

# Community Shares



## What are community shares?

- Not about the stock market! Although it is about raising money for a venture.
- Withdrawable shares – tradable shares are the ones that you go to a broker to buy. You can't trade these shares. You can sell them back to the organisation you bought them from at the price you paid for them (face value). No earnings or tradability in terms of the share
- Non-transferable
- Outside the scope of the Financial Services & Marketing Act 2000 (the normal regulation for shares)
- So can be done easily & low-cost
- Only registered societies can issue the shares – 2 legal forms – a Co-operative Society (Industrial Provident Society) or a Community Benefit Society.
- £155 mill raised by 440 orgs since 2012
- There is a risk – people are investing & risking their money
- They can attract interest (like a Building Society) but there are constraints & don't have to – the Board of Directors is in control of if and when to pay interest – depending on trading conditions and managing the business. (Has to be in control of the document)
- Have to manage the process of redeeming shares and needs of shareholders who may withdraw money if not getting any benefit

## Legal Structures

- Defined in Co-operative and Community Benefit Societies Act 2014
- Evolved from original Victorian Co-operatives
- Democratic organisations – 1 member, 1 vote – included in governing document (doesn't matter how much is invested)
- Can't set one up and 'be the boss' – has an elected board of directors
- Largest worker co-op in UK – Suma Wholefoods in Elland – 250 employees & most are members - £700 mill turnover
- Community Benefit Society (CBS) – clue in the name – similar structure but the beneficiary is the community rather than the members – more of a charitable/social enterprise model

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- About mutual self-help – so different to standard charity model (about people doing good things for other people) – about a community coming together to meet own economic and educational needs
- A CBS can have charitable status if its objects are wholly charitable
- Regulated by Financial Conduct Authority – has a register like Companies House (historically a lot of financial services organisations were mutual benefit orgs – building societies & insurance)
- Not Company Law – different framework & regulations
- About being part of the community & embedding what you do in it
- If you are another type of organisation or social enterprise you will need to change your legal structure

## Planning Your Share Offer

- Can be substantial – used by renewable energy companies (wind farms/solar farms) etc.
- Need a business plan – how market, where revenue streams will come from, what planning to do with money, how much need, and plan for paying a return to investors (most investors are interested in the social investment rather than making money – want to help community – but want to know money will be well used)
- Can use it for new projects etc – even if established
- Share offer document (based on business plan) – sales offer – says what aiming to do in brief terms – focus is on what raising money for, cash flow projections and how will pay money back – plus application form or how to apply (if online etc)
- Campaign plan – best practice advice says a tight time limit gives a better chance of success (can be something like a month). Should be fairly formal. Gives you a clear schedule, but risky, so detailed planning & realism of what can achieve is important – who are your potential investors? Can be organisations as well as individuals. How can you build a contact database beforehand? Have early conversations and build interest and traction before open. Give yourself plenty of lead time.
- Timing is critical

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- Have some good systems in place to manage the data that's coming in (calls, paper, online) and financial transactions. Make sure you are GDPR compliant.
- There are organisations that can help with share offers, but not cheap – tend to help with larger offers. (FX in Oxford?)
- For small, local offers you can do DIY – you can use things like Crowdfunder (charges a fee – around 3% plus transaction fees on cards)
- Can be issues with sending transactions to new bank accounts – so be ready for delays and issues

## Building your Crowd

- It's a numbers game (like crowdfunding) – how are you going to reach enough people? How are you going to get the word out?
- Do you want to hold meetings & live events or just do email marketing, social media, PR?
- Ladder of engagement – there will be a spectrum of interest in a project from people in the audience who haven't heard or yet, to people who are actively involved and on your board/steering group. You need a communications plan that helps move people up that ladder and get them to a point where they might choose to invest. Don't just tweet – create steps – follow, join FB group (low level commitment) to sign up to mailing list to fill in an expression of interest form, invite to an event – talk to and answer questions
- Networks and partners – who are you involved with etc and how can they help you get the message out or help with other benefits
- You will need a website, mailing list, social media etc – think about your audience and where they are
- Pledging as a dry run to test the market – if you don't know how much interest there will be, do a pledge campaign first to get some idea without commitment. Helps you assess when and whether to run share issues
- Incentivise people with having a very clear window of opportunity – if it's too long, people put it off and forget – if it's too short you might miss people. The advice is to try & do in a month

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## Resources

- [communityshares.org.uk](http://communityshares.org.uk) – encyclopaedic info, guides and step-by-step process, advice, grant funding to help with development of offer and marketing. Panel of advisors who will look at business plans and offer documents and give you a standard mark. Voluntary self-regulation – independent check
- Locality
- Co-operatives UK represents & supports co-ops. The Hive – funding strand through Co-op bank – the national trade body, so lots of expertise.
- Power to Change – Bright Ideas funding strand – not open all time (in rounds) but worth going for
- Match-funding process – Community Shares Booster Programme – get a share offer checked and accredited they will match your funds if you reach your target. This means that Co-operatives UK become a shareholder and pledge not to unduly influence your strategy and will only redeem their money when it's OK to do so
- Graham is happy for people to talk to him and give info, support, guidance – can signpost to sector specialists depending on what trying to achieve
- [Graham.mitchell@mac.com](mailto:Graham.mitchell@mac.com), 07421 765329

## Questions/Discussion

- *Banking options*– recommend Co-op Bank for free business banking for this sort of organisation – as a natural fit. It does take time (3 months) and so you need to plan ahead. There may be benefits to using a bank with a local branch. You could use a 'fiscal host organisation' – for e.g., your lawyer could hold funds on your behalf to start with – particularly if you plan to give the money back if you don't reach your target.
- *How much administration is involved?* It is an essential part of the picture. Make sure you have good systems in place to take away some of the pain. Have to produce share certificates etc. Think about post-event admin etc as well – how will you continue to communicate with members/investors & involve in governance & meetings. Don't do it on your own – you need a team with complimentary skills (including from members – they love your idea and want to be part of it) or hire in expertise if you have a gap. Have a look at

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<https://www.ethex.org.uk> – not cheap and may not be right, but have lots of tools and expertise to make things easier. Graham can advise.

- *How does it differ from CICs?* Co-operative UK offers a Co-operative CIC as a legal structure, but not a community share offer legal form. Co-operative model comes from poor, 19<sup>th</sup> Century communities and is relevant today in terms of mutual support. Can be effective in areas where people don't have lots of cash – gets economic investment and buy-in from communities – can ask as little as £10 per share. (But can exclude certain parts of the community.) Not just for affluent/middle class areas. Look at what you want to do – community organisation that's inclusive and democratic and so could be suitable money. Fact that has power to raise finance through shares is a bonus. Well-proven legal structures so it can be worth setting up. Can be about creating a sustainable local community.