

funding a community enterprise

with community shares



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introduction: seeking community investment

This publication takes as its starting point the moment that you decide your project is definitely feasible, the business plan is in draft and you have established how much you need to raise.

You will have made enquiries and know approximately how much you can expect from grants, fund-raising events and donations, and the size of loan that your enterprise might sensibly be able to sustain. For a more detailed discussion of the different strands of funding, please see Raising Funds (Plunkett Foundation, 2012).

One of the key components of your funding plan will be a community share offer (assuming you have the appropriate legal structure - see below) and can be described as community investment.

Community investment is all about engaging communities to invest in themselves. By harnessing the collective investment power of whole communities, relatively large amounts of capital can be raised with relatively small quantities from members of the community.

Community investment empowers communities by giving members - as part-owners - a direct say in the success of an enterprise, encouraging them to play an active part in its future.



Your members will become your customers, your volunteers, your staff, your advocates.

Finance from community shares can be raised in some cases much more quickly than money from grants or fund-raising events. This makes this type of finance suitable for projects that have time constraints, and also can attract matched grant-funding.



community shares and legal structure

When we talk about community shares we are referring specifically to shares issued by an Industrial and Provident Society.

Industrial and Provident Societies (IPSs) are corporate bodies registered under the Industrial and Provident Societies Acts 1965-2002. To qualify for registration, an organisation must either be a 'bona fide co-operative' or a 'society for the benefit of the community'. At the time of writing the Co-operative and Community Benefit Societies and Credit Unions Act 2010 is not yet in force, which will lead to a simplification of title to just Co-operative or Community Benefit Societies.

IPSs are now regulated by the Financial Conduct Authority (FCA) which, until April 2013, was the Financial Services Authority (FSA). Please note that IPS registration is quite distinct from the FCA's function of regulating financial institutions.

The IPS has several unique features. One of the most attractive in the context of raising investment from a community is that each member has one vote, irrespective of the number of shares they have purchased. This one-member-one-vote principle makes for a very democratic structure. Other facets of the IPS that work well in the environment of community enterprise (or non-profit organisations) are the principles of limited return on investment (the interest payable on shares must be limited to what is 'necessary to obtain and retain enough capital to run the business') and the disallowing of artificial restrictions on membership.

The crucial feature of the IPS covered by this publication is the ability to issue a particular type of share capital, or 'community shares'. This type of share is withdrawable by the members, subject to any conditions stated in the society's rules.



introduction: seeking community investment

The Plunkett Foundation is one of only four organisations to have developed and sponsor a set of model rules for the IPS for the Benefit of the Community (or Community Benefit Society) that allow for community shares and which give clear guidance on the most appropriate terms for withdrawal of share capital.

One of the reasons that the Plunkett Foundation recommends this legal structure for community enterprises is that it has a well-proven track record as a very successful model for raising investment within communities. Those people investing in societies usually do so for socially motivated or philanthropic reasons rather than for financial return; and the inherent democracy, limited returns and 'asset lock' (i.e. upon dissolution the assets cannot be shared among the members but must go to another asset-locked organisation with similar objects) of the IPS Community Benefit Society are all conducive to this approach.

Membership in an IPS is conferred by the purchase of at least one share. The minimum share investment in an IPS could therefore be as little as £1 and the current statutory maximum shareholding by one individual or company in an IPS is £20,000 - with the exception of other societies, which can make unlimited investment.

For a more detailed discussion on legal structures, please refer to Simply Legal (Co-operatives UK, 2009). This publication, plus other invaluable resources such as the Practitioners Guide to Governance and Offer Documents, The Practitioners' Guide to Community Shares and Investing in Community Shares, as well as case studies, can all be found on the regularly updated Community Shares website - **www.communityshares.org.uk**.



the decision-making stage

Having decided that your project would be best served by setting up as an IPS, preparations can begin for the raising of the necessary finance.

Once you have registered, or commenced the process of registering your rules with the FCA, you can start actively seeking membership by the sale of shares, either as an ongoing membership drive or in a formal share offer. If you have elected to use Plunkett model rules, by this time you will be in touch with Plunkett staff and advisors who will be assisting you with the process of registration.

To establish and register an IPS you need at least three members. Decisions need to be made by a governing body (usually referred to as the 'management committee' or, if a group feels more comfortable with company terminology, 'board of directors'). In the case of a nascent IPS, the management committee will not yet have been democratically appointed and it is often a 'steering group' that launches the share offer, the literature of which should include details of how and when the management committee will be later elected by the members. There is no longer a lower age limit for IPS members, but the minimum age limit for governing body members is age 16.

The governing body - let's keep to 'steering group' for now - will begin, with advisory help, their research on community share offers. It is worth bearing in mind that for most people setting up a community enterprise, this will be the first time they will have come across the IPS legal form and the unusual nature of its constitution and unique attributes, particularly the withdrawable nature of the share capital.



