

# Community Shares

promoting enterprise, equity and engagement through community shares and bonds

# Two opening questions

Discuss with colleagues on your table:

1. What are the key issues you want to address during today's workshop?
2. What should investors look for in a community share offer?

# Seminar programme

## **10.50am Start**

- Introduction
- Strengthening the business model
- Legal formats and governance

## **12.30-1.15pm Lunch**

- Community building and engagement
- Community share offer documents

## **3.00-3.15pm Refreshments break**

- The future – next steps
- Final questions and answers

## **4pm Finish**

# Introduction

## Question 1

What are the key issues you want to address during today's workshop?

# Community Shares Programme

Two-year action research programme 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 £4m 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**

# Investment stages

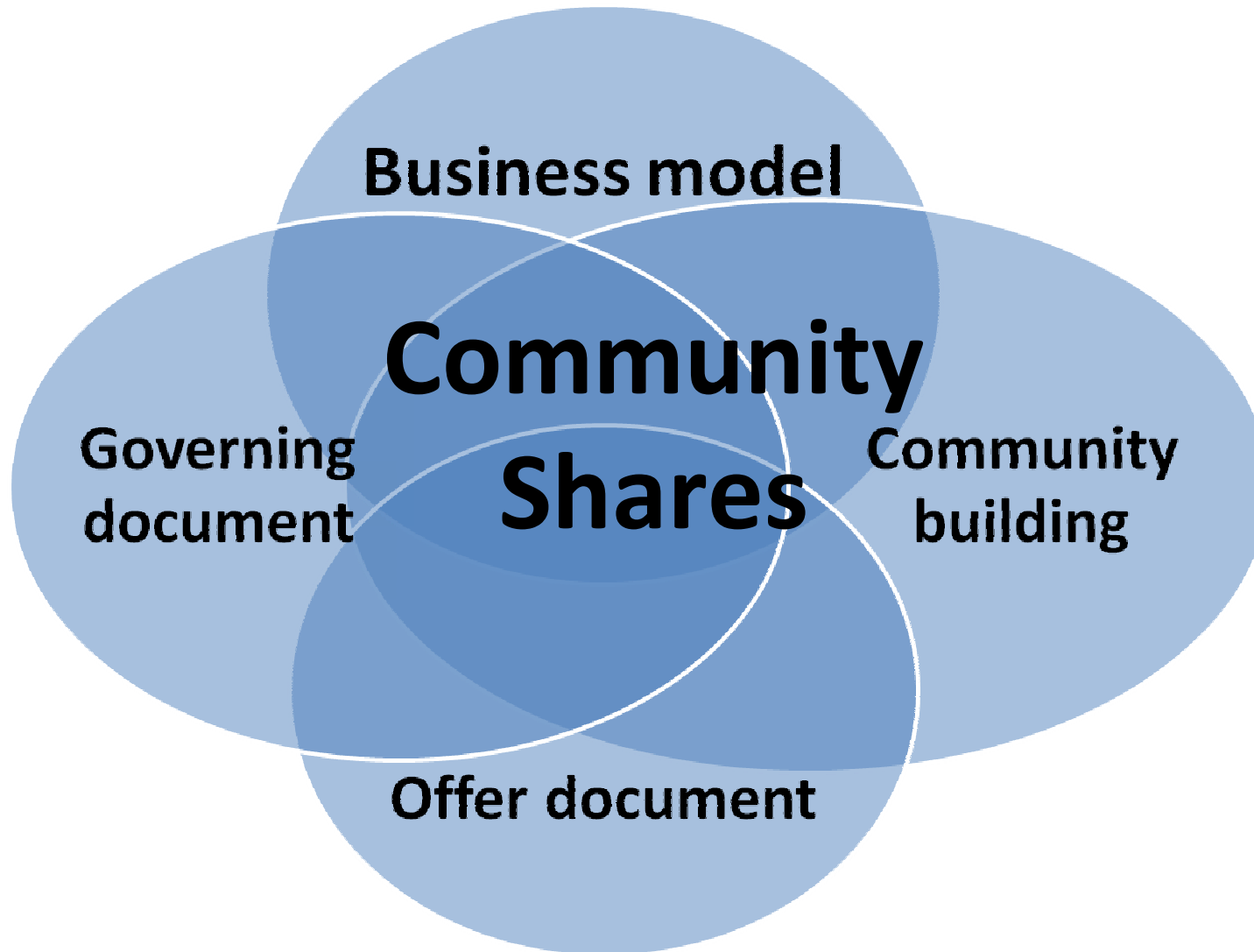
Investment stage	Key Characteristics	Examples
<b>Pre-start</b>	New groups or projects which need support to get investment-ready	Brixton Green Hastings Pier & White Rock Trust Hurst Green Village Shop
<b>Start-up</b>	Investment- ready ventures, developed by the community, with or without the support of external agencies	Tutbury Eco Power Sheffield Renewables
<b>Acquisition and transfers</b>	Community buy-out or rescue of established enterprises facing closure or ownership-succession problem	Slaithwaite Co-operative
<b>Early-stage growth</b>	Established ventures, trading for less than three years, seeking investment capital to finance growth	Oxford Cycle Workshop Training
<b>Later-stage growth and consolidation</b>	Established ventures, trading for more than three years, seeking investment capital to finance growth, replace capital outflows, or consolidate trading position	Ashington Minors FC United of Manchester Cybermoor

