Community Investment

Community investment is a way of raising money from communities through the sale of **community shares** or bonds to finance enterprises serving a community purpose. It is defined* as: *The sale, or offer for sale, of more than £10,000 of shares or bonds to communities of at least 20 people, to finance ventures serving a community purpose.*

Community investment empowers communities by giving members – as joint-owners – a direct say in the success of an enterprise, encouraging them to play an active part in its future. In a community shop, your shareholders will become your customers, your volunteers, your staff, and your supporters.

As well as sharing in the social, environmental or community benefits of the enterprise, members can be offered a financial return on their investment.

What are "community shares"?

There is no legal definition of community shares. However the term is now recognised as referring to a unique form of share capital called "withdrawable shares", which can only be issued by Industrial & Provident Societies (IPSs) (recently renamed Community Benefit Societies).

Legal structures**

Why does the Plunkett Foundation recommend the IPS legal structure?

- Withdrawable share capital
- One member one vote i.e. completely democratic
- Upper limit on investment - £100,000 per individual member subject to further considerations by HMRC and the FCA
- Variable interest rates and provisional terms of withdrawal
- Dividends on transactions (IPS cooperative); interest on share capital
- Statutory asset lock
- Exempt from regulation
- Over 65% of community shops are IPSs

An IPS is the only legal structure that allows **withdrawable shares** (when a share is *withdrawable* as opposed to *transferable*, it can only be withdrawn from the organisation in which it is invested. Its value remains constant, unlike a transferable share in a normal company).

What about CICs?

Shares in CICs 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 in CICs is subject to regulation.

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*Definition by Community Shares Programme, a two-year action research project to March 2011, funded by Office of Civil Society's Social Enterprise Action Learning Fund, and led by Dept for Communities and Local Government and the Development Trusts Association, in partnership with Co-operativesUK and Social Return on Investment Network. See www.communityshares.org.uk

For more details of **legal structures see Plunkett Advice Sheet, **Organisational and Legal Structures**, under "Getting Started" (See Support menu, www.plunkett.uk.net/info for Advice Sheets)

How do the Plunkett model rules work with regard to share offers?
Plunkett's model rules allow for withdrawable shares (**Rule 8 – Withdrawable share capital**).

The management committee may suspend the right to withdrawal. Shares are transferable on death or bankruptcy, and there are rules about withdrawal. Interest may be paid from trading surpluses.

DECISIONS TO BE MADE BY THE STEERING GROUP

1. Legal structure
2. Type of share offer (see below)
3. Value of one share (£1? £10? etc)
4. Minimum shareholding (one share? ten shares? etc) and maximum shareholding
5. Timescale if a timed offer
6. Investment target
7. How will the shareholder database be administered?
8. Is it worth having subscriptions (good to cover admin costs; bad in that they need admin themselves)?
9. Should investors be encouraged with interest/dividends? If so, how much?
10. Restrictions on withdrawals – time frame; percentage per year etc.

Different types of community share offer

- *Membership offer*: This is where the amount invested is restricted to a nominal sum. It is a simple form of raising money from the community but is unlikely to generate large sums.
- *Pioneer offer*: This is a possible way of generating funds when in the initial stages of setting up a project. An offer for the founding members of the Society, for high-risk capital in order to get investment-ready.
- *Time-bound offer*: A target amount and timescale is stipulated, and if it not successful the money is returned to investors. The timed element galvanises the community.
- *Open offer*: An offer that is not subject to a target amount or timescale.

Most communities opt for either a *membership offer* or a *time-bound offer*. A typical time-bound offer would be over four to eight weeks.

What needs to be covered in a share offer document?

- Purpose of the investment
- Projected social returns
- Maximum/minimum investment
- Timescale and targets (if a time-bound offer)
- Withdrawal terms
- Projected financial returns
- Risk factors
- Members' rights
- Credentials of promoters
- Legal format of the society
- Regulation of the offer

Plus supporting evidence

- Website address
- Contact person
- Rules of the society on website

- Business plan for time-bound offers
- Annual accounts for open offers
- Annual report and social performance report for open offers

What about regulation?