So there is a need to learn about and understand this new corporate form; at the same time it quickly becomes apparent to the steering group that several key decisions must be made – all of which may potentially have a large impact on the success of the funding.

steering group decisions

The decisions that create the most discussion are listed below. The steering group ideally needs to thrash out these in committee, but also it is well worth spending time sounding out other successful projects, comparing notes with similar enterprises, and taking advice from Plunkett or other advisory organisations.

What should be the face value of one share?

It could be anything from £1 upwards (please note that the face value of a community share, unlike a share in a company, never increases).

What should be the minimum shareholding or membership eligibility?

One share? Ten shares? 50 shares? If the purpose of the community share offer is just to generate membership not capital, then it would be more appropriate to keep it simple, widely affordable and inclusive – and therefore set the minimum at one share.

However, if you wish to raise serious money, the permutations are limitless – it could be 500 shares at £1 face value, or two shares at £20 face value, five shares at £50, or one share at £100 face value, and so on.

You choose!



For example, community village shop projects have tended in the last few years to select £10 to £20 as face value and to allow membership with the purchase of only one share. Projects seeking higher investment such as those needing to purchase property or land at hundreds of thousands of pounds, may set the face value higher and also insist on a minimum shareholding (and thus eligibility for membership) of several shares. Raising the money to purchase a pub freehold will generally require a minimum investment of at least £50 or over, but this can be justified by taking into account the average spend in a pub, as well as the local demographics. Looking at the community share offers run by pub projects in 2012-13, the minimum shareholding has been widely spread between £10 and £1000, with the majority between £75 and £500.

Should subscriptions be sought?

The answer to this lies very much on the type of enterprise and ongoing annual costs, weighed against the costs and administrative efforts involved in maintaining member subscriptions. There is no problem in signing up members to subscriptions at the same time as they purchase their shares; it just needs careful explanation in the prospectus. Then of course, the database of members needs to be updated. One problem that IPSs encounter, with a large membership base, is the administrative headache of keeping it up to date, as members - especially those with very low shareholding - are notorious for not advising the enterprise that they have moved, or that a relative who is a member has died. Seeking annual subscriptions can be a way of funding the maintenance of such information, but the level of subscription needs to be assessed carefully against the objectives of the enterprise.



What should be the time-scale of the share offer?

To a degree this may be dictated by circumstances, especially in the case of purchasing assets of community value (ACV). But psychology comes into play here: if it is a time-bound offer, it is worth focusing people's minds on the target, and periods of 4 to 8 weeks have proved to be successful. There always seems to be a flurry of activity around the deadline date!

Other time-related issues involved in offering shares are covered in section 3, below.

If interest is to be payable on the shares, how much should it be set at?

This will depend on your type of project and needs to be studied carefully in the context of the business plan and cash flow forecasting; it would be wise to take advice as well. Community-owned village shops have rarely paid interest on their shares as the margins are very tight in that particular trade. The co-operative pubs, however, have consistently offered interest as an incentive for investment and the initial level of interest is dictated by a number of factors such as general overheads, the level of any commercial lending etc. It is widely accepted that it makes sense to raise as much share capital as possible paying a low level of interest (e.g. 2 or 3 per cent above base rate), than to pay out interest at several points higher on a commercial loan.

Should there be restrictions on withdrawals?

You most definitely need restrictions on withdrawals to protect the business and it should also be enshrined in the rules that any withdrawals are only made at the discretion of the management committee, whose task it would be to decide whether the business is healthy enough to offer such withdrawals.



If the project is to be eligible for the government's EIS (Enterprise Investment Scheme) and therefore can offer tax relief on shares, then as a condition of EIS those people investing in shares and claiming tax relief cannot withdraw them for at least three years. A five-year tie-in of share capital would be prudent to allow a new business to find its feet, and is not unreasonable, bearing in mind the level of tax relief initially offered.

It is also very wise to cap the level of withdrawals in any one year (Plunkett recommends setting the cap at 10% of initial share capital) so that the business can plan to have that level of liquidity in the future.

What should be the investment target?

Although this is in reality the first question you will want to answer, it is perhaps the hardest question, hence it has been left till last!

The answer will rely on several factors:

- **Awareness of local demographics** - there is no point trying to raise vast sums of cash via shares in a deprived area, but a high level of membership and community engagement could still be aimed for, which might be of help when seeking grant funding. Conversely in a prosperous area, the share offer could be the primary means of funding the project and a high target can be set.
- **Local importance** - for instance, if the enterprise is to preserve a precious local asset, the importance of that asset will be reflected in the amount you can aim to raise. The question is then: how much is that asset worth to each household/investor? This can also apply to a service: for example, it is well known that the existence of a village shop can add as much as 5% to local property values.



