COMMUNITY SHARES

Purpose

This topic sheet provides you with information about how to raise investment capital from your community to finance enterprising activities that may be identified in a Community Led Plan. Community shares are a form of investment capital used to finance co-operatives and community enterprises.

What's involved

Understanding the importance of raising investment capital to finance community enterprises and the advantages of asking your community to provide this capital. As raising investment capital from the public is a heavily regulated activity, you will need to get expert advice before embarking on this process.

What are community shares?

Community shares are a new way of raising investment capital from communities. Local people are encouraged to buy shares in the enterprise and become part-owners. As shareholders they are more likely to do everything they can to ensure the success of the business by becoming loyal customers, volunteers and supporters of the enterprise. Community shares have been used to finance shops, pubs, community buildings, local food schemes, football clubs and even renewable energy initiatives.

Most community shares offers are made by enterprises registered as Industrial and Provident Societies (IPS). This legal form provides limited liability status, just like company law. But unlike companies, shares in societies are non-speculative and democratic. Societies usually have asset locks which prevent shareholders making financial gains on their shares. Societies are democratic organisations that work to the principle of one-member-one-vote, rather than the principle of one-share-one-vote enshrined in company law.

The most any one member is allowed to invest in shares is £20,000, which reduces the likelihood of the society being over-reliant on a handful of wealthier individuals. There is also a limit on how much interest can be paid on share capital, based on the principle that it should be no more than is sufficient to attract and retain the investment, usually interpreted as an equivalent to interest rates on building society savings accounts. Tax relief of up to 50% may be available to investors through the Enterprise Investment Scheme; information about this scheme can be obtained from Her Majesty's Revenue and Customs (HMRC).

Community shares is a term normally used to refer to share capital issued by Industrial and Provident Societies (IPSs); a legal form used by many co-operatives and community enterprises. This legal form has some unique social features, and is exempt from costly regulation, making it highly suitable for small-scale community enterprises.

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Why are community shares important?

If your Community Led Plan includes proposals to create new enterprises to serve your community, then you will need to identify where the start-up capital will come from. There is only limited grant funding available for new community enterprises, and most banks and lending institutions are reluctant to lend to new businesses without some form of security or guarantee.

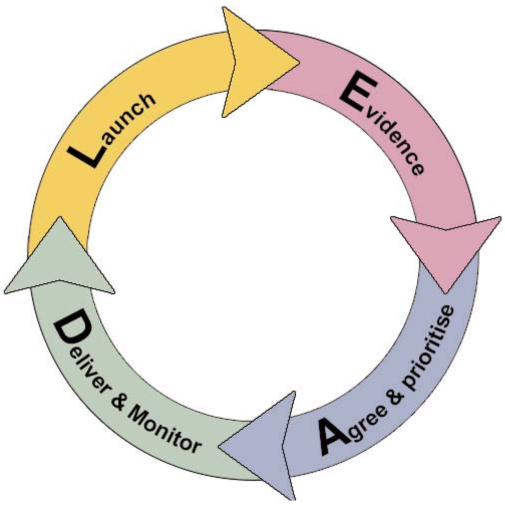
Share capital is a long-term solution to raising finance for new enterprises. Industrial and provident societies use a unique form of share capital called withdrawable shares, which allow members to withdraw some or all of their capital when they need it back, subject to terms and conditions set by the society. Most societies also have the power to suspend withdrawals until they are affordable, which usually means only when the enterprise is profitable.

The added attraction of raising share capital is that institutional lenders will often treat it as security for loans, allowing you to attract further investment. It also provides proof to grant-giving bodies that your proposals have public support, making it more likely they will back your plans.

Should you include community shares in your Community Led Plan?

A Community Led Plan will allow your community to take action to maximise the potential of business opportunities locally. Community shares are a good way of ensuring that everyone can get involved in proposals to create new community enterprises and contribute their ideas, time and resources.

To produce a good quality plan for your area, your community will need to progress through the 9 steps outlined in ACRE's Community Led Planning Toolkit, which can be summarised as 'LEAD'.



