Community Share Offers on Fundsurfer.com

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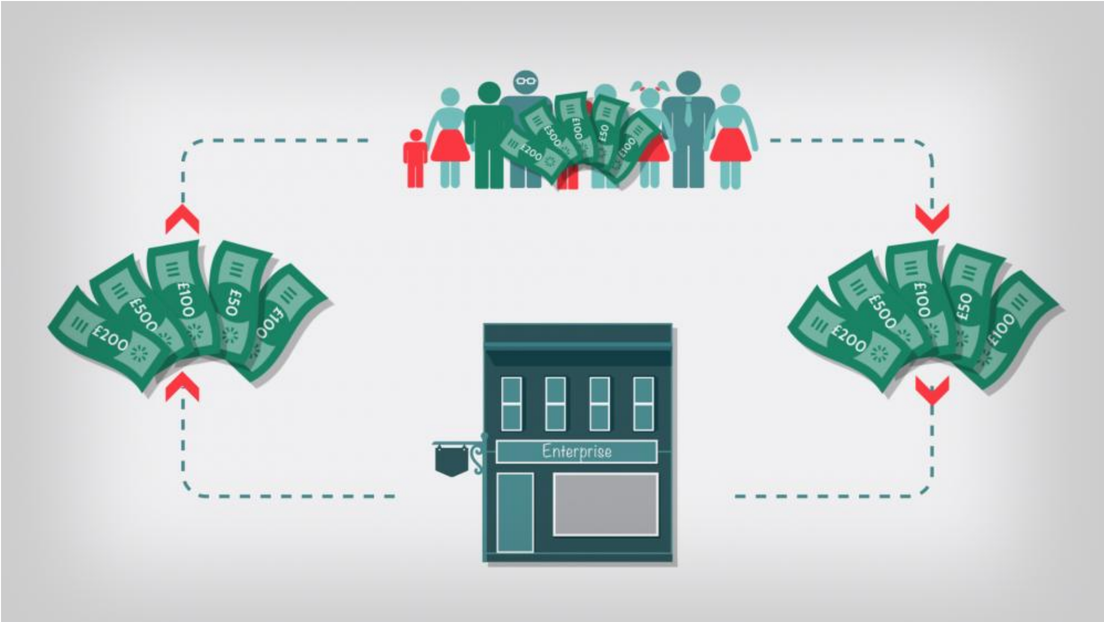

Community shares are growing and have government support through the funding of Community Shares run jointly by Locality and Co-operatives UK. In the year after it launched in October 2012 there were 70 share offer launches raising £16 million compared to just £3 million in the year before.

Community shares make sense when there is a community - this might be geographical or a shared interest such as old railways or even support of a football team. There are existing potential supporters who might want to be united in a common cause

Community share schemes allow a large number of people to each invest a small amount of capital into a community project

Projects which otherwise could find fundraising difficult or impossible can raise significant capital sums. It is particularly good for innovative schemes which could struggle to attract traditional investment.

It encourages community 'buy in' to a local project so that hopefully they will support it once it is completed e.g. use the local pub or facility. Investors are more likely to become committed volunteers, customers and advocates of the investment project if they themselves have something at stake.

The publicity for the community share issue also provides pre-publicity for the project that it will fund and can also encourage celebrity support (see below Stephen Fry in examples)

It can be a useful way of leveraging in funding or providing match funding and filling gaps in funding.

A community share scheme can help bring a community together in a common cause and let local people to take a more active in role in their communities by giving members - as part-owners - a direct say in their success

A community share scheme lets people make a difference to their communities in the same way as making a charitable donation can but with the possibility of a return on investment and the feeling of being truly involved in a project. Many energy projects offer a 2–5% interest rate return, which can attract people looking for a relatively safe and attractive financial proposition. Returns can be paid in money, but also in kind, with cheaper energy, cut-price pints, and local, fairly priced food as possible incentives.