- **The enterprise's ability to pay interest** - this will depend to a great extent on the nature of the business and other factors such as loan overheads, which should all have been covered in the business plan. (Please note: It is vital to have written a full business plan before you launch your share issue as you should be able to offer copies to prospective shareholders.) If the enterprise can offer regular interest payments to shareholders, especially in an era of unprecedented low interest rates, then its shares become an attractive long-term investment opportunity as well as offering social return.
- **The eligibility for tax relief schemes** - being able to offer potential investors tax relief on their share investment of 30% or 50% under EIS/SEIS means that the investors can afford to invest a greater amount in the project.
- **Realistic projections** - there is a need to be accurate about the later liquidity of the enterprise to enable withdrawal of share capital. It is usual and acceptable to set a cap such as that only 10 per cent of share capital can be withdrawn in any one year. However, it would be irresponsible to seek such a high level of investment that might mean the eventual withdrawal of even this modest percentage could potentially topple the business and thus the requests for withdrawal would have to be refused.



timing the offer and seeking pledges

The timing of a community share offer is another critical decision to be made by a steering group and, as the actual launch of the offer is a big commitment, it is important to have certain things in place.

First of all, the feasibility of the project (assuming the financing of it has been realistically assessed) has to be pretty much beyond doubt: it may seem like stating the obvious, but if a property is to be acquired then there must be a reasonable chance of buying or leasing it; if planning consent is required then it would be sensible to have had positive feedback from the planners, and so on. There is nothing worse than having to return a whole heap of other people's money – they may not trust you the second time around, and it entails a lot of wasted energy.

This is why some community enterprises decide to put in the extra work entailed in seeking pledges. Issuing pledge literature and collecting and collating the responses is quite time-consuming and can be almost as much work as creating share offer documents. The information has to be accurate; the project has to be explained; the legalities and details of the potential offer and corporate structure need to be outlined (see pledge letter guidance, below).

Following recent legislation (Localism Act, 2011) which has been introduced to enable communities to list their important assets (known as Assets of Community Value or ACV), the timing of a share offer can become governed by the mechanics of the listing process.



The scheme is known as Community Right to Bid and can be used effectively to 'pause' the sale of buildings or land you care about such as your local pub, shop, library or football ground. It gives your community time to develop a bid to buy it. Once an asset has been listed with the local council, you have up to six months' moratorium from the listing date in which to prepare that bid. Seeking pledges is a good way of coping with these time constraints, but if there is some certainty that the bid will be accepted then it may make sense to prepare and launch the actual share offer, especially if there is matched grant funding available. Pledges could also be collected during the listing process itself (councils are given eight weeks in which to examine the community's application).



Finally, a checklist of what has to be in place before launching a share offer might look like this:

- ✓ Steering group formed
- ✓ Decisions made (section 2)
- ✓ Business plan complete
- ✓ Incorporation completed or in process
- ✓ Tax relief scheme advance assurance received (if applicable)
- ✓ Planning permissions obtained or assured
- ✓ Offer/proposal likely to be accepted
- ✓ Bank account opened
- ✓ Prospectus written!



pledge letter guidance

Who is the letter from?

Introduce yourselves by describing what the group is called, and the name of the project. It is worth giving some contact names, explaining that you are volunteers and how you are constituted at the moment.

Finance: sources and targets

While explaining that you are currently researching your funding options, e.g. what grants may be available, other forms of investment and loans etc, explain the timescale and overall target. You should explain that the funds from your community can act as leverage for grants, and that you need to establish how much the community is willing to invest to make the project work.

The purpose of this letter is to learn how much the recipient would be prepared to contribute.

The legal structure, the shares and potential returns

You need to explain as simply as possible the legal structure you intend to set up, as being a society in which the community can invest by buying shares. Outline the society's primary objective, plus the fact that in the longer term if there is any surplus, it can be used for the benefit of the community.

Explain that anyone who purchases the minimum amount of shares will become a member and have a vote (and therefore have a say in the affairs of the enterprise) at General Meetings and that there will be a committee elected by the members to oversee the business. Point out the society will operate strictly on a 'one member, one vote' basis, regardless of how many shares held.



The nature of community shares can be explained in simple terms - e.g. "You may be able to recoup your initial investment in the future by selling your shares back to the Society (via a special type of shareholding known as a withdrawable share). To give the business a chance to establish itself we will need to agree an initial period during which the buying back of shares will be closely restricted, but thereafter the expectation is that there may be profits to fund withdrawals within parameters agreed by the members."

If your calculations indicate that potentially the society will be able to pay interest on shares, it is certainly worth outlining at this stage. Even if this is not planned, it is worth stating that your society's rules permit the payment of interest. Mention the existence of the business plan and its conclusions as to the viability of the enterprise, and that it will be made available to potential investors. If you intend to seek, or already have sought assurance that tax relief is available on the impending share offer, this is worth mentioning (see section 5, Tax relief on shares).

How the recipient can help

The more that are able to pledge to buy shares and the wider the section of the community that is actively involved in the enterprise the greater is the likelihood that it will be a success. Some may not be interested in purchasing shares and may prefer to make a donation to the project instead, so you can say that this would be very warmly received. Ask that the attached pledge form is filled in so that you can assess the level of support, and give assurance that no money changes hands at this stage and that this is not a final commitment. More financial information and details of the proposals will be provided in due course to enable those interested to decide whether to invest in some shares.