# Financing community ventures

- **Grants, gifts and donations** are best because they are free, but how much free money is (will be) available for community enterprise?
- **Loans and bond finance** is readily available from institutions and (to a lesser extent) individuals, but commit the venture to generating a fixed amount of profit to pay interest and refund capital, and can be short-term
- **Equity investment** through community shares, is more flexible, longer term, and connects the investor to the enterprise, sharing in the risks and rewards

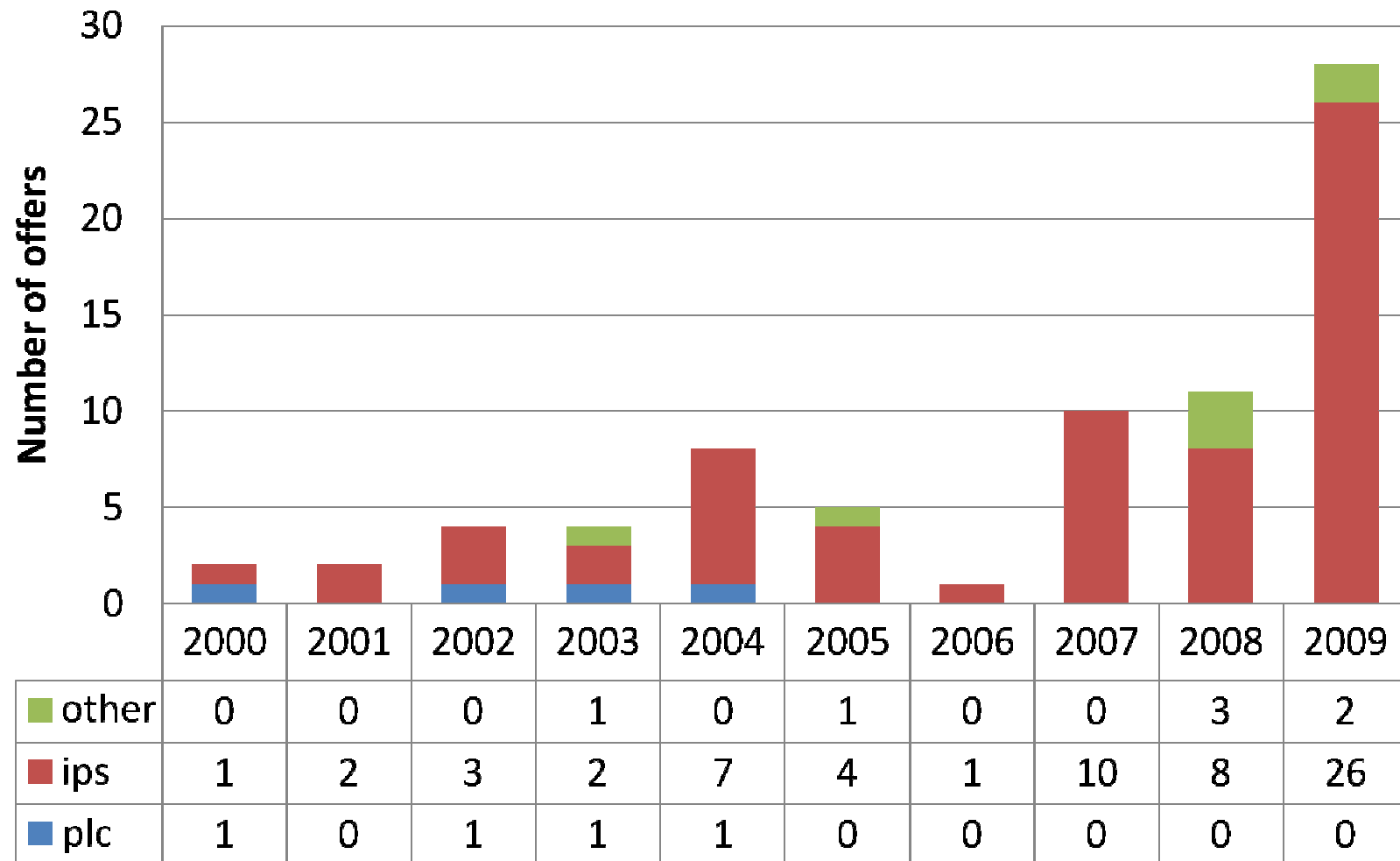


# Community shares: key elements



# Growth in community share offers

Community share offers 2000-09



# Why is IPS the preferred format?

## **Unique attributes of IPS share capital:**

- Withdrawable share capital
- One-member-one-vote
- Upper limit on investment
- Flexible cap on financial returns
- Dividends on transactions, as well as interest on share capital
- Optional statutory asset lock
- Exempt from regulation

# Liquidity

- Never invest in something if you don't know how you will get your money out again
- Companies issue transferable shares, which can be bought and sold between third parties
- Companies work to principle of one-share-one –vote, giving a majority shareholder complete control
- Most common way of getting money back in smaller, unlisted companies is to sell all or part of the business
- Larger companies may decide to be listed on a stock market (at least £5m-£10m capitalisation)
- Only larger stock markets are fully liquid, with brokers offering a quoted price for shares (market makers) – junior markets do not have market makers are much less liquid