Stage	ACRE 9 step process
Launch the plan	Getting started Establishing the steering group Taking stock and planning ahead
Evidence local need and aspirations	Understanding your community
Agree and prioritise actions	Prioritising and planning action Drafting your plan Finalising your plan
Deliver and monitor actions	Implementing and monitoring actions Reviewing your plan

Using the LEAD framework, some pointers are provided below to help you consider how community shares and community investment could be part of a plan for your area.

Stage 1 - Launch the Plan

When starting out, it's advisable to interest as many people, organisations and service providers in your Community Led Plan as possible. This will increase support for your plan and make it easier in the long run to deliver any actions you propose for your area.

When forming your steering group, make sure it comprises a cross-section of people from your community. Identify the parts of your plan that could best be delivered by a community enterprise. Encourage people with experience of running businesses in your community to get involved so that they can identify and assess opportunities for developing new enterprises that will address local needs.

You may also want to let other professionals know about your ambitions to include community investment and community shares in your plan at this stage. For instance, you will need legal advice on IPS legislation when setting up a community enterprise. You will also need experts in communications and community engagement to ensure that the local community support the setting up of community enterprises funded by community shares.

Stage 2 - Evidence local need and aspiration

As you begin to research your Community Led Plan, it is important to find out whether any local needs could be best addressed by a community enterprise. You can do this by researching existing facts and information about your area and speaking to everyone locally. Often it can be helpful to start by contacting your local authority to find out what evidence of local need is already available in existing strategies, reports or survey data.

It is also important to consult local people to find out what they think about meeting some of these needs through community enterprise, and whether creating new community enterprises should feature in your plan. You might find it useful to ask the following questions:

- What community needs could be best served by community enterprises?
- How are these needs being met right now, and how could a community enterprise provide a better service?
- Would you be willing to invest in new community enterprises by buying community shares?

There are various different consultation methods you can use that are described in detail in Step 4 of ACRE's Community Led Planning Toolkit.

Stage 3 - Agree and prioritise actions

Once you have gathered sufficient information about your community, you will need to decide whether establishing community enterprises is a priority issue for your plan. This should be considered alongside evidence of any other social, economic, cultural and environmental issues you are aware of. This may require further consultation with your community as explained in Step 5 of ACRE's Community Led Planning Toolkit.

If your community wants to set up new community enterprises that are financed through community shares, you will need to research and test the viability of your proposals by investigating the four key ingredients of all successful community shares initiatives:

1. **The business case**
   A community enterprise will only succeed if there is a market for its products and services. Products and services must be affordable to customers, and priced so that the enterprise can make a profit and pay a modest return to investors. There are lots of ways you can improve the competiveness of your enterprise by involving your community. One of the most effective ways of doing this is to encourage people to become members and investors in the community enterprise. Members can then improve the competiveness of the enterprise by being loyal customers, helping you to provide a service they want; by providing volunteer support, keeping your costs down; or even by accepting a lower rate of interest on their share capital than you would have to pay a bank or commercial lender. A community enterprise will only survive in the long run if it is profitable and can afford to pay interest on its share capital, making it worthwhile for members to invest in its future.

2. **The governing document**
   Nearly all community enterprises planning to raise capital through a community shares offer choose to register as Industrial and Provident Societies (IPSs). This legal format has a number of unique attributes that make it highly suitable for community ownership and investment. You will need to obtain expert legal advice: the Community Shares Unit can direct you to the most appropriate sources. IPS legislation provides for two types of society: co-operatives and community benefit societies. Both types have their pros and cons, so make sure you get the advice you need to help you chose the right one for your purposes. The next step is to write your governing document, or what in IPS legislation is known as rules. There are a number of organisations, called sponsoring bodies, that offer model rules for community share issuing societies. These model rules have been pre-approved by the IPS registration service, currently located at the Financial Services Authority.

