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

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

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

- Business model
- Community building
- Offer document
- Governing document
Member engagement

Members

- Investor
- Customer
- Service user
- Worker
- Supplier
- Volunteer
- Activist
- Expert
- Director

Member engagement involves various roles such as investors, customers, service users, workers, suppliers, volunteers, activists, experts, and directors.
## Members improve competitive advantage

<table>
<thead>
<tr>
<th>Members roles</th>
<th>How these roles improve competitive advantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investor</td>
<td>Lower cost of capital; greater acceptance of risk</td>
</tr>
<tr>
<td>Customer</td>
<td>Greater loyalty; accept higher prices &amp; dividend</td>
</tr>
<tr>
<td>Service user</td>
<td>Demonstrates support to funders; better feedback</td>
</tr>
<tr>
<td>Activist</td>
<td>More engagement; better feedback; better targeting</td>
</tr>
<tr>
<td>Volunteer</td>
<td>Lower labour costs; access to specialist skills</td>
</tr>
<tr>
<td>Suppliers</td>
<td>Greater loyalty; lower input prices</td>
</tr>
<tr>
<td>Workers</td>
<td>Greater loyalty; lower input prices; better feedback</td>
</tr>
<tr>
<td>Directors</td>
<td>Access to specialist skills; lower input prices</td>
</tr>
</tbody>
</table>
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
<table>
<thead>
<tr>
<th>Co-operatives</th>
<th>Community Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Can pay dividends to members based on transactions, as well as interest on share capital</td>
<td>• Can opt to have a statutory asset lock</td>
</tr>
<tr>
<td>• Cannot opt to have a statutory asset lock</td>
<td>• Cannot pay dividends</td>
</tr>
<tr>
<td>• Can be for mutual benefit only</td>
<td>• Must have broader community objectives</td>
</tr>
</tbody>
</table>
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](http://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)

Further contact:
[www.bakerbrown.co.uk](http://www.bakerbrown.co.uk)
[Jim.brown@bakerbrown.co.uk](mailto:Jim.brown@bakerbrown.co.uk)