# Liquidity and withdrawable shares

- Liquidity of withdrawable shares is set through the terms and conditions for withdrawal, which may initially suspend withdrawal rights for the first two to five years, require notice of withdrawal of between one week to one year, or limit the % of capital than can withdrawn in one year.
- The board normally has discretionary powers to suspend withdrawal, making this type of capital, equity, not debt. It may also have the power to reduce the value of shares, if circumstances require, to below paid-up value (but cannot increase it above paid-up value)

# Phone Co-op liquidity

Year	2006	2007	2008	2009
Opening balance share capital	1,057,542	1,303,711	1,637,130	1,866,522
Contributions	439,878	470,524	419,422	932,168
Withdrawals	(193,709)	(211,684)	(282,068)	(290,419)
Reinvested interest	0	74,579	92,108	84,485
Reinvested dividends	19,491	0	37,804	58,181
Closing balance share capital	1,303,711	1,637,130	1,866,522	2,592,796
Interest rate	0%	5.5%	6%	2.25%
Dividend rate	0%	1.5%	2.0%	1.5%
Number of members	6,333	6,735	7,160	7,536

# Westmill Wind Farm liquidity

- Business model based on 25 year life of the windfarm (based on planning consent)
- Depreciation fund sets aside cash each year to allow for withdrawal of share capital
- No withdrawals allowed for first five years, then limited to 5% of share capital in any one year thereafter
- All outstanding share capital returned to members on dissolution of the IPS in year 25.
- Offer document forecast returns of 12% p.a. average over lifetime of the project