Due to the lack of regulation, the committee of an IPS interested in issuing a community share offer should impose stringent self-regulation. Three points really must be made to the community:

1. *You may lose some or all of the money you invest*
2. *There is no regulation to protect you*
3. *There is no right of recourse*

Resources:

For further information on community shares, go to:
http://www.communityshares.org.uk/
From the Resources section, you can download two very useful publications:
Community Shares: Practitioner's Guide to Governance and Offer Documents

Investing in Community Shares

For some examples of community pub and shop projects that have successfully raised significant community investment, see:
http://www.richmond.org/community/hudswellpub

http://www.dunsfoldvillageshop.co.uk

http://gawsworthshop.wordpress.com

Frequently asked questions about community shares

Why invest?
By investing in a community share offer, you will become a Member and participate financially in a community venture, whereby the community itself will raise the funds necessary to acquire, build or refurbish a community-led village shop or other venture.

Who will benefit from this venture?
A village community can benefit directly from having a vital amenity preserved for future generations, to be run by a democratic, not-for-profit organisation; embedded in the rules is the principle that the Society's surplus profits will be available for reinvestment in the venture or distribution to other community projects.

Is it a good business proposition?
The community shop model has proved itself to be very robust, with a 97% success rate to date. It is well proven that communities that work together to set up such a venture will support it in the future.

Who is responsible for organising this? Can I trust them, and do they have a personal interest?

Usually the steering group makes the share offer because they believe in preserving an amenity for the village. They have no personal financial interest in the project beyond the amount they have invested themselves. They will form the Society's first Management Committee.

Who will run the shop and the Society?
Most community shops are run partly by volunteers and partly by paid staff, employed on the Society's behalf by the Management Committee. The Society is run by the Management Committee which is re-elected each year by shareholder vote at the Annual General Meeting.

Is there a business plan?
A detailed business plan should be available on request.

What is my personal liability?
Your liability is limited to the value of your shares.

What voting rights do I have as a shareholder?
To be a shareholder you also have to be a Member of the Society. In a Community Benefit Society (otherwise known as Industrial & Provident Society), the rule is **One Member – One Vote**. So no matter how large or small your shareholding, you have an equal voice.

Should there be an annual subscription?
Hopefully, there will be a large number of Members in this scheme, investing differing amounts of share capital. An annual subscription is optional, but a typical figure might be £12 per annum, charged to cover administration and will also enable the Management Committee to keep the Members regularly updated and informed. Some committees choose to have a one-off membership fee, others choose to impose no membership fee or subscription, in which case membership is defined as owning a minimum of one share.

Will the venture be able to build up sufficient reserves for me to withdraw my money in the future?
The business plan should take this carefully into consideration and the Management Committee must ensure there is prudent reinvestment. Once the business has established a good track record, new customers will be invited to become shareholders, thereby allowing equity to be released to any members wishing to withdraw.

How much should I invest? What is the minimum and maximum I can invest?
There is no minimum share value although most communities make the minimum at least £10. The statutory maximum amount of share capital that can be invested by an individual in this type of Society is £100,000. However, you should consider setting a limit to allow a large membership base, and to comply with HMRC rules, no individual and their immediate family should hold more than 30% share and loan stock.

Will my investment increase in value?
Shares can go down in value but they cannot increase in value above their original price.

Can I sell my shares on?
Community Shares cannot be sold. The only way to recover their value is to apply to the Board for the withdrawal of your shares from the community venture itself.

How can I get my money back if and when I need it?

To enable the business to build up sufficient reserves, the Management Committee will stipulate a minimum period (except in exceptional circumstances) before you can apply to withdraw any shares.

Where will the money come from to cover withdrawals?
All withdrawals must be funded from trading surpluses or new share capital raised from Members. The Management Committee may at any time suspend the right to withdraw, having regard to the long term interests of the Society, the need to maintain prudent reserves, and the Society's commitment to community benefit.

Is there interest payable on the investment?
Interest can be payable, and the amount, if any, will be determined by the Management Committee.

Is my money safe?
Your money will be spent wisely and well, and may well be invested in the asset used for the community venture. You will automatically receive a set of annual accounts of the business.

What redress do I have if the business fails and I lose the value of my shares?
The sale of community shares is not regulated by the Financial Conduct Authority because investors are deemed to be investing for social returns, not financial gain. There is no right of complaint to the Financial Ombudsman, nor can you apply to the Financial Services Compensation Scheme.

Can I afford to lose some or all of this investment?
As with any other share offer, you cannot guarantee that the value of your investment is totally secure and it should be viewed as a high risk investment for financial purposes. If you cannot afford to lose the investment, you should not invest.