Finally...

Give a contact name and number for questions, an easy way to return the form (by email as well) and, most importantly, the deadline!



step-by-step guide to writing a share offer document

how to pitch it

For a community share offer, you need a good, concise and attractive prospectus – this does not need to be a huge document because you can always refer to the business plan. The Plunkett Foundation has many examples provided by communities who are prepared to share their documents, but a few best-practice snippets are included for illustration below.

As you are most likely reaching out to a wide and varied community, the prospectus needs to be easily digestible – there will be people investing in community shares who will never dream of going near the stock market and you therefore need to overcome any fears that they may have. Equally you have to point out that their money may be at risk and if they cannot afford to lose it, then they should not invest.

There will be individuals in your community who will only wish to invest the minimum amount but there will be others who will be prepared to make significant investment – hundreds or thousands of pounds. It is important not to make assumptions about who and who will not invest in this way. There are often some very surprising investors! For those who may not be regular investors, the language should be free of jargon. And for those who are very familiar with company law and share ownership, the differences between company and IPS shares need to be emphasised.

It is important to stress the social return of such investment. People are using their spare capital to preserve or create a local amenity or asset – something for future generations to enjoy – and it is worth taking the space to explain what a very worthwhile way of using money this is.



starting the document

At the end of this chapter there is a checklist for you to use once you have finished your document.

But to start with, here is a general idea of what will need to be included at some point. This is an exercise in self-regulation, as the share offer will not be regulated by the FCA, or anyone else. We are therefore promoting these ideas as best practice.

Please note that this publication is very much an overview; for detailed information please refer to The Practitioners' Guide to Community Shares (see section 1 above).

critical content to include

- Purpose of the investment
- Projected social return
- Maximum/minimum investment
- Withdrawal terms
- Projected financial return (if any)
- Risk factors
- Members' rights
- Credentials of promoters
- Legal structure of the society
- Election of committee/board and AGM
- Regulation of the offer
- Tax relief eligibility
- How to apply



step-by-step guide to writing a share offer document

the offer document, section by section

Ideally the prospectus will be from 4 to 8 pages long, with initial impact on the front page, and the text needs to be concise and accurate, lively and clear.

There is no harm in going back to the basic principles of: What - Who - Why - Where - When - How. If you use these as a starting point, it will get you past the blank-piece-of-paper moment, and you won't go too far wrong!

The front page

This should give an at-a-glance picture of the project. It should include:



- The name of the Society
- The purpose of the share offer
- The opening and closing dates of the offer (if timed)
- The offer target
- The Society's registration number and registered office



GRAB PEOPLE'S ATTENTION! Although it is important to be business-like and scrupulous, there has to be an element of marketing involved. The front page will convey the identity of the community enterprise, and the professionalism of the people leading it, so it is worth spending time on it.

The front page ideally should include a photo or pictorial representation and, if the subject of the share offer does not yet exist (e.g. it hasn't been built!), then an artist's impression can be very effective and is worth paying for.



step-by-step guide to writing a share offer document

Shouldham's example depicts their much-loved pub in a style that deliberately conveys nostalgia – this will arouse people's interest in preserving this treasured and historic amenity.

The front page is also a good place to reach out with a direct plea, such as 'We need your help' or 'Please share our vision', for maximum impact.

Moving on to the rest of the document, you need to think carefully about your headings. Useful examples for structuring the text might be as follows (not necessarily in this order):

- Who we are
- The story so far
- Our vision and objectives
- How it works
- The share offer
- Frequently asked questions
- Important points to consider before investing

Explain the legal structure

Answering a question like 'Who we are' leads inevitably to a description of the legal structure, and the steering group behind it. This has to be accurate and clear. Explain how the group has formed and why. Give some credentials and the availability of the business plan. Try to avoid cluttering with too much detail, such as reproducing information that can be cross-referenced instead. It can be explained that the rules of the Society, contact details of the steering group and the business plan are all available on request – and are ideally uploaded onto your website, so that you can easily refer to that.



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A good simple example for describing the IPS legal structure is:

'XXX Ltd is a Community Benefit Society (formally known as an Industrial & Provident Society or 'IPS') using the model rules developed by the Plunkett Foundation and registered with the Financial Conduct Authority ('FCA'). In its rules is embedded the principle that if the Society has a surplus, this may be made available for distribution to other community or charitable projects.'

Tell the story!

You need to convey the background and your unique story, in as lively and concise a manner as possible. You might decide this is the best way to start your document and follow it up with details of who you are. Keep to a brief timeline, explain your objectives and why there is a need for a community enterprise over other forms of ownership in this situation. It may be that by telling the story, you can also cover who you are and how your vision and objectives developed.

This part of the document is crucial for activating the campaign - it can easily be under-estimated, and people can become bogged down in legalities and detail. But the story is everything. It is worth batting this task around the group - ask everyone to write a paragraph telling the story as they see it, and this may provide some very good wordings that can be used by the lonely soul who has been allocated the task of preparing the offer document!