# **Strengthening the business model**



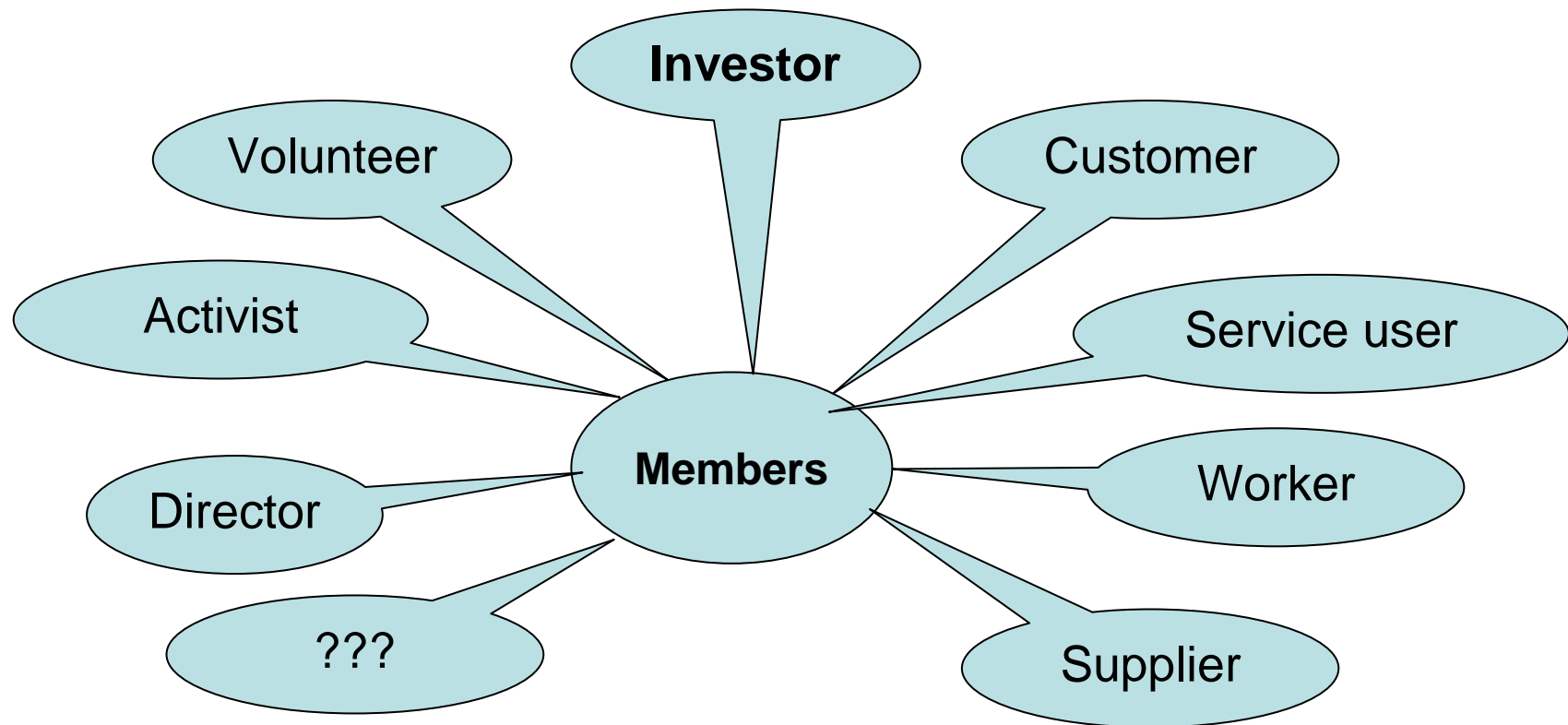
# Membership and the business model

- Membership is an important source of competitive advantage because of the loyalty of members and their multiple roles.
- All members are investors, and the business model is strengthened when members have other roles in the enterprise, as customers, service users, activists, volunteers, workers, suppliers and/or directors

# Community engagement in the business model

Business model	Examples	Community engagement
Community are customers, members and investors in the enterprise that provides services to the community	Community retail store	Strong.....Weaker
Community are members and investors in the enterprise that provides services to the community	Community buildings & assets	
Community are members and investors in the enterprise that provides services to others	Renewable energy production	
Community are members and investors in an enterprise that invests in other enterprises that provide services the community	Local investment fund	
Community are members and investors in an enterprise that invests in other enterprises that provide services to others	Ethical investment fund	

# Engaging members



# How members strengthen the business model

<b>Members roles</b>	<b>How these roles strengthen the business model</b>
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

# Enterprise Investment Scheme

- Tax relief to encourage equity investment in small enterprises
- 20% of amount invested can be offset against income tax in first year only.
- Minimum qualifying investment £500 – maximum size of scheme £2m
- Only allowable for specified “qualifying trades” and excludes most enterprises involved in land and property
- HMRC require IPSs to have minimum 3 year period of non-withdrawal, and board right to suspend withdrawals thereafter. “No pre-arranged exits”.

