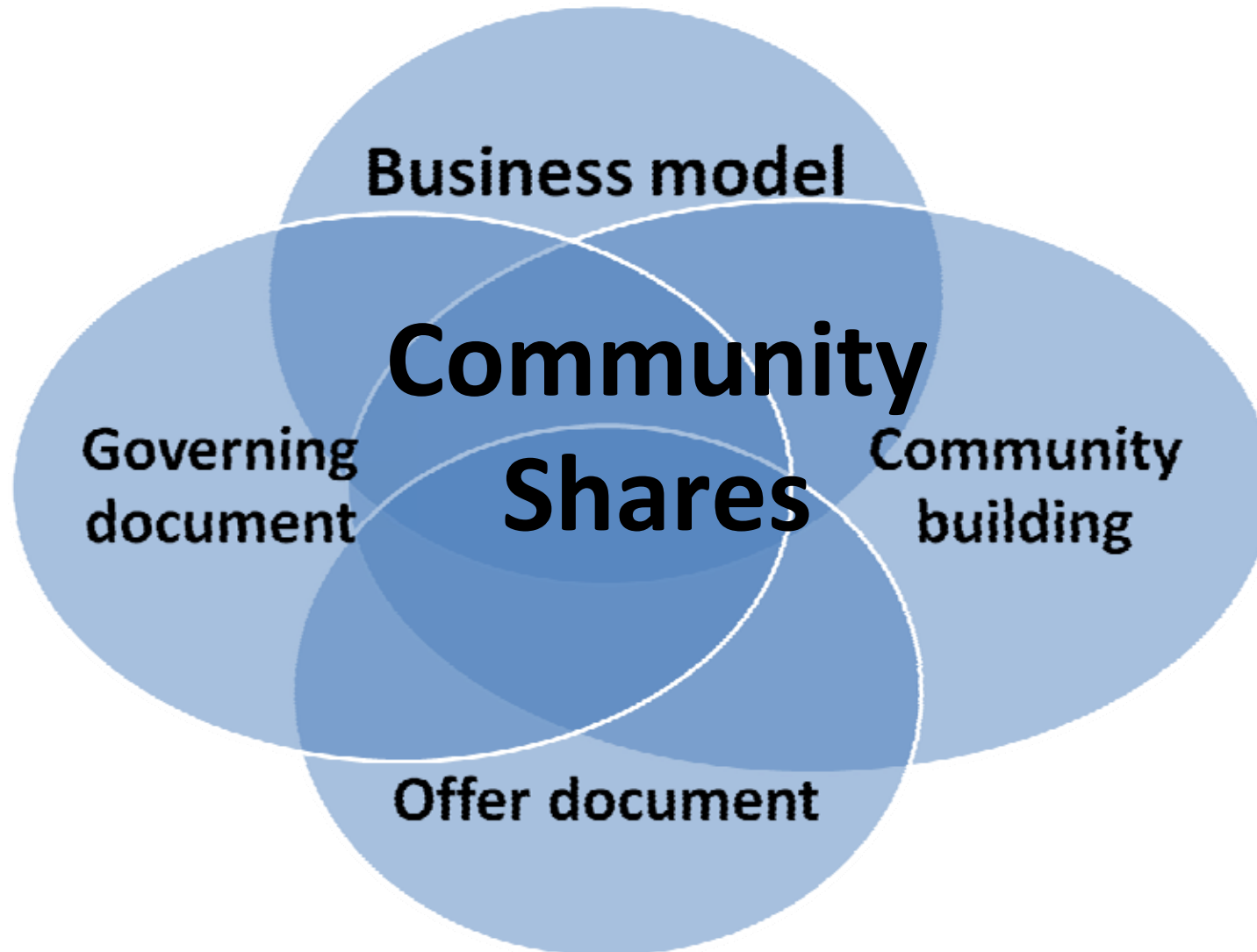
The community

- Long history of community organisation
- Established membership databases
- Track record in fundraising
- Enterprising tradition in community
- Access to business and professional skills