Explain share ownership

How does community share ownership work? You will already have introduced the notion of community shares in your objectives section - e.g. 'We propose to fund the project by offering shares in the enterprise to the local community' - but you need to develop a detailed explanation of exactly how the share offer works, under headings such as:

- **The share issue** (timing, target, minimum and maximum shareholding)
- **Community shares** (differences to ordinary shares; no increase in face value; one member-one vote irrespective of number of shares held)
- **Withdrawal of shares** (the terms and restrictions on withdrawal)
- **Returns on investment** (the social return; the likelihood of interest payments)
- **Risk factors** (potential loss of value; lack of regulation; no recourse to ombudsman; failure to raise funds)
- **Tax relief on shares** (under a tax relief scheme such as EIS)
- **Management committee and members' rights** (the AGM; the elections; the setting of withdrawal terms and interest on shares)

A good example of a concise description of a share offer, covering several of these points, is given below. This example is based on the prospectus of a co-operative pub, which had established in its business plan that it was possible for interest on shares to be payable from the outset.





EXAMPLE

The community share offer

This share issue has been designed to give local people and organisations the opportunity to contribute financially, on a long term basis, to the business of Xxx Ltd. Our expectation is that shareholder members will largely come from the local community but we would also welcome and encourage contributors from further afield.

Members are entitled to apply for shares at a cost of £X per share with a minimum investment of £X and a maximum investment of £20,000 per person or organisation. Everyone who is a shareholder holds one vote. This means that everyone has an equal voice, regardless of the size of their investment.

These shares are not transferable and cannot be sold. The only way to recover the value of the shares purchased is to give three months' notice of withdrawal to the Management Committee. Shares cannot be withdrawn until at least three years have elapsed from the date of the share issue and then only at the discretion of the Management Committee.

The amount available to be withdrawn by shareholders in any one financial year will be 10% of the total value of shares outstanding. Should withdrawal requests exceed the 10% figure, investors would receive a pro rata payment based on their original investment.

All withdrawals will be paid from trading surpluses or new share capital.

The Management Committee will have the authority to refuse a withdrawal request if it would endanger the business.

Interest will be paid to shareholders for the first year at the rate of X% per annum. The interest rate for each subsequent year will be proposed by the Management Committee and put to a vote at the Annual General Meeting. The proposal will be based on the performance of the Society. Interest will be paid gross to members.

Interest will be paid by the Society to the investor and it is each member's responsibility to declare such earnings to HMRC if appropriate.

It is important to note that the value of the shares will not increase. The only financial benefit for members is the interest paid annually. It is our intention to maintain a competitive and attractive interest rate and we hope this will increase with the success of the business.

In the event that the building is ever sold, for whatever reason, the shareholders would be repaid their investment from the proceeds of such sale, after repayment of any debts. Any surplus would have to be paid to a charitable or community body in line with the Rules of the Society.



Outline the risk factors

There are three aspects to dealing with investment risks in the prospectus. First of all it is good practice to examine the risks to the business itself. A small section explaining the risks as you see them at this stage is helpful to the potential investor. There may be room in the share offer document to include a small SWOT analysis; otherwise the potential members/investors can be referred back to the Business Plan. Here is a good example of a short 'risk analysis' section:



EXAMPLE

We have identified the following risk factors for XXXXX COMMUNITY SHOP LIMITED:

- The failure to agree the purchase of the existing shop premises from the existing owner on suitable terms
- The cost of purchase being beyond economic viability
- The failure to achieve the predicted level of turnover
- Profit levels fail to cover costs
- Restrictive government legislation
- Insufficient volunteers to run the shop

This list is not necessarily comprehensive and any trading activity is vulnerable to changing or unanticipated risk.

However, also bear in mind that this share offer was put together by members of our community for members of our community. We would not do it if we didn't believe in it.

The second element of risk arises from the lack of regulation on community shares. While this is generally perceived as a benefit, it does lend an extra risk to the investor that must be explained if the share offer is being promoted responsibly. An appropriate wording for this would be:

'Our share offer is exempt from the Financial Services and Markets Act 2000 or subsidiary regulations; this means you have no right of complaint to an ombudsman. A community benefit society is registered with, but not authorised by, the Financial Conduct Authority and therefore the money you pay for your shares is not safeguarded by any depositor protection scheme or dispute resolution scheme. As the whole of your investment could carry a risk, please consider it carefully in the context of the complete share offer document and, if needed, seek independent advice.'



At the same time it is also worth pointing out that the Society confers limited liability, so that should the project fail, no further liability can fall on the shareholders.

The third significant area of risk is that the share offer will not reach its target and the project will fail. It needs to be spelt out that in this circumstance the potential investor will receive all his/her money back. This can be added to the section on the share issue with wording such as:

'If this share issue raises less than the sum required to proceed with the project, then all those who have invested will be reimbursed in entirety and the share issue will be deemed to have failed.'