# **Legal formats and governance**

# 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

# Membership investment and returns

- Most IPSs have a single category of open membership, although there has been some experimentation with multi-stakeholder structures, with sectional voting-rights, and different rates of return.
- Membership defined by shareholding and annual subscription (if any). Annual subscriptions might be incompatible with member investment, unless it is a service subscription
- Legal limits on individual shareholding: 1p – £20,000. No limit on investment by other IPSs
- The FSA require that interest rates on shares is limited to what is sufficient to attract (and retain) the investment
- Dividends on transactions (co-ops only) are not subject to limitation and are designed to be financially prudent mechanisms



# Withdrawal terms

- Typical withdrawal notices range from one week to one year. Some time-bound offers set an even longer initial period (3 to 5 years) when withdrawals are not allowed
- For withdrawable share capital to be an asset on the balance sheet, the board must have the powers to refuse withdrawal. The rules may also state that only a fraction of share capital will be repaid under some circumstances. Investors should be told that the value of shares cannot increase, and may go down
- The society must demonstrate that it has a plan for managing the liquidity of its share capital
- Where a society charges an annual subscription fee, it needs to set terms for terminating membership and withdrawal of capital
- IPSs can also issue transferable shares, or shares that are both withdrawable and transferable. Transferable offers may be subject to regulation

# Residual assets and dissolution

- An asset lock means that on dissolution of a society any residual assets must be transferred to another similar asset-locked body, rather than being distributed to members
- Community benefit societies generally cannot distribute residual assets; this can be reinforced by a statutory asset lock
- Bona fide co-operatives are required to satisfy the FSA they meet conditions based on the ICA Statement on Co-operative Identity, which includes a reference to least part of the assets being the common property of the co-operative
- However, any IPS without a statutory asset lock, could in theory, convert itself into a private company, as long as at least half its members participated in a vote which was at least 75% in favour of conversion.