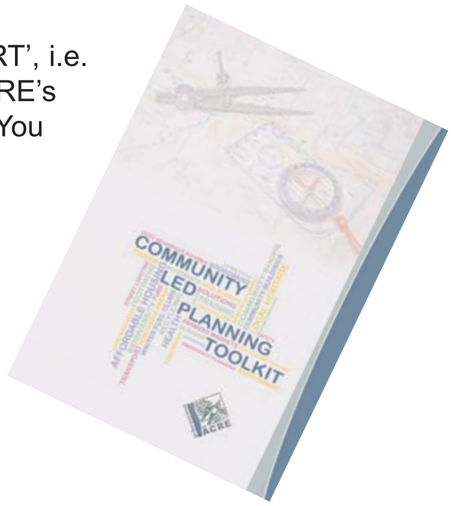
3. **Community engagement**
   Raising share capital from the local community will only work if you have their full support, so it is very important to start engaging the community at an early stage, in order to develop a shared identity in a common purpose. Stage Two emphasises the importance of consultation, and the task now is to build on this consultation by engaging the community through membership, ownership and control. Your governing document will contain rules about who can become a member, and how this is connected to their purchase of community shares. But remember that buying shares will be a big decision for most people, and is an action most people will only take if they support the objectives of the community enterprise, and can afford to invest.

4. **The offer document**
   Inviting the public to invest in enterprises is a highly regulated activity designed to limit or prevent misleading financial promotions and other forms of fraud. However, societies issuing community shares are normally exempt from these regulations, making it far cheaper and more straightforward to launch a community share offer as an IPS. In order to maintain this exemption from costly regulation, the

Community Shares Unit provides good practice guidance on community share offer documents. This guidance distinguishes between four different types of offer:

- Membership offers are shares offered by a society for a nominal sum, between £1 and £20, in order to attract and recruit members. The purpose of this type of offer is to build membership and demonstrate how much support there is for the enterprise, and to involve the community in its ownership and management.
- Pioneer offers can only be made by new societies that are seeking to raise high-risk capital to cover the cost of becoming investment-ready. Investors in pioneer offers need to be aware of the strong likelihood that they could lose some or all of the money they invest, if the planned community enterprise turns out to be non-viable or unsustainable. On the other hand, if the enterprise is successful, pioneer members may eventually receive a return on their investment.
- Time-bound offers are made by new or established societies that need to raise relatively large amounts of capital to finance their start up or their growth. Time-bound offers to the general public have to work to a specified timetable, financial targets and contingencies. If these targets are not met, investors should be refunded, and the investment project should not proceed.
- Open offers should only be made by established societies that have been trading for a number of years. The purpose of an open offer is to encourage new and existing members to invest in the society, so that some of the new capital can be made available for older members who want to withdraw their capital. A thriving and sustainable society should always be able to attract more than enough replacement capital to meet requests for withdrawals and satisfy its own investment plans.

Remember, any actions that you develop should be 'SMART', i.e. Specific, Meaningful, Appropriate, Realistic and Timed. ACRE's Community Led Planning Toolkit has more details on this. You should also make sure that anyone that has an interest in community enterprise and investment locally is included in this work.



Stage 4 - Deliver and monitor actions

As you begin to implement the work in your plan, remember to maintain positive relationships with everyone who has an interest in the work that you are doing to promote and develop your community enterprise. As the work builds momentum, you may well attract additional support.

Finally, it is recommended that you review your entire plan every 2 to 5 years. If you originally launched your community enterprise through a time-bound offer, you should be thinking about making an open offer, which will allow older members to withdraw some or all of their capital. You should be able to do this if your community enterprise is achieving its financial targets and moving towards long-term sustainability.

Case Studies

Uley Community Stores

The Cotswold village of Uley knows it is lucky to still have two churches, a pub, a school, a GP's surgery and a shop. So when shop owners Dave and Joy Gaytten decided in 2010 they wanted to retire by no later than 2012, there was widespread concern. Local residents came together to see if they could turn the shop into a community enterprise.