Eligibility for tax relief

The IPS rules enable societies in certain circumstances to offer tax relief on withdrawable shares but you will need to know for sure whether your project is eligible by contacting HMRC (Small Companies Enterprise Centre) and discussing your own particular circumstances and business model with them. The fact that social investment is eligible for tax relief will come as a surprise to many people and it is worth stressing this benefit in the prospectus - highlighting it within a text box is one way of doing this. More detail on tax relief on shares is given in section 5 below.

Important points/Frequently asked questions

A clever and popular way of presenting the legalities and mechanics of the share offer is to have a separate section at the end of the prospectus which lists all the thorny, frequently asked questions in one place. This frees up the bulk of the document for a good exposition of the enterprise, the people involved, their vision and objectives.



step-by-step guide to writing a share offer document

A list of important points can also be presented which stresses that the reader must read and understand these before investing. These could cover:

- Minimum/maximum investment
- Age limit of membership
- Shares non-transferable
- No increase in value of shares
- One member one vote
- Restrictions on withdrawal
- Interest payments
- Lack of recourse to ombudsman
- The need to seek independent advice, etc.

The Plunkett Foundation has plenty of good examples of prospectuses that have developed lists of critical points and FAQs in this way and that are available to be shared.

Inviting applications



Finally, and most importantly, you have to explain how to apply!

Online applications are becoming more popular but there will still be a need for hard-copy applications, so make these easy to fill in, and equally easy to return. Including a self-addressed envelope into the prospectus can work wonders! More details are given below.



is your document complete?



HERE IS A CHECKLIST

Use this checklist to assess if all important information has been included in the document:

- ☐ Stated Society registration number
- ☐ Name and registered address of the Society
- ☐ Officers of the Society - give contact details of at least one Officer
- ☐ Details of election of Officers at AGM

Legal structure

- ☐ Description of legal structure - i.e. IPS, Community Benefit Society
- ☐ Registered with (but not authorised by) FCA
- ☐ One member one vote, irrespective of size of shareholding
- ☐ Surplus to benefit the community
- ☐ Limited liability of members
- ☐ Statutory maximum investment (£20,000 currently)
- ☐ Rules of the Society available (from Secretary or on website)
- ☐ Committee elections annually at AGM
- ☐ Age limit for members (this will have been established when rules registered)



Community shares

- ☐ Face value cannot increase
- ☐ Non-transferable except on death or bankruptcy
- ☐ Withdrawable on application and at the discretion of the Committee
- ☐ Interest is payable at the discretion of Committee and as voted at AGM
- ☐ Not protected by FCA so no recourse to ombudsman

This share offer

- ☐ Purpose of the investment, vision and objectives
- ☐ Timing of the offer (start/end dates)
- ☐ Share offer target and total that needs to be raised (i.e. mention the funding mix)
- ☐ Minimum investment figure to qualify for membership
- ☐ Projected social return
- ☐ Projected financial return
- ☐ Availability of the Business Plan
- ☐ Terms of withdrawal i.e. tie-in period, cap on withdrawals
- ☐ Risk factors spelt out
- ☐ Contingency arrangements if share offer falls short
- ☐ Reimbursement if share offer fails
- ☐ Recommendation to seek independent financial advice
- ☐ Tax relief explanation (if the share offer is eligible)
- ☐ How to apply



tax relief on community shares

HM Revenue and Customs (HMRC) operate a number of tax relief schemes to encourage investment in both private and community enterprise. At the time of writing, a consultation process is under way on a scheme to be announced in April 2014, known as Social Investment Tax Relief (SITR); however as there is no way of knowing at this stage what it will entail, this section will only discuss the now commonly used schemes that can work well with community share offers, i.e. EIS and SEIS.

Before developing a community share offer, it is important to obtain up-to-date advice on the likelihood of your particular enterprise qualifying for tax relief from the relevant department of HMRC, which is:



Small Company Enterprise Centre (Admin Team)

Medvale House, Mote Road, Maidstone, Kent ME15 6AF

Tel: 01622 760405 E-mail: enterprise.centre@hmrc.gsi.gov.uk

There is also a good deal of advice online at

<http://www.hmrc.gov.uk/eis/> and <http://www.hmrc.gov.uk/seedeis/>

Being able to offer tax relief on community shares has shown a demonstrable increase in the amount of investment in societies. The size of the relief (30% of the amount invested can be offset against tax liabilities, or in the case of SEIS, 50%) plus the relatively straightforward way to apply, makes this an attractive option for societies and it is worth while factoring the application process for EIS/SEIS into your time-scale.

EIS (Enterprise Investment Scheme) and SEIS (Seed Enterprise Investment Scheme)

If a community enterprise wishes to offer tax relief to its investors, it is prudent to apply first to find out whether it is eligible by completing an advance assurance process.



tax relief on community shares

For a society, this will involve sending a copy of its rules and a draft share prospectus, along with the Advance Assurance form, which is downloadable from the HMRC link - go to Find Forms and the required form is EIS/SEIS(AA). The application process should take no more than 28 days.