# IPS model rules

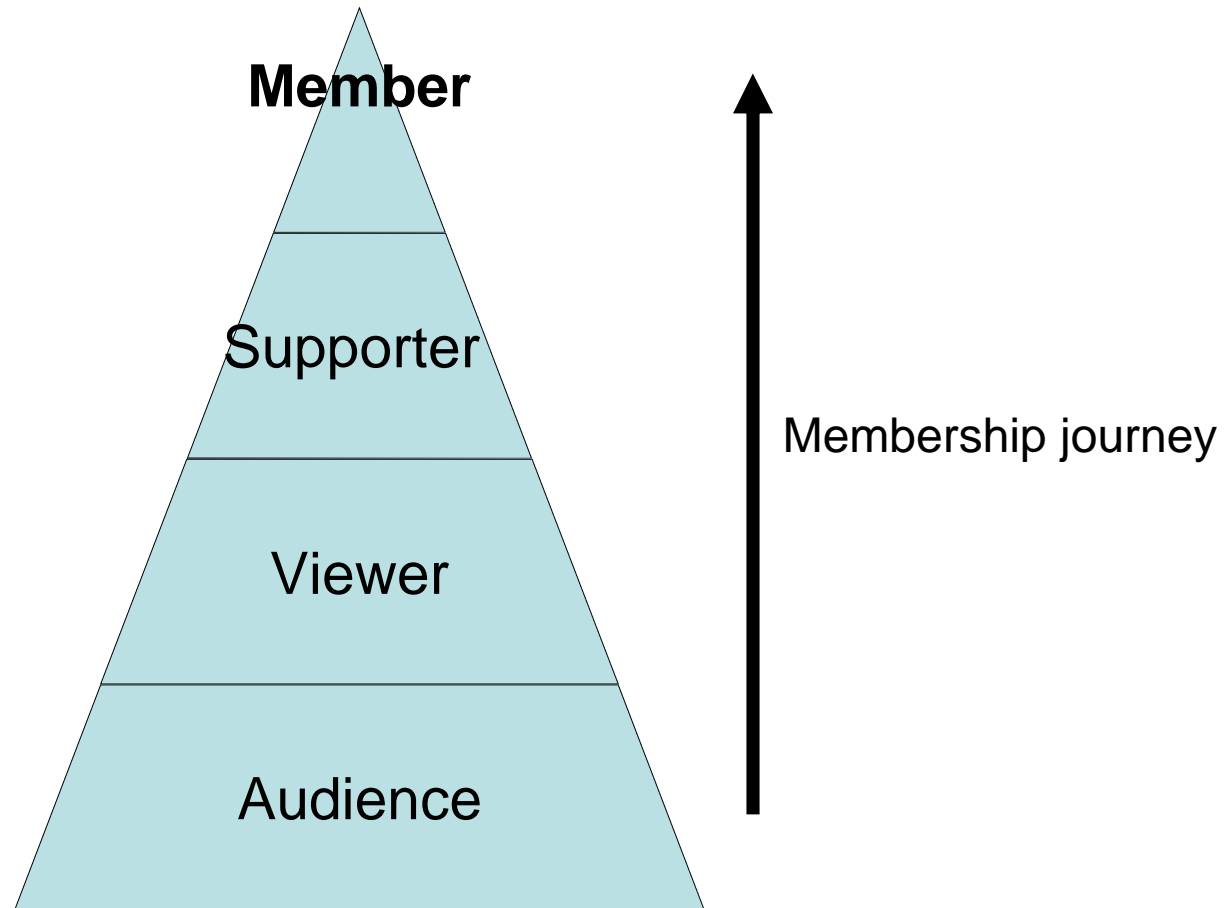
- FSA charges a variable amount for inspecting and registering new IPSs
- Model rules are produced by sponsoring bodies, and are pre-approved by the FSA, which charges much less for registering model rules
- Most sponsoring bodies charge for using, and making amendments to, their model rules

## 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

# **Community building and engagement**

# Attracting members



# Audience

Definition	Demographic profile of the people you want to engage as your community
Development methods	<ul style="list-style-type: none"><li>• Define the geography of your community</li><li>• Define the community interest</li><li>• Define the stakeholder roles of the audience</li><li>• What is the demographic profile of your audience?</li><li>• How big is your audience?</li><li>• How best to reach this audience?</li></ul>