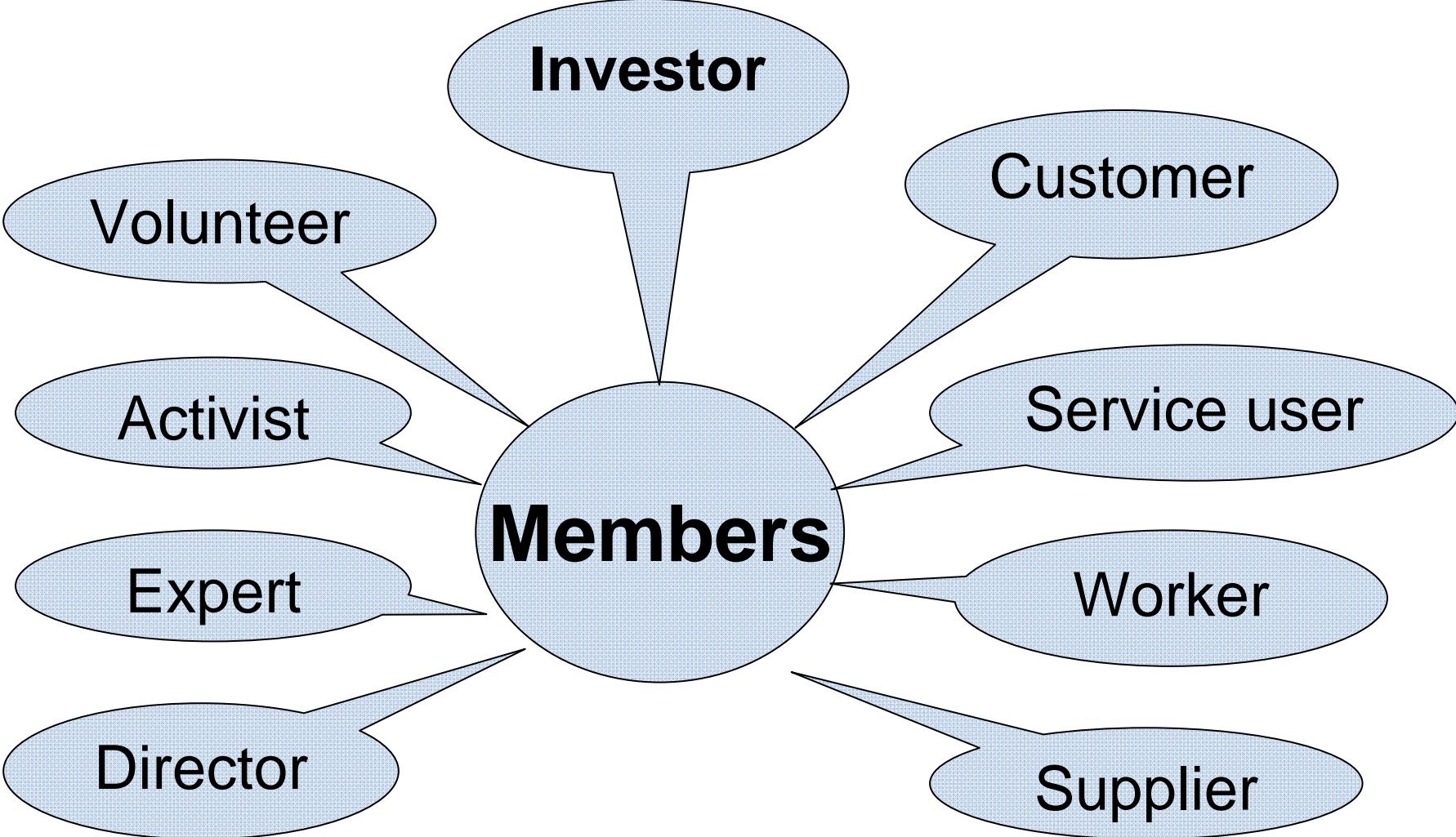
The proposal

- Strong community purpose
- Scope to generate income
- Sustainable in the longer term
- Capital invested in tangible assets
- Scale of investment fits size of community

Community shares: key elements



Member engagement



Members improve competitive advantage

Members roles	How these roles improve competitive advantage
Investor	Lower cost of capital; greater acceptance of risk
Customer	Greater loyalty; accept higher prices & dividend
Service user	Demonstrates support to funders; better feedback
Activist	More engagement; better feedback; better targeting
Volunteer	Lower labour costs; access to specialist skills
Suppliers	Greater loyalty; lower input prices
Workers	Greater loyalty; lower input prices; better feedback
Directors	Access to specialist skills; lower input prices

Governing documents

- Industrial and provident societies are registered by the Financial Services Authority (FSA)
- Two types of society; co-operatives and community benefit societies
- Easiest way of registering is to use the model rules of a sponsoring body

Co-operative or community benefit society?

Co-operatives

- Can pay dividends to members based on transactions, as well as interest on share capital
- Cannot opt to have a statutory asset lock
- Can be for mutual benefit only

Community Benefit

- Can opt to have a statutory asset lock
- Cannot pay dividends
- Must have broader community objectives

Model rules

- FSA charges a variable amount for inspecting and registering new IPSs
- Model rules are produced by sponsoring bodies, and are pre-approved by the FSA, which charges much less for registering model rules
- Most sponsoring bodies charge for using, and making amendments to, their model rules

Sponsoring Bodies

- Co-operativesUK
 - Community Finance rules
 - Community Co-operative
- Wessex Community Assets
- Somerset Co-operative Services
 - Multi-stakeholder co-op rules
- Plunkett Foundation
 - VIRSA village shop rules
- Energy4All
 - Wind farm co-operative rules

Four types of share offer

- **Membership offer:** where the amount invested in share capital is restricted to a nominal sum.
- **Pioneer offer:** offer to founding members to raise high risk capital to get “investment ready”
- **Time-bound offer:** target amount and timescale for investment offer where if it is not successful the money is returned to investors
- **Open offer:** to maintain membership and investment liquidity, supported by annual report

From “how to do it” to “how to regulate it”

- Scope for innovative approach, co-regulation:
Regulated self-regulation
- Focus on offer documents and annual reports
- Increase know-how, not bureaucracy
- Exploit the practice of copycat offer document production and genuine desire to improve
- Raising the standards, increasing transparency, encouraging comparisons through on-line community shares directory
- Role of social investment institutions in supporting community share offers

Institutional support

Social investment institutions can support community investment through:

- Underwriting time-bound offers with loan contingencies
- Providing short-term finance to support community investment by instalments
- Investing equity (especially if the institution is a co-operative or community benefit society)
- Other methods?

Further information

Community Shares website: www.communityshares.org.uk

Publications

- *Community Investment using IPS legislation*
- *The Community Shares Programme: One Year On*
- *Guide to governance and offer documents*
- *Investing in community shares*
- *A practitioner's guide to community shares* (due March 2011)

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