Community share schemes may be eligible for tax relief, which can make them attractive to investors (see below Other Investment Issues)

There is the security for the investor that if the minimum number of shares is not sold, no money will be debited at all and once the share offer has closed there is a seven-day cooling off period in case people change their mind

Getting started

Understanding withdrawable shares
Withdrawable shares because they cannot be transferred between people like transferable or ordinary shares can't be sold. Instead, the society allows shareholders to withdraw their share capital, subject to terms and conditions that protect the society's financial security. Generally shares can only be withdrawn at the discretion of directors and if there is enough cash in the society. Shareholders have a share account, and can increase or decrease their shareholding, or close the account altogether by withdrawing all their share capital. The value of shares is fixed and not subject to speculation, although some societies have the power to reduce share values if the society is experiencing financial difficulties. "Withdrawable" shares are exempt from FCA regulation as investors are deemed to be investing for social returns, not financial gain. This is good news for community ventures, which would otherwise face prohibitively expensive regulations when marketing community shares. But it comes at a cost to community investors, who have no right of complaint to the Financial Ombudsman Service and cannot apply to the Financial Services Compensation Scheme. Consequently community shares are far more risky than keeping money in a savings account with a bank or building society, where currently the first £50,000 is fully protected. You can lose everything you invest in a community shares offer.

Because of their nature it is important to be able to nominate someone to receive community shares in the event of death and longer term projects often seek to make it easy for shareholders to buy shares for their children for example having a constitution, or "Rules" which allows shares to be held on behalf of children under 16, which can then pass on to those children on their 16th birthday.

Shareholders have only one vote, regardless of the size of their shareholding, so the society is democratic. There is a limit on personal shareholdings, currently up to

£20,000 in a single scheme but you can invest in more than one, and there is also a limit on the interest paid on share capital, based on the principle that interest should be no more than is sufficient to attract and retain the investment.

Community benefit societies can adopt a statutory asset lock, which prevents the society being sold and the proceeds of the sale being distributed amongst shareholders. This removes the possibility of capital appreciation and the scope for investor speculation.

Transferable shares

Co-operative and community benefit societies can issue transferable shares, or shares that are both withdrawable and transferable however if they issue normal transferable shares, these do not benefit from the same FCA exemptions as withdrawable shares and because there is no established market for community benefit or co-operative society shares while in theory you could sell your shares, in practice it might be difficult to find a buyer.

Other investment issues

Many community projects are registering for Enterprise Investment Scheme (EIS) tax relief which is currently 30% the cost of the shares. For example if you spend £1000 on shares tax relief would be £300, making the net cost only £700. Claiming EIS relief does not affect the annual amount received, so if the anticipated annual return to members was 3%, EIS tax relief increases the return on net cost of investment to 4.3%. Similarly, some community enterprises can register for Seed Enterprise Investment Scheme (SEIS) which offers up to 50% relief on the cost of the shares.

Choosing a structure

Co-operative societies are for the mutual benefit of their members, whereas community benefit societies are for the broader benefit of the whole community. Both types of society can issue withdrawable shares, and they work to similar principles. A community benefit society can opt to have a statutory asset lock, which has the same strength as the asset lock for a charity and for a community interest company. This type of asset lock is not currently available for co-operatives.

Co-operative societies

A co-operative has open membership; there should be no artificial restrictions on membership, and membership should be open to anyone who meets the criteria. Recent guidance from the FCA says that a co-operative can have investor-members who are not otherwise users of the society's services, however the majority of members should have a direct and tangible relationship with the co-operative. A co-operative can pay interest on member share capital and a share of the surplus, or dividend, based on the level of transactions (customer-purchases, supplier-sales or employee-wages) with the society.

A co-operative is run for the mutual benefit of members who use its services. This is based upon the common economic, social and cultural needs or interests of the members. Typically, the common need or interest will define their relationship with the co-operative as a service user, customer, employee or supplier.