# Viewers

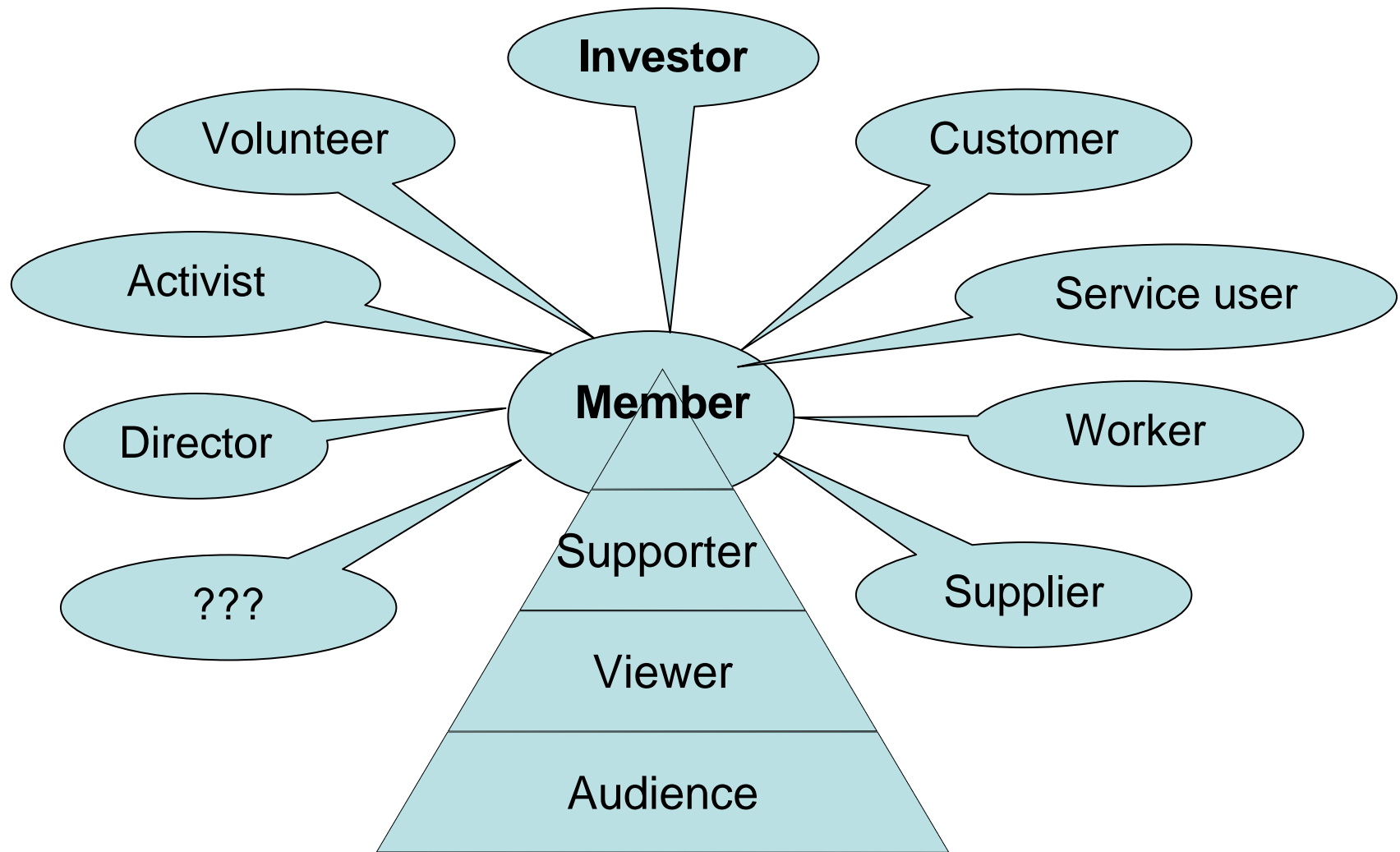
Definition	Unknown people who know about your initiative, having viewed, read, heard or witnessed something about you
Development methods	<ul style="list-style-type: none"><li>• PR and media coverage</li><li>• Organise events</li><li>• Run campaigns</li><li>• Hold public meetings</li><li>• Develop websites</li><li>• Pool networks and share email contacts</li><li>• Leaflet neighbourhoods</li><li>• Network through out organisations</li><li>• Use viral marketing techniques</li></ul>

# Supporters

Definition	Known people who support your initiative, for whom you have contact details
Development methods	<ul style="list-style-type: none"><li>• Followers (Twitter)</li><li>• Friends (Facebook)</li><li>• Blog subscribers</li><li>• Email newsletter subscribers</li><li>• Event attendance lists</li><li>• Petition signers</li><li>• Campaign joiners</li><li>• Keep-me-informed lists</li><li>• Downloader contact details</li><li>• Information requesters</li></ul>



# Attracting and engaging members



# Role conversion rates

Role	Number	Conversion rates?
Director	6	
Volunteer	25	25%
Activist	100	25%
Investor	400	25%
Member	400	100%
Supporter	1,000	40%
Viewer	5,000	20%
Audience	10,000	50%

# 2009 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
Sheffield Renewables	12,050	12	1,000
Go! Co-operative	58,006	70	830
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
en10ergy (Muswell Hill Sustainability Grp)	1,700	27	60
Knucklas Castle Community Land Project	6,000	190	30

# Affordability

- Keep minimum investment required low, but beware the cost of membership services
- Allow members to invest by regular monthly payments (subscription shares)
- Societies making time-bound offers of subscription shares need to arrange bridging finance. Community Shares Programme investigating how to do this.

**Community share  
offer documents**

## Question 2

What should investors look for in a community share offer?