A steering group was formed, and with support from Gloucestershire Rural Community Council, advice was obtained on how to raise capital through a community share offer. The Plunkett Foundation helped with the legal structure, offering its community benefit society model rules for community share financed shops. A five year lease of the shop was negotiated with the owners. Financial projections prepared by a local resident showed that the store would need to raise at least £25,000 to cover the start-up costs and provide working capital.

The society was registered in May 2012 and a time-bound offer document was launched to raise £25,000 over a six week period. The minimum investment was set low at £10 to make sure there was no financial barrier to membership.

The share offer was a huge success, surpassing all its targets. A total of 300 people from over 200 local households invested a total of £47,540 in share capital. A further £2,080 was raised in donations. Community ownership and engagement will be the key to ensuring the shop becomes a viable and sustainable business, capable of generating enough profit to be able to repay their members' investment, and provide a lasting service to the village.

Lyvennet Community Pub

The Butcher's Arms in Crosby Ravensworth, Cumbria, had always been a popular pub. But following the illness of one of its owners, and a decline in trade, the pub closed in 2009. It was the last one in the village. Lyvennet Community Trust, which had been established earlier that year in response to a community housing needs survey that highlighted a lack of affordable housing, saw the pub as a key community asset. At a public meeting held in 2010 it was decided to launch a campaign to re-open the pub under community ownership, financed through community shares. Fifty local people came forward at this meeting, pledging to back the campaign with investment capital.

Advice and support was obtained through the Co-operative Enterprise Hub, which helped Lyvennet Community Pub register as a community benefit society with Community Finance model rules provided by Co-operatives UK. The advisers helped the community put together a time-bound offer document to raise £215,000 in community shares towards the negotiated purchase price of £255,000, with the rest of the capital coming from grants or loans.

The 2011 share offer was a huge success, surpassing everyone's expectations. Eventually 297 people became members and investors in the pub, raising a total of £300,000: enough to purchase and fully renovate the building, including the installation of a new kitchen. The pub reopened in August 2011, putting the heart back into the village, and has also proved to be a roaring commercial success.

Malvern Books Co-operative

Malvern Books is a multi-stakeholder Co-operative Industrial and Provident Society using Co-operatives UK model rules. Community First provided Co-operative Enterprise Hub funded business support to create a viable business plan, locate and negotiate a lease on alternative premises after the first property fell through, supported the development of the Societies Co-operative Rules and registration with the FSA through Co-operatives UK and with accessing Marches CDFI Finance from Impetus and administering the Community Share Issue. The shares were withdrawable but not transferable.

Beacon Books was the only independent shop selling new books in Malvern. When the owners decided to close, a community group was established to try to purchase the existing business. When it was not possible to agree a purchase price, the owners of Beacon Books decided to close the shop which would have left Malvern without an independent bookshop. The community group were not prepared to see the town lose this important retail asset and set about developing a multi-stakeholder co-operative to open a new shop elsewhere in the town centre. Having been turned down for a loan to start up the co-operative bookshop, they turned to the community for help. A community share issue raised over £19,000 to help fund the purchase of stock and the refurbishment of their premises. This was matched by the offer of a loan from the local CDFI, Impetus.

Further information and support

Rural Community Action Network (RCAN)
RCAN members are charitable local development agencies, generally based at county level, which support and enable initiatives in rural communities.

RCAN members can help you to develop a Community Plan for your area. Using ACRE's Community Led Planning Toolkit, they can guide you through all aspects of the process, from recruiting volunteers, researching local facts and information, using the most appropriate consultation techniques and broking the involvement of different stakeholders to help deliver the actions you propose.

Please visit the ACRE website for more information, including contact details of your nearest RCAN member: **http://www.acre.org.uk/our-work/community-led-planning**

Community Shares Unit
The Community Shares Unit is a partnership initiative between Co-operatives UK and Locality, funded by the Department for Communities and Local Government. The purpose of the Unit is to research, develop and promote good practice in the raising of investment capital from the public using the Industrial and Provident Society format.

See their website: **www.communityshares.org.uk**

Acknowledgements

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