Community Benefit Societies

A community benefit society is run primarily for the benefit of the community at large, rather than just for members of the society. This means that it must have an overarching community purpose that reaches beyond its membership. An applicant enterprise must also have a special reason for being a community benefit society rather than a company, such as wanting to have democratic decision-making built into its structure. A community benefit society is a form of industrial and provident society – a legal form with limited liability for shareholders, operating on the principle of "one shareholder, one vote" and with an individual shareholder limit of £20,000. They are similar to small companies but having to make their annual return to the FCA. The starting point for the day-to-day running is the constitution, called the "Rules". This sets out a society's objectives, any membership requirements, how the society should be run, how to elect directors etc.

Community benefit societies differ from other legal forms in a number of ways. They are particularly focused on the wider community interest. The objects (or goals) set out in their governing documents must be for the benefit of the community, any growth in assets should benefit the community rather than shareholders, and interest payments to shareholders are restricted. And, if you want to raise money from your local community through a share offer, a community benefit society offering withdrawable shares will be exempt from onerous Financial Conduct Authority (FCA) regulation. Many community energy projects choose to be a community benefit society, as they want to recycle income into the wider community.

Under FCA regulation and industrial and provident societies legislation, community benefit societies cannot pay dividends like normal companies do however they can pay "interest" on community shares, limited to "what is necessary to obtain and retain enough capital to run the business".

Examples of Community Shares

Renewable energy

Triodos

Triodos Renewable Energy Fund is a plc. community share scheme which invests in sustainable energy projects and has over 5,000 investors. It has funded nine renewable energy projects (wind farms and hydro) producing enough clean, green electricity for the equivalent of 26,260 homes, with a further projects under construction which will increase capacity to over 31,000 homes equivalent. It also has a stake in a wind farm development company.

Bath and West Community Energy

Since 2010 community enterprise organisation Bath and West Community Energy has raised funding to bring alternative sources of energy to their community, including the installation of solar, photovoltaic, hydro and wind technologies. With nearly 200 members, Bath and West Community Energy have raised £722,000 through a community share offer, exceeding their share target. This in turn has helped them to secure £1million loan finance to fund 12 of their projects.

Community facilities

Nurseries and community transport are examples of community groups expected to use community shares.

Railways

Several community investment schemes have been set up to preserve Britain's steam railways, such as the Severn Valley Railway, North Norfolk Railway and Dart Valley Railway

Football clubs

Wimbledon and FC United of Manchester are examples of community football clubs owned by the fans

Hastings Pier

Hastings Pier was almost burnt down three years ago. Having raised more than £13 million from the Heritage Lottery Fund and other public and institutional sources, they are now offering shares to the community, starting at £100 each.

Simon Opie, chief executive of Hastings Pier Charity, said: It is our aim now for the community share offer to fill a funding gap of between £200,000 and £500,000 which will enable us to add facilities and amenities to the structure and make the pier a really attractive place to visit.

"Renovation of the pier started in August this year and is expected to be finished in spring 2015. However, if the pier is to survive another 140 years it will be because it gets used and that's where we believe community ownership can be vital."

A Community Pub

"Villagers in Shouldham are celebrating after a Twitter appeal by Stephen Fry helped sell the final shares in a £150,000 campaign to buy back their pub and run it as a community.

Campaigners received requests to buy community shares from America and Canada after Norfolk actor tweeted on Friday, and on Sunday they reached their target by selling the remaining £5,700 shares.

Members of the Shouldham Save Our King's Arms (SOKA) campaign tweeted:

"We did it! We've hit our target. Huge thanks to everyone who has supported the campaign, invested and given us publicity. You are all stars!"

SOKA secretary, Phil Harris, said: "I'm sure the tweet helped and it's really good that Stephen Fry is supporting us with him being so local. The campaign started around a year ago and it all snowballed from there. This is great news and now the next important step is to get the grant to buy and renovate the pub."

The building was once the hub of community life in the village, providing a place for people to meet and plan village events such as the annual bike ride and village fete.

SOKA members are even looking at ways the building could be utilised by local community groups to provide further services such as after-school clubs, dementia cafes and even catering Meals on Wheels or school lunches."

Fundsurfer are delighted to be launching community share offers on the platform in Q1 2017.

For more information and/or discussion of partnership opportunities please email us partners@fundsurfer.com

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