# Four types of offer

- **Membership offer:** where the amount invested in share capital is restricted to a nominal sum.
- **Pioneer offer:** offer to founding members for 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:** where the offer is not subject to a target amount or timescale

# Investment stages and offer documents

Investment stage	Membership offer	Community share offers			Examples
Pre-start		Pioneer offer			Brixton Green Hastings Pier & White Rock T. Hurst Green Village Shop
Start-up			Time bound offer		Tutbury Eco Power Sheffield Renewables
Acquisition and transfers					Slaithwaite Co-operative
Early-stage growth					Oxford Cycle Workshop Trg
Later-stage growth and consolidation				Open offer	Ashington Minors FC United of Manchester Cybermoor



# Membership offer

- **Purpose:** to build membership and support for the enterprise in advance of any investment offer
- Share capital investment restricted to nominal amount (£1 to £25)
- Membership-only offer could be a prelude to a time-bound or open offer at a later date
- Annual membership fee (£10 to £50) might be charged to cover costs of servicing members (lower amount), or providing member services (higher amount)
- Offer document might be an application form with little or no additional evidence

# Pioneer offers

- **Purpose:** To raise money for initial research and development costs to get the enterprise “investment ready”
- High-risk investment with no immediate right of withdrawal or prospect of interest on investment
- Targeted at known supporters only
- Shorter offer document emphasising the need for resources and risks associated with investment at this stage of development

# Time-bound offers

- **Purpose:** to raise capital for a specific investment proposal or opportunity
- Offer document states target amount to be raised within set timescale
- If offer fails to meet its target then investors are refunded and project or activity does not proceed
- Full offer document plus supporting business plan required

# Open offers

- **Purpose:** to provide (and replace) capital for the ongoing investment activities of the enterprise
- No target amount or specified timescale for investment
- Only suitable for societies that are already trading
- Full offer document should set out the longer term investment policies of the society
- Offer document should be supported by annual accounts and report

# Offer document contents

## Contents

- Purpose of the investment
- Minimum/maximum investment
- Withdrawal terms
- Projected financial returns
- Projected social returns
- Risk factors
- Members rights
- Credentials of promoters
- Legal format of the society
- Regulation of the offer

## Supporting evidence

- Website address (all offers)
- Contact person (all offers)
- Rules of the society (all offers - on website)
- Business plan (time-bound offers)
- Annual accounts (open offers)
- Annual reports including social performance report (open offers)

**The future – next steps**

# Future regulation of offers

- In July 2009 a HM Treasury white paper, *Reforming Financial Markets* included questions about the continued exemption of IPSs from regulation
- Calls for improved level of voluntary regulation, including;
  - Shared standards amongst principal promoters (see expert reference group)
  - Voluntary code for offer documents
  - Training and accreditation of community shares advisers

# Sources of further advice

Community Shares Expert Reference Group:

- Baker Brown Associates
- Community Finance Solutions (University of Salford)
- Co-operative and Community Finance Ltd
- Co-operative and Mutual Solutions
- Co-operativesUK
- Development Trusts Association
- Energy4All
- Key Fund Yorkshire
- Plunkett Foundation
- Water Power Enterprises (H2OPE)
- Wessex Community Assets



# Further research

- Ongoing support, research and learning exchange workshops with ten participating organisations in Community Share Programme
- Asset Transfer Unit national survey of community investors, identifying the demographic profile of investors, and what motivates them to invest in community shares
- Currently working with The SROI (Social Return on Investment) Network to identify the best way for enterprises to inform the public about their social aims and performance

# Forthcoming publications

Community Shares publications:

- Further factsheets on website [www.communityshares.org.uk](http://www.communityshares.org.uk)
- *The Community Shares Programme: One Year On*
- *Guide to governance and offer documents* (July 2010)
- *An investor's guide to community shares* (July 2010)
- *A practitioner's guide to community shares* (Mar 2011)

# Community Shares website

Forthcoming developments include:

- Subscriptions to quarterly e-newsletter
- Searchable list of community shares financed enterprises
- Additional factsheets and other publication

[www.communityshares.org.uk](http://www.communityshares.org.uk)

# Final questions & answers

What are the key issues you want to address during today's workshop?

Have these issues been addressed?