If the community enterprise goes ahead, after four months' trading it can apply formally using the EIS1 form (EIS Compliance Statement) available on request from the SCEC or the HMRC website. At this stage, a list of all those investors who will be seeking tax relief has to be submitted on the EIS1 form - so it is good practice to ensure that, on application for shares, all investors are asked to indicate (by a tick box, generally) whether they will be taking advantage of the tax relief scheme. (Note: if the organisation is already trading it can apply immediately, using the EIS1 form. Advance assurance is not a mandatory process.)

A corresponding number of blank certificates (known as EIS3 forms) will then be posted out by SCEC for the committee to fill out and forward to the relevant shareholders, who then keep the certificate as evidence of their eligibility for tax relief (if self-assessed) or hand it over to their employers for adjustment of tax code (in the case of PAYE-registered shareholders).



Key features

- **EIS** - tax relief amounts to 30% of the investment
- **SEIS** - tax relief amounts to 50% of the investment
- The form EIS1 cannot be accepted by the SCEC unless the company has been trading for at least four months. It also cannot be accepted if it submitted later than two years after the end of the year of assessment in which the shares were issued (or two years after the end of the four-month period if that is after the end of that year of assessment).



tax relief on community shares

- The higher tax relief rate under SEIS is available to smaller schemes under certain conditions. Currently held gross assets must not exceed £200,000 in value, the business must be less than two years old, and there should be no more than 25 employees.
- There is a maximum cumulative investment per company/society for SEIS of £150,000, whereas the limit for EIS is £5 million. This means that for share offers with targets around the £150,000 mark, some careful thought has to be given as to which scheme to go for.

To be eligible for EIS/SEIS:

- Shares must be held for a minimum of three years
- Shares must be paid up and fully at risk, with no preferential rights to any form of financial return or withdrawal
- Most trades qualify, but some do not; a list of excluded activities is at <http://www.hmrc.gov.uk/eis/part2/2-4.htm>
- Problematic areas encountered by societies include the restriction on leasing or letting, which has been interpreted as preventing the eligibility, for example, of a co-operative pub wishing to have a tenant publican rather than a manager o The money raised by the share issue must be employed for the purposes of the trade (or research and development) within two years of the shares being issued (or within two years of the trade commencing, if that is later).

A good example of wording for the prospectus would be:

'We have received, from HMRC, advance assurance that this Share Offer will qualify for tax relief under the [Seed] Enterprise Investment Scheme, a Government scheme devised to encourage investment in new enterprises. This would mean that eligible taxpayers who purchase shares for any amount up to the maximum of £20,000 can apply for income tax relief equal to [50%] 30% of the amount invested, provided the shares are held for a minimum of three years. For more information see <http://www.hmrc.gov.uk/eis>. The Association will issue each eligible investor with the appropriate form (EIS3) to enable them to claim tax relief. It is the responsibility of each investor to make their own enquiries and to satisfy themselves as to their eligibility for such tax relief.'



applications, share certificates and registration

applications: hard copy

The application form can either be a loose-leaf insert or a detachable page, but it needs to be very distinct and to collect all the data you need. In addition to the usual information, you can ask the applicant to indicate that they have read the prospectus; to indicate whether they wish to receive an EIS3 form for tax relief; etc. It is also a great time to collect email addresses for administrative purposes. Make sure that any age limit is spelt out and that there is no mistaking the minimum investment amount.

applications: online

Some societies have worked hard to ensure that they can capture the audience most likely to subscribe to shares online and have devised their own methods of online application; others have uploaded their share documents to their website for easy access. However, there is a new and excellent solution to this, called Microgenius, which is an online share-purchasing platform run by the Community Shares Unit - <http://www.microgenius.org.uk/>. It allows supporters to find out all about the community share offer, register as a member and purchase shares in a painless process that does not require application forms and snail-mail. Payment is taken via direct debit when the share offer closes successfully. The investor registers with Microgenius and fills out both a private and public profile, so the society can get in touch and issue the share certificate. The private profile cannot be seen publicly on the website; it is just for Microgenius and the society to use.



share certificates

These are not mandatory but they are usually welcomed by investors. It is best not to issue them until the share offer is completed and the project is definitely going ahead. If there is likely to be a delay between collecting the funds and declaring success, then just issue receipts for the shares in the meantime. A share certificate can be very simple.

Minimum information to be included

- Certificate number
- The full title of your organisation, its registered number and status e.g. The Little Village Shop Association Ltd (Registration No.5555555R). Registered pursuant to the Industrial and Provident Societies Act 1965-2002
- We recommend you use the words: Issued in compliance with and subject to the provisions of the Society's registered rules.
- The number of shares, value of shares and the amount paid. Include the shareholder's address, and a practical consideration might be to include (either on the share certificate itself or in a covering document) the words 'Please notify any changes of address, to ensure the share register is kept up to date'.
- Ensure the date of issue is clearly stated.

Signing the certificates

There is no legal necessity for a member(s) of the committee to sign the certificate but it is worth considering. On the positive side, it adds gravitas; on the negative side, it can be a lot of work!



share register

The register of shareholders must be kept up-to-date and administered by someone who is prepared to pay careful attention to accuracy. The addresses need to be kept in a consistent manner so that address labels can be easily generated. If you ask for email addresses and include these on your database, ensure that these are not used or released without authorisation. Keep the database secure and password-controlled. Be careful to date the entries, as there will be a time-specific share withdrawal process.

Some communities offer two types of shares, membership and withdrawable i.e. the first share is the membership share, and subsequent shares are withdrawable. It may be best to keep two separate columns in the register, one for the membership share and the other for the amount of withdrawable shares. It is important to be able to differentiate and that the certificate holder understands that the first share is a membership share and not withdrawable.

Privacy

You can reassure your shareholders that the Management Committee will keep the share register in a password-controlled confidential environment but, as in a private company, shareholders are entitled to request to view the share register. However, you can anticipate that the great majority of shareholders will respect that others may not wish their shareholding to be general knowledge.



glossary

Asset of community value (ACV) Land or property of importance to a local community which is subject to additional protection from development under the Localism Act 2011.

Asset lock A legal clause that prevents the assets of a company or society (income or capital) being used for private gain rather than the stated purposes of the organisation. An asset lock is incorporated into the formal structure of a Community Benefit Society, a Community Interest Company (CIC) or a charitable organisation.

Bencom An abbreviation of 'IPS for the benefit of the community', also known as Community Benefit Society.

Bona fide co-operative An incorporated Industrial and Provident Society, structured and run with co-operative principles. The key feature of a co-operative is ownership and control by members. Registered with the FCA.

Community Benefit Society (CBS) An incorporated Industrial and Provident Society for the benefit of the community. Profits are not distributed among members but are instead returned to the community. It must also be set up with social objectives to conduct a business or trade. Registered with the FCA.

Community share Type of share offered by an IPS, which can be withdrawn from the society itself. A community share cannot go up in value but may go down, at the discretion of the directors, if a society has long-term accumulated losses.

EIS Enterprise Investment Scheme, offers tax relief on share capital in qualifying businesses - see <http://www.hmrc.gov.uk/eis/>

FCA Financial Conduct Authority (formerly Financial Services Authority). The two types of IPS are registered with the FCA, but the FCA does not regulate investment in IPSs and so members cannot apply to the Financial Services Compensation Scheme (FSCS) and have no right of complaint to the Financial Ombudsman.

Funding plan Part of the business planning process in which the various ways of financing a society's activities (via shares, grants, donations and loans) are assessed and planned.

IPS Industrial and Provident Society, of which there are two types - a co-operative or community benefit society.



Membership offer A type of community share offer in which the amount invested in share capital is restricted to a nominal sum. This might be suitable for a project where the level of membership is more important than the money raised, either because the project itself has low start-up costs or because the majority of the funding (if funding is necessary) has been acquired some other way e.g. grants.

Open offer A way to describe a community share offer that is not subject to target amount or time-scale, but is ongoing.

Pioneer offer This is a community share offer to founding members for high-risk capital to get 'investment-ready'. Often those who are passionate about a project are prepared to put their hands in their pockets before the project is fully formed; defining this start-up capital as pioneer shares therefore offers such individuals at least the same rights and benefits as other shareholders, should the project succeed.

Plunkett model rules A set of rules written specifically for community benefit societies which, in addition to covering all aspects of IPS administration, also allow for withdrawable share capital and have suggested withdrawal restrictions. Plunkett rules are acceptable rules for tax relief purposes.

SEIS Seed Enterprise Investment Scheme, also known as Seed EIS, offers tax benefits to individuals investing in small and early stage start-up businesses in the UK – see <http://www.hmrc.gov.uk/seedeis/>

SITR Social Investment Tax Relief (to be introduced in 2014).

Time-bound offer A community share offer which is launched with a target investment amount and set time-scale, where if it is not successful, i.e. the necessary level of funds is not achieved by the set deadline, the money is returned to investors. It is possible to announce an extension to the time-scale.



<http://www.hmrc.gov.uk/eis/>
<http://www.communityshares.org.uk>
communityshops.coop
pubs.coop



about the plunkett foundation

Founded in 1919, the Plunkett Foundation helps rural communities through community-ownership to take control of the issues affecting them.

Today, Plunkett is the only national organisation supporting the development of community-owned shops in the UK and has been instrumental in the establishment of, and ongoing support to over 270 community shops. We provide a range of business and retail support via a network of Community Advisers, Mentors and Specialist Consultants, together with a telephone, email and online helpline co-ordinated by a team of staff at the Plunkett Foundation.

This guide was produced as part of **Making Local Food Work**, a five year, £10 million project funded by the Big Lottery Fund's Changing Spaces programme. It works to reconnect people with where their food comes from by supporting community food enterprises across England.

for more information

Take a look at our websites

www.makinglocalfoodwork.co.uk

www.plunkett.co.uk and www.communityshops.coop

Follow us on Twitter

@PlunkettFoundat

Or give us a call

01993 810 730

